

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

**FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended March 31, 2017

OR

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

Commission File Number 1-3610

**ARCONIC INC.**

(Exact name of registrant as specified in its charter)

PENNSYLVANIA  
(State of incorporation)

25-0317820  
(I.R.S. Employer  
Identification No.)

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

10022-4608  
(Zip code)

Investor Relations 212-836-2758  
Office of the Secretary 212-836-2732  
(Registrant's telephone number including area code)

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth Company	<input type="checkbox"/>		

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.

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 April 21, 2017, there were 440,826,482 shares of common stock, par value \$1.00 per share, of the registrant were outstanding.

**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**Arconic and subsidiaries**  
**Statement of Consolidated Operations (unaudited)**  
**(in millions, except per-share amounts)**

	<b>First quarter ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Sales (I)	\$3,192	\$ 3,055
Cost of goods sold (exclusive of expenses below)	2,492	2,400
Selling, general administrative, and other expenses	221	205
Research and development expenses	28	31
Provision for depreciation and amortization	133	133
Restructuring and other charges (D & E)	73	16
Interest expense	115	121
Other income, net (G)	(354)	(12)
<b>Total costs and expenses</b>	<b>2,708</b>	<b>2,894</b>
Income from continuing operations before income taxes	484	161
Provision for income taxes	162	51
Income from continuing operations after income taxes	322	110
Loss from discontinued operations after income taxes (G)	—	(99)
Net income	322	11
Less: Loss from discontinued operations attributable to noncontrolling interests (G)	—	(5)
Net income attributable to Arconic	<u>\$ 322</u>	<u>\$ 16</u>
<b>Amounts Attributable to Arconic Common Shareholders (J):</b>		
Net income (loss)	\$ 305	\$ (2)
Earnings per share - basic		
Continuing operations	\$ 0.69	\$ 0.21
Discontinued operations	—	(0.21)
Net income per share - basic	<u>\$ 0.69</u>	<u>\$ 0.00</u>
Earnings per share - diluted		
Continuing operations	\$ 0.65	\$ 0.21
Discontinued operations	—	(0.21)
Net income per share - diluted	<u>\$ 0.65</u>	<u>\$ 0.00</u>
Dividends paid per share	<u>\$ 0.06</u>	<u>\$ 0.09</u>
<b>Weighted Average Shares Outstanding (J):</b>		
Average shares outstanding - basic	<u>440</u>	<u>438</u>
Average shares outstanding - diluted	<u>499</u>	<u>438</u>

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

**Arconic and subsidiaries**  
**Statement of Consolidated Comprehensive Income (Loss) (unaudited)**  
(in millions)

	Arconic		Noncontrolling Interests		Total	
	First quarter ended		First quarter ended		First quarter ended	
	March 31,		March 31,		March 31,	
	2017	2016	2017	2016	2017	2016
Net income (loss)	\$ 322	\$ 16	\$ —	\$ (5)	\$ 322	\$ 11
Other comprehensive income (loss), net of tax (C):						
Change in unrecognized net actuarial loss and prior service cost/benefit related to pension and other postretirement benefits	31	32	—	1	31	33
Foreign currency translation adjustments	67	303	—	107	67	410
Net change in unrealized gains/losses on available-for-sale securities	(33)	1	—	—	(33)	1
Net change in unrecognized gains/losses on cash flow hedges	5	(80)	—	(2)	5	(82)
Total Other comprehensive income, net of tax	<u>70</u>	<u>256</u>	<u>—</u>	<u>106</u>	<u>70</u>	<u>362</u>
Comprehensive income	<u>\$ 392</u>	<u>\$ 272</u>	<u>\$ —</u>	<u>\$ 101</u>	<u>\$ 392</u>	<u>\$ 373</u>

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

**Arconic and subsidiaries**  
**Consolidated Balance Sheet (unaudited)**  
(in millions)

	March 31, 2017	December 31, 2016
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,553	\$ 1,863
Receivables from customers, less allowances of \$12 in 2017 and \$13 in 2016 (K)	1,148	974
Other receivables (G & K)	362	477
Inventories (F)	2,328	2,253
Prepaid expenses and other current assets	319	325
Total current assets	6,710	5,892
Properties, plants, and equipment	11,633	11,572
Less: accumulated depreciation and amortization	6,160	6,073
Properties, plants, and equipment, net	5,473	5,499
Goodwill	5,170	5,148
Deferred income taxes	1,084	1,234
Investment in common stock of Alcoa Corporation (G & N)	446	1,020
Other noncurrent assets	1,274	1,245
<b>Total Assets</b>	<b>\$ 20,157</b>	<b>\$ 20,038</b>
<b>Liabilities</b>		
Current liabilities:		
Short-term borrowings	\$ 47	\$ 36
Accounts payable, trade	1,597	1,744
Accrued compensation and retirement costs	328	398
Taxes, including income taxes	81	85
Accrued interest payable	114	153
Other current liabilities	420	329
Long-term debt due within one year	—	4
Total current liabilities	2,587	2,749
Long-term debt, less amount due within one year (M & N)	8,046	8,044
Accrued pension benefits	2,293	2,345
Accrued other postretirement benefits	867	889
Other noncurrent liabilities and deferred credits	869	870
Total liabilities	14,662	14,897
Contingencies and commitments (H)		
<b>Equity</b>		
Arconic shareholders' equity:		
Preferred stock	55	55
Mandatory convertible preferred stock	3	3
Common stock	441	438
Additional capital	8,249	8,214
Accumulated deficit	(768)	(1,027)
Accumulated other comprehensive loss (C)	(2,498)	(2,568)
Total Arconic shareholders' equity	5,482	5,115
Noncontrolling interests	13	26
Total Equity	5,495	5,141
<b>Total Liabilities and Equity</b>	<b>\$ 20,157</b>	<b>\$ 20,038</b>

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

**Arconic and subsidiaries**  
**Statement of Consolidated Cash Flows (unaudited)**  
(in millions)

	Three months ended	
	2017	2016
<b>Cash from Operations</b>		
Net income	\$ 322	\$ 11
Adjustments to reconcile net income to cash from operations:		
Depreciation, depletion and amortization	133	309
Deferred income taxes	20	(86)
Equity income, net of dividends	—	4
Restructuring and other charges	73	93
Net (gain) loss from investing activities - asset sales (G)	(349)	2
Net periodic pension benefit cost (L)	54	83
Stock-based compensation	28	26
Other	18	15
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, and foreign currency translation adjustments:		
(Increase) in receivables	(299)	(139)
(Increase) in inventories	(85)	(58)
Decrease (increase) in prepaid expenses and other current assets	20	(3)
(Decrease) in accounts payable, trade	(122)	(272)
(Decrease) in accrued expenses	(112)	(343)
Increase in taxes, including income taxes	111	64
Pension contributions	(53)	(70)
(Increase) in noncurrent assets	(34)	(13)
(Decrease) in noncurrent liabilities	(25)	(53)
<b>Cash used for operations</b>	<u>(300)</u>	<u>(430)</u>
<b>Financing Activities</b>		
Net change in short-term borrowings (original maturities of three months or less)	8	2
Additions to debt (original maturities greater than three months)	360	439
Payments on debt (original maturities greater than three months)	(360)	(441)
Proceeds from exercise of employee stock options	22	—
Dividends paid to shareholders	(45)	(57)
Distributions to noncontrolling interests	(14)	(50)
Other	(14)	—
<b>Cash used for financing activities</b>	<u>(43)</u>	<u>(107)</u>
<b>Investing Activities</b>		
Capital expenditures	(103)	(251)
Proceeds from the sale of assets and businesses (E)	(10)	222
Additions to investments	—	(7)
Sales of investments (G)	888	19
Net change in restricted cash	14	4
Other (G)	240	12
<b>Cash provided from (used for) investing activities</b>	<u>1,029</u>	<u>(1)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>4</u>	<u>3</u>
Net change in cash and cash equivalents	690	(535)
Cash and cash equivalents at beginning of year	1,863	1,919
<b>Cash and cash equivalents at end of period</b>	<u>\$ 2,553</u>	<u>\$ 1,384</u>

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

**Arconic and subsidiaries**  
**Statement of Changes in Consolidated Equity (unaudited)**  
(in millions, except per-share amounts)

	Arconic Shareholders							Noncontrolling interests	Total Equity
	Preferred stock	Mandatory convertible preferred stock	Common stock	Additional capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss		
Balance at December 31, 2015	\$ 55	\$ 3	\$ 1,391	\$ 10,019	\$ 8,834	\$(2,825)	\$ (5,431)	\$ 2,085	\$14,131
Net income (loss)	—	—	—	—	16	—	—	(5)	11
Other comprehensive income (C)	—	—	—	—	—	—	256	106	362
Cash dividends declared:									
Preferred-Class A @ \$0.9375 per share	—	—	—	—	(1)	—	—	—	(1)
Preferred-Class B @ \$6.71875 per share	—	—	—	—	(17)	—	—	—	(17)
Common @ \$0.18 per share	—	—	—	—	(79)	—	—	—	(79)
Stock-based compensation	—	—	—	26	—	—	—	—	26
Common stock issued:									
compensation plans	—	—	—	(189)	—	168	—	—	(21)
Distributions	—	—	—	—	—	—	—	(50)	(50)
Other	—	—	—	—	—	—	—	(1)	(1)
Balance at March 31, 2016	<u>\$ 55</u>	<u>\$ 3</u>	<u>\$ 1,391</u>	<u>\$ 9,856</u>	<u>\$ 8,753</u>	<u>\$(2,657)</u>	<u>\$ (5,175)</u>	<u>\$ 2,135</u>	<u>\$14,361</u>

	Arconic Shareholders							Noncontrolling interests	Total Equity
	Preferred stock	Mandatory convertible preferred stock	Common stock	Additional capital	Accumulated deficit	Treasury stock	Accumulated other comprehensive loss		
Balance at December 31, 2016	\$ 55	\$ 3	\$ 438	\$ 8,214	\$ (1,027)	\$ —	\$ (2,568)	\$ 26	\$ 5,141
Net income	—	—	—	—	322	—	—	—	322
Other comprehensive income (C)	—	—	—	—	—	—	70	—	70
Cash dividends declared:									
Preferred-Class A @ \$0.9375 per share	—	—	—	—	(1)	—	—	—	(1)
Preferred-Class B @ \$6.71875 per share	—	—	—	—	(16)	—	—	—	(16)
Common @ \$0.12 per share	—	—	—	—	(54)	—	—	—	(54)
Stock-based compensation	—	—	—	28	—	—	—	—	28
Common stock issued:									
compensation plans	—	—	3	7	—	—	—	—	10
Distributions	—	—	—	—	—	—	—	(14)	(14)
Other	—	—	—	—	8	—	—	1	9
Balance at March 31, 2017	<u>\$ 55</u>	<u>\$ 3</u>	<u>\$ 441</u>	<u>\$ 8,249</u>	<u>\$ (768)</u>	<u>\$ —</u>	<u>\$ (2,498)</u>	<u>\$ 13</u>	<u>\$ 5,495</u>

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

**Arconic 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 Arconic Inc. and its subsidiaries (“Arconic” 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 Arconic’s Annual Report on Form 10-K for the year ended December 31, 2016, which includes all disclosures required by GAAP. Certain amounts in previously issued financial statements were reclassified to conform to the current period presentation (see Note B and Note D).

The separation of Alcoa Inc. into two standalone, publicly-traded companies, Arconic Inc. (the new name for Alcoa Inc.) and Alcoa Corporation, became effective on November 1, 2016 (the “Separation Transaction”). The financial results of Alcoa Corporation for all periods prior to the Separation Transaction have been retrospectively reflected in the Statement of Consolidated Operations as discontinued operations and, as such, have been excluded from continuing operations and segment results for the first quarter ended March 31, 2016. The cash flows, equity and comprehensive income related to Alcoa Corporation have not been segregated and are included in the Statement of Consolidated Cash Flows, Statement of Changes in Consolidated Equity and Statement of Consolidated Comprehensive Income (Loss), respectively, for the first quarter ended March 31, 2016.

Pursuant to the authorization provided at a special meeting of Arconic common shareholders held on October 5, 2016, shareholders approved a 1-for-3 reverse stock split of Arconic’s outstanding and authorized shares of common stock (the “Reverse Stock Split”). As a result of the Reverse Stock Split, every three shares of issued and outstanding common stock were combined into one issued and outstanding share of common stock, without any change in the par value per share. The Reverse Stock Split reduced the number of shares of common stock outstanding from approximately 1.3 billion shares to approximately 0.4 billion shares. The Company’s common stock began trading on a reverse stock split-adjusted basis on the New York Stock Exchange on October 6, 2016.

**B. Recently Adopted and Recently Issued Accounting Guidance**

Adopted

In March 2016, the Financial Accounting Standards Board (“FASB”) issued changes to employee share-based payment accounting. Previously, an entity determined for each share-based payment award whether the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes resulted in either an excess tax benefit or a tax deficiency. Excess tax benefits were recognized in additional paid-in capital; tax deficiencies were recognized either as an offset to accumulated excess tax benefits, if any, or in the income statement. Excess tax benefits were not recognized until the deduction reduced 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 changed. Previously, excess tax benefits were 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. Additionally, for a share-based award to qualify for equity classification it previously could not be partially settled 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. These changes became effective for Arconic on January 1, 2017. Management has concluded that the adoption of this guidance did not have a material effect on the Consolidated Financial Statements.

In March 2016, the FASB issued changes eliminating 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. These changes became effective for Arconic on January 1, 2017. Management has concluded that the adoption of this guidance did not have a material impact on the Consolidated Financial Statements.

In March 2016, the FASB issued changes 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 dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. These changes became effective for Arconic on January 1, 2017. Management has determined that the adoption of this guidance did not have a material impact on the Consolidated Financial Statements.

In October 2016, the FASB issued changes to the accounting for Intra-Entity transactions, other than inventory. Previously, no immediate tax impact was recognized in the consolidated financial statements as a result of intra-entity transfers of assets. The previous standard precluded an entity from reflecting a tax benefit or expense from an intra-entity transfer between entities that file separate tax returns, whether or not such entities were in different tax jurisdictions, until the asset was sold to a third party or otherwise recovered. The previous standard also prohibited recognition by the buyer of 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. These changes became effective for Arconic on January 1, 2017. Management has determined that the adoption of this guidance did not have a material impact on the Consolidated Financial Statements.

In January 2017, the FASB issued changes to the subsequent measurement of goodwill by eliminating step 2 from the goodwill impairment test, which previously required measurement of any goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. An entity will perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value without exceeding the total amount of goodwill allocated to that reporting unit. Arconic has elected to early adopt this guidance as of January 1, 2017 and will apply it on a prospective basis. Management does not anticipate that the adoption of these changes will have a material impact on the Consolidated Financial Statements.

In January 2017, the FASB issued changes which narrow the definition of a business and require an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, which would not constitute the acquisition of a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs. Arconic has elected to early adopt this guidance as of January 1, 2017 and will apply it on a prospective basis. Management does not anticipate that the adoption of these changes will have a material impact on the Consolidated Financial Statements.

#### Issued

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 of the new guidance by one year, making these changes effective for Arconic on January 1, 2018. The Company has formed a project assessment and adoption team and is currently reviewing contract terms and assessing the impact of adopting the new guidance on the Consolidated Financial Statements. An estimate of the impact of this standard is not currently determinable.

In January 2016, the FASB issued changes to equity investments. These changes require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. Additionally, the impairment assessment of equity investments without readily determinable fair values has been simplified by requiring a qualitative assessment to identify impairment. These changes become effective for Arconic on January 1, 2018. Management has determined that the potential impact of these changes on the Consolidated Financial Statements will not be material.

In February 2016, the FASB issued changes to the accounting and presentation of leases. These changes require lessees to recognize a right of use asset and lease liability on the balance sheet for all leases with terms longer than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize a right of use asset and lease liability. Additionally, when measuring assets and liabilities arising from a lease, optional payments should be included only if the lessee is reasonably certain to exercise an option to extend the lease, exercise a purchase option, or not exercise an option to terminate the lease. These changes become effective for Arconic on January 1, 2019. Management is currently evaluating the potential impact of these changes on the Consolidated Financial Statements. An estimate of the impact of this standard is not currently determinable.

In June 2016, the FASB added a new impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. The CECL model applies to most debt instruments, trade receivables, lease receivables, financial guarantee contracts, and other loan commitments. The CECL model does not have a minimum threshold for recognition of impairment losses and entities will need to measure expected credit losses on assets that have a low risk of loss. These changes become effective for Arconic on January 1, 2020. Management is currently evaluating the potential impact of these changes on the Consolidated Financial Statements.

In August 2016, the FASB issued changes to the classification of certain cash receipts and cash payments within the statement of cash flows. The guidance identifies eight specific cash flow items and the sections where they must be presented within the statement of cash flows. These changes become effective for Arconic on January 1, 2018 and early adoption is permitted. Management does not expect these changes to have a material impact on the Consolidated Financial Statements.

