
**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, 2018

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)

Delaware
(State of
incorporation)

390 Park Avenue, New York, New York

(Address of principal executive offices)

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

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 25, 2018, there were 482,832,111 shares of common stock, par value \$1.00 per share, of the registrant outstanding.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	First quarter ended	
	March 31,	
	2018	2017
Sales (C & D)	\$ 3,445	\$ 3,192
Cost of goods sold (exclusive of expenses below)	2,768	2,458
Selling, general administrative, and other expenses	172	217
Research and development expenses	23	28
Provision for depreciation and amortization	142	133
Restructuring and other charges (E)	7	73
Operating income	333	283
Interest expense (N)	114	115
Other expense (income), net (F)	20	(316)
Income before income taxes	199	484
Provision for income taxes (H)	56	162
Net income	\$ 143	\$ 322
Amounts Attributable to Arconic Common Shareholders (I):		
Net income	\$ 142	\$ 305
Earnings per share - basic	\$ 0.30	\$ 0.69
Earnings per share - diluted	\$ 0.29	\$ 0.65
Dividends paid per share	\$ 0.06	\$ 0.06
Average Shares Outstanding (I):		
Average shares outstanding - basic	482	440
Average shares outstanding - diluted	503	499

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

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

First quarter ended March 31,	Arconic		Noncontrolling Interests		Total	
	2018	2017	2018	2017	2018	2017
Net income	\$ 143	\$ 322	\$ —	\$ —	\$ 143	\$ 322
Other comprehensive income, net of tax (J):						
Change in unrecognized net actuarial loss and prior service cost/benefit related to pension and other postretirement benefits	143	31	—	—	143	31
Foreign currency translation adjustments	122	67	—	—	122	67
Net change in unrealized gains on available-for-sale securities	—	(33)	—	—	—	(33)
Net change in unrecognized gains/losses on cash flow hedges	(7)	5	—	—	(7)	5
Total Other comprehensive income, net of tax	258	70	—	—	258	70
Comprehensive income	\$ 401	\$ 392	\$ —	\$ —	\$ 401	\$ 392

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

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

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,205	\$ 2,150
Receivables from customers, less allowances of \$8 in 2018 and 2017 (K)	1,179	1,035
Other receivables (K)	484	339
Inventories (L)	2,648	2,480
Prepaid expenses and other current assets	379	374
Total current assets	5,895	6,378
Properties, plants, and equipment, net (M)	5,628	5,594
Goodwill (A)	4,573	4,535
Deferred income taxes	675	743
Intangibles, net	990	987
Other noncurrent assets	458	481
Total assets	\$ 18,219	\$ 18,718
Liabilities		
Current liabilities:		
Accounts payable, trade	\$ 1,874	\$ 1,839
Accrued compensation and retirement costs	333	399
Taxes, including income taxes	83	75
Accrued interest payable	97	124
Other current liabilities	370	349
Short-term debt	45	38
Total current liabilities	2,802	2,824
Long-term debt, less amount due within one year (N & O)	6,309	6,806
Accrued pension benefits (G)	2,249	2,564
Accrued other postretirement benefits	833	841
Other noncurrent liabilities and deferred credits	744	759
Total liabilities	12,937	13,794
Contingencies and commitments (Q)		
Equity		
Arconic shareholders' equity:		
Preferred stock	55	55
Common stock	483	481
Additional capital	8,280	8,266
Accumulated deficit	(1,164)	(1,248)
Accumulated other comprehensive loss (J)	(2,386)	(2,644)
Total Arconic shareholders' equity	5,268	4,910
Noncontrolling interests	14	14
Total equity	5,282	4,924
Total liabilities and equity	\$ 18,219	\$ 18,718

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	
	March 31,	
	2018	2017
Operating activities		
Net income	\$ 143	\$ 322
Adjustments to reconcile net income to cash used for operations:		
Depreciation and amortization	142	133
Deferred income taxes	18	20
Restructuring and other charges	7	73
Net loss (gain) from investing activities - asset sales (F)	3	(349)
Net periodic pension benefit cost (G)	41	54
Stock-based compensation	15	28
Other	49	18
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, and foreign currency translation adjustments:		
(Increase) in receivables (B)	(403)	(394)
(Increase) in inventories	(141)	(85)
(Increase) decrease in prepaid expenses and other current assets	(12)	20
Increase (decrease) in accounts payable, trade	14	(122)
(Decrease) in accrued expenses	(118)	(112)
Increase in taxes, including income taxes	8	111
Pension contributions	(177)	(53)
Decrease (increase) in noncurrent assets	1	(34)
(Decrease) in noncurrent liabilities	(26)	(25)
Cash used for operations	(436)	(395)
Financing Activities		
Net change in short-term borrowings (original maturities of three months or less)	5	8
Additions to debt (original maturities greater than three months)	150	360
Premiums paid on early redemption of debt (B & N)	(17)	—
Payments on debt (original maturities greater than three months) (N)	(651)	(360)
Proceeds from exercise of employee stock options	12	22
Dividends paid to shareholders	(30)	(45)
Distributions to noncontrolling interests	—	(14)
Other	(11)	(14)
Cash used for financing activities	(542)	(43)
Investing Activities		
Capital expenditures	(117)	(103)
Proceeds from the sale of assets and businesses (P)	—	(10)
Sales of investments (F)	9	888
Cash receipts from sold receivables (B & K)	136	95
Other	1	240
Cash provided from investing activities	29	1,110
Effect of exchange rate changes on cash, cash equivalents and restricted cash	4	4
Net change in cash, cash equivalents and restricted cash (B)	(945)	676
Cash, cash equivalents and restricted cash at beginning of year (B)	2,153	1,878
Cash, cash equivalents and restricted cash at end of period (B)	\$ 1,208	\$ 2,554

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								Total Equity
	Preferred stock	Mandatory convertible preferred stock	Common stock	Additional capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interests		
Balance at December 31, 2016	\$ 55	\$ 3	\$ 438	\$ 8,214	\$ (1,027)	\$ (2,568)	\$ 26	\$ 5,141	
Net income	—	—	—	—	322	—	—	322	
Other comprehensive income (J)	—	—	—	—	—	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	\$ 55	\$ 3	\$ 441	\$ 8,249	\$ (768)	\$ (2,498)	\$ 13	\$ 5,495	

	Arconic Shareholders								Total Equity
	Preferred stock	Mandatory convertible preferred stock	Common stock	Additional capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interests		
Balance at December 31, 2017	\$ 55	\$ —	\$ 481	\$ 8,266	\$ (1,248)	\$ (2,644)	\$ 14	\$ 4,924	
Net income	—	—	—	—	143	—	—	143	
Other comprehensive income (J)	—	—	—	—	—	258	—	258	
Cash dividends declared:									
Preferred-Class A @ \$0.9375 per share	—	—	—	—	(1)	—	—	(1)	
Common @ \$0.12 per share	—	—	—	—	(58)	—	—	(58)	
Stock-based compensation	—	—	—	15	—	—	—	15	
Common stock issued: compensation plans	—	—	2	(1)	—	—	—	1	
Balance at March 31, 2018	\$ 55	\$ —	\$ 483	\$ 8,280	\$ (1,164)	\$ (2,386)	\$ 14	\$ 5,282	

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 2017 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, 2017, which includes all disclosures required by GAAP. Certain amounts in previously issued financial statements were reclassified to conform to the current period presentation (see below).

On January 1, 2018, Arconic adopted new guidance issued by the Financial Accounting Standards Board (FASB) related to the following: presentation of net periodic pension cost and net periodic postretirement benefit cost that required a reclassification of costs within the Statement of Consolidated Operations; presentation of certain cash receipts and cash payments within the Statement of Consolidated Cash Flows that required a reclassification of amounts between operating and either financing or investing activities; and the classification of restricted cash within the statement of cash flows. See Note B for further details.

In January 2018, management changed the organizational structure of the businesses in its Engineered Products and Solutions (EP&S) segment, from four business units to three business units, with a focus on aligning its internal structure to core markets and customers and reducing cost. As a result of this change in the EP&S segment organizational structure, management assessed and concluded that each of the three business units represent reporting units for goodwill impairment evaluation purposes. Also, as a result of the reorganization, goodwill was reallocated to the three new reporting units and evaluated for impairment during the first quarter of 2018. The fair value of each reporting unit exceeded its carrying value; thus there was no goodwill impairment. More than 92% of Arconic’s total goodwill at March 31, 2018 was allocated to the following three EP&S reporting units: Arconic Engines (\$2,095), Arconic Fastening Systems (\$1,623) and Arconic Engineered Structures (\$517).

B. Recently Adopted and Recently Issued Accounting Guidance

Adopted

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. These changes became effective for Arconic on January 1, 2018. Arconic adopted this new guidance using the modified retrospective transition approach applied to those contracts that were not completed as of January 1, 2018. There was no cumulative effect adjustment to the opening balance of retained earnings in the Consolidated Balance Sheet in the first quarter of 2018, as the adoption did not result in a change to our timing of revenue recognition, which continues to be at a point in time. See Note C for further details.

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 using the measurement alternative of 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. Also, the impairment assessment of equity investments without readily determinable fair values has been simplified by requiring a qualitative assessment to identify impairment. Also, the new guidance required changes in fair value of equity securities to be recognized immediately as a component of net income instead of being reported in accumulated other comprehensive loss until the gain (loss) is realized. These changes became effective for Arconic on January 1, 2018 and have been applied on a prospective basis. Arconic elected the measurement alternative for its equity investments that do not have readily determinable fair values. The adoption of this guidance did not have a material impact 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 became effective for Arconic on January 1, 2018 and have been applied retrospectively. As a result of the adoption, Arconic reclassified cash received related to beneficial interest in previously transferred trade accounts receivables from operating activities to investing activities in the Statement of Consolidated Cash Flows. This new accounting standard does not reflect a change in our underlying business or activities. The reclassification of cash received related to beneficial interest in previously transferred trade accounts receivables was \$95 for the quarter ended March 31, 2017. Also, Arconic will reclassify cash paid for debt prepayments including extinguishment costs from operating activities to financing activities in the Statement of Consolidated Cash Flows in the period when such activity occurs, however there were no such extinguishment costs for the quarter ended March 31, 2017.

In November 2016, the FASB issued changes to the classification of cash and cash equivalents within the statement of cash flow. Restricted cash and 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 cash equivalents and cash and cash equivalents will no longer be presented as cash flow activities in the Statement of Consolidated Cash Flows and for material balances of restricted cash and restricted cash equivalents Arconic will disclose information regarding the nature of the restrictions. These changes became effective for Arconic on January 1, 2018 and have been applied retrospectively. Management has determined that the adoption of this guidance did not have a material impact on the Statement of Consolidated Cash Flows. See Note O for detail on the balance of restricted cash.

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. Also, 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 became effective for Arconic on January 1, 2018 and were adopted retrospectively for the presentation of the service cost component and the other components of net periodic benefit cost in the Statement of Consolidated Operations, and prospectively for the asset capitalization of the service cost component of net periodic benefit cost. The Company recorded the service related net periodic benefit cost within Cost of goods sold, Selling, general administrative, and other expenses and Research and development expenses and recorded the non-service related net periodic benefit cost (except for the curtailment cost which was recorded in Restructuring and other charges) separately from service cost in Other expense (income), net within the Statement of Consolidated Operations. The impact of the retrospective adoption of this guidance was an increase to consolidated Operating income of \$38 while there was no impact to consolidated Net income for the quarter ended March 31, 2017.

In May 2017, the FASB issued clarification to guidance on the modification accounting criteria for share-based payment awards. The new guidance requires registrants to apply modification accounting unless three specific criteria are met. The three criteria are 1) the fair value of the award is the same before and after the modification, 2) the vesting conditions are the same before and after the modification and 3) the classification as a debt or equity award is the same before and after the modification. These changes became effective for Arconic on January 1, 2018 and were applied prospectively to new awards modified after adoption. The adoption of this guidance did not have a material impact on the Consolidated Financial Statements.

Issued

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. Also, 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. Arconic's current operating lease portfolio is primarily comprised of land and buildings, plant equipment, vehicles, and computer equipment. A cross-functional implementation team is in the process of determining the scope of arrangements that will be subject to this standard as well as assessing the impact to the Company's systems, processes and internal controls. Arconic has contracted with a third-party vendor to implement a software solution. Concurrently, Arconic is compiling lease data to be uploaded into the software solution to account for leases under the new standard. Management is evaluating the impact of these changes on the Consolidated Balance Sheet, which will require right of use assets and lease liabilities be recorded for operating leases; therefore, an estimate of the impact is not currently determinable. However, the adoption is not expected to have a material impact on the Statement of Consolidated Operations or Statement of Consolidated Cash Flows.

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 2017, the FASB issued guidance that will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. These changes become effective for Arconic on January 1, 2019. For cash flow and net investment hedges existing at the date of adoption, Arconic will apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year in which the amendment is adopted. The amended presentation and disclosure guidance is required only prospectively. Management is currently evaluating the potential impact of this guidance on the Consolidated Financial Statements.

In February 2018, the FASB issued guidance that allows a reclassification from Accumulated other comprehensive loss to Accumulated deficit for stranded tax effects resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017. These changes become effective for Arconic on January 1, 2019. Management is currently evaluating the potential impact of this guidance on the Consolidated Financial Statements.

C. Revenue from Contracts with Customers

The Company's contracts with customers are comprised of purchase orders along with standard terms and conditions, and for larger customers, may also generally include a long-term agreement. These contracts with customers typically consist of the manufacture of products which represent single performance obligations that are satisfied upon transfer of control of the product to the customer. The Company produces fastening systems; seamless rolled rings; investment castings, including airfoils and forged jet engine components; extruded, machined and formed aircraft parts; aluminum sheet and plate; integrated aluminum structural systems; architectural extrusions; and forged aluminum commercial vehicle wheels. Transfer of control is assessed based on alternative use of the products we produce and our enforceable right to payment for performance to date under the contract terms. Transfer of control and revenue recognition generally occur upon shipment or delivery of the product, which is when title, ownership and risk of loss pass to the customer and is based on the applicable shipping terms. The shipping terms vary across all businesses and depend on the product, the country of origin, and the type of transportation (truck, train, or vessel). An invoice for payment is issued at time of shipment and terms are generally net 30 days. Our business units set commercial terms on which Arconic sells products to its customers. These terms are influenced by industry custom, market conditions, product line (specialty versus commodity products), and other considerations.

The following table disaggregates revenue by major end market served. Differences between segment totals and consolidated Arconic are in Corporate.

	Engineered Products and Solutions	Global Rolled Products	Transportation and Construction Solutions	Total Segment
First quarter ended March 31, 2018				
Aerospace	\$ 1,190	\$ 199	\$ —	\$ 1,389
Transportation	97	598	243	938
Building and construction	—	48	285	333
Industrial and other	254	521	9	784
Total end-market revenue	<u>\$ 1,541</u>	<u>\$ 1,366</u>	<u>\$ 537</u>	<u>\$ 3,444</u>
First quarter ended March 31, 2017				
Aerospace	\$ 1,155	\$ 215	\$ —	\$ 1,370
Transportation	93	493	173	759
Building and construction	—	49	262	311
Industrial and other	239	491	21	751
Total end-market revenue	<u>\$ 1,487</u>	<u>\$ 1,248</u>	<u>\$ 456</u>	<u>\$ 3,191</u>

D. Segment Information

Arconic 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, building and construction, industrial applications, defense, and packaging. Arconic's segments are organized by product on a worldwide basis. In the first quarter of 2018, the Company changed its primary measure of segment performance from Adjusted earnings before interest, tax, depreciation and amortization ("Adjusted EBITDA") to Segment operating profit, which more closely aligns segment performance with Operating income as presented in the Statement of Consolidated Operations. Segment performance under Arconic's management reporting system is evaluated based on a number of factors; however, the primary measure of performance is Segment operating profit. Arconic's definition of Segment operating profit is Operating income excluding Special items. Special items include Restructuring and other charges and Impairment of goodwill. Segment operating profit also includes certain items that, under the previous segment performance measure, were recorded in Corporate, such as the impact of LIFO inventory accounting, metal price lag, intersegment profit eliminations, and derivative activities. Segment operating profit may not be comparable to similarly titled measures of other companies. Prior period financial information has been recast to conform to current year presentation. Differences between segment totals and consolidated Arconic are in Corporate.

The operating results of Arconic's reportable segments were as follows:

	Engineered Products and Solutions	Global Rolled Products	Transportation and Construction Solutions	Total Segment
First quarter ended March 31, 2018				
Sales:				
Third-party sales	\$ 1,541	\$ 1,366	\$ 537	\$ 3,444
Intersegment sales	—	42	—	42
Total sales	<u>\$ 1,541</u>	<u>\$ 1,408</u>	<u>\$ 537</u>	<u>\$ 3,486</u>
Profit and loss:				
Segment operating profit	221	112	67	400
Restructuring and other charges	1	(1)	—	—
Provision for depreciation and amortization	71	51	13	135
First quarter ended March 31, 2017				
Sales:				
Third-party sales	\$ 1,487	\$ 1,248	\$ 456	\$ 3,191
Intersegment sales	—	34	—	34
Total sales	<u>\$ 1,487</u>	<u>\$ 1,282</u>	<u>\$ 456</u>	<u>\$ 3,225</u>
Profit and loss:				
Segment operating profit	247	136	68	451
Restructuring and other charges	6	57	3	66
Provision for depreciation and amortization	64	50	12	126

The following table reconciles Total segment operating profit to Consolidated income before income taxes:

	First quarter ended March 31,	
	2018	2017
Total segment operating profit	\$ 400	\$ 451
Unallocated amounts:		
Restructuring and other charges	(7)	(73)
Corporate expense	(60)	(95)
Consolidated operating income	<u>\$ 333</u>	<u>\$ 283</u>
Interest expense	(114)	(115)
Other (expense) income, net	(20)	316
Consolidated income before income taxes	<u><u>\$ 199</u></u>	<u><u>\$ 484</u></u>

The total assets of Arconic's reportable segment were as follows:

	March 31, 2018	December 31, 2017
Engineered Products and Solutions	10,561	10,325
Global Rolled Products	4,193	3,955
Transportation and Construction Solutions	1,108	1,041
Total segment assets	<u>\$ 15,862</u>	<u>\$ 15,321</u>

The following table reconciles Total segment assets to Consolidated assets:

	March 31, 2018	December 31, 2017
Total segment assets	<u>\$ 15,862</u>	<u>\$ 15,321</u>
Unallocated amounts:		
Cash and cash equivalents	1,205	2,150
Deferred income taxes	675	743
Corporate fixed assets, net	307	310
Fair value of derivative contracts	53	91
Other	117	103
Consolidated assets	<u>\$ 18,219</u>	<u>\$ 18,718</u>

E. Restructuring and Other Charges

In the first quarter of 2018, Arconic recorded Restructuring and other charges of \$7 (\$5 after-tax), which included \$5 (\$4 after-tax) for pension curtailment charges; \$4 (\$3 after-tax) for layoff costs, including the separation of approximately 16 employees (all in Corporate); a charge of \$2 (\$1 after-tax) for other miscellaneous items; and a benefit of \$4 (\$3 after-tax) for the reversal of a number of small layoff reserves related to prior periods.

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 benefit of \$1 (\$1 after-tax) for the reversal of a number of small layoff reserves related to prior periods.

As of March 31, 2018, approximately 8 of the 16 employees associated with 2018 restructuring programs and approximately 430 of the 830 employees (previously 880) associated with 2017 restructuring programs (with planned departures in 2018) were separated; all of the separations associated with 2016 restructuring programs were essentially complete. Most of the remaining separations for the 2018 restructuring programs and all of the remaining separations for the 2017 restructuring programs, are expected to be completed by the end of 2018.

For the quarter ended March 31, 2018, cash payments of \$1 were made against layoff reserves related to 2018 restructuring programs, cash payments of \$15 were made against layoff reserves related to 2017 restructuring programs, and cash payments of \$4 were made against the layoff reserves related to 2016 restructuring programs.

Activity and reserve balances for restructuring and other charges were as follows:

	Layoff costs	Other exit costs	Total
Reserve balances at December 31, 2016	\$ 50	\$ 9	\$ 59
Cash payments	(59)	(6)	(65)
Restructuring charges	64	1	65
Other ⁽¹⁾	1	(2)	(1)
Reserve balances at December 31, 2017	<u>56</u>	<u>2</u>	<u>58</u>
Cash payments	(20)	—	(20)
Restructuring charges	9	—	9
Other ⁽¹⁾	(9)	—	(9)
Reserve balances at March 31, 2018	<u>\$ 36</u>	<u>\$ 2</u>	<u>\$ 38</u>

⁽¹⁾ Other includes reversals of previously recorded restructuring charges and the effects of foreign currency translation. In 2018, Other for layoff costs also included a reclassification of \$5 in pension costs, as this liability was reflected in Arconic's separate liability for pension obligations. In 2017, Other for layoff costs also included a reclassification of a stock awards reversal of \$13.

The remaining reserves are expected to be paid in cash during 2018.

F. Other Expense (Income), Net

	First quarter ended March 31,	
	2018	2017
Non-service related net periodic benefit cost	\$ 28	38
Interest income	(6)	(4)
Foreign currency gains, net	(3)	(5)
Net loss (gain) from asset sales	3	(349)
Other, net	(2)	4
	<u>\$ 20</u>	<u>\$ (316)</u>

For the quarter ended March 31, 2017, Net loss (gain) from asset sales included a gain on the sale of a portion of Arconic's investment in Alcoa Corporation common stock of \$351 which resulted in cash proceeds of \$888 which were recorded in Sale of investments within Investing Activities in the Statement of Consolidated Cash Flows.

G. Pension and Other Postretirement Benefits

The components of net periodic benefit cost were as follows:

	First quarter ended March 31,	
	2018	2017
Pension benefits		
Service cost	\$ 20	\$ 23
Interest cost	55	58
Expected return on plan assets	(77)	(83)
Recognized net actuarial loss	42	55
Amortization of prior service cost (benefit)	1	1
Curtailements	5	—
Net periodic benefit cost ⁽¹⁾	<u>\$ 46</u>	<u>\$ 54</u>
Other postretirement benefits		
Service cost	\$ 2	\$ 2
Interest cost	7	8
Recognized net actuarial loss	2	1
Amortization of prior service cost (benefit)	(2)	(2)
Net periodic benefit cost ⁽¹⁾	<u>\$ 9</u>	<u>\$ 9</u>

⁽¹⁾ Service cost was included within Cost of goods sold, Selling, general administrative, and other expenses, and Research and development expenses; curtailments were included in Restructuring and other charges; and all other cost components were recorded in Other expense (income), net in the Statement of Consolidated Operations.