In November 2016, the FASB issued changes to the classification of cash and cash equivalents within the cash flow statement. Restricted cash and restricted cash equivalents will be included within the cash and cash equivalents line on the cash flow statement and a reconciliation must be prepared to the statement of financial position. Transfers between restricted cash and restricted cash equivalents and cash and cash equivalents will no longer be presented as cash flow activities in the statement of cash flows and material balances of restricted cash and restricted cash equivalents must disclose information regarding the nature of the restrictions. These changes become effective for Arconic on January 1, 2018. Management has determined that the adoption of these changes will not have a material impact on the Consolidated Financial Statements.

In March 2017, the FASB issued changes to shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the

earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. These changes become effective for Arconic on January 1, 2019 and early adoption is permitted. Management has determined that the adoption of these changes will not have a material impact on the Consolidated Financial Statements.

In March 2017, the FASB issued changes to the presentation of net periodic pension cost and net periodic postretirement benefit cost. The new guidance requires registrants to present the service cost component of net periodic benefit cost in the same income statement line item or items as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for asset capitalization. Registrants will present the other components of net periodic benefit cost separately from the service cost component; and, the line item or items used in the income statement to present the other components of net periodic benefit cost must be disclosed. These changes become effective for Arconic on January 1, 2018, including interim periods within those fiscal years. Early adoption is permitted as of the beginning of an annual period. The new standard must be adopted retrospectively for the presentation of the service cost component and the other components of net periodic benefit cost in the income statement, and prospectively for the asset capitalization of the service cost component of net periodic benefit cost. Management is currently evaluating the potential impact of these changes on the Consolidated Financial Statements.

### C. Accumulated Other Comprehensive Loss

The following table details the activity of the four components that comprise Accumulated other comprehensive loss for both Arconic's shareholders and noncontrolling interests:

	<u>Arconic</u>		<u>Noncontrolling Interests</u>	
	<u>First quarter ended</u>		<u>First quarter ended</u>	
	<u>March 31,</u>		<u>March 31,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Pension and other postretirement benefits (L)</b>				
Balance at beginning of period	\$(2,010)	\$(3,611)	\$ —	\$ (56)
Other comprehensive (loss) income:				
Unrecognized net actuarial loss and prior service cost	(6)	(59)	—	—
Tax benefit	1	23	—	—
Total Other comprehensive loss before reclassifications, net of tax	(5)	(36)	—	—
Amortization of net actuarial loss and prior service cost <sup>(1)</sup>	55	104	—	2
Tax expense <sup>(2)</sup>	(19)	(36)	—	(1)
Total amount reclassified from Accumulated other comprehensive loss, net of tax <sup>(5)</sup>	36	68	—	1
Total Other comprehensive income	31	32	—	1
Balance at end of period	<u>\$(1,979)</u>	<u>\$(3,579)</u>	<u>\$ —</u>	<u>\$ (55)</u>
<b>Foreign currency translation</b>				
Balance at beginning of period	\$ (689)	\$(2,412)	\$ (2)	\$ (780)
Other comprehensive income <sup>(3)</sup>	67	303	—	107
Balance at end of period	<u>\$ (622)</u>	<u>\$(2,109)</u>	<u>\$ (2)</u>	<u>\$ (673)</u>
<b>Available-for-sale securities</b>				
Balance at beginning of period	\$ 132	\$ (5)	\$ —	\$ —
Other comprehensive (loss) income <sup>(4)</sup>	(33)	1	—	—
Balance at end of period	<u>\$ 99</u>	<u>\$ (4)</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Cash flow hedges</b>				
Balance at beginning of period	\$ (1)	\$ 597	\$ —	\$ (3)
Other comprehensive income (loss):				
Net change from periodic revaluations	8	(117)	—	(3)
Tax (expense) benefit	(3)	37	—	1
Total Other comprehensive income (loss) before reclassifications, net of tax	5	(80)	—	(2)
Net amount reclassified to earnings	—	(2)	—	—
Tax benefit <sup>(2)</sup>	—	2	—	—
Total amount reclassified from Accumulated other comprehensive loss, net of tax <sup>(5)</sup>	—	—	—	—
Total Other comprehensive income (loss)	5	(80)	—	(2)
Balance at end of period	<u>\$ 4</u>	<u>\$ 517</u>	<u>\$ —</u>	<u>\$ (5)</u>

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

(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) Realized gains and losses were included in Other income, net on the accompanying Statement of Consolidated Operations.

- (5) A positive amount indicates a corresponding charge to earnings and a negative amount indicates a corresponding benefit to earnings. These amounts were reflected on the accompanying Statement of Consolidated Operations in the line items indicated in footnotes 2 through 4.

#### D. Restructuring and Other Charges

In the first quarter of 2017, Arconic recorded Restructuring and other charges of \$73 (\$69 after-tax), which included \$19 (\$13 after-tax) for layoff costs related to cost reduction initiatives including the separation of approximately 328 employees (114 in the Engineered Products and Solutions segment, 132 in the Global Rolled Products segment, 40 in the Transportation and Construction Solutions segment, and 42 in Corporate); a charge of \$60 (\$60 after-tax) related to the sale of the Fusina, Italy rolling mill; a net benefit of \$5 (\$3 after-tax) for other miscellaneous items; and a favorable benefit of \$1 (\$1 after-tax) for the reversal of a number of small layoff reserves related to prior periods.

In the first quarter of 2016, Arconic recorded Restructuring and other charges of \$16 (\$11 after-tax), which included \$17 (\$11 after-tax) for layoff costs, including the separation of approximately 530 employees (500 in the Engineered Products and Solutions segment and 30 in the Global Rolled Products segment) and a favorable benefit of \$1 (\$0 after-tax) for the reversal of a number of small layoff reserves related to prior periods.

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

	First quarter ended	
	March 31,	
	2017	2016
Engineered Products and Solutions	\$ 6	\$ 8
Global Rolled Products	57	2
Transportation and Construction Solutions	3	—
Segment Total	66	10
Corporate	7	6
Total Restructuring and other charges	<u>\$ 73</u>	<u>\$ 16</u>

As of March 31, 2017, approximately 5 of the 328 employees associated with 2017 restructuring programs, approximately 1,075 of the 1,800 employees associated with 2016 restructuring programs, and approximately 1,120 of the 1,220 employees (previously 1,240 – updated to reflect employees accepting other positions within Arconic and natural attrition) associated with the 2015 restructuring programs were separated. Most of the remaining separations for the 2017 restructuring programs and all of the remaining separations for the 2016 and 2015 restructuring programs are expected to be completed by the end of 2017.

In the 2017 first quarter, cash payments of \$1, \$14 and \$3 were made against the layoff reserves related to 2017, 2016 and 2015 restructuring programs, respectively.

Activity and reserve balances for restructuring charges were as follows:

	<u>Layoff costs</u>	<u>Other exit costs</u>	<u>Total</u>
Reserve balances at December 31, 2015	\$ 84	\$ 9	\$ 93
<b>2016:</b>			
Cash payments	(73)	(13)	(86)
Restructuring charges	70	27	97
Other*	(31)	(14)	(45)
Reserve balances at December 31, 2016	<u>50</u>	<u>9</u>	<u>59</u>
<b>2017:</b>			
Cash payments	(18)	(4)	(22)
Restructuring charges	20	—	20
Other*	(2)	(1)	(3)
Reserve balances at March 31, 2017	<u>\$ 50</u>	<u>\$ 4</u>	<u>\$ 54</u>

\* Other includes reversals of previously recorded restructuring charges and the effects of foreign currency translation. In 2016, Other for other exit costs also included reclassifications of \$8 in asset retirement, \$2 in environmental obligations and \$4 in legal obligations as these liabilities were included in Arconic's separate reserves for asset retirement obligations, environmental remediation and legal costs.

The remaining reserves are expected to be paid in cash during the remainder of 2017, except for approximately \$1 to \$5, which is expected to be paid over the next several years for ongoing site remediation work and special layoff benefit payments.

#### E. Acquisitions and Divestitures

In April 2016, Arconic completed the sale of the Remmele Medical business to LISI MEDICAL for \$102 in cash (\$99 net of transaction costs). This business, which was part of the RTI International Metals acquisition, manufactures precision-machined metal products for customers in the minimally invasive surgical device and implantable device markets. While owned by Arconic, the operating results and assets and liabilities of this business were included in the Engineered Products and Solutions segment. This business generated third-party sales of approximately \$16 in the first quarter of 2016, and, at the time of the divestiture, had approximately 330 employees. This transaction is no longer subject to post-closing adjustments.

In March 2017, Arconic completed the sale of its Fusina, Italy rolling mill to Slim Aluminium. While owned by Arconic, the operating results and assets and liabilities of the Fusina, Italy rolling mill were included in the Global Rolled Products segment. As part of the transaction, Arconic injected \$10 of cash into the business and provided a third party guarantee with a fair value of \$5 related to Slim Aluminium's environmental remediation. The Company recorded a loss on the sale of \$60, which was recorded in Restructuring and other charges (see Note D) on the Statement of Consolidated Operations. The rolling mill generated third-party sales of approximately \$37 and \$38 for the quarters ended March 31, 2017 and 2016, respectively. At the time of the divestiture, the rolling mill had approximately 312 employees.

#### F. Inventories

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Finished goods	\$ 648	\$ 625
Work-in-process	1,223	1,144
Purchased raw materials	380	408
Operating supplies	77	76
Total inventories	<u>\$ 2,328</u>	<u>\$ 2,253</u>

At March 31, 2017 and December 31, 2016, the total amount of inventories valued on a LIFO basis was \$1,002 and \$947, respectively. If valued on an average-cost basis, total inventories would have been \$390 and \$371 higher at March 31, 2017 and December 31, 2016, respectively.

## G. Separation Transaction and Discontinued Operations

On November 1, 2016, Arconic completed the Separation Transaction. Alcoa Inc., which was re-named Arconic Inc., continued to own the Engineered Products and Solutions, the Global Rolled Products (except for the Warrick, IN rolling operations and the equity interest in the rolling mill at the joint venture in Saudi Arabia), and the Transportation and Construction Solutions segments. Alcoa Corporation included the Alumina and Primary Metals segments and the Warrick, IN rolling operations and equity interest in the rolling mill at the joint venture in Saudi Arabia, both of which were formerly part of Arconic's Global Rolled Products segment. The results of operations of Alcoa Corporation for the three months ended March 31, 2016 are presented as discontinued operations in the Statement of Consolidated Operations.

Arconic completed the Separation Transaction by distribution on November 1, 2016 of 80.1% of the outstanding common stock of Alcoa Corporation to the Company's shareholders of record as of the close of business on October 20, 2016. Arconic retained 19.9% of the Alcoa Corporation common stock (36,311,767 shares).

The Company recorded the retained interest as a cost method investment in Investment in common stock of Alcoa Corporation in the accompanying Consolidated Balance Sheet. The fair value of Arconic's retained interest in Alcoa Corporation was \$446 and \$1,020 at March 31, 2017 and December 31, 2016, respectively. The fair value was based on the closing stock price of Alcoa Corporation as of March 31, 2017 and December 31, 2016 multiplied by the number of shares of Alcoa Corporation common stock owned by the Company at those respective dates. On February 14, 2017, the Company sold 23,353,000 shares of Alcoa Corporation common stock at \$38.03 per share, which resulted in cash proceeds of \$888 which were recorded in Sale of investments within Investing Activities in the Statement of Consolidated Cash Flows and a gain of \$351, which was recorded in Other income, net in the accompanying Statement of Consolidated Operations.

Arconic has a Toll Processing and Services Agreement with Alcoa Corporation for the tolling of metal for the Warrick, Indiana rolling mill. Tolling revenues for the quarter ended March 31, 2017 and accounts receivable at March 31, 2017 were not material to the consolidated results of operations and financial position for the quarter ended March 31, 2017.

Additionally, Arconic buys products from and sells products to various related companies, including Alcoa Corporation, at negotiated prices between the two parties. These transactions, including accounts payable, were not material to the financial position or results of operations of Arconic for the quarter ended March 31, 2017.

As part of the Separation Transaction, Arconic had recorded a receivable in the December 2016 Consolidated Balance Sheet for the net after-tax proceeds from Alcoa Corporation's sale of the Yadkin Hydroelectric Project. The transaction closed in the first quarter of 2017 and the Company received proceeds of \$238 and expects to receive an additional \$5 in the second quarter of 2017. The \$238 proceeds were included in Other within Investing Activities in the Statement of Consolidated Cash Flows.

The results of operations of Alcoa Corporation are presented as discontinued operations in the Statement of Consolidated Operations as summarized below:

	<b>First quarter ended March 31, 2016</b>
Sales	\$ 1,892
Cost of goods sold (exclusive of expenses below)	1,641
Selling, general administrative, and other expenses	55
Research and development expenses	11
Provision for depreciation, depletion and amortization	175
Restructuring and other charges	77
Interest expense	6
Other expenses, net	47
Loss from discontinued operations before income taxes	(120)
Benefit for income taxes	(21)
Loss from discontinued operations after income taxes	(99)
Less: Net loss from discontinued operations attributable to noncontrolling interests	(5)
<b>Net loss from discontinued operations</b>	<b>\$ (94)</b>

The cash flows related to Alcoa Corporation have not been segregated and are included in the Statement of Consolidated Cash Flows for all periods presented. The following table presents depreciation, depletion and amortization, restructuring and other charges, and purchases of property, plant and equipment of the discontinued operations related to Alcoa Corporation:

	<b>First quarter ended March 31, 2016</b>
Depreciation, depletion and amortization	\$ 175
Restructuring and other charges	\$ 77
Capital expenditures	\$ 86

## H. Contingencies and Commitments

### Contingencies

#### Environmental Matters

Arconic participates in environmental assessments and cleanups at more than 100 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 the nature and extent of contamination, changes in remedial requirements, and technological changes, among others.

Arconic's remediation reserve balance was \$308 at March 31, 2017 and December 31, 2016 (of which \$52 and \$48 was classified as a current liability), and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated.

Payments related to remediation expenses applied against the reserve were \$2 in the first quarter. This amount includes expenditures currently mandated, as well as those not required by any regulatory authority or third party. In the 2017 first quarter, the change in reserve also reflects an increase of \$2 due to the effects of foreign currency translation.

Included in annual operating expenses are the recurring costs of managing hazardous substances and environmental programs. These costs are estimated to be approximately 1% or less of cost of goods sold.

The following discussion provides details regarding the current status of certain significant reserves related to current or former Arconic sites.

**Massena West, NY**—Arconic has an ongoing remediation project related to the Grasse River, which is adjacent to Arconic's Massena plant site. Many years ago, it was determined that sediments and fish in the river contain varying levels of polychlorinated biphenyls (PCBs). The project, which was selected by the U.S. Environmental Protection Agency in a Record of Decision issued in April 2013, is aimed at capping PCB contaminated sediments with concentration in excess of one part per million in the main channel of the river and dredging PCB contaminated sediments in the near-shore areas where total PCBs exceed one part per million. At March 31, 2017 and December 31, 2016, the reserve balance associated with this matter was \$227 and \$228, respectively. Arconic is in the planning and design phase, which is expected to be completed in 2017. Following that, the actual remediation fieldwork is expected to commence and take approximately four years. The majority of the project funding is expected to be spent between 2017 and 2021.

#### Tax

Pursuant to the Tax Matters Agreements entered into between Arconic and Alcoa Corporation in connection with the Separation Transaction, Arconic shares responsibility with Alcoa Corporation, and Alcoa Corporation has agreed to partially indemnify Arconic, with respect to the following matter.

As previously reported, 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 the Company. An appeal of this assessment in Spain's Central Tax Administrative Court by the Company was denied in October 2013. In December 2013, the Company 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, Arconic filed an appeal of this second assessment in Spain's Central Tax Administrative Court, which was denied in January 2015. Arconic filed another appeal of this second assessment in Spain's National Court in March 2015.

The combined assessments, remeasured for a tax rate change enacted in November 2014, total \$265 (€247), including interest. On January 16, 2017, Spain's National Court issued a decision in favor of the Company related to the assessment received in September 2010. The Spanish Tax Administration did not file an appeal within the applicable period. A further decision is expected on the application of this ruling to the overall assessment. Spain's National Court has not yet rendered a decision related to the assessment received in July 2013.

The Company believes it has meritorious arguments to support its tax position and intends to vigorously litigate the assessments through Spain's court system. However, in the event the Company is unsuccessful, a portion of the assessments may be offset with existing net operating losses available to the Spanish consolidated tax group, which would be shared between Arconic and Alcoa Corporation 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. At this time, the Company is unable to reasonably predict an outcome for this matter.

#### Other

In addition to the matters discussed above, various other lawsuits, claims, and proceedings have been or may be instituted or asserted against Arconic, including those pertaining to environmental, product liability, safety and health, and tax matters. While the amounts claimed in these other matters may be substantial, the ultimate liability cannot currently be determined because of the considerable uncertainties that exist. Therefore, it is possible that the Company's liquidity or results of operations in a 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 results of operations, financial position or cash flows of the Company.

#### Commitments

##### Guarantees

At March 31, 2017, Arconic had outstanding bank guarantees related to tax matters, outstanding debt, workers' compensation, environmental obligations, energy contracts, and customs duties, among others. The total amount committed under these guarantees, which expire at various dates between 2017 and 2026, was \$45 at March 31, 2017.