On April 1, 2018, benefit accruals for future service and compensation under all of the Company's qualified and non-qualified defined benefit pension plans for U.S. salaried and non-bargaining hourly employees ceased. As a result of this change, in the first quarter of 2018, the Company recorded a decrease to the accrued pension benefit liability of \$136 related to the reduction of future benefits (\$141 offset in Accumulated other comprehensive loss) and curtailment charges of \$5 in Restructuring and other charges.

In conjunction with the separation of Alcoa Inc. on November 1, 2016, 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 (from November 1, 2016) 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 Company made payments of \$50 in March 2018 and \$50 in April 2017. Upon finalization of 2018 pension plan valuations, additional cash contributions that were made in the first quarter of 2018 may be used to satisfy the \$150 requirement.

H. Income Taxes

Arconic's year-to-date tax provision is comprised of the most recent estimated annual effective tax rate applied to year-to-date pre-tax ordinary income. The tax impact of unusual or infrequently occurring items, including changes in judgement about valuation allowances and effects of changes in tax laws or rates, are recorded discretely in the interim period in which they occur. In addition, the tax provision is adjusted for the interim period impact of non-benefited pre-tax losses.

For the first quarter of 2018, the estimated annual effective tax rate applied to ordinary income was 26.5%. This rate is higher than the federal statutory rate of 21%, which was enacted by the Tax Cuts and Jobs Act ("the 2017 Act") on December 22, 2017, primarily due to additional estimated U.S. tax on Global Intangible Low-Taxed Income (GILTI) pursuant to the 2017 Act, domestic income taxable in certain U.S. states no longer subject to a valuation allowance, and foreign income taxed in higher rate jurisdictions.

For the first quarter of 2017, the estimated annual effective tax rate applied to ordinary income was 31.6%. This rate is lower than the federal statutory rate of 35% applicable to 2017 primarily due to foreign income taxed in lower rate jurisdictions, tax basis in excess of book basis of Alcoa Corporation common stock sold in February 2017, partially offset by a loss on the sale of a rolling mill in Fusina, Italy for which no net tax benefit was recognized.

For the first quarter of 2018 and 2017, the tax rate including discrete items was 28.1% and 33.5%, respectively. A discrete charge of \$2 was recorded for the first quarter of 2018 and was primarily related to stock compensation. A discrete charge of \$1 was recorded for the first quarter of 2017 and was primarily related to stock compensation offset by other prior period adjustments.

The tax provisions for the first quarter of 2018 and 2017 were comprised of the following:

	First quarter ended	
	March 31,	
	2018	2017
Pretax income at estimated annual effective income tax rate before discrete items	\$ 53	\$ 154
Interim period treatment of operational losses in foreign jurisdictions for which no tax benefit is recognized	1	7
Other discrete items	2	1
Provision for income taxes	<u>\$ 56</u>	<u>\$ 162</u>

On December 22, 2017, the 2017 Act was signed into law, making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a U.S. corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the non-previously taxed post-1986 foreign earnings and profits of certain U.S.-owned foreign corporations as of December 31, 2017. Also on December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118"), Income Tax Accounting Implications of the Tax Cuts and Jobs Act, was issued by the Securities and Exchange Commission to address the application of U.S. GAAP for financial reporting. SAB 118 permits the use of provisional amounts based on reasonable estimates in the financial statements. SAB 118 also provides that the tax impact may be considered incomplete in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Act. Any adjustments to provisional or incomplete amounts should be included in income from continuing operations as an adjustment to tax expense or benefit in the reporting period that the amounts are determined within one year.

In the fourth quarter of 2017, Arconic recorded a \$272 tax charge for the impact of the 2017 Act's tax rate reduction and one-time transition tax; the impact of both the rate reduction and one-time transition tax were provisional amounts in the 2017 provision for income taxes. No adjustments to these provisional amounts have been recorded in the first quarter of 2018. The impact of the rate reduction will be finalized as part of the filing of the 2017 U.S. income tax return during 2018. Arconic will continue to analyze the amount of foreign earnings and profits, the associated foreign tax credits, and additional guidance that may be issued during 2018 in order to update the estimated deemed repatriation calculation as necessary under SAB 118. Arconic has not yet gathered, prepared and analyzed all the necessary information in sufficient detail to determine whether any excess foreign tax credits that may result from the deemed repatriation will be realizable.

Provisional estimates of the impact of the 2017 Act on the realizability of certain deferred tax assets, including, but not limited to, foreign tax credits, alternative minimum tax credits, and state tax loss carryforwards have been made based on information and computations that were available, prepared, and analyzed as of February 2, 2018. Through March 31, 2018, there were no changes to the provisional estimates of the impact of the 2017 Act or the estimates used to evaluate the realizability of deferred tax assets. Further analysis, or the issuance of additional guidance, could result in changes to the realizability of deferred tax assets.

As a result of the 2017 Act, the non-previously taxed post-1986 foreign earnings and profits (calculated based on U.S. tax principles) of certain U.S.-owned foreign corporations has been subject to U.S. tax under the one-time transition tax provisions. In the fourth quarter of 2017, Arconic had no plans to distribute such earnings in the foreseeable future and considered that conclusion to be incomplete under SAB 118. There is no change to this conclusion through March 31, 2018.

The 2017 Act creates a new requirement that certain income earned by foreign subsidiaries, GILTI, must be included in the gross income of the U.S. shareholder. The 2017 Act also established the Base Erosion and Anti-Abuse Tax (BEAT). Arconic anticipates that it will be subject to GILTI and has included an estimate of GILTI in the calculation of the 2018 estimated annual effective tax rate. At this time, Arconic does not anticipate being subject to BEAT for 2018. During the first quarter of 2018, Arconic has made a final accounting policy election to treat taxes due on future inclusions in U.S. taxable income related to GILTI as a current period expense when incurred.

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

	First quarter ended	
	March 31,	
	2018	2017
Net income	\$ 143	\$ 322
Less: Preferred stock dividends declared	(1)	(17)
Net income available to Arconic common shareholders - basic	142	305
Add: Interest expense related to convertible notes	3	2
Add: Dividends related to mandatory convertible preferred stock	—	17
Net income available to Arconic common shareholders - diluted	\$ 145	\$ 324
Average shares outstanding - basic	482	440
Effect of dilutive securities:		
Stock options	5	1
Stock and performance awards	2	5
Mandatory convertible preferred stock	—	39
Convertible notes	14	14
Average shares outstanding - diluted	503	499

The following shares were excluded from the calculation of average shares outstanding – diluted as their effect was anti-dilutive (shares in millions).

	First quarter ended	
	March 31,	
	2018	2017
Mandatory convertible preferred stock	—	—
Convertible notes	—	—
Stock options ⁽¹⁾	6	—
Stock awards	—	4

⁽¹⁾ The average exercise price of options was \$30.75 per share for the first quarter of 2018.

J. 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:

First quarter ended March 31,	Arconic		Noncontrolling Interests	
	2018	2017	2018	2017
Pension and other postretirement benefits (G)				
Balance at beginning of period	\$ (2,230)	\$ (2,010)	\$ —	\$ —
Other comprehensive income:				
Unrecognized net actuarial loss and prior service cost/benefit	137	(6)	—	—
Tax (expense) benefit	(31)	1	—	—
Total Other comprehensive income (loss) before reclassifications, net of tax	106	(5)	—	—
Amortization of net actuarial loss and prior service cost ⁽¹⁾	48	55	—	—
Tax expense ⁽²⁾	(11)	(19)	—	—
Total amount reclassified from Accumulated other comprehensive loss, net of tax ⁽⁵⁾	37	36	—	—
Total Other comprehensive income	143	31	—	—
Balance at end of period	\$ (2,087)	\$ (1,979)	\$ —	\$ —
Foreign currency translation				
Balance at beginning of period	\$ (437)	\$ (689)	\$ —	\$ (2)
Other comprehensive income ⁽³⁾	122	67	—	—
Balance at end of period	\$ (315)	\$ (622)	\$ —	\$ (2)
Available-for-sale securities				
Balance at beginning of period	\$ (2)	\$ 132	\$ —	\$ —
Other comprehensive loss ⁽⁴⁾	—	(33)	—	—
Balance at end of period	\$ (2)	\$ 99	\$ —	\$ —
Cash flow hedges				
Balance at beginning of period	\$ 25	\$ (1)	\$ —	\$ —
Other comprehensive (loss) income:				
Net change from periodic revaluations	(6)	8	—	—
Tax benefit (expense)	1	(3)	—	—
Total Other comprehensive (loss) income before reclassifications, net of tax	(5)	5	—	—
Net amount reclassified to earnings	(3)	—	—	—
Tax benefit ⁽²⁾	1	—	—	—
Total amount reclassified from Accumulated other comprehensive loss, net of tax ⁽⁵⁾	(2)	—	—	—
Total Other comprehensive (loss) income	(7)	5	—	—
Balance at end of period	\$ 18	\$ 4	\$ —	\$ —

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

(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 expense (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.

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. Arconic maintains a beneficial interest, or a right to collect cash, on the sold receivables that have not been funded (deferred purchase program). 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 (\$2,508 in draws and \$2,208 in repayments) since the program's inception, including net cash draws totaling \$0 (\$150 in draws and \$150 in repayments) for the quarter ended March 31, 2018.

As of March 31, 2018 and December 31, 2017, the deferred purchase program receivable was \$320 and \$187, 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 gross amount of receivables sold and total cash collected under this program since its inception was \$36,938 and \$36,268, respectively. Arconic services the customer receivables for the financial institutions at market rates; therefore, no servicing asset or liability was recorded.

Cash receipts from customer payments on sold receivables (which are cash receipts on the underlying trade receivables that have already been previously sold in this program) as well as cash receipts and cash disbursements from draws and repayments under the program are presented as cash receipts from sold receivables within investing activities in the Statement of Consolidated Cash Flows.

L. Inventories

	March 31, 2018	December 31, 2017
Finished goods	\$ 718	\$ 669
Work-in-process	1,406	1,349
Purchased raw materials	435	381
Operating supplies	89	81
Total inventories	<u>\$ 2,648</u>	<u>\$ 2,480</u>

At March 31, 2018 and December 31, 2017, the portion of inventories valued on a last-in, first-out (LIFO) basis was \$1,302 and \$1,208, respectively. If valued on an average-cost basis, total inventories would have been \$495 and \$481 higher at March 31, 2018 and December 31, 2017, respectively.