Pursuant to the Separation and Distribution Agreement between Arconic and Alcoa Corporation, Arconic was required to provide maximum potential future payment guarantees for Alcoa Corporation issued on behalf of a third party of \$330. These guarantees expire at various times between 2017 and 2024, and relate to project financing for Alcoa Corporation's aluminum complex in Saudi Arabia. Furthermore, Arconic was required to provide guarantees up to an estimated present value amount of \$1,600 related to two long-term supply agreements for energy for Alcoa Corporation facilities. In accordance with the Separation and Distribution Agreement, Arconic is only liable for these guaranteed amounts in the event of an Alcoa Corporation payment default. In December 2016, Arconic entered into a one-year claims purchase agreement with a bank covering claims up to \$245 related to the Saudi Arabian aluminum complex and two long-term energy supply agreements. Most of the premium related to this claims purchase agreement is being paid by Alcoa Corporation. At March 31, 2017 and December 31, 2016, the combined fair value of the three required guarantees was \$35 which was included in Other noncurrent liabilities and deferred credits on the accompanying Consolidated Balance Sheet.

Arconic was also required to provide guarantees of \$50 related to two Alcoa Corporation energy supply contracts. These guarantees expired in March 2017. Additionally, Arconic was required to provide guarantees of \$53 related to certain Alcoa Corporation environmental liabilities. Notification of a change in guarantor to Alcoa Corporation was made to the appropriate environmental agencies and as such, Arconic no longer provides these guarantees.

## Letters of Credit

Arconic has outstanding letters of credit, primarily related to workers' compensation, energy contracts and leasing obligations. The total amount committed under these letters of credit, which automatically renew or expire at various dates, primarily in 2017, was \$107 at March 31, 2017.

Pursuant to the Separation and Distribution Agreement, Arconic was required to retain letters of credit of \$61 that had previously been provided related to both Arconic and Alcoa Corporation workers' compensation claims which occurred prior to November 1, 2016. Alcoa Corporation's workers' compensation claims and letter of credit fees paid by Arconic are being billed to and are being fully reimbursed by Alcoa Corporation. Additionally, Arconic was required to provide letters of credit totaling \$103 for certain Alcoa Corporation equipment leases and energy contracts. The entire \$103 of outstanding letters of credit were cancelled in 2017 when Alcoa Corporation issued its own letters of credit to cover these obligations.

## Surety Bonds

Arconic has outstanding surety bonds, primarily related to tax matters, contract performance, workers' compensation, environmental-related matters, and customs duties. The total amount committed under these surety bonds, which expire at various dates, primarily in 2017, was \$121 at March 31, 2017.

Pursuant to the Separation and Distribution Agreement, Arconic was required to provide surety bonds related to Alcoa Corporation workers' compensation claims which occurred prior to November 1, 2016 and, as a result, Arconic has \$22 in outstanding surety bonds relating to these liabilities. Alcoa Corporation workers' compensation claims and surety bond fees paid by Arconic are being billed to and are being fully reimbursed by Alcoa Corporation.

## **I. Segment Information**

Arconic is a producer of multi-material products including sheet, plate, precision castings, forgings, rolled rings, extrusions, wheels and fasteners. Arconic's products are used worldwide in transportation (including aerospace, automotive, truck, trailer, rail, and shipping), packaging, building and construction, oil and gas, defense, and industrial applications. Arconic's segments are organized by product on a worldwide basis. In the first quarter of 2017, the Company changed its primary measure of segment performance from after-tax operating income (ATOI) to adjusted earnings before interest, tax, depreciation and amortization ("adjusted EBITDA"). Segment performance under Arconic's management reporting system is evaluated based on a number of factors; however, the primary measure of performance is adjusted EBITDA. Arconic's definition of adjusted EBITDA is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. The adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

Items required to reconcile combined segment adjusted EBITDA to consolidated net income attributable to Arconic include: the impact of LIFO inventory accounting; metal price lag (the timing difference created when the average price of metal sold differs from the average cost of the metal when purchased by the respective segment - generally, when the price of metal increases, metal price lag is favorable, and when the price of metal decreases, metal price lag is unfavorable); corporate expense (general administrative and selling expenses of operating the corporate headquarters and other global administrative facilities and corporate research and development expenses); the provision for depreciation and amortization; interest expense; restructuring and other charges; other income, net; the results of discontinued operations; income tax expense; and



other items, including intersegment profit eliminations. Prior period information has been recast to conform to current year presentation. The operating results of Arconic's reportable segments were as follows:

	<u>Engineered Products and Solutions</u>	<u>Global Rolled Products</u>	<u>Transportation and Construction Solutions</u>	<u>Combined Segment</u>
<b>First quarter ended</b>				
<b>March 31, 2017</b>				
Sales:				
Third-party sales	\$ 1,485	\$ 1,249	\$ 449	\$ 3,183
Intersegment sales	—	34	—	34
Total sales	\$ 1,485	\$ 1,283	\$ 449	\$ 3,217
Profit and loss:				
Depreciation and amortization	64	50	12	126
Adjusted EBITDA	306	171	72	549
<b>First quarter ended</b>				
<b>March 31, 2016</b>				
Sales:				
Third-party sales	\$ 1,449	\$ 1,184	\$ 429	\$ 3,062
Intersegment sales	—	29	—	29
Total sales	\$ 1,449	\$ 1,213	\$ 429	\$ 3,091
Profit and loss:				
Depreciation and amortization	65	50	11	126
Adjusted EBITDA	305	155	64	524

The following table reconciles combined segment adjusted EBITDA to consolidated net income attributable to Arconic:

	<b>First quarter ended</b>	
	<b>March 31,</b>	
	<u>2017</u>	<u>2016</u>
Combined segment adjusted EBITDA	\$ 549	\$ 524
Unallocated amounts:		
Depreciation and amortization	(133)	(133)
Interest expense	(115)	(121)
Restructuring and other charges	(73)	(16)
Other income, net	354	12
Discontinued operations	—	(94)
Income taxes	(162)	(51)
Impact of LIFO	(19)	(12)
Metal price lag	22	—
Corporate expense	(91)	(76)
Other	(10)	(17)
Consolidated net income attributable to Arconic	<u>\$ 322</u>	<u>\$ 16</u>

## J. Earnings Per Share

Basic earnings per share (EPS) amounts are computed by dividing earnings, after the deduction of preferred stock dividends declared, 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 number of shares and per share amounts for all periods presented below have been updated to reflect the Reverse Stock Split (see Note A).

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

	First quarter ended March 31,	
	2017	2016
Income from continuing operations after income taxes	\$ 322	\$ 110
Less: Preferred stock dividends declared	(17)	(18)
Income from continuing operations available to Arconic common shareholders	305	92
Income (loss) from discontinued operations after income taxes and noncontrolling interests	—	(94)
Net income (loss) available to Arconic common shareholders - basic	305	(2)
Add: Interest expense related to convertible notes	2	—
Add: Dividends related to mandatory convertible preferred stock	17	—
Net income (loss) available to Arconic common shareholders - diluted	<u>\$ 324</u>	<u>\$ (2)</u>
Average shares outstanding - basic	440	438
Effect of dilutive securities:		
Stock options	1	—
Stock and performance awards	5	—
Mandatory convertible preferred stock	39	—
Convertible notes	14	—
Average shares outstanding - diluted	<u>499</u>	<u>438</u>

The following shares were excluded from the calculation of Average shares outstanding – diluted as their effect was anti-dilutive.

	First quarter ended March 31,	
	2017	2016
Mandatory convertible preferred stock	—	26
Convertible notes	—	9
Stock awards	—	3
Stock options <sup>(1)</sup>	4	1

- (1) Average option price of shares excluded from the calculation of Average shares outstanding – diluted was \$33.32 for the first quarter of 2017 and \$38.22 for the first quarter of 2016.

#### K. Receivables

Arconic has an arrangement with three financial institutions to sell certain customer receivables without recourse on a revolving basis. The sale of such receivables is completed using a bankruptcy remote special purpose entity, which is a consolidated subsidiary of Arconic. This arrangement provides for minimum funding of \$200 up to a maximum of \$400 for receivables sold. On March 30, 2012, Arconic initially sold \$304 of customer receivables in exchange for \$50 cash and \$254 of deferred purchase program under the arrangement. Arconic has received additional net cash funding of \$300 (\$1,908 in draws and \$1,608 in repayments) since the program's inception, including net cash repayments totaling \$0 (\$150 in draws and \$150 in repayments) in the three months ended March 31, 2017.

As of March 31, 2017, and December 31, 2016, the deferred purchase program receivable was \$219 and \$83, respectively, which was included in Other receivables on the accompanying Consolidated Balance Sheet. The deferred purchase program receivable is reduced as collections of the underlying receivables occur; however, as this is a revolving program, the sale of new receivables will result in an increase in the deferred purchase program receivable. The net change in the deferred purchase program receivable was reflected in the (Increase) in receivables line item on the accompanying Statement of Consolidated Cash Flows. This activity is reflected as an operating cash flow because the related customer receivables are the result of an operating activity with an insignificant, short-term interest rate risk.

The gross amount of receivables sold and total cash collected under this program since its inception was \$31,267 and \$30,697, respectively. Arconic services the customer receivables for the financial institutions at market rates; therefore, no servicing asset or liability was recorded.

## L. Pension and Other Postretirement Benefits

The components of net periodic benefit cost were as follows:

	Pension benefits		Other postretirement benefits	
	First quarter ended		First quarter ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Service cost	\$ 23	\$ 40	\$ 2	\$ 3
Interest cost	58	122	8	18
Expected return on plan assets	(83)	(185)	—	—
Recognized net actuarial loss	55	102	1	6
Amortization of prior service cost (benefits)	1	4	(2)	(6)
Special termination benefits	—	1	—	—
Net periodic benefit cost*	\$ 54	\$ 84	\$ 9	\$ 21
Discontinued operations	—	33	—	12
Net amount recognized in Statement of Consolidated Operations	\$ 54	\$ 51	\$ 9	\$ 9

In conjunction with the Separation Transaction, the Pension Benefit Guaranty Corporation approved management's plan to separate the Alcoa Inc. pension plans between Arconic Inc. and Alcoa Corporation. The plan stipulates that Arconic will make cash contributions over a period of 30 months to its two largest pension plans. Payments are expected to be made in three increments of no less than \$50 each (\$150 total) over this 30-month period. The first payment of \$50 was made on April 18, 2017.

\* Components of Net periodic benefit cost were included within Cost of goods sold, Selling, general administrative, and other expenses, Research and development expenses and Restructuring and other charges in the Statement of Consolidated Operations.

## M. 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.

The carrying values and fair values of Arconic's financial instruments were as follows:

	March 31, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	\$ 2,553	\$2,553	\$ 1,863	\$1,863
Restricted cash	1	1	15	15
Derivatives - current asset	40	40	14	14
Noncurrent receivables	21	21	21	21
Derivatives - noncurrent asset	24	24	10	10
Available-for-sale securities	103	103	102	102
Investment in common stock of Alcoa Corporation	446	446	1,020	1,020
Short-term borrowings	47	47	36	36
Derivatives - current liability	28	28	5	5
Long-term debt due within one year	—	—	4	4
Derivatives - noncurrent liability	11	11	3	3
Contingent payment related to an acquisition	79	79	78	78
Long-term debt, less amount due within one year	8,046	8,652	8,044	8,519

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

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

**Derivatives.** The fair value of derivative contracts classified as Level 1 was based on identical unrestricted assets and liabilities. The fair value of derivative contracts classified as Level 2 was based on inputs other than quoted prices that are observable for the asset or liability (e.g. interest rates).

**Noncurrent receivables.** The fair value of noncurrent receivables was based on anticipated cash flows, which approximates carrying value, and was classified in Level 2 of the fair value hierarchy.

**Available-for-sale securities.** The fair value of such securities was based on quoted market prices. These financial instruments consist of exchange-traded fixed income and equity securities, which are carried at fair value and were classified in Level 1 of the fair value hierarchy.

**Investment in common stock of Alcoa Corporation.** The fair value was based on the closing stock price of Alcoa Corporation on the New York Stock Exchange at March 31, 2017 and December 31, 2016 multiplied by the number of shares of Alcoa Corporation common stock owned by Arconic at those dates. This investment was classified in Level 1 of the fair value hierarchy.

**Contingent payment related to an acquisition.** The fair value was based on the net present value of expected future cash flows and was classified in Level 3 of the fair value hierarchy.

**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 Arconic 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.

## N. Subsequent Events

Management evaluated all activity of Arconic 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, with the exception of the events disclosed below.

On April 17, 2017, the Company announced that, effective April 13, 2017, Klaus Kleinfeld, by mutual agreement with the Arconic Board of Directors (the "Board"), had stepped down as Chairman and Chief Executive Officer of Arconic and resigned as a Board member. The Board appointed David P. Hess, a current member of the Board, as Interim Chief Executive Officer of the Company, and Patricia F. Russo, who was then serving as Lead Director of the Company, as Interim Chair of the Board, effective April 13, 2017. The Board has formed a search committee to oversee the selection and appointment of a permanent Chief Executive Officer.

On April 5, 2017, Arconic announced three separate cash tender offers by Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC (together, the “Investment Entities”) for the purchase of the Company’s 6.500% Senior Notes due 2018, 6.750% Senior Notes due 2018, and 5.720% Senior Notes due 2019, up to a maximum purchase amount of \$1,000 aggregate principal amount of notes, subject to certain conditions.

On April 19, 2017, Arconic announced that the Investment Entities had purchased notes totaling \$795 in aggregate principal amount. On April 24, 2017, the Company purchased \$295 in aggregate principal amount of its senior notes from the Investment Entities for cash of \$320.

On April 25, 2017, the Company agreed to acquire \$500 in aggregate principal amount of the 2018 Notes held by the Investment Entities for consideration, at the Company’s election, consisting of (i) cash, (ii) shares of common stock of Alcoa Corporation owned by the Company or (iii) a combination thereof. On April 26, 2017, the Company elected to acquire such notes (i) in exchange for 12,958,767 Alcoa Corporation shares (the “Debt Exchange”) at \$35.91 per share and (ii) for \$77 in cash (the “Cash Purchase”). The Debt Exchange is expected to close on May 4, 2017, and the Cash Purchase is expected to close on May 5, 2017, each subject to customary closing conditions. The Investment Entities intend to negotiate to sell to the Company for cash any additional notes tendered to, and purchased by, the Investment Entities pursuant to the tender offers, which are expected to expire on May 2, 2017.

In the second quarter, the Company anticipates recording a pre-tax gain of approximately \$167 on the exchange of common stock of Alcoa Corporation and interest expense associated primarily with the early tender of its senior notes of approximately \$50 to \$60.

Arconic Inc. and certain officers and directors are named as defendants in a lawsuit filed on April 18, 2017 in Pennsylvania state court, the Philadelphia County Court of Common Pleas, by plaintiff shareholder Arthur Ehrlich on behalf of himself and other similarly situated shareholders alleging breach of fiduciary duty related to Arconic’s April 12, 2017 filing of a Form 8-K in which the company disclosed that it had given notice of a “potential change in control” under the terms of a rabbi trust agreement. Plaintiffs allege that this statement constitutes an improper attempt to coerce shareholders into voting for incumbent directors. We believe that this lawsuit is without merit and intend to defend it vigorously.

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**Report of Independent Registered Public Accounting Firm\***

To the Shareholders and Board of Directors of Arconic Inc.

We have reviewed the accompanying consolidated balance sheet of Arconic Inc. and its subsidiaries (Arconic) as of March 31, 2017, and the related statements of consolidated operations, consolidated comprehensive income (loss), changes in consolidated equity, and consolidated cash flows for the three-month periods ended March 31, 2017 and 2016. These consolidated interim financial statements are the responsibility of Arconic'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, changes in consolidated equity, and consolidated cash flows for the year then ended (not presented herein), and in our report dated February 28, 2017 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Pittsburgh, Pennsylvania  
May 1, 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 and aluminum prices; production and shipments in thousands of metric tons [kmt])

### Overview

#### **Our Business**

Arconic (the “Company”) is a global leader in lightweight metals engineering and manufacturing. Arconic’s innovative, multi-material products, which include aluminum, titanium, and nickel, are used worldwide in aerospace, automotive, commercial transportation, packaging, building and construction, oil and gas, defense, consumer electronics, and industrial applications.

The separation of Alcoa Inc. into two standalone, publicly-traded companies, Arconic Inc. (the new name for Alcoa Inc.) and Alcoa Corporation, became effective on November 1, 2016 (the “Separation Transaction”). The financial results of Alcoa Corporation for all periods prior to the Separation Transaction have been retrospectively reflected in the Statement of Consolidated Operations as discontinued operations and, as such, have been excluded from continuing operations and segment results for the first quarter ended March 31, 2016. The cash flows, equity and comprehensive income related to Alcoa Corporation have not been segregated and are included in the Statement of Consolidated Cash Flows, Statement of Changes in Consolidated Equity and Statement of Consolidated Comprehensive Income (Loss), respectively, for the first quarter ended March 31, 2016.