M. Properties, Plants, and Equipment, Net

	March 31, 2018	December 31, 2017
Land and land rights	\$ 142	\$ 140
Structures	2,413	2,395
Machinery and equipment	9,222	8,830
	11,777	11,365
Less: accumulated depreciation and amortization	6,721	6,392
	5,056	4,973
Construction work-in-progress	572	621
	<u>\$ 5,628</u>	<u>\$ 5,594</u>

N. Debt

	March 31, 2018	December 31, 2017
5.72% Notes, due 2019	—	500
1.63% Convertible Notes, due 2019	403	403
6.150% Notes, due 2020	1,000	1,000
5.40% Notes due 2021	1,250	1,250
5.87% Notes, due 2022	627	627
5.125% Notes, due 2024	1,250	1,250
5.90% Notes, due 2027	625	625
6.75% Bonds, due 2028	300	300
5.95% Notes, due 2037	625	625
Iowa Finance Authority Loan, due 2042	250	250
Other ⁽¹⁾	(18)	(23)
Total debt	6,312	6,807
Less: amount due within one year	3	1
Total long-term debt	\$ 6,309	\$ 6,806

⁽¹⁾ Includes various financing arrangements related to subsidiaries, unamortized debt discounts related to outstanding notes and bonds listed in the table above, an equity option related to the convertible notes due in 2019, and unamortized debt issuance costs.

Public Debt – During the first quarter of 2018, the Company completed the early redemption of its remaining outstanding 5.72% Notes due in 2019, with aggregate principal amount of \$500, for \$518 in cash including accrued and unpaid interest. As a result, the Company recorded a charge of \$19 in Interest expense in the accompanying Statement of Consolidated Operations for the quarter ended March 31, 2018 primarily for the premium paid on the early redemption of these notes in excess of their carrying value.

O. 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, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	\$ 1,205	\$ 1,205	\$ 2,150	\$ 2,150
Restricted cash	3	3	4	4
Derivatives – current asset	37	37	61	61
Noncurrent receivables	20	20	20	20
Derivatives – noncurrent asset	19	19	33	33
Available-for-sale securities	96	96	106	106
Short-term debt	45	45	38	38
Derivatives – current liability	29	29	45	45
Derivatives – noncurrent liability	8	8	14	14
Long-term debt, less amount due within one year	6,309	6,631	6,806	7,443

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

Cash and cash equivalents, Restricted cash, Short-term debt. 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 debt was 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 securities, which are carried at fair value and were classified in Level 1 of the fair value hierarchy.

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.

P. Acquisitions and Divestitures

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 E) on the Statement of Consolidated Operations in the first quarter of 2017. The rolling mill generated third-party sales of approximately \$37 in the first quarter of 2017. At the time of the divestiture, the rolling mill had approximately 312 employees.

On April 2, 2018, Arconic completed the sale of its Latin America extrusions business to a subsidiary of Hydro Extruded Solutions AS for \$5 in cash, subject to post-closing adjustments that are not expected to be significant. The sales price approximates the carrying value of the net assets sold on the closing date, following the charge of \$41 recognized in the fourth quarter of 2017 related to the non-cash impairment of the net book value of the business. The operating results and assets and liabilities of the business were included in the Transportation and Construction Solutions segment. This business generated sales of approximately \$25 and \$26 in the first quarter of 2018 and 2017, respectively.

Q. 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 \$292 at March 31, 2018 and \$294 at December 31, 2017 (of which \$40 and \$41, respectively, 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 \$3 in the quarter ended March 31, 2018. This amount includes expenditures currently mandated, as well as those not required by any regulatory authority or third party.

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 the most significant remediation reserves related to a current Arconic site.

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 (EPA) 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, 2018 and December 31, 2017, the reserve balance associated with this matter was \$213 and \$215, respectively. Arconic is in the planning and design phase of the project, which is expected to be completed in 2018. Following the submittal of the final design and EPA approval, the actual remediation fieldwork is expected to commence and take approximately four years. The majority of the project funding is expected to be incurred between 2018 and 2022.

Tax

Pursuant to the Tax Matters Agreement entered into between Arconic and Alcoa Corporation in connection with the separation transaction with Alcoa Corporation, 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 July 2013, following a corporate income tax audit covering the 2006 through 2009 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. The assessment is \$161 (€130), including interest. In August 2013, the Company filed an appeal of this assessment in Spain's Central Tax Administrative Court, which was denied in January 2015. Arconic filed another appeal in Spain's National Court in March 2015. Spain's National Court has not yet rendered a decision related to the assessment.

The Company believes it has meritorious arguments to support its tax position and intends to continue to vigorously litigate the assessment. However, in the event the Company is unsuccessful, a portion of the assessment may be offset with existing net operating losses available to the Spanish consolidated tax group, which would be shared between the Company and Alcoa Corporation as provided for in the Tax Matters Agreement. Additionally, while the tax years 2010 through 2013 are closed to audit, it is possible that the Company may receive similar assessments for tax years subsequent to 2013. At this time, the Company is unable to reasonably predict an ultimate outcome for this matter.

Reynobond PE

Howard v. Arconic Inc. et al. As previously reported, a purported class action complaint related to the Grenfell Tower fire was filed on August 11, 2017 in the United States District Court for the Western District of Pennsylvania against Arconic Inc., and Klaus Kleinfeld. A related purported class action complaint was filed in the United States District Court for the Western District

of Pennsylvania on August 25, 2017, under the caption *Sullivan v. Arconic Inc. et al.*, against Arconic Inc., two former Arconic executives, several current and former Arconic directors, and banks that acted as underwriters for Arconic's September 18, 2014 preferred stock offering (the "Preferred Offering"). The plaintiff in *Sullivan* had previously filed a purported class action against the same defendants on July 18, 2017 in the Southern District of New York and, on August 25, 2017, voluntarily dismissed that action without prejudice. On February 7, 2018, on motion from certain putative class members, the court consolidated *Howard* and *Sullivan*, closed *Sullivan*, and appointed lead plaintiffs in the consolidated case. On April 9, 2018, the lead plaintiffs in the consolidated purported class action filed a consolidated amended complaint. The consolidated amended complaint alleges that the registration statement for the Preferred Offering contained false and misleading statements and omitted to state material information, including by allegedly failing to disclose material uncertainties and trends resulting from sales of Reynobond PE for unsafe uses and by allegedly expressing a belief that appropriate risk management and compliance programs had been adopted while concealing the risks posed by Reynobond PE sales. The consolidated amended complaint also alleges that between November 4, 2013 and June 23, 2017 Arconic and Kleinfeld made false and misleading statements and failed to disclose material information about the Company's commitment to safety, business and financial prospects, and the risks of the Reynobond PE product, including in Arconic's Form 10-Ks for the fiscal years ended December 31, 2013, 2014, 2015 and 2016, its Form 10-Qs and quarterly financial press releases from the fourth quarter of 2013 through the first quarter of 2017, its 2013, 2014, 2015 and 2016 Annual Reports, and its 2016 Annual Highlights Report. The consolidated amended complaint seeks, among other things, unspecified compensatory damages and an award of attorney and expert fees and expenses.

While the Company believes that this case is without merit and intends to challenge it vigorously, there can be no assurances regarding the ultimate resolution of this matter. Given the preliminary nature of this matter and the uncertainty of litigation, the Company cannot reasonably estimate at this time the likelihood of an unfavorable outcome or the possible loss or range of losses in the event of an unfavorable outcome. The Board of Directors has also received letters, purportedly sent on behalf of shareholders, reciting allegations similar to those made in the federal court lawsuit and demanding that the Board authorize the Company to initiate litigation against members of management, the Board and others. The Board of Directors has appointed a Special Litigation Committee of the Board to review these shareholder demand letters and consider the appropriate course of action. In addition, lawsuits are pending in state court in New York and federal court in Pennsylvania, initiated, respectively, by another purported shareholder and by the Company, concerning the shareholder's claimed right, which the Company contests, to inspect the Company's books and records related to the Grenfell Tower fire and Reynobond PE.

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, employment, 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, 2018, 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 2018 and 2026, was \$27 at March 31, 2018.

Pursuant to the Separation and Distribution Agreement between Arconic and Alcoa Corporation, Arconic was required to provide certain guarantees for Alcoa Corporation, which had a combined fair value of \$7 and \$8 at March 31, 2018 and December 31, 2017, respectively, and were included in Other noncurrent liabilities and deferred credits on the accompanying Consolidated Balance Sheet. Arconic was required to provide payment guarantees for Alcoa Corporation issued on behalf of a third party, and amounts outstanding under these payment guarantees were \$169 and \$197 at March 31, 2018 and December 31, 2017, respectively. These guarantees expire at various times between 2018 and 2024, and relate to project financing for Alcoa Corporation's aluminum complex in Saudi Arabia. Furthermore, Arconic was required to provide a guarantee up to an estimated present value amount of approximately \$1,188 and \$1,297 at March 31, 2018 and December 31, 2017, respectively, related to a long-term supply agreement for energy for an Alcoa Corporation facility in the event of an Alcoa Corporation payment default. For each guarantee, subject to its respective provisions, Arconic is secondarily liable in the event of a payment default by Alcoa Corporation. Arconic currently views the risk of an Alcoa Corporation payment default on its obligations under the respective contracts to be remote.

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, mostly in 2018, was \$126 at March 31, 2018.

Pursuant to the Separation and Distribution Agreement, Arconic was required to retain letters of credit of \$53 that had previously been provided related to both Arconic and Alcoa Corporation workers' compensation claims which occurred prior to November 1, 2016. Alcoa Corporation workers' compensation claims and letter of credit fees paid by Arconic are being proportionally billed to and are being fully reimbursed by Alcoa Corporation.

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 2018, was \$55 at March 31, 2018.

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 \$25 in outstanding surety bonds relating to these liabilities. Alcoa Corporation workers' compensation claims and surety bond fees paid by Arconic are being proportionately billed to and are being fully reimbursed by Alcoa Corporation.

R. 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, except as noted below:

See Note P for further details of a subsequent event related to the sale of the Latin America extrusions business.

On April 13, 2018, the United Auto Workers ratified a new five-year labor agreement, effective May 1, 2018 covering approximately 1,300 U.S. employees of Arconic. A provision within the agreement includes a retirement benefit increase for future retirees that participate in a defined benefit pension plan, which impacts approximately 300 of those employees. In addition, effective January 1, 2019, benefit accruals for future service will cease. As result of these changes, a curtailment charge of approximately \$10 will be recorded in Restructuring and other charges in the second quarter of 2018.

On April 18, 2018, Arconic Inc. disclosed that, effective April 20, 2018, Eric V. Roegner will no longer serve as Executive Vice President and Group President, Engineered Products and Solutions, and President of Arconic Defense.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Arconic Inc.

Results of Review of Financial Statements

We have reviewed the accompanying consolidated balance sheet of Arconic Inc. and its subsidiaries as of March 31, 2018, and the related statements of consolidated operations, consolidated comprehensive income, changes in consolidated equity, and consolidated cash flows for the three-month periods ended March 31, 2018 and March 31, 2017, including the related notes (collectively referred to as the “interim financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2017, and the related statements of consolidated operations, consolidated comprehensive (loss) income, changes in consolidated equity, and consolidated cash flows for the year then ended (not presented herein), and in our report dated February 23, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These interim financial statements are the responsibility of the Company’s management. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. 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 PCAOB, 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.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
May 1, 2018

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

(dollars in millions, except per share amounts)

Overview

Our Business

Arconic (“Arconic” or 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, building and construction, industrial applications, defense, and packaging.

Results of Operations

Earnings Summary:

Sales. Sales were \$3,445 in the first quarter of 2018 compared to \$3,192 in the first quarter of 2017. The increase of \$253, or 8%, was the result of strong volume growth across all segments, primarily in the aerospace engines, automotive, and commercial transportation end markets; higher aluminum prices; and favorable foreign currency movements; partially offset by the absence of sales of \$45 from the rolling mill in Fusina, Italy, which was sold in March 2017, and weakness in aerospace airframes production mix and the industrial gas turbine market.

Cost of goods sold (COGS). COGS as a percentage of Sales was 80.3% in the first quarter of 2018 compared to 77.0% in the first quarter of 2017. The increase was the result of higher aluminum prices, unfavorable product mix and higher input costs.

Selling, general administrative, and other expenses (SG&A). SG&A expenses were \$172 in the first quarter of 2018 compared to \$217 in the first quarter of 2017. The decrease of \$45, or 21%, was the result of costs incurred in the first quarter of 2017 related to the separation of Alcoa Inc. of \$18 and proxy, advisory and governance-related costs of \$16, neither of which recurred in 2018. Also, lower expenses driven by overhead cost reductions were partially offset by the impact of legal and other advisory costs of \$5 related to Grenfell Tower.

Restructuring and other charges. Restructuring and other charges were \$7 in the first quarter of 2018 compared to \$73 in the first quarter of 2017. The decrease of \$66, was primarily the result of a loss on the sale of the Fusina, Italy rolling mill in the first quarter of 2017. See Note E to the Consolidated Financial Statements.

Interest expense. Interest expense was \$114 in the first quarter of 2018 compared to \$115 in the first quarter of 2017. The decrease of \$1, or 1%, was due to a decrease of \$20 primarily on lower debt outstanding, mostly offset by a charge of \$19 primarily related to the premium paid on the early redemption of the Company’s outstanding 5.72% Senior Notes due 2019.

Other expense (income), net. Other expense, net was \$20 in the first quarter of 2018 compared to Other income, net of \$316 in the first quarter of 2017. The decrease in other income of \$336 was primarily due to the \$351 gain on the sale of a portion of Arconic’s investment in Alcoa Corporation common stock in the first quarter of 2017 that did not recur.

Provision for income taxes. The annual effective tax rate applied to ordinary income from continuing operations was 26.5% and 31.6% in the first quarter of 2018 and 2017, respectively, with the lower rate in 2018 reflecting a decrease in the U.S. corporate tax rate. Discrete charges of \$2 and \$1 were recorded in the first quarter of 2018 and 2017, respectively, and unfavorable impacts of \$1 and \$7, respectively, were recorded related to the interim period treatment of losses for which no tax benefit is recognized. See Note H to the Consolidated Financial Statements.

Net income. Net income was \$143 in the first quarter of 2018, or \$0.29 per diluted share, compared to \$322 in the first quarter of 2017, or \$0.65 per diluted share. The decrease of \$179, or 56%, was primarily attributable to the gain on the sale of a portion of Arconic’s investment in Alcoa Corporation common stock in the first quarter of 2017 that did not recur, and higher aluminum prices. The first quarter of 2018 was negatively impacted by approximately \$13 as a result of recently adopted accounting guidance whereby the non-service related net periodic pension cost and the net periodic postretirement benefit cost are no longer eligible for asset capitalization. These negative impacts were partially offset by lower Restructuring and other charges and SG&A expenses, lower provision for income taxes, and volume growth.

Segment Information

In the first quarter of 2018, the Company changed its primary measure of segment performance from Adjusted earnings before interest, tax, depreciation and amortization (“Adjusted EBITDA”) to Segment operating profit, which more closely aligns segment performance with Operating income as presented in the Statement of Consolidated Operations. Segment performance under Arconic’s management reporting system is evaluated based on a number of factors; however, the primary measure of performance is Segment operating profit. Arconic’s definition of Segment operating profit is Operating income excluding Special items. Special items include Restructuring and other charges and Impairment of goodwill. Segment operating profit also includes certain items which under the previous segment performance measure were recorded in Corporate, such as the

impact of LIFO inventory accounting, metal price lag, intersegment profit eliminations, and derivative activities. Segment operating profit may not be comparable to similarly titled measures of other companies. Prior period financial information has been recast to conform to current year presentation.

Engineered Products and Solutions

	First quarter ended March 31,	
	2018	2017
Third-party sales	\$ 1,541	\$ 1,487
Segment operating profit	221	247

Third-party sales for the Engineered Products and Solutions segment increased \$54, or 4%, in the first quarter of 2018 compared to the first quarter of 2017, primarily as a result of higher volumes in the aerospace engines end market and favorable foreign currency movements, partially offset by a decline in the industrial gas turbine market, headwinds in aerospace airframe production mix related to fastening systems, and unfavorable product pricing.

Segment operating profit for the Engineered Products and Solutions segment decreased \$26, or 11%, in the first quarter of 2018 compared to the first quarter of 2017, due to performance shortfalls in the rings and disks operations, higher input costs, an increase in depreciation and amortization, and unfavorable product mix, partially offset by the strength in aerospace engines volumes and net cost savings.

In 2018, demand in the commercial aerospace end market is expected to remain strong, driven by the ramp-up of new aerospace engine platforms. Demand in the defense end market is expected to grow due to the continuing ramp-up of certain aerospace programs, while declines in the industrial gas turbine market are likely to continue. Net cost savings are anticipated despite higher input costs, and pricing pressures and challenges at the rings and disks operations are expected to continue.

Global Rolled Products

	First quarter ended March 31,	
	2018	2017
Third-party sales	\$ 1,366	\$ 1,248
Intersegment sales	42	34
Total sales	\$ 1,408	\$ 1,282
Segment operating profit	112	136

Third-party sales for the Global Rolled Products segment increased \$118, or 9%, in the first quarter of 2018 compared to the first quarter of 2017, primarily as a result of higher aluminum prices, higher volumes in the automotive and commercial transportation end markets, and favorable foreign currency movements, partially offset by the absence of sales of \$45 from the rolling mill in Fusina, Italy, which was divested in 2017, and unfavorable aerospace airframes production mix.

Segment operating profit for the Global Rolled Products segment decreased \$24, or 18%, in the first quarter of 2018 compared to the first quarter of 2017, principally driven by unfavorable aerospace wide-body production mix and higher aluminum prices, partially offset by higher automotive volume.

In 2018, demand in the automotive end market is expected to continue to grow due to the growing demand for innovative products and aluminum-intensive vehicles. Demand from the commercial airframe end market is expected to be flat in 2018 as the ramp-up of new programs is offset by lower build rates for aluminum intensive wide-body programs. The ramp-down of the North American packaging operations is expected to continue in 2018. Higher aluminum prices are expected to negatively impact this segment in the second quarter. Net cost savings are anticipated to continue.

Russia Sanctions

On April 6, 2018, the U.S. Administration announced new sanctions against Russian “oligarchs” and extended those sanctions to companies majority-owned or substantively controlled by those oligarchs. These sanctions listed oligarchs and their companies as “Specially Designated Nationals” (SDNs), thus blocking U.S. persons - both individuals and companies - from engaging in transactions with them. Among the newly-listed SDNs was UC Rusal PLC (“Rusal”), which supplies primary aluminum to Arconic in Europe, the United States, and to the Company’s Samara plant in Russia. Under additional regulations announced on April 23, 2018, companies have until October 23, 2018 to wind down their business with Rusal.

The Company expects to fully comply with these sanctions. We continue to evaluate them, and their potential applicability to the Company's business with Rusal. The Samara plant continues to source metal from Rusal in compliance with the sanctions. The Company has applied for guidance and/or licenses relating to the Company's ability to continue to source metal from Rusal for its other operations. Currently, we expect that our European and U.S. plants will be able to obtain aluminum from other suppliers. We anticipate that the price of aluminum will continue to fluctuate based upon supply/demand balance and the uncertainty due to the sanctions.

Transportation and Construction Solutions

	First quarter ended March 31,	
	2018	2017
Third-party sales	\$ 537	\$ 456
Segment operating profit	67	68

Third-party sales for the Transportation and Construction Solutions segment increased \$81, or 18%, in the first quarter of 2018 compared to the first quarter of 2017, primarily as a result of higher volumes in the commercial transportation and building and construction end markets and favorable foreign currency movements.

Segment operating profit for the Transportation and Construction Solutions segment decreased \$1, or 1%, in the first quarter of 2018 compared to the first quarter of 2017, principally as a result of higher aluminum prices and unfavorable product prices and mix, largely offset by higher volume in the commercial transportation and building and construction end markets, favorable foreign currency movements, and net cost savings.

On April 2, 2018, Arconic completed the sale of its Latin America Extrusions business to a subsidiary of Hydro Extruded Solutions AS. The sale is part of Arconic's continued drive to streamline its business portfolio, reduce complexity and further focus on its higher-margin products and profitable growth.

In 2018, we expect continued growth in the North American and European commercial transportation and building and construction markets and continued demand for innovative products. Net cost savings are anticipated to continue.

Reconciliation of Total segment operating profit to Consolidated income before income taxes

	First quarter ended March 31,	
	2018	2017
Total segment operating profit	\$ 400	\$ 451
Unallocated amounts:		
Restructuring and other charges	(7)	(73)
Corporate expense	(60)	(95)
Consolidated operating income	\$ 333	\$ 283
Interest expense	(114)	(115)
Other (expense) income, net	(20)	316
Consolidated income before income taxes	\$ 199	\$ 484

The changes in the reconciling items between Total segment operating profit and Consolidated income before income taxes in the first quarter of 2018 compared to the first quarter of 2017 consisted of:

- a decrease in Restructuring and other charges primarily due a loss on the sale of the Fusina, Italy rolling mill in the first quarter of 2017;
- a decrease in Corporate expense primarily due to costs incurred in the first quarter of 2017 as a result of the separation of Alcoa Inc. of \$18 and proxy, advisory and governance-related costs of \$16 neither of which recurred in 2018; and
- a decrease in Other (expense) income, net as a result of the \$351 gain on the sale of a portion of Arconic's investment in Alcoa Corporation common stock in the first quarter of 2017.

Environmental Matters

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

Subsequent Events

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

Liquidity and Capital Resources

Operating activities

Cash used for operations was \$436 in the first quarter of 2018 compared to \$395 in the first quarter of 2017. The increase in cash used for operations of \$41, or 10%, was primarily due to higher pension contributions of \$124 and higher working capital of \$70, partially offset by higher operating results (net income plus net add-back for noncash transactions in earnings) of \$119 and a favorable change in noncurrent assets of \$35. The components of the change in working capital included unfavorable changes of \$103 in taxes, including income taxes; \$56 in inventories; and \$32 in prepaid expenses and other current assets, partially offset by favorable changes of \$136 in accounts payable.

Financing Activities

Cash used for financing activities was \$542 in the first quarter of 2018 compared to \$43 in the first quarter of 2017. The decrease of \$499, was primarily related to the early redemption of the remaining outstanding 5.72% Notes due in 2019 (see Note N to the Consolidated Financial Statements).

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") that 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, 2018, of which \$500 is due to expire in 2018 and \$215 is due to expire in 2019. 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 2018, Arconic borrowed and repaid \$150 and \$150, respectively, under these other credit facilities. The weighted-average interest rate and weighted-average days outstanding during the first quarter of 2018 were 3.08% and 59 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:

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

Investing Activities

Cash provided from investing activities was \$29 in the first quarter of 2018 compared to \$1,110 in the first quarter of 2017. The decrease of \$1,081, was primarily due to 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 during the first quarter of 2017.