### Results of Operations

#### **Earnings Summary:**

*Income from continuing operations after income taxes.* Income from continuing operations after income taxes was \$322 for the first quarter of 2017, or \$0.65 per diluted share, compared to income from continuing operations after income taxes of \$110 for the first quarter of 2016, or \$0.21 per diluted share. The increase of \$212 was primarily attributable to a gain on the sale of a portion of Arconic’s investment in Alcoa Corporation common stock of \$351, net cost savings and higher volumes across Arconic, partially offset by the loss on sale of the Fusina, Italy rolling mill of \$60, as well as unfavorable product pricing and mix, primarily in aerospace.

*Sales.* Sales increased \$137, or 4%, in the first quarter of 2017 compared to the same period in 2016. The increase was the result of strong volume growth across all segments and higher aluminum pricing, partially offset by the Tennessee packaging ramp down and unfavorable product pricing in the Engineered Products and Solutions and Global Rolled Products segments.

*Cost of goods sold (COGS).* COGS as a percentage of Sales was 78.1% in the first quarter of 2017 compared to 78.6% in the first quarter of 2016. The improvement was primarily attributable to net cost savings, partially offset by unfavorable product price and mix.

*Selling, general administrative, and other expenses (SG&A).* SG&A expenses increased \$16 in the first quarter of 2017 compared to the same period in 2016 as a result of proxy, advisory and governance-related costs. Costs associated with the Separation Transaction were \$18 in both the first quarter of 2017 and the first quarter of 2016.

*Restructuring and other charges.* Restructuring and other charges were \$73 (\$69 after-tax) in the first quarter of 2017 compared to \$16 (\$11 after-tax) in the first quarter of 2016.

In the first quarter of 2017, Restructuring and other charges included \$19 (\$13 after-tax) for layoff costs related to cost reduction initiatives including the separation of approximately 328 employees (114 in the Engineered Products and Solutions segment, 132 in the Global Rolled Products segment, 40 in the Transportation and Construction Solutions segment, and 42 in Corporate); a charge of \$60 (\$60 after-tax) related to the sale of the Fusina, Italy rolling mill; a net benefit of \$5 (\$3 after-tax) for other miscellaneous items; and a favorable benefit of \$1 (\$1 after-tax) for the reversal of a number of small layoff reserves related to prior periods.

In the first quarter of 2016, Arconic recorded Restructuring and other charges of \$16 (\$11 after-tax), which included \$17 (\$11 after-tax) for layoff costs, including the separation of approximately 530 employees (500 in the Engineered Products and Solutions segment and 30 in the Global Rolled Products segment) and a favorable benefit of \$1 (\$0 after-tax) for the reversal of a number of small layoff reserves related to prior periods.

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

	First quarter ended March 31,	
	2017	2016
Engineered Products and Solutions	\$ 6	\$ 8
Global Rolled Products	57	2
Transportation and Construction Solutions	3	—
Segment Total	66	10
Corporate	7	6
Total Restructuring and other charges	<u>\$ 73</u>	<u>\$ 16</u>

As of March 31, 2017, approximately 5 of the 328 employees associated with 2017 restructuring programs, approximately 1,075 of the 1,800 employees associated with 2016 restructuring programs, and approximately 1,120 of the 1,220 employees (previously 1,240 – updated to reflect employees accepting other positions within Arconic and natural attrition) associated with the 2015 restructuring programs had been separated. Most of the remaining separations for the 2017 restructuring programs and all of the remaining separations for the 2016 and 2015 restructuring programs are expected to be completed by the end of 2017.

In the 2017 first quarter, cash payments of \$1, \$14 and \$3 were made against the layoff reserves related to 2017, 2016 and 2015 restructuring programs, respectively.

*Interest expense.* Interest expense decreased \$6, or 5%, in the first quarter of 2017 compared to the corresponding period in 2016 primarily due to lower overall debt levels in the current quarter.

*Other income, net.* Other income, net increased \$342 in the first quarter of 2017 compared to the same period in 2016 primarily due to a \$351 gain on the sale of a portion of Arconic's investment in Alcoa Corporation common stock.

*Provision for income taxes.* The effective tax rate was 33.5% for the first quarter of 2017 and 31.7% in the first quarter of 2016. Arconic's estimated annual effective tax rate for 2017 was 31.6% as of March 31, 2017, which differs from the federal statutory rate of 35% primarily due to foreign income taxed in lower rate jurisdictions and a tax basis in excess of book basis of Alcoa Corporation common stock sold during February 2017 (see Note G), partially offset by a loss on the sale of a rolling mill in Italy for which no net tax benefit was recognized (see Note E). The March 31, 2017 year-to-date tax provision is comprised of the estimated annual effective tax rate of 31.6% applied to pretax income of \$484, a net discrete tax cost of \$2 for various small items, and an unfavorable \$7 impact related to the interim period treatment of operational losses in certain foreign jurisdictions for which no tax benefit is recognized (impact expected to reverse by the end of 2017).

Arconic's estimated annual effective tax rate for 2016 was 63.9% as of March 31, 2016 which differs from the federal statutory rate of 35% primarily due to book basis in excess of tax basis of company-owned life insurance contracts that were sold during 2016, and separation expenses for which no tax benefit was recognized. The March 31, 2016 year-to-date tax provision is comprised of the estimated annual effective tax rate of 63.9% applied to pretax income of \$161, a \$5 discrete income tax charge for valuation allowances of certain deferred tax assets in Australia, and a favorable \$58 impact related to the interim period treatment of losses in certain foreign jurisdictions for which no tax benefit was recognized (impact reversed by the end of 2016).



*Discontinued operations.* Net income attributable to Arconic included losses of \$99 from discontinued operations after income taxes and \$5 from discontinued operations attributable to noncontrolling interests in the first quarter of 2016.

## Segment Information

In the first quarter of 2017, the Company changed its primary measure of segment performance from after-tax operating income (ATOI) to adjusted earnings before interest, tax, depreciation, and amortization (“adjusted EBITDA”). Segment performance under Arconic’s management reporting system is evaluated based on a number of factors; however, the primary measure of performance is adjusted EBITDA. Arconic’s definition of adjusted EBITDA is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. The adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

## Engineered Products and Solutions

	First quarter ended March 31,	
	2017	2016
Third-party sales	\$1,485	\$1,449
Adjusted EBITDA	\$ 306	\$ 305

Third-party sales for the Engineered Products and Solutions segment increased 2% in the first quarter of 2017 compared to the first quarter of 2016. The change was primarily related to increased volumes, partially offset by lower product pricing, the absence of sales (\$16) from the divested Remmele Medical business and the effects of foreign currency.

Adjusted EBITDA for the Engineered Products and Solutions segment increased \$1 in the first quarter of 2017 compared to the first quarter of 2016. The change was principally the result of net cost savings and higher volumes, largely offset by unfavorable product pricing and mix as well as ramp-up costs. The ramp-up costs are associated with increasing production volumes of new aerospace engine parts and are the result of, for example, higher scrap rates, lower efficiencies, new process development and employee training.

In 2017, demand in the commercial aerospace end market is expected to remain strong, driven by the ramp-up of new aerospace engine platforms, somewhat offset by continued customer destocking and engine ramp-up challenges. Demand in the defense end market is expected to grow due to the continuing ramp-up of certain aerospace programs. Additionally, net cost savings are anticipated while pricing pressure across all markets is likely to continue.

## Global Rolled Products (1)

	First quarter ended March 31,	
	2017	2016
Third-party sales	\$1,249	\$ 1,184
Intersegment sales	34	29
Total sales	\$1,283	\$ 1,213
Adjusted EBITDA	\$ 171	\$ 155
Third-party aluminum shipments (kmt)	310	331
Average realized price per metric ton of aluminum(2)(3)	\$4,029	\$ 3,577

(1) Excludes the Warrick, IN rolling operations and the equity interest in the rolling mill at the joint venture in Saudi Arabia, both of which were previously part of the Global Rolled Products segment but became part of Alcoa Corporation effective November 1, 2016.

(2) Generally, average realized price per metric ton of aluminum includes two elements: a) the price of metal (the underlying base metal component based on quoted prices from the London Metal Exchange (“LME”), plus a regional premium which represents the incremental price over the base LME component that is associated with physical delivery of metal to a particular region), and b) the conversion price, which represents the incremental price over the metal price component that is associated with converting primary aluminum into sheet and plate.

(3) The metal price component is a pass-through to this segment’s customers with limited exceptions (e.g., fixed-priced contracts, certain regional premiums).

Third-party sales for the Global Rolled Products segment increased 5% in the first quarter of 2017 compared to the first quarter of 2016. The change was primarily related to higher volumes and aluminum pricing, partially offset by the ramp down of the Tennessee packaging business (\$96) and unfavorable product pricing and mix.

Adjusted EBITDA for the Global Rolled Products segment increased \$16 in the first quarter of 2017 compared to the first quarter of 2016. The change was primarily the result of net cost savings, strong performance by Tennessee packaging and increased automotive volumes, partially offset by lower aerospace volume from customer destocking and reduced build rates, as well as continued pricing pressure on regional specialty products.

In 2017, demand in the automotive end market is expected to continue to grow due to the increasing demand for innovative products and aluminum-intensive vehicles. Demand from the commercial airframe end market is expected to be flat in 2017 as the ramp-up of new programs is offset by customer destocking and lower build rates for aluminum intensive wide-body programs. Sales to the packaging market are expected to decline due to continuing pricing pressure within this market and the ramp down of Arconic's North American packaging operations. Net cost savings are expected to continue.

### Transportation and Construction Solutions

	First quarter ended March 31,	
	2017	2016
Third-party sales	\$ 449	\$ 429
Adjusted EBITDA	\$ 72	\$ 64

Third-party sales for the Transportation and Construction Solutions segment increased 5% in the first quarter of 2017 compared to the first quarter of 2016. The change was primarily related to increased volumes and aluminum pricing, partially offset by lower product pricing and the effects of foreign currency.

Adjusted EBITDA for the Transportation and Construction Solutions segment increased \$8 in the first quarter of 2017 compared to the first quarter of 2016. The change was principally the result of strong net cost savings as well as share gains and market growth in building and construction, partially offset by lower product pricing in the heavy duty truck market.

In 2017, continued growth in the North American and European non-residential building and construction end markets and demand for innovative products is expected. It will be partially offset by the expected year-over-year decline in North American build rates in the commercial transportation end market. Additionally, net cost savings are anticipated to continue.

### Reconciliation of combined segment adjusted EBITDA to consolidated net income attributable to Arconic

Items required to reconcile combined segment adjusted EBITDA to consolidated net income attributable to Arconic include: the impact of LIFO inventory accounting; metal price lag (the timing difference created when the average price of metal sold differs from the average cost of the metal when purchased by the respective segment - generally, when the price of metal increases, metal price lag is favorable, and when the price of metal decreases, metal price lag is unfavorable); corporate expense (general administrative and selling expenses of operating the corporate headquarters and other global administrative facilities and corporate research and development expenses); the provision for depreciation and amortization; interest expense; restructuring and other charges; other income, net; the results of discontinued operations; income tax expense; and other items, including intersegment profit eliminations.

The following table reconciles combined segment adjusted EBITDA to consolidated net income attributable to Arconic:

	First quarter ended March 31,	
	2017	2016
Combined segment adjusted EBITDA	\$ 549	\$ 524
Unallocated amounts:		
Depreciation and amortization	(133)	(133)
Interest expense	(115)	(121)
Restructuring and other charges	(73)	(16)
Other income, net	354	12
Discontinued operations	—	(94)
Income taxes	(162)	(51)
Impact of LIFO	(19)	(12)
Metal price lag	22	—
Corporate expense	(91)	(76)
Other	(10)	(17)
Consolidated net income attributable to Arconic	\$ 322	\$ 16

The changes in the reconciling items between combined segment adjusted EBITDA and consolidated net income attributable to Arconic for the first quarter of 2017 compared to the first quarter of 2016 consisted of:

- a decrease in Interest expense, principally the result of lower average debt levels quarter over quarter;
- an increase in Restructuring and other charges primarily due to the loss on sale of the Fusina, Italy rolling mill;
- an increase in Other income, net, largely the result of the \$351 gain on the sale of a portion of Arconic's investment in Alcoa Corporation common stock;
- an increase in Income taxes, attributable to higher pretax income, which includes the gain on the sale of Alcoa Corporation common stock;
- a change in the Impact of LIFO, mostly due to a greater increase in the price of aluminum, driven by higher base metal prices (LME) and regional premiums at March 31, 2017 indexed to December 31, 2016 for the first quarter of 2017 compared to a slight increase in the price of aluminum, driven by higher base metal prices (LME) at March 31, 2016 indexed to December 31, 2015 for the first quarter of 2016;
- a change in Metal price lag, the result of higher prices for aluminum at March 31, 2017 compared to December 31, 2016 for the first quarter of 2017 (see impact of LIFO above); and
- an increase in Corporate expense, primarily attributable to proxy, advisory and governance-related costs.

#### Reconciliation of net income attributable to Arconic to consolidated adjusted EBITDA

Items required to reconcile net income attributable to Arconic to consolidated adjusted EBITDA include: the provision for depreciation and amortization; interest expense; restructuring and other charges; other income, net; the results of discontinued operations; and income tax expense.

The following table reconciles net income attributable to Arconic to consolidated adjusted EBITDA:

	<b>March 31,</b>	
	<u>2017</u>	<u>2016</u>
Net income attributable to Arconic	\$ 322	\$ 16
Depreciation and amortization	133	133
Interest expense	115	121
Restructuring and other charges	73	16
Other income, net	(354)	(12)
Discontinued operations	—	94
Income taxes	162	51
Consolidated adjusted EBITDA <sup>(1)</sup>	<u>\$ 451</u>	<u>\$419</u>

- (1) Consolidated adjusted EBITDA is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because consolidated adjusted EBITDA provides additional information with respect to Arconic's operating performance. Additionally, presenting consolidated adjusted EBITDA pursuant to our debt agreements is appropriate to provide additional information to investors to demonstrate Arconic's ability to comply with its financial debt covenants. The consolidated adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

#### Environmental Matters

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

#### Subsequent Events

On April 17, 2017, the Company announced that, effective April 13, 2017, Klaus Kleinfeld, by mutual agreement with the Arconic Board of Directors (the "Board"), had stepped down as Chairman and Chief Executive Officer of Arconic and resigned as a Board member. The Board appointed David P. Hess, a current member of the Board, as Interim Chief Executive Officer of the Company, and Patricia F. Russo, who was then serving as Lead Director of the Company, as interim Chair of the Board, effective April 13, 2017. The Board has formed a search committee to oversee the selection and appointment of a permanent Chief Executive Officer.

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## **Liquidity and Capital Resources**

The cash flows related to Alcoa Corporation have not been segregated and are included in the Statement of Consolidated Cash Flows for the first quarter ended March 31, 2016. As a result, the cash flow amounts reported for the three-months ended March 31, 2017 are not comparable to the amounts reported for the three-months ended March 31, 2016.

## **Cash from Operations**

Cash used for operations was \$300 in the first quarter of 2017 compared with cash used for operations of \$430 in the first quarter of 2016. The decrease in cash used for operations of \$130, or 30%, was primarily due to a favorable change in assets and liabilities, partially offset by lower operating results.

The components of the favorable change in assets and liabilities were as follows:

- an unfavorable change of \$160 in receivables;
- an unfavorable change of \$27 in inventories;
- a favorable change of \$23 in prepaid expenses and other current assets;
- a favorable change of \$150 in accounts payable, trade;
- a favorable change of \$231 in accrued expenses due; and
- a favorable change of \$47 in taxes, including income taxes.

## Financing Activities

Cash used for financing activities was \$43 in the first quarter of 2017 compared to cash used for financing activities of \$107 in the first quarter of 2016. The change in cash used for financing activities was primarily related to lower payments to noncontrolling interests (Alcoa Corporation) and higher stock option activity.

Arconic maintains a Five-Year Revolving Credit Agreement (the "Credit Agreement") with a syndicate of lenders and issuers named therein, which provides for a \$3,000 senior unsecured revolving credit facility (the "Credit Facility") which matures on July 25, 2020 unless extended or earlier terminated in accordance with the provisions of the Credit Agreement. The purpose of any borrowings under the Credit Facility is to provide for working capital requirements and for other general corporate purposes.

In addition to the Credit Agreement above, Arconic has a number of other credit agreements that provide a combined borrowing capacity of \$715 as of March 31, 2017, of which \$425 is due to expire in 2017 and \$290 is due to expire in 2018. The purpose of any borrowings under these credit arrangements is to provide for working capital requirements and for other general corporate purposes. The covenants contained in all these arrangements are the same as the Credit Agreement. During the first quarter of 2017, Arconic borrowed and repaid \$360 under these other credit facilities. The weighted-average interest rate and weighted-average days outstanding during the first quarter of 2017 were 2.22% and 32 days, respectively.

Arconic's costs 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 Arconic by the major credit rating agencies.