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 and expectations relating to the growth

of the aerospace, automotive, commercial transportation and other end markets; statements and guidance regarding future financial results or operating performance; and statements about Arconic's strategies, outlook, business and financial prospects. 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 Arconic 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, which could cause actual results to differ materially from those indicated by these statements. 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 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 or targeted; (d) competition from new product offerings, disruptive technologies or other developments; (e) political, economic, and regulatory risks relating to Arconic's global operations, including compliance with US and foreign trade and tax laws, sanctions, embargoes and other regulations; (f) manufacturing difficulties or other issues that impact product performance, quality or safety; (g) 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; (h) the impact of cyber attacks and potential information technology or data security breaches; (i) changes in discount rates or investment returns on pension assets; (j) the impact of changes in aluminum prices and foreign currency exchange rates on costs and results; (k) the outcome of contingencies, including legal proceedings, government or regulatory investigations, and environmental remediation, which can expose Arconic to substantial costs and liabilities; and (l) the other risk factors summarized in Arconic's Form 10-K for the year ended December 31, 2017 and other reports filed with the U.S. Securities and Exchange Commission (the "SEC"). 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not material.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Arconic's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as 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 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**(c) Issuer Purchases of Equity Securities:**

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2018 - January 31, 2018	—	—	—	—
February 1, 2018 - February 28, 2018	721	\$ 30.30	—	—
March 1, 2018 - March 31, 2018	—	—	—	—
Total for quarter ended March 31, 2018	721	\$ 30.30	—	—

(1) This column includes the deemed surrender of existing shares of Arconic common stock to the Company by stock-based compensation plan participants to satisfy the exercise price of employee stock options at the time of exercise. These surrendered shares are not part of any publicly announced share repurchase program.

Item 5. Other Information.

On May 1, 2018, the Company notified Wells Fargo Bank, N.A., as trustee under the Amendment and Restatement of the Trust Agreement between Wells Fargo Bank, N.A. (as successor trustee) and the Company, dated September 24, 2007, as amended (the “Trust Agreement”), that (i) the Company’s Board of Directors (the “Board”) had determined that a Potential Change in Control (as defined in the Trust Agreement) no longer existed as of April 13, 2018, and (ii) on April 30, 2018, the Board approved the revocation and termination of the grantor trust created pursuant to the terms of the Trust Agreement, effective on such date.

In addition, on April 30, 2018, the Board approved and adopted a Legal Fee Reimbursement Plan (the “Plan”). The Plan entitles each participant in any of the nonqualified deferred compensation, supplemental pension, and other compensatory plans and agreements previously covered by the grantor trust to payment of legal fees and expenses if, following a change in control, it is determined that the participant is seeking in good faith to enforce, or has successfully enforced, his or her right to payments or benefits that have become due under such a plan. In addition, participants are eligible for reimbursement under the Plan only after exhausting the administrative claims procedure outlined in the applicable benefit plan or, in the case of a plan that does not have a claims procedure, after the Company fails to resolve the issue within 30 days of receiving written notice of a claim.

All of our named executive officers participate in a plan or agreement previously covered by the trust. A copy of the Legal Fee Reimbursement Plan is filed herewith as Exhibit 10(b) and incorporated herein by reference.

Item 6. Exhibits.

10(a)	Terms and Conditions for Restricted Share Units for Annual Director Awards under the 2013 Arconic Stock Incentive Plan, as Amended and Restated, effective December 5, 2017.
10(b)	Arconic Inc. Legal Fee Reimbursement Plan, effective as of April 30, 2018.
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
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.

Arconic Inc.

May 1, 2018	/s/ Ken Giacobbe
Date	Ken Giacobbe
	Executive Vice President and Chief Financial Officer (Principal Financial Officer)

May 1, 2018	/s/ Paul Myron
Date	Paul Myron
	Vice President and Controller (Principal Accounting Officer)

ARCONIC INC.
TERMS AND CONDITIONS FOR RESTRICTED SHARE UNITS
ANNUAL DIRECTOR AWARDS
Effective December 5, 2017

These terms and conditions, including any Appendices attached hereto for non-U.S. directors (jointly, the "Award Terms"), are authorized by the Board of Directors. They are deemed to be incorporated into and form a part of every Award of Restricted Share Units issued as an annual equity award to a Director on or after December 5, 2017 under the 2013 Arconic Stock Incentive Plan, as amended and restated and as may be further amended from time to time (the "Plan").

Terms that are defined in the Plan have the same meanings in the Award Terms.

General Terms and Conditions

1. This Award of Restricted Share Units is granted as the Participant's annual equity award pursuant to the Company's Non-Employee Director Compensation Policy (the "Director Compensation Policy"). The number of Shares subject to this Award has been determined by dividing the dollar value of the annual equity award provided for under the Director Compensation Policy by the fair market value of a Share on the grant date, rounded to the nearest number of whole Shares. Restricted Share Units are subject to the provisions of the Plan and the provisions of the Award Terms. If the Plan and the Award Terms are inconsistent, the provisions of the Plan will govern. Interpretations of the Plan and the Award Terms by the Board are binding on the Participant and the Company. A Restricted Share Unit is an undertaking by the Company to issue the number of Shares indicated in the Participant's account at Merrill Lynch's OnLine® website www.benefits.ml.com, subject to the fulfillment of certain conditions, except to the extent otherwise provided in the Plan or herein. A Participant has no voting rights or rights to receive dividends on Restricted Share Units, but the Board of Directors may authorize that dividend equivalents be accrued on Restricted Share Units upon vesting in accordance with paragraphs 2 and 4 below. Any dividend equivalents on Restricted Share Units will be paid in the same manner and at the same time as the Restricted Share Units to which they relate, as set forth in paragraph 5 below.

Vesting and Payment

2. A Restricted Share Unit vests on the first anniversary date of the grant date, or, if earlier, the date of the next subsequent annual meeting of shareholders following the grant date.

3. Except as provided in paragraph 4, if a Participant's service with the Company is terminated before the Restricted Share Unit vests as provided in paragraph 2, a pro-rata portion of the Award will become vested, and the remainder of the Award will be forfeited and automatically canceled. With respect to a Participant who commenced service with the Company prior to or as of the date of the Company's last annual meeting of shareholders, the pro-rata portion of the Award that will become vested will be that number of Restricted Share Units (rounded to the nearest whole number) calculated based on the ratio of (x) the number of days of service provided by the Participant during the period of service to which the applicable Award relates to (y) 365 days. With respect to a Participant who commenced service with the Company subsequent to the date of the Company's last annual meeting of shareholders, the pro-rata portion of the Award that will become vested will be that number of Restricted Share Units (rounded to the nearest whole number) calculated based on the ratio of (x) the number of days of service provided by the Participant during the period of service to which the applicable Award relates to (y) 365 less the number of days between the date of the Company's last annual meeting of shareholders and the date the Participant commenced service with the Company. For avoidance of doubt, the period of service to which an Award relates commences on the *later* of the Company's annual meeting of shareholders for the applicable year and the date of the Participant's commencement of service as a Director during such applicable year, and ends on the date of the Company's next subsequent annual meeting of shareholders following the grant date of the Award.

4. The following are exceptions to the vesting rules:

- **Death:** a Restricted Share Unit held by a Participant who dies while a Director is not forfeited but becomes fully vested as of the date of the Participant's death.
- **Change in Control:** to the extent that (i) a Replacement Award is not provided to the Participant following a Change in Control; or (ii) the Participant's service is not continued by the successor or survivor corporation in connection with or following such Change in Control, the Restricted Share Unit will become fully vested immediately prior to the consummation of the Change in Control subject to the Participant's continued service through the date of such Change in Control.

5. **Payment.** A Participant will receive one Share upon payment of each vested Restricted Share Unit. Payment of vested Restricted Share Units is governed by the Arconic Inc. Amended and Restated Deferred Fee Plan for Directors (the "Deferred Fee Plan"). Except as otherwise set forth in the Deferred Fee Plan, payment of vested Restricted Share Units will occur upon the earlier of the Participant's "separation from service" (as defined in Section 409A of the Code and the Treasury Regulations thereunder) and the Participant's death, within the payment periods specified in the Deferred Fee Plan. In accordance with the deferral election provisions of the Deferred Fee Plan, the Participant may elect to receive payment of his or her vested Restricted Share Units in either a single lump sum or in up to ten (10) annual installments, except as otherwise required or recommended due to applicable local law or set forth in the Deferred Fee Plan. In the absence of such election by the Participant, a vested Restricted Share Unit will be paid in a single lump sum.

Taxes

6. The Participant acknowledges that the Participant will consult with his or her personal tax advisor regarding any income tax, social security contributions or other tax-related items ("Taxes") that arise in connection with the Restricted Share Units. The Participant is relying solely on such advisor and is not relying in any part on any statement or representation of the Company or any of its agents. The Company shall not be responsible for withholding any applicable Taxes, unless required by applicable law. The Company may take such action as it deems appropriate to ensure that all Taxes, which are the Participant's sole and absolute responsibility, are withheld or collected from the Participant, if and to the extent required by applicable law. In this regard, the Company will have the power and the right to require the Participant to remit to the Company the amount necessary to satisfy federal, state and local taxes, U.S. or non-U.S., required by law or regulation to be withheld with respect to any taxable event arising as a result of the Restricted Share Units. Notwithstanding the foregoing, unless otherwise determined by the Board, any obligation to withhold Taxes will be met by the Company by withholding from the Shares to be issued upon payment of the Restricted Share Unit that number of Shares with a fair market value on the payment date equal to the Taxes required to be withheld at the minimum required rates or, to the extent permitted under applicable accounting principles, at up to the maximum individual tax rate for the applicable tax jurisdiction.

Beneficiaries

7. If permitted by the Company, the Participant will be entitled to designate one or more beneficiaries to receive all Restricted Share Units that have not yet vested or that have vested but have not been paid at the time of death of the Participant. All beneficiary designations will be on beneficiary designation forms approved for the Plan. Copies of the form are available from the Communications Center on Merrill Lynch's OnLine[®] website www.benefits.ml.com.

8. Beneficiary designations on an approved form will be effective at the time received by the Communications Center on Merrill Lynch's OnLine[®] website www.benefits.ml.com. A Participant may revoke a beneficiary designation at any time by written notice to the Communications Center on Merrill Lynch's OnLine[®] website www.benefits.ml.com or by filing a new designation form. Any designation form previously filed by a Participant will be automatically revoked and superseded by a later-filed form.

9. A Participant will be entitled to designate any number of beneficiaries on the form, and the beneficiaries may be natural or corporate persons.

10. The failure of any Participant to obtain any recommended signature on the form will not prohibit the Company from treating such designation as valid and effective. No beneficiary will acquire any beneficial or other interest in any Restricted Share Unit prior to the death of the Participant who designated such beneficiary.

11. Unless the Participant indicates on the form that a named beneficiary is to receive Restricted Share Units only upon the prior death of another named beneficiary, all beneficiaries designated on the form will be entitled to share equally in the Restricted Share Units. Unless otherwise indicated, all such beneficiaries will have an equal, undivided interest in all such Restricted Share Units.