Arconic's credit ratings from the three major credit rating agencies are as follows:

	<u>Long-Term Debt</u>	<u>Short-Term Debt</u>	<u>Outlook</u>	<u>Date of Last Update</u>
Moody's	Ba2	Speculative Grade Liquidity-2	Stable	November 1, 2016
Fitch	BB+	B	Stable	July 7, 2016
Standard and Poor's	BBB-	A-3	Stable	May 1, 2017

## Investing Activities

Cash provided from investing activities was \$1,029 in the first quarter of 2017 compared to cash used for investing activities of \$1 in the first quarter of 2016.

The 2017 three-month period included the sale of a portion of Arconic's investment in Alcoa Corporation common stock of \$888 and the receipt of proceeds from the sale of the Yadkin Hydroelectric Project of \$238, somewhat offset by cash used for capital expenditures of \$103 and the injection of \$10 into the Fusina rolling business prior to its sale.

The 2016 three-month period included \$251 in capital expenditures, 35% of which related to growth projects, including the aerospace expansion (thick plate stretcher) at the Davenport, IA plant. This amount was offset by \$234 in gross proceeds received from the liquidation of certain company-owned life insurance policies; and sales of \$19 in equities and fixed income securities held by Arconic's captive insurance company.

## 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,” “guidance,” “intends,” “may,” “outlook,” “plans,” “projects,” “seeks,” “sees,” “should,” “targets,” “will,” “would,” or other words of similar meaning. All statements that reflect Arconic’s expectations, assumptions or projections about the future, other than statements of historical fact, are forward-looking statements, including, without limitation, forecasts relating to the growth of the aerospace, automotive, commercial transportation and other end markets; statements and guidance regarding future financial results or operating performance; statements about Arconic’s strategies, outlook, business and financial prospects; and statements regarding potential share gains. These statements reflect beliefs and assumptions that are based on Arconic’s perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. Forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, and changes in circumstances that are difficult to predict. Although Arconic 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) deterioration in global economic and financial market conditions generally; (b) unfavorable changes in the markets served by Arconic; (c) the impact of changes in foreign currency exchange rates on costs and results; (d) 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; (e) changes in discount rates or investment returns on pension assets; (f) Arconic’s inability to realize expected benefits, in each case as planned and by targeted completion dates, from acquisitions, divestitures, facility closures, curtailments, expansions, or joint ventures; (g) the impact of cyber-attacks and potential information technology or data security breaches; (h) political, economic, and regulatory risks in the countries in which Arconic operates or sells products; (i) the impact of the separation on the businesses of Arconic; (j) material adverse changes in aluminum industry conditions, including fluctuations in London Metal Exchange-based aluminum prices; (k) the outcome of contingencies, including legal proceedings, government or regulatory investigations, and environmental remediation; (l) the other risk factors summarized in Arconic’s Form 10-K for the year ended December 31, 2016, including under Part I, Item 1A thereof, and in the following sections of this report: Note H and the discussion included above under Segment Information. Arconic disclaims any intention or obligation to update publicly any forward-looking statements, whether in response to new information, future events, or otherwise, except as required by applicable law. Market projections are subject to the risks discussed above and other risks in the market.

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Not material.

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

Arconic's Interim 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 of the end of the period covered by this report, and they have concluded that these controls and procedures are effective.

**(b) Changes in Internal Control over Financial Reporting**

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



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## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

#### **Other Matters**

##### *Matters Previously Reported – Alcoa Corporation*

##### *Squaw Creek Mine Proceedings*

As previously reported, in October 2006, in *Barnett, et al. v. Alcoa and Alcoa Fuels, Inc.*, Warrick Circuit Court, County of Warrick, Indiana; 87-C01-0601-PL-499, 41 plaintiffs sued Arconic Inc. and a subsidiary, asserting claims similar to those asserted in *Musgrave v. Alcoa, et al.*, Warrick Circuit Court, County of Warrick, Indiana; 87- 32 C01-0601-CT-006. In *Musgrave*, in January 2006, Arconic Inc. and a subsidiary were sued by an individual, on behalf of himself and all persons similarly situated, claiming harm from alleged exposure to waste that had been disposed in designated pits at the Squaw Creek Mine in the 1970s. In November 2007, Arconic and its subsidiary filed a motion to dismiss the *Barnett* cases. In October 2008, the Warrick County Circuit Court granted Arconic’s motions to dismiss, dismissing all claims arising out of alleged occupational exposure to wastes at the Squaw Creek Mine, but in November 2008, the trial court clarified its ruling, indicating that the order does not dispose of plaintiffs’ personal injury claims based upon alleged “recreational” or non-occupational exposure. Plaintiffs also filed a “second amended complaint” in response to the court’s orders granting Arconic’s motion to dismiss. On July 7, 2010, the court granted the parties’ joint motions for a general continuance of trial settings. Following the court’s order for a non-prosecution hearing, on March 29, 2017, the parties filed a joint motion to dismiss the remaining claims. On April 3, 2017, the Court entered a final order dismissing 34 claims with prejudice and eight claims without prejudice. There will be no further reporting of this matter.

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**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 6. Exhibits.**

- 3. By-Laws of the Registrant, as amended effective as of April 21, 2017.
- 4. By-Laws. See Exhibit 3 above.
- 12. Computations of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- 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
- 99. Amendment and Restatement of the Trust Agreement between Wells Fargo Bank, N.A. (as successor trustee) and Arconic Inc., dated September 24, 2007, as amended, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated April 12, 2017.
- 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.

May 1, 2017  
\_\_\_\_\_  
Date

Arconic Inc.

/s/ Ken Giacobbe  
\_\_\_\_\_  
Ken Giacobbe  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

May 1, 2017  
\_\_\_\_\_  
Date

/s/ Paul Myron  
\_\_\_\_\_  
Paul Myron  
Vice President and Controller  
(Principal Accounting Officer)

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**ARCONIC INC.**  
**BY-LAWS**  
(Amended as of April 21, 2017)

**ARTICLE I - IDENTIFICATION**

Section 1. *Principal Office.* The principal office of the Company shall be in the City of New York, New York.

Section 2. *Seal.* The Company shall have a corporate seal in such form as the board of directors shall by resolution from time to time prescribe.

Section 3. *Fiscal Year.* The fiscal year of the Company shall end on the 31st day of December.

**ARTICLE II - SHAREHOLDERS' MEETINGS**

Section 1. *Place of Meetings.* Meetings of the shareholders of the Company shall be held at such place within or without the Commonwealth of Pennsylvania, and may be held by means of the Internet or other electronic communications technology in the manner and to the extent provided by the Pennsylvania Business Corporation Law (the "PBCL"), in each case as may be fixed by the board of directors pursuant to authority hereby granted.

Section 2. *Annual Meeting.* The annual meeting of the shareholders shall be held on the Friday next following the first Monday in May of each year at nine thirty o'clock A.M., local time in effect at the place of the meeting, or on such other day or at such other time as may be fixed by the board of directors pursuant to authority hereby granted.

Section 3. *Special Meeting.*

(A) Calling of Special Meetings of Shareholders. Special meetings of the shareholders may be called only by (1) the chairman of the board, (2) the board of directors pursuant to a resolution adopted by the board, (3) the secretary of the Company at the request in proper form of an interested shareholder (as defined in section 2553 of the PBCL) for the purpose of approving a business combination under section 2555(3) or 2555(4) of the PBCL or (4) the secretary of the Company at the request in proper form of shareholders who have continuously held as shareholders of record "Net Long Shares" (as determined in accordance with Section 3(C) of this Article II) representing in the aggregate at least twenty-five (25) percent of the outstanding shares of common stock of the Company (the "Requisite Percent") for at least one year prior to the date such request is delivered to the secretary. Special meetings of shareholders shall be held at such place, on such date, and at such time as the board of directors shall fix pursuant to a resolution adopted by the board. Following receipt by the secretary of the Company of a request of shareholders that complies with the requirements set forth in this Section 3 (a "Special Meeting Request"), the secretary of the Company shall call a special meeting of the shareholders, except as otherwise provided in Section 3(E) of this Article II. References to sections of the PBCL in this Section 3(A) shall be deemed to be a reference to any successor provision of similar import.

(B) Special Meeting Request. To be in proper form, a Special Meeting Request must be in writing, must state the purpose or purposes of the proposed meeting and must include all information that would be required to be included in a notice of a business proposal delivered pursuant to Section 5(A)(2) of this Article II and, in the case of a director nomination, all information that would be required to be included in a notice satisfying the requirements set forth in Section A(3) of Article EIGHTH of the Company's Articles, which in each case shall be updated or supplemented as set forth in the last paragraph of Section 5(A)(2) of this Article II. In addition to the foregoing, a Special Meeting Request made pursuant to Section 3(A)(4) of this Article II must include (x) an acknowledgment of the shareholders requesting the special meeting that any reduction in such shareholders' aggregate Net Long Shares below the Requisite Percent following the delivery of a Special Meeting Request to the secretary of the Company shall constitute a revocation of such Special Meeting Request and (y) documentary evidence that the requesting shareholders own the Requisite Percent of Net Long Shares as of the date on which the Special Meeting Request was delivered to the secretary of the Company (the "Delivery Date") and that such shareholders have continuously held such Requisite Percent for at least one year prior to such Delivery Date.

(C) Net Long Shares. For purposes of this Section 3, "Net Long Shares" shall be limited to the number of shares beneficially owned, directly or indirectly, by any shareholder or beneficial owner that constitute such person's net long position as defined in Rule 14e-4 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), provided that (1) for purposes of such definition, in determining such holder's "short position," the reference in such rule to "the date that a tender offer is first publicly announced or otherwise made known by the bidder to the holders of the security to be acquired" shall be the Delivery Date of the relevant Special Meeting Request, and the reference to the "highest tender offer price or stated amount of the consideration offered for the subject security" shall refer to the closing sales price of the Company's common stock on the New York Stock Exchange on such date (or, if such date is not a trading day, the next succeeding trading day), and (2) "Net Long Shares" shall not include any shares as to which such person does not have the right to vote or direct the vote at the special meeting or as to which such person has entered into a derivative or other agreement, arrangement or understanding that hedges or transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of such shares. In addition, to the extent that any affiliates of the shareholder or beneficial owner are acting in concert with the shareholder or beneficial owner with respect to the calling of the special meeting, the determination of Net Long Shares may include the effect of aggregating the Net Long Shares (including any negative number) of such affiliate or affiliates. Whether shares constitute "Net Long Shares" shall be decided by the board of directors in its reasonable determination, which determination shall be conclusive and binding on the Company and the shareholders.

(D) Revocation of Special Meeting Request. A shareholder may revoke a Special Meeting Request at any time by written revocation. Following such revocation, the board of directors, in its discretion, may cancel the special meeting unless, in the case of a Special Meeting Request made pursuant to Section 3(A)(4) of this Article II, any remaining requesting shareholders continue to satisfy the requirements set forth in this Section 3. For purposes of this Section 3, written revocation shall mean delivering a notice of revocation to the secretary of the Company or a public announcement (as such term is defined in Section 5(C)(2) of this Article II) that the shareholders who submitted a Special Meeting Request no longer meet the requirements set forth in this Section 3.

(E) Limitations. The secretary of the Company shall not call a special meeting in response to a Special Meeting Request made pursuant to Section 3(A)(4) of this Article II if (1) an identical or substantially similar item (as determined by the board of directors, a "Similar Item") is included or will be included in the Company's notice

of meeting as an item of business to be brought before a meeting of shareholders that will be held not later than ninety (90) days after the Delivery Date of the Special Meeting Request; (2) the Delivery Date is during the period commencing ninety (90) days prior to the date of the next annual meeting and ending on the date of the next annual meeting; (3) a Similar Item was presented at any meeting of shareholders held within one hundred and eighty (180) days prior to the Delivery Date; (4) the Special Meeting Request relates to an item of business that is not a proper subject for shareholder action under applicable law; or (5) such Special Meeting Request was made in a manner that involved a violation of Regulation 14A under the Exchange Act or other applicable law. For purposes of this Section 3(E), the election of directors shall be deemed to be a Similar Item with respect to all items of business involving the election or removal of directors.

Section 4. *Chairman of the Meeting.* All meetings of the shareholders shall be called to order and presided over by the chairman of the board, or in the absence of the chairman of the board, by a vice chairman of the board, the president or another director, in the order designated by the chairman of the board, or if none of these be present, by a chairman elected by a majority of the votes which all shareholders present are entitled to cast on any matter coming before the meeting.

Section 5. *Notice of Shareholder Business.*

(A) Annual Meetings of Shareholders.

(1) The proposal of business (other than director nominations) to be considered by the shareholders may be made at an annual meeting of shareholders (a) pursuant to the Company's notice of meeting, (b) by or at the direction of the board of directors or (c) by any shareholder of the Company who was a shareholder of record at the time of giving of notice provided for in these By-laws, who is entitled to vote at the meeting and who complies with the notice procedures set forth in these By-laws.

(2) For business (other than director nominations, which are subject to the requirements of Section A(3) of Article EIGHTH of the Company's Articles, as the same may be amended from time to time) to be properly brought before an annual meeting by a shareholder pursuant to Section 5(A)(1) (c) of this Article II, the shareholder must have given timely notice thereof in proper form in writing to the secretary of the Company and such business must otherwise be a proper matter for shareholder action. To be timely, a shareholder's notice shall be delivered to the secretary of the Company at the principal executive offices of the Company not later than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting and shall be updated and supplemented as set forth below; provided, however, that in the event that the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice by the shareholder must be so delivered not later than ninety (90) days prior to the date of such annual meeting or, if the first public announcement of the date of such annual meeting is less than one hundred (100) days prior to the date of such annual meeting, the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by the Company. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a shareholder's notice as described above. To be in proper form, a shareholder's notice shall set forth and disclose:

(i) as to any business (other than director nominations) that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such



business of (x) the shareholder making the proposal, (y) the beneficial owner, if any, on whose behalf the proposal is made and (z) their respective affiliates and associates or others acting in concert therewith (each person or entity specified by the foregoing clauses (x), (y) and (z), a “Proposing Shareholder”);

(ii) a description of all agreements, arrangements and understandings between a Proposing Shareholder and any other person or persons (including their names) in connection with the proposal of such business by the shareholder;

(iii) the text of the proposal or business (including the text of any resolutions proposed for consideration and, in the event that such proposal or business includes a proposal to amend the By-laws or Articles of Incorporation of the Company, the text of the proposed amendment);

(iv) the name and address, as they appear on the Company’s books, of each Proposing Shareholder;

(v) the class or series and number of shares of the Company which are, directly or indirectly, owned beneficially and of record by each Proposing Shareholder;

(vi) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Company or with a value derived in whole or in part from the value of any class or series of shares of the Company, or any derivative or synthetic arrangement having the characteristics of a long position in any class or series of shares of the Company, or any contract, derivative, swap or other transaction or series of transactions designed to produce economic benefits and risks that correspond substantially to the ownership of any class or series of shares of the Company, including due to the fact that the value of such contract, derivative, swap or other transaction or series of transactions is determined by reference to the price, value or volatility of any class or series of shares of the Company, whether or not such instrument, contract or right shall be subject to settlement in the underlying class or series of shares of the Company, through the delivery of cash or other property, or otherwise, and without regard to whether the shareholder of record, the beneficial owner, if any, or any affiliates or associates or others acting in concert therewith, may have entered into transactions that hedge or mitigate the economic effect of such instrument, contract or right, or any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Company (any of the foregoing, a “Derivative Instrument”) directly or indirectly owned beneficially by each Proposing Shareholder;

(vii) any proxy, contract, arrangement, understanding, or relationship pursuant to which any Proposing Shareholder has a right to vote any class or series of shares of the Company;

(viii) any agreement, arrangement, understanding, relationship or otherwise, including any repurchase or similar so-called “stock borrowing” agreement or arrangement, involving a Proposing Shareholder, directly or indirectly, the purpose or effect of which is to mitigate loss to, reduce the economic risk (of ownership or otherwise) of any class or series of the shares of the Company by, manage the risk of share price changes for, or increase or decrease the voting power of, such shareholder with respect to any class or series of the shares of the Company, or which provides, directly or indirectly, the opportunity to profit or share in any profit derived from any decrease in the price or value of any class or series of the shares of the Company (any of the foregoing, a “Short Interest”);

(ix) any rights to dividends on the shares of the Company owned beneficially by any Proposing Shareholder that are separated or separable from the underlying shares of the Company;

(x) any proportionate interest in shares of the Company or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which any Proposing Shareholder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner of such general or limited partnership;

(xi) any performance-related fees (other than an asset-based fee) that a Proposing Shareholder is entitled to based on any increase or decrease in the value of shares of the Company or Derivative Instruments, if any, including without limitation any such interests held by members of such Proposing Shareholder's immediate family sharing the same household;

(xii) any significant equity interests or any Derivative Instruments or Short Interests in any principal competitor of the Company held by a Proposing Shareholder;

(xiii) any direct or indirect interest of a Proposing Shareholder in any contract with the Company, any affiliate of the Company or any principal competitor of the Company (including, in any such case, any employment agreement, collective bargaining agreement or consulting agreement);

(xiv) to the extent not covered by the foregoing clauses (i) through (xiii), any disclosures that would be required pursuant to Item 5 or Item 6 of Schedule 13D if the requirements therein were applicable to each Proposing Shareholder; and

(xv) any other information relating to each Proposing Shareholder that would be required to be disclosed in a proxy statement and form of proxy or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder.