12. Should a beneficiary die after the Participant but before the Restricted Share Unit is paid, such beneficiary's rights and interest in the Award will be transferable by the beneficiary's last will and testament or by the laws of descent and distribution. A named beneficiary who predeceases the Participant will obtain no rights or interest in a Restricted Share Unit, nor will any person claiming on behalf of such individual. Unless otherwise specifically indicated by the Participant on the beneficiary designation form, beneficiaries designated by class (such as "children," "grandchildren" etc.) will be deemed to refer to the members of the class living at the time of the Participant's death, and all members of the class will be deemed to take "per capita."

13. If a Participant does not designate a beneficiary or if the Company does not permit a beneficiary designation, the Restricted Share Units that have not yet vested or been paid at the time of death of the Participant will be paid to the Participant's legal heirs pursuant to the Participant's last will and testament or by the laws of descent and distribution.

Adjustments

14. In the event of an Equity Restructuring, the Board will equitably adjust the Restricted Share Unit as it deems appropriate to reflect the Equity Restructuring, which may include (i) adjusting the number and type of securities subject to the Restricted Share Unit; and (ii) adjusting the terms and conditions of the Restricted Share Unit. The adjustments provided under this paragraph 14 will be nondiscretionary and final and binding on all interested parties, including the affected Participant and the Company; provided that the Board will determine whether an adjustment is equitable.

Miscellaneous Provisions

15. Stock Exchange Requirements; Applicable Laws. Notwithstanding anything to the contrary in the Award Terms, no Shares issuable upon vesting and payment of the Restricted Share Units, and no certificate representing all or any part of such Shares, shall be issued or delivered if, in the opinion of counsel to the Company, such issuance or delivery would cause the Company to be in violation of, or to incur liability under, any securities law, or any rule, regulation or procedure of any U.S. national securities exchange upon which any securities of the Company are listed, or any listing agreement with any such securities exchange, or any other requirement of law or of any administrative or regulatory body having jurisdiction over the Company or a Subsidiary.

16. Shareholder Rights. No person or entity shall be entitled to vote, receive dividends or be deemed for any purpose the holder of any Shares until the Restricted Share Unit shall have vested and been paid in the form of Shares in accordance with the provisions of the Award Terms.

17. Notices. Any notice required or permitted under the Award Terms shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or five days after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to the Participant at the address maintained for the Participant in the Company's records or, in either case, as subsequently modified by written notice to the other party.

18. Severability and Judicial Modification. If any provision of the Award Terms is held to be invalid or unenforceable under the applicable laws of any country, state, province, territory or other political subdivision or the Company elects not to enforce such restriction, the remaining provisions shall remain in full force and effect and the invalid or unenforceable provision shall be modified only to the extent necessary to render that provision valid and

enforceable to the fullest extent permitted by law. If the invalid or unenforceable provision cannot be, or is not, modified, that provision shall be severed from the Award Terms and all other provisions shall remain valid and enforceable.

19. Successors. The Award Terms shall be binding upon and inure to the benefit of the Company and its successors and assigns, on the one hand, and the Participant and his or her heirs, beneficiaries, legatees and personal representatives, on the other hand.

20. Appendices. Notwithstanding any provisions in the Award Terms, to the extent that there are Participants residing and/or providing services outside the United States, the Restricted Share Unit shall be subject to the additional terms and conditions previously adopted by the Board and set forth in Appendix A to the Award Terms and to any special terms and conditions previously adopted by the Board for the Participant's country and set forth in Appendix B to the Award Terms. Moreover, if the Participant relocates outside the United States or relocates between the countries included in Appendix B, subject to compliance with Section 409A of the Code, the additional terms and conditions set forth in Appendix A and the special terms and conditions for such country set forth in Appendix B will apply to the Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendices constitute part of the Award Terms.

21. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the Restricted Share Unit and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

22. Compliance with Code Section 409A. It is intended that the Restricted Share Unit granted pursuant to the Award Terms be compliant with Section 409A of the Code and the Award Terms shall be interpreted, construed and operated to reflect this intent. Notwithstanding the foregoing, the Award Terms and the Plan may be amended at any time, without the consent of any party, to the extent necessary or desirable to satisfy any of the requirements under Section 409A of the Code, but the Company shall not be under any obligation to make any such amendment. Further, the Company and its Subsidiaries do not make any representation to the Participant that the Restricted Share Unit granted pursuant to the Award Terms satisfies the requirements of Section 409A of the Code, and the Company and its Subsidiaries will have no liability or other obligation to indemnify or hold harmless the Participant or any other party for any tax, additional tax, interest or penalties that the Participant or any other party may incur in the event that any provision of the Award Terms or any amendment or modification thereof or any other action taken with respect thereto, is deemed to violate any of the requirements of Section 409A of the Code.

23. Waiver. A waiver by the Company of breach of any provision of the Award Terms shall not operate or be construed as a waiver of any other provision of the Award Terms, or of any subsequent breach by the Participant or any other Participant.

24. No Advice Regarding Award. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying Shares. The Participant is hereby advised to consult with the Participant's own personal tax, legal and financial advisors regarding the Participant's participation in the Plan before taking any action related to the Plan.

25. Governing Law and Venue. As stated in the Plan, the Restricted Share Unit and the provisions of the Award Terms and all determinations made and actions taken thereunder, to the extent not otherwise governed by the laws of the United States, shall be governed by the laws of the State of New York, United States of America, without reference to principles of conflict of laws, and construed accordingly. The jurisdiction and venue for any disputes arising under, or any actions brought to enforce (or otherwise relating to), the Restricted Share Unit will be exclusively in the courts in the State of New York, County of New York, including the Federal Courts located therein (should Federal jurisdiction exist).

26. Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

27. Entire Agreement. The Award Terms and the Plan embody the entire understanding and agreement of the parties with respect to the subject matter hereof, and no promise, condition, representation or warranty, express or implied, not stated or incorporated by reference herein, shall bind either party hereto.

Acceptance of Award

28. In accordance with Section 15(c) of the Plan (as in effect at the grant date), the Participant may reject the Restricted Share Unit by notifying the Company within 30 days of the grant date that he or she does not accept the Restricted Share Unit. The Participant's acceptance of the Restricted Share Unit constitutes the Participant's acceptance of and agreement with the Award Terms. Notwithstanding the foregoing, if required by the Company, the Participant will provide a signed copy of the Award Terms in such manner and within such timeframe as may be requested by the Company. The Company has no obligation to issue Shares to the Participant if the Participant does not accept the Restricted Share Unit.

APPENDIX A

**TO THE ARCONIC INC.
2013 Stock Incentive Plan
Terms and Conditions for Restricted Share Units
For Non-U.S. Participants**

Available upon request to Arconic's Corporate Secretary.

**APPENDIX B
TO THE ARCONIC INC.
2013 Stock Incentive Plan
Terms and Conditions for Restricted Share Units
For Non-U.S. Participants**

Available upon request to Arconic's Corporate Secretary.

**ARCONIC INC.
LEGAL FEE REIMBURSEMENT PLAN**

Arconic Inc. (the “Company”) hereby adopts, effective as of April 30, 2018, the Arconic Inc. Legal Fee Reimbursement Plan (this “Plan”). All capitalized terms used and not otherwise defined herein are defined in Section 1 hereof.

SECTION 1. DEFINITIONS. As hereinafter used:

1.1 “Affiliate” shall have the meaning set forth in Rule 12b-2 under Section 12 of the Exchange Act.

1.2 “Benefits Claim” shall have the meaning set forth in Section 2.1.

1.3 “Board” means (a) prior to a Change in Control, the Board of Directors of the Company, and (b) following a Change in Control, if the Company is not the ultimate parent corporation of the group that includes the Company and all of its Affiliates and is not publicly traded, the board of directors of the ultimate parent company of such group.

1.4 “Business Combination” shall have the meaning set forth in Section 1.4(c).

1.5 “Change in Control” means the occurrence of an event set forth in any one of the following paragraphs:

(a) any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”) becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (A) the then-outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that, for purposes of this Section 1.4, the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Affiliates or (iv) any acquisition pursuant to a transaction that complies with Sections 1.4(c)(i), 1.4(c)(ii) and 1.4(c)(iii);

(b) individuals who, as of May 24, 2017, constituted the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to May 24, 2017 whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board shall be considered as though such individual was a member of the Incumbent Board; but, provided, further, that any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be considered a member of the Incumbent Board unless and until such individual is elected to the Board at an annual meeting of the Company occurring after the date such individual initially assumed office, so long as such election occurs pursuant to a nomination approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board, which nomination is not made pursuant to a Company contractual obligation;

(c) consummation of a reorganization, merger, statutory share exchange or consolidation or similar transaction involving the Company or any of its Subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its Subsidiaries (each, a “Business Combination”), in each case unless, following such Business Combination, (i) all or substantially all of the individuals and entities that were the beneficial

owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, 55% or more of the then-outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent governing body), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more Subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then-outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent securities), except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors (or, for a non-corporate entity, equivalent governing body) of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(d) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company.

1.6 "Claim" shall have the meaning set forth in Section 2.1.

1.7 "Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

1.8 "Committee" means the Benefits Management Committee, or any other committee of employees or directors of the Company that is designated by the Board prior to a Change in Control.

1.9 "Company" means Arconic Inc. or any successors thereto.

1.10 "Covered Plans" means the plans and agreements listed on Exhibit A hereto.

1.11 "Eligible Participant" means a current or former employee of the Company and its Affiliates (or any of their respective predecessors) who is a participant in a Covered Plan as of immediately prior to the effective time of a Change in Control.

1.12 "Entity" means any individual, entity, "person" (within the meaning of Section 3(a)(9) of the Exchange Act), or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), other than (a) an employee plan of the Company or any of its Affiliates, (b) any Affiliate of the Company, (c) an underwriter temporarily holding securities pursuant to an offering of such securities, or (d) a corporation owned, directly or indirectly, by shareholders of the Company in substantially the same proportions as their ownership of the Company.

1.13 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

1.14 "Incumbent Board" shall have the meaning set forth in Section 1.4(b).

1.15 "Outstanding Company Common Stock" shall have the meaning set forth in Section 1.4(a).

1.16 "Outstanding Company Voting Securities" shall have the meaning set forth in Section 1.4(a).

1.17 "Person" shall have the meaning set forth in Section 1.4(a).

1.18 “Subsidiary” shall have the meaning set forth in Rule 12b-2 under Section 12 of the Exchange Act.

SECTION 2. BENEFITS.

2.1 Right of Expense Payment. Following a Change in Control, any Eligible Participant may submit to the Company one or more claims under this Plan (each, a “Claim”) for payment of legal fees and documented out-of-pocket expenses actually and reasonably incurred by such Eligible Participant after the Change in Control in seeking in good faith to enforce any right to payments or benefits that have become due to such Eligible Participant under a Covered Plan and have not been timely paid or provided (“Benefits Claim”). Subject to the terms and conditions of this Plan, including without limitation Section 2.2, each Claim shall be paid by the Company in accordance with Section 2.3. For the avoidance of doubt, this Section 2.1 shall have no application unless and until a Change in Control occurs.