To be considered timely, a shareholder's notice shall be updated and supplemented, if necessary, so that the information provided or required to be provided in such notice shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to the secretary of the Company at the principal executive offices of the Company not later than five business days after the record date for the meeting in the case of the update and supplement required to be made as of the record date, and not later than eight (8) business days prior to the date for the meeting or any adjournment or postponement thereof in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof.

**(B) Special Meetings of Shareholders.**

(1) Except as otherwise required by law or the Articles, only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the Company's notice of meeting or otherwise brought by or at the direction of the board of directors.

(2) Nominations of persons for election to the board of directors may be made at a special meeting of shareholders at which directors are to be elected pursuant to the Company's notice of meeting (a) by or at the direction of the board of directors or (b) provided that the board of directors has determined that directors shall be elected at such meeting or the secretary of the Company has called a special meeting pursuant to Section 3 of this Article II for the purpose of electing directors, by any shareholder of the Company who is a shareholder of record at the time of giving notice provided for in these By-laws and at the time of the special meeting, who shall be entitled to vote at such special meeting and who complies with the notice procedures set forth in these By-laws. In the event the Company calls a special meeting of shareholders for the purpose of electing one or more directors to the board of directors, any such shareholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Company's notice of meeting, if a shareholder's notice setting forth the information required by Section A(3) of Article EIGHTH of the Company's Articles is delivered to the secretary of the Company not later than the close of business on the later of the ninetieth (90th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting. A shareholder's notice shall be updated and supplemented as set forth in the last paragraph of Section 5(A)(2) of this Article II. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a shareholder's notice as described in this Section 5(B)(2).

(C) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in the Articles and in these By-laws shall be eligible to serve as directors and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in these By-laws or in the Articles of the Company. Except as otherwise provided by law, the Articles or these By-laws, the presiding officer of the meeting shall have the power and duty to determine whether any business proposed to be brought before the meeting was proposed in accordance with the procedures set forth in these By-laws or the Articles and, if any proposed business is not in compliance with these By-laws or the Articles, to declare that such defective proposal shall be disregarded.

(2) For purposes of these By-laws, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Company with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of these By-laws, a shareholder shall also comply with all applicable requirements of the Exchange Act with respect to the matters set forth in these By-laws; provided, however, that any references in these By-laws to the Exchange Act are not intended to and shall not limit the separate and additional requirements set forth in these By-laws with respect to nominations or proposals as to any other business to be considered pursuant to this Section 5. Nothing in these By-laws shall be deemed to affect any rights (i) of shareholders to request inclusion of proposals in the Company's proxy statement pursuant to Rule 14a-8 under the Exchange Act, including without limiting the generality of the foregoing, the time limits for notice of such proposals as provided under Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of preferred stock to elect directors under specified circumstances. Subject to Rule 14a-8 under the Exchange Act and Section 8 of this Article II, nothing in these By-laws shall be construed to permit any shareholder, or give any shareholder the right, to include or have disseminated or described in the Company's proxy statement any nomination of a director or directors or any other business proposal.

(D) Submission of Questionnaire, Representation and Agreement. To be eligible to be a nominee for election or reelection as a director of the Company, a person must deliver (in accordance with the time periods prescribed for delivery of notice under Section A(3) of Article EIGHTH of the Company's Articles or Sections 5(B) or 8 of this Article II, as applicable) to the secretary of the Company a written questionnaire with respect to the background and qualification of such person and any other person or entity that such person may represent or on whose behalf the nomination is being made (which questionnaire shall be provided by the secretary) and a written representation and agreement (in the form provided by the secretary) that such person (A) has no agreement or understanding with any person or entity as to how such person will act or vote on any issue or question as a director, (B) is not and will not become a party to any agreement or understanding with any person or entity other than the Company with respect to compensation, reimbursement or indemnification in connection with service or action as a director, (C) will comply with the director stock ownership guidelines of the Company and (D) in such person's individual capacity and on behalf of any person or entity for whom such person may be a representative or on whose behalf the nomination is being made, has complied and will comply with all applicable corporate governance, conflicts, confidentiality and stock ownership and trading policies of the Company, including, for the avoidance of doubt, Section 6 of this Article II. In addition, a director nominee must comply with all applicable laws regarding service as a director of the Company, including, without limitation, the requirements as amended of: the Clayton Antitrust Act of 1914, 15 U.S.C. §19; the Company's Department of State export license; the Department of Defense rules and regulations applicable to the Company; the New York Stock Exchange and other exchanges on which the Company's securities are listed; and the minimum standards for service as a director prescribed in the Company's Corporate Governance Guidelines.

Section 6. *Election of Directors.* In any non-contested election of directors, any incumbent director nominee who receives a greater number of votes cast against his or her election than in favor of his or her election (excluding abstentions) by holders of shares entitled to vote in the election shall immediately tender his or her resignation, and the board of directors shall decide, through a process managed by the Governance and Nominating Committee and excluding the nominee in question, whether to accept the resignation at its next regularly scheduled board meeting. The board's explanation of its decision shall be promptly disclosed in accordance with the rules and regulations of the Securities and Exchange Commission. An election of directors shall be considered to be contested if there are more nominees for election than positions on the board of directors to be filled by election at the meeting of shareholders.

Section 7. *Shareholder Action by Written Consent.*

(A) Shareholder Action by Written Consent.

(1) Any action required or permitted to be taken at a meeting of the shareholders or of a class of shareholders of the Company may be taken without a meeting, provided that a consent or consents in writing to such action, setting forth the action so taken, shall be (1) signed by the shareholders who would have been entitled to cast the minimum number of votes that would be necessary to authorize the action at a meeting at which all shareholders entitled to vote thereon were present and voting and (2) filed with the secretary of the Company. Delivery made to the secretary shall be by hand or by certified or registered mail, return receipt requested, at the Company's principal executive offices.

(2) Every written consent shall bear the date of signature of each shareholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within 45 days of the earliest dated written consent received in accordance with this Section 7, a written consent or consents signed by a sufficient number of holders to take such action are delivered to the Company in the manner prescribed in this Section 7. The Company shall provide prompt notice of such action to those shareholders entitled to vote on the action who have not consented.

**(B) Record Date for Action by Written Consent.**

(1) In order that the Company may determine the shareholders entitled to consent to corporate action in writing without a meeting, the board of directors may fix a record date, which record date shall not precede the earlier of (x) the date upon which the resolution fixing the record date is adopted by the board of directors and, if any, (y) the date upon which the Company received a request from a shareholder to set a record date for such action, and which date shall not be more than twenty (20) days after the date upon which the resolution fixing the record date is adopted by the board of directors. Any shareholder of record seeking to have the shareholders authorize or take corporate action by written consent shall request the board of directors to fix a record date, which request shall be in proper form and delivered to the secretary of the Company at the principal executive offices of the Company. To be in proper form, such request must be in writing and shall set forth and disclose:

(i) a brief description of the action or actions proposed to be taken by written consent, and reasons for such action(s) and any material interest in such action of each Proposing Shareholder (which, for purposes of this Section 6(B)(1), shall mean the shareholder requesting the record date, any beneficial shareholder on whose behalf the request is made and their respective affiliates and associates and others acting in concert therewith);

(ii) a description of all agreements, arrangements and understandings between a Proposing Shareholder and any other person or persons (including their names) in connection with the action proposed to be taken by written consent;

(iii) the information specified in Section 5(A)(2)(iii) through (xiv) of this Article II;

(iv) any other information relating to any Proposing Shareholder that would be required to be disclosed in a proxy statement and form of proxy or other filings required to be made in connection with solicitations of proxies for the action proposed to be taken by written consent pursuant to Section 14 of the Exchange Act;

(v) in the case of any director election proposed to be made by written consent, (X) the information required by Section A(3) of Article EIGHTH (but excluding clause (b) thereof) of the Company's Articles to be included in a shareholder's notice of director nominations and (Y) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among each Proposing Shareholder, on the one hand, and each proposed nominee and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the Proposing Shareholder were the "registrant".

Section 8. *Inclusion of Shareholder Director Nominations in the Company's Proxy Materials.* Subject to the terms and conditions set forth in these By-laws, the Company will include in its proxy statement for annual meetings of shareholders the name, together with the Required Information (as defined in paragraph (A) below), of an eligible person nominated for election to the board of directors pursuant to this Section 8 (the "Shareholder Nominee") by a shareholder or group of shareholders that satisfy the requirements of this Section 8, including qualifying as an Eligible Shareholder (as defined in paragraph (D) below) and that expressly elects at the time of providing the written notice required by this Section 8 (a "Proxy Access Notice") to have its nominee(s) included in the Company's proxy statement pursuant to this Section 8. For the purposes of this Section 8:

(1) "Voting Stock" shall mean outstanding shares of capital stock of the Company entitled to vote generally for the election of directors;

(2) "Constituent Holder" shall mean any shareholder, investment fund included within a Qualifying Fund (as defined in paragraph (D) below) or beneficial holder whose stock ownership is counted for the purposes of qualifying as holding the Proxy Access Request Required Shares (as defined in paragraph (D) below) or qualifying as an Eligible Shareholder (as defined in paragraph (D) below);

(3) "affiliate" and "associate" shall have the meanings ascribed thereto in Rule 405 under the Securities Act of 1933, as amended; provided, however, that the term "partner" as used in the definition of "associate" shall not include any limited partner that is not involved in the management of the relevant partnership; and

(4) a shareholder (including any Constituent Holder) shall be deemed to "own" only those outstanding shares of Voting Stock as to which the shareholder itself (or such Constituent Holder itself) possesses both (a) the full voting and investment rights pertaining to the shares and (b) the full economic interest in (including the opportunity for profit and risk of loss on) such shares. The number of shares calculated in accordance with the foregoing clauses (a) and (b) shall be deemed not to include (and to the extent any of the following arrangements have been entered into by affiliates of the shareholder (or of any Constituent Holder), shall be reduced by) any shares (x) sold by such shareholder or Constituent Holder (or any of either's affiliates) in any transaction that has not been settled or closed, including any short sale, (y) borrowed by such shareholder or Constituent Holder (or any of either's affiliates) for any purposes or purchased by such shareholder or Constituent Holder (or any of either's affiliates) pursuant to an agreement to resell, or (z) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar agreement entered into by such shareholder or Constituent Holder (or any of either's affiliates), whether any such instrument or agreement is to be settled with shares or with cash based on the notional amount or value of Voting Stock, in any such case which instrument or agreement has, or is intended to have, or if exercised by either party thereto would have, the purpose or effect of (i) reducing in any manner, to any extent or at any time in the future, such shareholder's or Constituent Holder's (or either's affiliate's) full right to vote or direct the voting of any such shares, and/or (ii) hedging, offsetting or altering to any degree gain or loss arising from the full economic ownership of such shares by such shareholder or Constituent Holder (or either's affiliate), other than any such arrangements solely involving an exchange listed multi-industry market index fund in which Voting Stock represents at the time of entry into such arrangement less than ten (10) percent of the proportionate value of such index. For purposes of this Section 8, a shareholder (including any Constituent Holder) will be deemed to "own" shares held in the name of a nominee or other intermediary so long as the shareholder itself (or such Constituent Holder itself) retains the right to instruct how the shares are voted with respect to the election of directors and the right to direct the disposition thereof and possesses the full economic interest in the shares. For purposes of this Section 8, a shareholder's (including any Constituent Holder's) ownership of shares will be deemed to continue during any period in which such person has

loaned such shares in the ordinary course of its business so long as such shareholder retains the unrestricted power to recall such shares on no greater than five (5) business days' notice or delegated any voting power over such shares by means of a proxy, power of attorney or other instrument or arrangement so long as such delegation is revocable at any time by the shareholder. The terms "owned," "owning" and other variations of the word "own" have correlative meanings.

(A) For purposes of this Section 8, the "Required Information" that the Company will include in its proxy statement is (1) the information concerning the Shareholder Nominee and the Eligible Shareholder that the Company determines is required to be disclosed in the Company's proxy statement by the regulations promulgated under the Exchange Act; and (2) if the Eligible Shareholder so elects, a Statement (as defined in paragraph (F) below). The Company will also include the name of the qualifying Shareholder Nominee in its proxy card. For the avoidance of doubt, and any other provision of these By-laws notwithstanding, the Company may in its sole discretion solicit against, and include in the proxy statement its own statements or other information relating to, any Eligible Shareholder and/or Shareholder Nominee, including any information provided to the Company with respect to the foregoing.

(B) To be timely, a shareholder's Proxy Access Notice must be delivered to the principal executive offices of the Company no earlier than one hundred and fifty (150) days and no later than one hundred and twenty (120) days before the one-year anniversary of the date that the Company commenced mailing of its definitive proxy statement (as stated in such proxy statement) for the immediately preceding annual meeting with the Securities and Exchange Commission. In no event shall any adjournment or postponement of an annual meeting, the date of which has been announced by the Company, commence a new time period for the giving of a Proxy Access Notice.

(C) The number of Shareholder Nominees (including Shareholder Nominees that were submitted by an Eligible Shareholder for inclusion in the Company's proxy materials pursuant to this Section 8 but either are subsequently withdrawn or that the board of directors decides to nominate as board of directors' nominees or otherwise appoint to the board of directors) appearing in the Company's proxy materials with respect to an annual meeting of shareholders may not exceed the greater of (x) two (2) and (y) the largest whole number that does not exceed twenty (20) percent of the number of directors in office as of the last day on which a Proxy Access Notice may be delivered in accordance with the procedures set forth in this Section 8 (such greater number, the "Permitted Number"); provided, however, that the Permitted Number shall be reduced by the number of directors in office with respect to whom a Proxy Access Notice was previously provided to the Company pursuant to this Section 8, other than (a) any such director whose term of office will expire at such annual meeting and who is not nominated by the Company at such annual meeting for another term of office and who is not seeking or agreeing to be nominated at such meeting for another term of office, and (b) any such director who at the time of such annual meeting will have served as a director continuously through at least two annual meetings; provided, further, that in no circumstance shall the Permitted Number exceed the number of directors to be elected at the applicable annual meeting as noticed by the Company; and provided, further, that in the event the board of directors resolves to reduce the size of the board of directors effective on or prior to the date of the annual meeting, the Permitted Number shall be calculated based on the number of directors in office as so reduced. Any Eligible Shareholder submitting more than one Shareholder Nominee for inclusion in the Company's proxy statement pursuant to this Section 8 shall (i) rank such Shareholder Nominees based on the order that the Eligible Shareholder desires such Shareholder Nominees to be selected for inclusion in the Company's proxy statement in the event that the number of Shareholder Nominees submitted by Eligible Shareholders pursuant to this Section 8 exceeds the Permitted Number and (ii) explicitly specify and include the respective rankings referred to in the foregoing clause (i) in the Proxy Access Notice delivered to the Company

with respect to all Shareholder Nominees submitted pursuant thereto. In the event that the number of Shareholder Nominees submitted by Eligible Shareholders pursuant to this Section 8 exceeds the Permitted Number, each Eligible Shareholder will have its highest ranking Shareholder Nominee (as ranked pursuant to the preceding sentence) who meets the requirements of this Section 8 selected for inclusion in the Company's proxy materials until the Permitted Number is reached, going in order of the amount (largest to smallest) of shares of Voting Stock each Eligible Shareholder disclosed as owned in its Proxy Access Notice submitted to the Company (with the understanding that an Eligible Shareholder may not ultimately have any of its Shareholder Nominees included if the Permitted Number has previously been reached). If the Permitted Number is not reached after each Eligible Shareholder has had one (1) Shareholder Nominee selected, this selection process shall continue as many times as necessary, following the same order each time, until the Permitted Number is reached. After reaching the Permitted Number of Shareholder Nominees, if any Shareholder Nominee who satisfies the eligibility requirements in this Section 8 thereafter withdraws, has his or her nomination withdrawn or is thereafter not submitted for director election, no other nominee or nominees shall be required to be substituted for such Shareholder Nominee and included in the Company's proxy statement or otherwise submitted for director election pursuant to this Section 8.

(D) An "Eligible Shareholder" is one or more shareholders of record who own and have owned, or are acting on behalf of one or more beneficial owners who own and have owned (in each case as defined above), in each case continuously for at least three (3) years as of both the date that the Proxy Access Notice is received by the Company pursuant to this Section 8, and as of the record date for determining shareholders eligible to vote at the annual meeting, at least three (3) percent of the aggregate voting power of the Voting Stock (the "Proxy Access Request Required Shares"), and who continue to own the Proxy Access Request Required Shares at all times between the date such Proxy Access Notice is received by the Company and the date of the applicable annual meeting, provided that the aggregate number of shareholders, and, if and to the extent that a shareholder is acting on behalf of one or more beneficial owners, of such beneficial owners, whose stock ownership is counted for the purpose of satisfying the foregoing ownership requirement may not exceed twenty (20). Two or more investment funds that are (I) under common management and investment control, (II) under common management and funded primarily by the same employers or (III) a "group of investment companies" as such term is defined in Section 12(d)(1)(G)(ii) of the Investment Company Act of 1940 (a "Qualifying Fund") will be treated as one shareholder for the purpose of determining the aggregate number of shareholders in this paragraph (D), provided that each fund included within a Qualifying Fund otherwise meets the requirements set forth in this Section 8. No shares may be attributed to more than one group constituting an Eligible Shareholder under this Section 8 (and, for the avoidance of doubt, no shareholder may be a member of more than one group constituting an Eligible Shareholder). A record holder acting on behalf of one or more beneficial owners will not be counted separately as a shareholder with respect to the shares owned by beneficial owners on whose behalf such record holder has been directed in writing to act, but each such beneficial owner will be counted separately, subject to the other provisions of this paragraph (D), for purposes of determining the number of shareholders whose holdings may be considered as part of an Eligible Shareholder's holdings. For the avoidance of doubt, Proxy Access Request Required Shares shall qualify as such if and only if the beneficial owner of such shares as of the date of the Proxy Access Notice has itself individually beneficially owned such shares continuously for the three-year (3 year) period ending on that date and through the other applicable dates referred to above (in addition to the other applicable requirements being met).