2.2 Procedural Requirements. Payment by the Company of an Eligible Participant’s Claim shall be subject to the following conditions:

(a) prior to initiating any legal or arbitration proceeding seeking to obtain or enforce any benefit or right provided to such Eligible Participant by a Covered Plan:

(i) either: (A) with respect to any Covered Plan that contains an administrative claims procedure, the Eligible Participant has exhausted such procedure and has received a final, unappealable determination from the Company under such Covered Plan denying such Eligible Participant a right or benefit; or (B) with respect to any Covered Plan that does not contain an administrative claims procedure, the Eligible Participant has provided a written notice to the Company, setting out in reasonable detail the Eligible Participant’s claim to a right or benefit under a Covered Plan and the Company has not, within 30 days following receipt of the written notice described in Section 2.2(b), provided, or indicated in writing its willingness to provide, the applicable right or benefit; and

(ii) the Eligible Participant has applied in writing for, and received, a determination from, the Committee (which determination shall be given within 30 days following receipt of the Eligible Participant’s written application) that the Eligible Participant’s Benefits Claim is reasonable or being advanced by the Eligible Participant in good faith; provided however, that, if the Committee determines that such Benefits Claim is unreasonable or being advanced in bad faith, and the Eligible Participant nonetheless initiates a legal or arbitration proceeding and the Eligible Participant is determined (by judicial or arbitrator order) to be entitled to a majority of the dollar amount of the Benefits Claim, then the Eligible Participant, upon delivering evidence of such determination to the Committee, will be treated as having satisfied the requirement of this Section 2.2(a)(ii); and

(b) any legal or arbitration proceeding brought by the Eligible Participant in seeking to obtain or enforce any benefit or right under a Covered Plan complies with any forum selection, arbitration, or other provision of the Covered Plan with respect to the manner in which such a proceeding may be brought.

2.3 Payment Terms. Subject to satisfaction of the conditions set forth in Section 2.2, the Company shall pay each Claim within 14 business days after delivery of the Eligible Participant’s written request for payment accompanied with such evidence of fees and documented out-of-pocket expenses actually and reasonably incurred and covered by such Claim, and such evidence of satisfaction of the requirements of Section 2.2, as the Company reasonably may require. Payment of legal fees shall be limited to hours billed by legal counsel using standard hourly rates, and no payment shall be made in respect of contingent or other non-hourly fees. In order to comply with Section 409A of the Code, in no event shall the payment by the Company of a Claim be made later than the end of the calendar year next following the calendar year in which the fees and expenses covered by such Claim were incurred, provided, that the Eligible Participant shall have submitted the written request for payment contemplated by this Section 2.3 at least 14 business days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company is obligated to pay in any given calendar year shall not affect the amount of legal fees and expenses that the Company is obligated to pay in any

other calendar year, and the Eligible Participant's right to have the Company pay such legal fees and expenses may not be liquidated or exchanged for any other benefit.

2.4 Recoupment. An Eligible Participant who has received payment of a Claim under this Plan shall be required to repay the full amount received by such Eligible Participant in respect of such Claim to the Company if a court issues a final, unappealable judgment setting forth a determination that the Benefits Claim made by the Eligible Participant was unreasonable or advanced in bad faith. Repayment shall be made within 30 days following the Company's delivery of a written notice demanding payment which includes a copy of the judgment referenced in the preceding sentence.

2.5 Withholding. The Company shall be entitled to withhold from amounts to be paid to any Eligible Participant hereunder any federal, state or local withholding or other taxes or charges (or foreign equivalents of such taxes or charges) which it is from time to time required to withhold under applicable law or regulation.

2.6 Status of Plan Payments. No payments or benefits pursuant to this Plan shall constitute "compensation" (or any similar term) under any employee benefit plan sponsored or maintained by the Company or any of its Affiliates.

SECTION 3. PLAN ADMINISTRATION.

3.1 Plan Administration. The Committee shall administer the Plan and, prior to a Change in Control:

(a) the Committee may interpret and construe the terms of the Plan, prescribe, amend and rescind rules and regulations under the Plan and make all other determinations necessary or advisable for the administration of the Plan, subject to all of the provisions of the Plan;

(b) any determination by the Committee shall be final and binding with respect to the subject matter thereof on all Eligible Participants and all other persons; and

(c) the Committee may delegate any of its duties hereunder to such person or persons from time to time as it may designate.

Notwithstanding anything in the Plan to the contrary, after a Change in Control, neither the Committee nor any other person shall have discretionary authority in the administration of the Plan, and any court or tribunal that adjudicates any dispute, controversy, or claim in connection with benefits under Section 2 will apply a *de novo* standard of review to any determinations made by the Committee or the Company. Such *de novo* standard shall apply notwithstanding the grant of full discretion hereunder to the Committee or any person or characterization of any decision by the Committee or by such person as final, binding or conclusive on any party.

3.2 Plan Modification or Termination. The Plan may be amended or terminated by the Board at any time; provided, however, that the Plan may not be terminated, or amended in any manner that adversely affects any Eligible Participant's rights under this Plan, (i) following a Change in Control, or (ii) in anticipation of a specific contemplated Change in Control.

SECTION 4. GENERAL PROVISIONS.

4.1 Non-Assignment. Except as otherwise provided herein or by law, no right or interest of any Eligible Participant under the Plan shall be assignable or transferable, in whole or in part, either directly or by operation of law or otherwise, including, without limitation, by execution, levy, garnishment, attachment, pledge or in any manner. No attempted assignment or transfer of any such right or interest shall be effective, and no right or interest of any Eligible Participant under the Plan shall be liable for, or subject to, any obligation or liability of such Eligible Participant. The Plan shall inure to the benefit of, and be binding upon, the Company and its successors and assigns. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform the obligations set forth in the Plan in the same manner and to the same extent as the Company would be required to do so.

4.2 No Modification of Employment. Neither the establishment of the Plan, nor any modification thereof, nor the creation of any fund, trust or account, nor the payment of any benefits shall be construed as amending any Covered Plan or as giving any Eligible Participant the right to be retained in the service of the Company, and all Eligible Participants shall remain subject to discharge to the same extent as if the Plan had never been adopted.

4.3 Severability; Captions. If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and this Plan shall be construed and enforced as if such provisions had not been included. The headings and captions herein are provided for reference and convenience only, shall not be considered part of the Plan, and shall not be employed in the construction of the Plan.

4.4 Unfunded Plan. The Plan shall not be funded. No Eligible Participant shall have any right to, or interest in, any assets of the Company which may be applied by the Company to the payment of benefits or other rights under this Plan.

4.5 Notice and Communications. Any notice or other communication required or permitted pursuant to the terms hereof shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States certified mail, return receipt requested, or by overnight courier, postage prepaid, to the Company at its corporate headquarters address, to the attention of the Chief Legal Officer of the Company, or to the Eligible Participant at the Eligible Participant's most recent home address reflected on the books and records of the Company.

4.6 Governing Law. This Plan shall be construed and enforced according to the laws of the State of New York, without regard to its principles of conflicts of law.

4.7 Section 409A. The obligations under this Plan are intended to comply with the requirements of Section 409A of the Code or an exemption or exclusion therefrom and shall in all respects be administered in accordance with Section 409A of the Code. Each payment of compensation under this Plan shall be treated as a separate payment of compensation for purposes of applying Section 409A of the Code. In no event may an Eligible Participant, directly or indirectly, designate the calendar year of any payment under this Plan.

[Signature Page Follows.]

IN WITNESS WHEREOF, the undersigned has caused this Plan to be effective as of the date first set forth above.

ARCONIC INC.

By: /s/ Katherine H. Ramundo

Name: Katherine H. Ramundo

Title: Executive Vice President, Chief Legal
Officer and Secretary

Exhibit A
Covered Plans

Deferral Plans

- Arconic Deferred Compensation Plan, as amended and restated
- Arconic Deferred Fee Estate Enhancement Plan for Directors
- Arconic Deferred Fee Plan for Directors
- Amended and Restated Deferred Fee Plan for Directors
- Arconic Fee Continuation Plan for Non-Employee Directors, as amended
- Pechiney Corporation Deferred Compensation Plan, as amended

Non-qualified Pension Plans

- Arconic Employees' Excess Benefits Plan A, as amended and restated
- Arconic Employees' Excess Benefits Plan B, as amended and restated
- Arconic Employees' Excess Benefits Plan C, as amended and restated
- Arconic Supplemental Pension Plan for Senior Executives, as amended and restated
- Arconic Global Pension Plan
- Alumax LLC Excess Benefit Plan, as amended and restated
- Howmet Corporation Retirement Income Makeup Plan "B", as amended and restated
- Howmet Corporation Supplemental Executive Retirement Plan, as amended and restated
- Huck International Inc. Excess Benefit Plan for Selected Employees, as amended and restated

Death Benefits

- Arconic Executive Death Benefit Program, as amended
- Arconic Executive Life Insurance Plan, as amended
- Arconic Executive Permanent Life Insurance Plan, as amended
- Alumax Executive Post Retirement Life Program, as amended
- Alumax Split Dollar Life Insurance Plan, as amended
- Reynolds Metals Company of Arconic Split Dollar Life Insurance Plan, as amended

Certain Individual Pension and Retirement Benefit Agreements

The individual pension and retirement benefit agreements with the individuals set forth on the list maintained by the Company for purposes of this Plan.

**COMPUTATIONS OF RATIO OF EARNINGS TO FIXED CHARGES AND RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS**

(in millions, except ratios)

For the first quarter of	2018
Earnings:	
Income before income taxes	\$ 199
Fixed charges added to earnings	119
Amortization of capitalized interest:	
Consolidated	3
Proportionate share of 50 percent-owned persons	—
Total earnings	\$ 321
Fixed Charges:	
Interest expense	
Consolidated	\$ 114
Proportionate share of 50 percent-owned persons	—
	<u>\$ 114</u>
Amount representative of the interest factor in rents:	
Consolidated	\$ 5
Proportionate share of 50 percent-owned persons	—
	<u>\$ 5</u>
Fixed charges added to earnings	<u>\$ 119</u>
Interest capitalized:	
Consolidated	\$ 5
Proportionate share of 50 percent-owned persons	—
	<u>\$ 5</u>
Preferred stock dividend requirements of majority-owned subsidiaries	\$ —
Total fixed charges	\$ 124
Pretax earnings required to pay preferred stock dividends*	1
Combined total fixed charges and preferred stock dividends	\$ 125
Ratio of earnings to fixed charges	<u>2.59</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>2.57</u>

* Based on a U.S. statutory tax rate of 21%.

May 1, 2018

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

Commissioners:

We are aware that our report dated May 1, 2018 on our review of interim financial information of Arconic Inc. which appears in this Quarterly Report on Form 10-Q, is incorporated by reference in the Registration Statement on 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, 333-209772, and 333-212246) of Arconic Inc.

Very truly yours,

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania

Certifications

I, Charles P. Blankenship, 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, 2018

/s/ Charles P. Blankenship

Name: Charles P. Blankenship

Title: 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, 2018

/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 Delaware corporation (the "Company"), does hereby certify that:

The quarterly report on Form 10-Q for the period ended March 31, 2018 (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.

Dated:	May 1, 2018 /s/ Charles P. Blankenship
	Name: Charles P. Blankenship
	Title: Chief Executive Officer

Dated:	May 1, 2018 /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.