(E) No later than the final date when a Proxy Access Notice pursuant to this Section 8 may be timely delivered to the Company, an Eligible Shareholder (including each Constituent Holder) must provide the following information in writing to the Secretary of the Company:

(1) with respect to each Constituent Holder, the information, representations and agreements that would be required to be provided in a shareholder's notice of nomination pursuant to the requirements of Section A(3) of Article EIGHTH of the Company's Articles and in a shareholder's notice of business to be brought before an annual meeting pursuant to Section 5(A)(2) of these By-Laws;

(2) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three (3) years, and any other material relationships, between or among the Eligible Shareholder (including any Constituent Holder) and its or their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each of such Eligible Shareholder's Shareholder Nominee(s), and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including without limitation all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the Eligible Shareholder (including any Constituent Holder), or any affiliate or associate thereof or person acting in concert therewith, were the "registrant" for purposes of such rule and the Shareholder Nominee were a director or executive officer of such registrant;

(3) one or more written statements from the record holder of the shares (and from each intermediary through which the shares are or have been held during the requisite three-year (3 year) holding period) verifying that, as of a date within seven (7) calendar days prior to the date the Proxy Access Notice is delivered to the Company, such person owns, and has owned continuously for the preceding three (3) years, the Proxy Access Request Required Shares, and such person's agreement to provide:

(i) within ten (10) days after the record date for the annual meeting, written statements from the record holder and intermediaries verifying such person's continuous ownership of the Proxy Access Request Required Shares through the record date, together with any additional information reasonably requested to verify such person's ownership of the Proxy Access Request Required Shares; and

(ii) immediate notice if the Eligible Shareholder ceases to own any of the Proxy Access Request Required Shares prior to the date of the applicable annual meeting of shareholders;

(4) a representation that such person:

(i) acquired the Proxy Access Request Required Shares in the ordinary course of business and not with the intent to change or influence control of the Company, and does not have such intent;

(ii) has not nominated and will not nominate for election to the board of directors at the annual meeting any person other than the Shareholder Nominee(s) being nominated pursuant to this Section 8;

(iii) has not engaged and will not engage in, and has not and will not be a "participant" in another person's, "solicitation" within the meaning of Rule 14a-1(l) under the Exchange Act in support of the election of any individual as a director at the annual meeting other than its Shareholder Nominee(s) or a nominee of the board of directors;

(iv) will not distribute to any shareholder any form of proxy for the annual meeting other than the form distributed by the Company; and

(v) will provide facts, statements and other information in all communications with the Company and its shareholders that are and will be true and correct in all material respects and do not and will not omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, and will otherwise comply with all applicable laws, rules and regulations in connection with any actions taken pursuant to this Section 8;

(5) in the case of a nomination by a group of shareholders that together is such an Eligible Shareholder, the designation by all group members of one group member that is authorized to act on behalf of all members of the nominating shareholder group with respect to the nomination and matters related thereto, including withdrawal of the nomination; and

(6) an undertaking that such person agrees to:

(i) assume all liability stemming from, and indemnify and hold harmless the Company and its affiliates, and each of its and their directors, officers, and employees, individually against any liability, loss or damages in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the Company or any of its affiliates, or any of its or their directors, officers or employees, arising out of any legal or regulatory violation arising out of the Eligible Shareholder's communications with the shareholders of the Company or out of the information that the Eligible Shareholder (including such person) provided to the Company in connection with the nomination of the Shareholder Nominee(s) or efforts to elect such Shareholder Nominee(s) or out of any failure of the Eligible Shareholder to comply with, or any breach of, its obligations, agreements or representations pursuant to these By-laws;

(ii) comply with all laws, rules, regulations and listing standards applicable to nominations or solicitations in connection with the annual meeting of shareholders, and promptly provide the Company with such other information as the Company may reasonably request; and

(iii) file with the Securities and Exchange Commission any solicitation by the Eligible Shareholder of shareholders of the Company relating to the annual meeting at which the Shareholder Nominee will be nominated.

In addition, no later than the final date when a Proxy Access Notice pursuant to this Section 8 may be timely delivered to the Company, a Qualifying Fund whose stock ownership is counted for purposes of qualifying as an Eligible Shareholder must provide to the Secretary of the Company documentation reasonably satisfactory to the board of directors that demonstrates that the funds included within the Qualifying Fund satisfy the definition thereof. In order to be considered timely, any information required by this Section 8 to be provided to the Company must be supplemented (by delivery to the Secretary of the Company) (1) no later than ten (10) days following the record date for the applicable annual meeting, to disclose the foregoing information as of such record date, and (2) no later than the fifth day before the annual meeting, to disclose the foregoing information as of the date that is no earlier than ten (10) days prior to such annual meeting. For the avoidance of doubt, the requirement to update and supplement such information shall not permit any Eligible Shareholder or other person to change or add any proposed Shareholder Nominee or be deemed to cure any defects or limit the remedies (including without limitation under these By-laws) available to the Company relating to any defect.

(F) The Eligible Shareholder may provide to the Secretary of the Company, at the time the information required by this Section 8 is originally provided, a written statement for inclusion in the Company's proxy statement for the annual meeting, not to exceed five hundred (500) words, in support of the candidacy of such Eligible Shareholder's Shareholder Nominee (the "Statement"). Notwithstanding anything to the contrary contained in this Section 8, the Company may omit from its proxy materials any information or Statement that it, in good faith, believes is materially false or misleading, omits to state any material fact, or would violate any applicable law or regulation.

(G) No later than the final date when a Proxy Access Notice pursuant to this Section 8 may be timely delivered to the Company, each Shareholder Nominee must:

(1) provide an executed agreement, in a form deemed satisfactory by the board of directors or its designee (which form will be provided by the Company reasonably promptly upon written request of a shareholder), that such Shareholder Nominee consents to being named in the Company's proxy statement and form of proxy card (and will not agree to be named in any other person's proxy statement or form of proxy card with respect to the Company) as a nominee;

(2) complete, sign and submit all questionnaires, representations and agreements required by these By-laws, including Section 5(D) of these By-laws, or of the Company's directors generally; and

(3) provide such additional information as necessary to permit the board of directors to determine if such Shareholder Nominee:

(i) is independent under the listing standards of each principal U.S. exchange upon which the common stock of the Company is listed, any applicable rules of the Securities and Exchange Commission and any publicly disclosed standards used by the board of directors in determining and disclosing the independence of the Company's directors;

(ii) has any direct or indirect relationship with the Company other than those relationships that have been deemed categorically immaterial pursuant to the Company's Corporate Governance Guidelines;

(iii) would, by serving on the board of directors, violate or cause the Company to be in violation of these By-laws, the Company's Articles, the rules and listing standards of the principal U.S. exchange upon which the common stock of the Company is listed or any applicable law, rule or regulation; and

(iv) is or has been subject to any event specified in Item 401(f) of Regulation S-K (or successor rule) of the Securities and Exchange Commission.

In the event that any information or communications provided by the Eligible Shareholder (or any Constituent Holder) or the Shareholder Nominee to the Company or its shareholders ceases to be true and correct in all material respects or omits a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, each Eligible Shareholder or Shareholder Nominee, as the case may be, shall promptly notify the Secretary of the Company of any defect in such previously provided information and of the information that is required to correct any such defect; it being understood for the avoidance of doubt that providing any such notification will not be deemed to cure any such defect or limit the remedies (including without limitation under these By-laws) available to the Company relating to any such defect.

(H) Any Shareholder Nominee who is included in the Company's proxy materials for a particular annual meeting of shareholders but withdraws from or becomes ineligible or unavailable for election at that annual meeting (other than by reason of such Shareholder Nominee's disability or other health reason) shall be ineligible to be a Shareholder Nominee pursuant to this Section 8 for the next two annual meetings. Any Shareholder Nominee who is included in the Company's proxy statement for a particular annual meeting of shareholders, but subsequently is determined not to satisfy the eligibility requirements of this Section 8 or any other provision of these By-laws, the Company's Articles or other applicable regulation any time before the annual meeting of shareholders, shall not be eligible for election at the relevant annual meeting of shareholders.

(I) (x) The Company will not be required to include, pursuant to this Section 8, any Shareholder Nominee in its proxy materials for any annual meeting of shareholders, and (y) if the proxy statement already has been filed, any Shareholder Nominee will cease to be eligible for nomination as a Shareholder Nominee, notwithstanding that proxies in respect of such vote may have been received by the Company, if:

(1) such Shareholder Nominee is not independent under the listing standards of the principal U.S. exchange upon which the common stock of the Company is listed, any applicable rules of the Securities and Exchange Commission and any publicly disclosed standards used by the board of directors in determining and disclosing independence of the Company's directors, in each case as determined by the board of directors;

(2) such Shareholder Nominee's service as a member of the board of directors would violate or cause the Company to be in violation of these By-laws, the Company's Articles, the rules and listing standards of the principal U.S. exchange upon which the common stock of the Company is traded, or any applicable law, rule or regulation;

(3) such Shareholder Nominee is or has been, within the past three (3) years, an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914, 15 U.S.C. §19;

(4) such Shareholder Nominee is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses) or has been convicted in such a criminal proceeding within the past ten (10) years;

(5) such Shareholder Nominee is subject to any order of the type specified in Rule 506(d) of Regulation D promulgated under the Securities Act of 1933;

(6) the Eligible Shareholder (or any Constituent Holder) or applicable Shareholder Nominee otherwise breaches or fails to comply in any material respect with its obligations pursuant to this Section 8 or any agreement, representation or undertaking required by this section;

(7) the Eligible Shareholder ceases to be an Eligible Shareholder for any reason, including but not limited to not owning the Proxy Access Request Required Shares through the date of the applicable annual meeting or

(8) the Secretary of the Company receives a notice that any shareholder has nominated or intends to nominate a person for election to the board of directors at such annual meeting pursuant to Section A(3) of Article EIGHTH of the Company's Articles.

For the purposes of this paragraph (I), clauses (1), (2), (3), (4) and (5) and, to the extent related to a breach or failure by the Shareholder Nominee, clause (6) will result in the exclusion from the proxy materials pursuant to this Section 8 of the specific Shareholder Nominee to whom the ineligibility applies, or, if the proxy statement already has been filed, the ineligibility of such Shareholder Nominee to be nominated pursuant to this Section 8; provided, however, that clause (7) and, to the extent related to a breach or failure by an Eligible Shareholder (or any Constituent Holder), clause (6) will result in the Voting Stock owned by such Eligible Shareholder (or Constituent Holder) being excluded from the Proxy Access Request Required Shares (and, if as a result the Proxy Access Notice will no longer have been filed by an Eligible Shareholder, the exclusion from the proxy materials pursuant to this Section 8 of all of the applicable shareholder's Shareholder Nominees from the applicable annual meeting of shareholders or, if the proxy statement has already been filed, the ineligibility of all of such shareholder's Shareholder Nominees to be nominated).

Notwithstanding anything to the contrary set forth herein, the board of directors or the person presiding at the annual meeting shall declare a nomination by an Eligible Shareholder to be invalid, and the nominated Shareholder Nominee shall cease to be eligible for nomination pursuant to this Section 8, notwithstanding that proxies in respect of such vote may have been received by the Company, if (i) the Eligible Shareholder (or a qualified representative thereof) does not appear at the annual meeting to present any nomination pursuant to this Section 8 or (ii) the Eligible Shareholder (or any Constituent Holder) becomes ineligible to nominate a director for inclusion in the Company's proxy materials pursuant to this Section 8 or withdraws its nomination or a Shareholder Nominee becomes unwilling, unavailable or ineligible to serve on the board of directors, whether before or after the Company's issuance of the definitive proxy statement.

### ARTICLE III - BOARD OF DIRECTORS

Section 1. *Number.* Until the board of directors has increased or decreased the number of the directors as hereinafter provided, the number of the directors shall be thirteen (13). The board is hereby authorized to increase or decrease the number of the directors from time to time without a vote of the shareholders, provided, however, that such number shall not be less than seven (7) nor more than fifteen (15).

Section 2. *General Powers.* The board of directors shall have power in general to manage the business and affairs of the Company consistent with the law, the Articles of the Company and these By-laws, and may from time to time adopt such regulations regarding the powers and duties of the respective officers, assistant officers and agents and the conduct of the Company's business as the board may deem proper and expedient.

Section 3. *Election and Nomination of Directors.* Candidates for election as directors at any annual meeting of shareholders shall be nominated and elected for terms to expire not later than the third annual meeting following their election, in accordance with the By-laws and Articles of the Company and applicable law.

Section 4. *Annual Meeting.* The board of directors shall without notice meet each year upon adjournment of the annual meeting of the shareholders at the principal office of the Company, or on such other day or at such other time or place as shall be fixed by the board at any time in advance of the meeting date or designated in a notice of the meeting, for the purposes of organization, election of officers and consideration of any other business that may properly be brought before the meeting.

Section 5. *Regular Meetings.* Regular meetings of the board of directors shall be held at such times and places as shall be fixed by the board at any time in advance of the meeting date or designated in a notice of the meeting.

Section 6. *Special Meetings.* Special meetings of the board of directors may be called by the chairman of the board, a vice chairman of the board, the president or any two directors.

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Section 7. *Notice of Annual, Regular and Special Meetings.*

(A) No Notice For Meetings Held at Time and Place Fixed in Advance. No notice of the annual or a regular meeting of the board of directors shall be necessary if the meeting is held at the time and place fixed by the board in advance of the meeting date.

(B) Notice. Notice of the annual or any regular meeting to be held at another time or place and of all special meetings of the board, setting forth the time and place of the meeting, shall be given by letter or other writing deposited in the United States mail or with an express mail or private courier service not later than during the second day immediately preceding the day for such meeting, or by word of mouth, telephone, facsimile, e-mail or other oral, written or electronic communication means received not later than during the day immediately preceding the day for such meeting.

Section 8. *Quorum and Action by Unanimous Consent.*

(A) Quorum. A majority of the directors in office shall be necessary to constitute a quorum for the transaction of business at a meeting of the board of directors, but if at any meeting a quorum shall not be present the meeting may adjourn from time to time until a quorum shall be present.

(B) Action by Unanimous Consent. Any action required or permitted to be taken at a meeting of the board of directors or any committee thereof may be taken without a meeting if a consent or consents thereto by all of the directors in office, or, in the case of any action by a committee of the board of directors, by all of the directors of such committee, is filed with the secretary of the Company. For the purposes of this Section 8(B), consent may be given by means of a physical written copy or transmitted by facsimile transmission, e-mail or similar electronic communications technology, provided that the means of giving consent shall enable the Company to keep a record of the consents in a manner satisfying the requirements of Section 107 of the Pennsylvania Associations Code.

Section 9. *Executive Committee.* The board of directors may, by resolution adopted by a majority of the whole board, designate three or more of the directors to constitute an executive committee which to the extent provided in a resolution adopted by a majority of the whole board shall have and exercise the authority of the board in the management of the business and affairs of the Company except as otherwise limited by law.

Section 10. *Audit Committee.* The board of directors shall, by resolution adopted by a majority of the whole board, designate three or more of the directors to constitute an audit committee. Audit committee members shall not be officers or full time employees of the Company or its subsidiaries. The audit committee shall have such authority and shall perform such duties as shall be provided from time to time in accordance with resolutions of the board.

Section 11. *Compensation and Benefits Committee.* The board of directors may, by resolution adopted by a majority of the whole board, designate three or more of the directors to constitute a compensation committee which to the extent provided in such resolution or other action by the board shall have and exercise the authority (a) to fix and determine, and change from time to time, the compensation of all officers of the Company elected by the board, including, but not restricted to, monthly or other periodic compensation and incentive or other additional compensation, (b) to authorize or approve all contracts of the Company with any officer for

remuneration (whether in the form of a pension, deferred compensation or otherwise) to be paid from the general funds of the Company after the termination of regular employment of such officer, and (c) to administer or perform specified functions under any one or more of the stock option or other incentive, pension or benefit plans of the Company; provided that the said committee shall not exercise any of its said authority with respect to any of its members.

Section 12. *Compensation of Assistant Officers and Agents.* Unless otherwise determined by the board of directors, the chief executive officer of the Company shall have the authority to fix and determine, and change from time to time, the compensation of all assistant officers and agents of the Company elected or appointed by the board or by the chief executive officer, including, but not restricted to, monthly or other periodic compensation and incentive or other additional compensation.

Section 13. *Limitation Regarding Incentive Plans.* Nothing contained in the foregoing two sections of this Article III shall be construed to vest, or to authorize vesting, in the chief executive officer of the Company any authority with respect to stock options or other incentives under plans which provide for administration by the board of directors or a committee thereof.

Section 14. *Other Committees.* In addition to the committees described in this Article III, the board of directors may, by resolution adopted by a majority of the whole board, designate one or more other committees of the board, each of which shall consist of one or more of the directors. Each such other committee shall have such authority and shall perform such other duties as may be provided from time to time in resolutions of the board.

Section 15. *Substitute Committee Members.* In the absence or disqualification of any member of any committee of the board of directors, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another director to act at the meeting in the place of any such absent or disqualified member.

Section 16. *Participation by Conference Telephone or Other Electronic Technology.* One or more directors may participate in a meeting of the board of directors or of a committee thereof by means of conference telephone or other electronic technology by means of which all persons participating in the meeting can hear each other.

Section 17. *Personal Liability of Directors.* To the fullest extent that the laws of the Commonwealth of Pennsylvania, as in effect on May 15, 1987 or as thereafter amended, permit elimination or limitation of the liability of directors, no director of the Company shall be personally liable for monetary damages for any action taken, or any failure to take any action. This Section 17 shall not apply to any action filed prior to May 15, 1987, nor to any breach of performance of duty or any failure of performance of duty occurring prior to May 15, 1987. The provisions of this Section 17 shall be deemed to be a contract with each director of the Company who serves as such at any time while such provisions are in effect, and each such director shall be deemed to be serving as such in reliance on the provisions of this Section 17. Any amendment or repeal of this Section 17 or adoption of any other By-law or provision of the Articles of the Company which has the effect of increasing director liability shall operate prospectively only and shall not affect any action taken, or any failure to act, prior to such amendment, repeal or adoption. This Section 17 may be amended or repealed only with the affirmative vote of the holders of a majority of the outstanding shares of common stock of the Company.

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## ARTICLE IV – CHAIRMAN OF THE BOARD AND OFFICERS

Section 1. *Number and Election.* The board of directors at its annual meeting shall elect a president, a secretary and a treasurer, or persons who act as such, and may elect a chairman of the board, one or more vice presidents, a controller, a general counsel and such other officers and assistant officers as the board may deem appropriate. The board shall from time to time designate the chief executive officer who also may be the chairman of the board or the president. The board may also from time to time elect such other officers and assistant officers and appoint such agents as it may deem appropriate. Assistant officers and agents also may be appointed by the chief executive officer.

Section 2. *Qualifications.* The chairman of the board shall be a member of the board of directors but the officers of the Company need not be directors.

Section 3. *Term of Office.* Each officer and assistant officer shall hold office until the annual meeting of the board of directors next following the meeting of the board at which such officer or assistant officer is elected, except in the case of earlier death, resignation or removal.

Section 4. *Chairman of the Board.* The chairman of the board shall preside at all meetings of the board of directors at which such chairman is present. In the absence of the chairman of the board, a vice chairman of the board, the president or another director, in the order designated by the chairman of the board, shall preside at meetings of the board of directors. The chairman of the board shall have such powers and perform such duties as the board of directors may from time to time delegate to such chairman. Notwithstanding anything to the contrary, the chairman of the board may, but need not, be an officer of the Company.

Section 5. *President.* If the president is not the chief executive officer, the president shall have such powers and perform such other duties as the chairman of the board may from time to time delegate to the president, except as otherwise determined by the board.

Section 6. *Vice Presidents.* Each vice president, including any vice president designated as executive, senior or otherwise, shall have such powers and perform such duties as the chairman of the board, the chief executive officer or the president may from time to time delegate to such vice president, except as otherwise determined by the board of directors.

Section 7. *Secretary.* The secretary shall attend meetings of the shareholders, the board of directors and the executive committee, shall keep minutes thereof in suitable books, and shall send out all notices of meetings as required by law or these By-laws. The secretary shall be ex officio an assistant treasurer. The secretary shall, in general, perform all duties incident to the office of secretary.

Section 8. *Treasurer.* The treasurer shall receive all money paid to the Company and keep or cause to be kept accurate accounts of all money received or payments made in books kept for that purpose. The treasurer shall deposit all money received by the treasurer in the name and to the credit of the Company in banks or other places of deposit. The treasurer shall disburse the money of the Company by checks or vouchers. The treasurer shall be ex officio an assistant secretary. The treasurer shall, in general, perform all duties incident to the office of treasurer.

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Section 9. *Controller*. The controller shall be responsible for the implementation of accounting policies and procedures, the installation and supervision of all accounting records, including the preparation and interpretation of financial statements, the compilation of production costs and cost distributions and the taking and valuation of physical inventories. The controller shall also be responsible for the maintenance of adequate records of authorized appropriations and the approval for payment of all checks and vouchers. The controller shall, in general, perform all duties incident to the office of controller.

Section 10. *General Counsel*. The general counsel shall advise the Company on legal matters affecting the Company and its activities and shall supervise and direct the handling of all such legal matters. The general counsel shall, in general, perform all duties incident to the office of general counsel.

Section 11. *Assistant Officers*. Each assistant officer shall have such powers and perform such duties as may be delegated to such assistant officer by the officer to whom such assistant officer is an assistant or, in the absence or inability to act of such officer, by the officer to whom such officer reports or by the chief executive officer.

## **ARTICLE V - INDEMNIFICATION**

Section 1. *Indemnification Granted*. Every person who is or was a director, officer or employee of the Company or of any other corporation, partnership, joint venture, trust or other enterprise which such person serves or served as such at the request of the Company (hereinafter referred to as an "eligible person") shall in accordance with this Article V, but not if prohibited by law, be indemnified by the Company as hereinafter provided against reasonable expense and any liability paid or incurred by such person in connection with or resulting from any claim in which such person may be involved, as a party or otherwise, by reason of such person's being or having been a director, officer or employee of the Company or such other enterprise, whether or not such person continues to be such at the time such liability or expense shall have been paid or incurred.

Section 2. *Certain Definitions*. As used in this Article V, the term "claim" shall mean any threatened or actual claim, action, suit or proceeding (whether brought by or in the right of the Company or such other enterprise or otherwise), whether civil, criminal, administrative or investigative; the term "expense" shall mean counsel fees and disbursements and all other expenses (except any liability) incurred in connection with any claim; and the term "liability" shall mean amounts of judgments, fines or penalties against, and amounts paid in settlement by, an eligible person with respect to any claim.

Section 3. *Expense Reimbursement to the Extent Successful*. Any eligible person who has been wholly successful, on the merits or otherwise, with respect to any claim shall be reimbursed by the Company for such person's reasonable expense. Any eligible person who has been partially successful shall be proportionately reimbursed by the Company for such person's reasonable expense.

Section 4. *Indemnification Where Not Wholly Successful*. Any eligible person who has been partially unsuccessful and any other eligible person not described in Section 3 of this Article V shall be reimbursed by the Company for such person's reasonable expense and for any liability if a Referee shall deliver to the Company the written finding of such Referee that such person acted in good faith and in a manner such person reasonably believed to be in, or not opposed to, the best interests of the Company, and in addition with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct of such person was unlawful.

Where such person is found by the Referee to have met the foregoing standards of conduct with respect to one or more but not all the claims made against such person, such person shall be entitled to indemnification for such expense and liability in such proportion as the Referee shall determine. The termination of any claim by judgment, order, settlement (whether with or without court approval), adverse decision, or conviction after trial or upon a plea of guilty or of nolo contendere or its equivalent, shall not of itself create a presumption that an eligible person did not meet the foregoing standards of conduct. The person claiming indemnification shall, at the request of the Referee, appear before the Referee and answer questions which the Referee deems relevant and shall be given ample opportunity to present to the Referee evidence upon which such person relies for indemnification; and the Company shall at the request of the Referee, make available to the Referee facts, opinions or other evidence in any way relevant for the Referee's finding which are within the possession or control of the Company. As used in this Article V, the term "Referee" shall mean independent legal counsel (who may be regular independent legal counsel of the Company), or other disinterested person or persons, selected to act as such hereunder by the board of directors of the Company, whether or not a disinterested quorum exists.

Section 5. *Advancement of Expenses.* Any expense incurred with respect to any claim may be advanced by the Company prior to the final disposition thereof upon receipt of an undertaking by or on behalf of the recipient to repay such amount if it is ultimately determined that such recipient is not to be indemnified under this Article V.

Section 6. *Article V Not Exclusive; Survival of Rights.* The rights of indemnification provided in this Article V shall be in addition to any rights to which any eligible person may otherwise be entitled by contract or as a matter of law; and in the event of such person's death, such rights shall extend to the heirs and legal representatives of such person.

## **ARTICLE VI - SHARE CERTIFICATES AND TRANSFERS**

Section 1. *Share Certificates.* Share certificates shall be in such form as the board of directors may from time to time determine. Each certificate shall be signed by the chairman of the board, the president, the treasurer or the secretary of the Company, by manual or facsimile signature.

Section 2. *Transfer Agent and Registrar.* The board of directors may from time to time appoint one or more transfer agents and may appoint one or more registrars of transfer, each to act with respect to such preferred and common shares of the Company as the board of directors may designate. No share certificate of the Company shall be valid or binding unless countersigned, manually or by facsimile signature, by a transfer agent if one has been appointed to act with respect to the shares evidenced by such certificate, and registered before issue by a registrar if one has been appointed to act with respect to the shares evidenced by such certificate.

Section 3. *Signatures by Former Corporate Officers or Agents.* In case any officer of the Company, or any authorized signatory of any transfer agent or registrar, who has signed, or whose facsimile signature has been placed upon, any share certificate shall have ceased to be such officer or authorized signatory because of death, resignation or otherwise, before the certificate is issued, it may be issued with the same effect as if the officer or authorized signatory had not ceased to be such at the date of its issue.

## ARTICLE VII - AMENDMENTS

These By-laws may be altered, amended, added to or repealed by the board of directors at any meeting of the board duly convened with or without notice of that purpose, subject to the power of the shareholders to change such action.

## ARTICLE VIII - INDEMNIFICATION FOR DIRECTORS

Section 1. *Right to Indemnification.* Except as prohibited by law, every director of the Company shall be entitled as of right to be indemnified by the Company against expenses and any liability paid or incurred by such person in connection with any actual or threatened claim, action, suit or proceeding, civil, criminal, administrative, investigative or other, whether brought by or in the right of the Company or otherwise, in which he or she may be involved, as a party or otherwise, by reason of such person being or having been a director of the Company or by reason of the fact that such person is or was serving at the request of the Company as a director, officer, employee, fiduciary or other representative of another corporation, partnership, joint venture, trust, employee benefit plan or other entity (such claim, action, suit or proceeding hereinafter being referred to as a “claim”); provided, that no such right of indemnification shall exist with respect to a claim brought by a director against the Company except as provided in the last sentence of this Section 1. Indemnification hereunder shall include the right to have expenses incurred by such person in connection with a claim paid in advance by the Company prior to final disposition of such claim, subject to any obligation which may be imposed by law, By-law, agreement or otherwise to reimburse the Company in certain events. As used herein, “expenses” shall include fees and expenses of counsel selected by any such director and “liability” shall include amounts of judgments, excise taxes, fines, penalties and amounts paid in settlement. With respect to any claim brought by a director or other person against the Company, the director or other person shall be entitled to be indemnified for expenses incurred in connection with such claim pursuant to this Section 1 only (i) if the claim is a suit brought as a claim for indemnity under Section 2 of this Article VIII or otherwise, (ii) if the director or other person is successful in whole or in part in the claim for which expenses are claimed or (iii) if the indemnification for expenses is included in a settlement of the claim or is awarded by a court.

Section 2. *Right of Claimant to Bring Suit.* If a claim under Section 1 of this Article VIII is not paid in full by the Company within thirty (30) days after a written claim has been received by the Company, the claimant may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim. It shall be a defense to any such suit to recover indemnification that the claimant’s conduct was such that under Pennsylvania law the Company is prohibited from indemnifying the claimant for the amount claimed, but the burden of proving such defense shall be on the Company. Neither the failure of the Company (including its board of directors, legal counsel and its shareholders) to have made a determination prior to the commencement of such suit that indemnification of the claimant is proper in the circumstances, nor an actual determination by the Company (including its board of directors, legal counsel or its shareholders) that the claimant’s conduct was such that indemnification is prohibited by law, shall be a defense to the suit to recover indemnification or create a presumption that the claimant’s conduct was such that indemnification is prohibited by law. The only defense to any such suit to receive payment of expenses in advance shall be failure to make an undertaking to reimburse if such an undertaking is required by law, By-law, agreement or otherwise.

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Section 3. *Insurance and Funding.* The Company may purchase and maintain insurance to protect itself and any person eligible to be indemnified hereunder against any liability or expense asserted or incurred by such person in connection with any claim, whether or not the Company would have the power to indemnify such person against such liability or expense by law or under the provisions of this Article. The Company may create a trust fund, grant a security interest, cause a letter of credit to be issued or use other means (whether or not similar to the foregoing) to ensure the payment of such sums as may become necessary to effect indemnification as provided herein.

Section 4. *Non-Exclusivity; Nature and Extent of Rights.* The right of indemnification provided for in this Article VIII (i) shall not be deemed exclusive of any other rights, whether now existing or hereafter created, to which those seeking indemnification hereunder may be entitled under any provision of the Articles or By-laws, or any agreement, vote of shareholders or directors or otherwise, (ii) shall be deemed to create contractual rights in favor of persons entitled to indemnification hereunder, (iii) shall continue as to persons who have ceased to have the status pursuant to which they were entitled or were denominated as entitled to indemnification hereunder and shall inure to the benefit of the heirs and legal representatives of persons entitled to indemnification hereunder and (iv) shall be applicable to claims commenced after the adoption hereof, whether arising from acts or omissions occurring before or after the adoption hereof. The right of indemnification provided for herein may not be amended or repealed so as to limit in any way the indemnification provided for herein with respect to any acts or omissions occurring prior to any such amendment or repeal.

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(Amended April 21, 2017)

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**Arconic and subsidiaries**  
**Computations of Ratio of Earnings to Fixed Charges and**  
**Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends**  
**(in millions, except ratios)**

<b>Three months ended March 31,</b>	<b>2017</b>
<b>Earnings</b>	
Income from continuing operations before income taxes	\$484
Noncontrolling interests share of earnings of majority-owned subsidiaries without fixed charges	—
Equity income	—
Fixed charges added to earnings	119
Distributed income of less than 50 percent-owned persons	—
Amortization of capitalized interest:	
Consolidated	3
Proportionate share of 50 percent-owned persons	—
Total earnings	<u>\$606</u>
<b>Fixed Charges</b>	
Interest expense:	
Consolidated	\$115
Proportionate share of 50 percent-owned persons	—
	<u>\$115</u>
Amount representative of the interest factor in rents:	
Consolidated	\$ 4
Proportionate share of 50 percent-owned persons	—
	<u>\$ 4</u>
Fixed charges added to earnings	<u>\$119</u>
Interest capitalized:	
Consolidated	\$ 7
Proportionate share of 50 percent-owned persons	—
	<u>\$ 7</u>
Preferred stock dividend requirements of majority-owned subsidiaries	—
Total fixed charges	<u>\$126</u>
Pretax earnings required to pay preferred stock dividends*	27
Combined total fixed charges and preferred stock dividends	<u>\$153</u>
Ratio of earnings to fixed charges	<u>4.8</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>4.0</u>

\* Based on U.S. statutory rate of 35%

May 1, 2017

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

RE: Arconic Inc.

Commissioners:

We are aware that our report dated May 1, 2017 on our review of interim financial information of Arconic Inc. and its subsidiaries (Arconic) for the three month period ended March 31, 2017 and 2016 and included in Arconic's quarterly report on Form 10-Q for the quarter ended March 31, 2017 is incorporated by reference in its Registration Statements on Form S-3 (No. 333-197371) and Form S-8 (Nos. 333-32516, 333-106411, 333-128445, 333-146330, 333-153369, 333-155668, 333-159123, 333-168428, 333-170801, 333-182899, 333-189882, 333-203275, 333-205829, 333-209772, 333-209777, and 333-212246).

Very truly yours,

/s/ PricewaterhouseCoopers LLP

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PricewaterhouseCoopers LLP  
Pittsburgh, Pennsylvania

**Certifications**

I, David Hess, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arconic Inc.;
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2017

/s/ David Hess

Name: David Hess

Title: Interim Chief Executive Officer

I, Ken Giacobbe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arconic Inc.;
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2017

/s/ Ken Giacobbe

Name: Ken Giacobbe

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 Arconic Inc., a Pennsylvania corporation (the "Company"), does hereby certify that:

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

Date: May 1, 2017

/s/ DAVID HESS

Name: David Hess

Title: Interim Chief Executive Officer

Date: May 1, 2017

/s/ KEN GIACOBBE

Name: Ken Giacobbe

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.