

Third Quarter 2017 Earnings Call

David Hess – Interim Chief Executive Officer
Ken Giacobbe – Chief Financial Officer

October 23, 2017



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Important Information

Forward-Looking Statements

This presentation 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; statements about Arconic's strategies, outlook, business and financial prospects; and statements regarding potential share gains. These statements reflect beliefs and assumptions that are based on Arconic's perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. Forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, and changes in circumstances that are difficult to predict. Although Arconic believes that the expectations reflected in any forward-looking statements are based on reasonable assumptions, it can give no assurance that these expectations will be attained and it is possible that actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks and uncertainties. Such risks and uncertainties include, but are not limited to: (a) deterioration in global economic and financial market conditions generally; (b) unfavorable changes in the markets served by Arconic; (c) the 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) changes in discount rates or investment returns on pension assets; (e) 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; (f) the impact of cyber attacks and potential information technology or data security breaches; (g) any manufacturing difficulties or other issues that impact product performance, quality or safety; (h) political, economic, and regulatory risks in the countries in which Arconic operates or sells products; (i) material adverse changes in aluminum industry conditions, including fluctuations in London Metal Exchange-based aluminum prices; (j) the impact of changes in 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, 2016, Arconic's Form 10-Q for the quarter ended June 30, 2017 and other reports filed with the U.S. Securities and Exchange Commission (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.

Important Information (continued)

Non-GAAP Financial Measures

Some of the information included in this presentation is derived from Arconic's consolidated financial information but is not presented in Arconic's financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Certain of these data are considered "non-GAAP financial measures" under SEC rules. These non-GAAP financial measures supplement our GAAP disclosures and should not be considered an alternative to the GAAP measure. Reconciliations to the most directly comparable GAAP financial measures and management's rationale for the use of the non-GAAP financial measures can be found in the Appendix to this presentation. Arconic has not provided a reconciliation of any forward-looking non-GAAP financial measures to the most directly comparable GAAP financial measures because Arconic is unable to quantify certain amounts that would be required to be included in the GAAP measure without unreasonable efforts, and Arconic believes such reconciliations would imply a degree of precision that would be confusing or misleading to investors. In particular, reconciliations of forward-looking non-GAAP financial measures such as adjusted EBITDA, adjusted EBITDA margin, Return on Net Assets, adjusted net income, and Free Cash Flow to the most directly comparable GAAP measures are not available without unreasonable efforts due to the variability and complexity with respect to the charges and other components excluded from these non-GAAP measures, such as the effects of foreign currency movements, equity income, gains or losses on sales of assets, taxes and any future restructuring or impairment charges. These reconciling items are in addition to the inherent variability already included in the GAAP measures, which includes, but is not limited to, price/mix and volume.

Any reference to historical EBITDA means adjusted EBITDA, for which we have provided calculations and reconciliations in the Appendix.

Background and Other Information

On November 1, 2016, Alcoa Inc. separated into two standalone companies – Arconic Inc. (the new name for Alcoa Inc.) and Alcoa Corporation ("Alcoa Corp."). The pre-separation historical results for the businesses that now comprise Alcoa Corp. – the former Alcoa Inc. Alumina and Primary Metals segments along with the rolling mill operations in Warrick, Indiana and Saudi Arabia, which were previously part of the Global Rolled Products (GRP) segment – are presented as discontinued operations in Arconic's financial results for all periods.

References in this presentation to "combined segments" reflect the combined performance of Arconic's three segments – Engineered Products and Solutions (EP&S), GRP (which does not include the Warrick, IN and Saudi Arabia rolling mill operations, as noted above), and Transportation and Construction Solutions (TCS).

Tennessee Packaging – Arconic expects to fully exit the North America packaging business at its Tennessee operations following the expiration of the Toll Processing and Services Agreement (the "Processing Agreement") with Alcoa Corp. on December 31, 2018, unless sooner terminated by the parties. Pursuant to the Processing Agreement, dated as of October 31, 2016, Arconic provides can body stock to Alcoa Corporation, using aluminum supplied by Alcoa Corp.

Chip Blankenship appointed Chief Executive Officer



- **CEO and member of the Arconic Board of Directors** effective January 15, 2018.
- **Fmr. Leader of GE Commercial Engines:** Ran GE's \$5 billion Commercial Engine Operation – the world leader in production of large and small jet engines for commercial aviation.
- **Deep Industry Knowledge:** 20+ years in aerospace across R&D and operations. IGT experience running GE's aeroderivative gas turbine business.
- **Metallurgist by training:** Ph.D in Materials Sciences. 23 published papers. 7 patents including those related to the forging of nickel-based superalloys and isothermal technology.
- **Experience in Precision and High-Rate Manufacturing:** Combination of aerospace (precision) and appliance (high-rate) experience ideal for Arconic's mix of businesses.
- **Results oriented; Customer and shareholder focused:** Executed turnaround of GE Appliances culminating in sale to Haier for \$5.6 billion.

Highlights – 3Q and YTD 2017

- Revenue up 3% 3Q year-over-year (YoY) and up 3% YTD 2017 YoY
 - Organic Revenue¹ up 5% 3Q YoY and up 5% YTD 2017 YoY
- Arconic EBITDA² up 14% 3Q YoY and up 8% YTD 2017 YoY
 - Arconic EBITDA, excl. special items, up 2% 3Q YoY and up 5% YTD 2017 YoY
- Results include a \$49M YoY pre-tax LIFO³ and metal lag non-cash charge at Corporate and an \$11M YoY pre-tax negative impact of higher aluminum (Al) prices in the Segments
- Arconic EBITDA %, excl. special items, down 20 bps 3Q YoY and up 30 bps YTD 2017 YoY
 - Aluminum prices and LIFO and metal lag negative impact of 240 bps 3Q YoY and 90 bps YTD 2017 YoY
- Continued progress on restructuring and cost reduction in Corporate, SG&A⁴ and other overhead accounts
 - Net cost savings of 1.5% of revenue 3Q and 1.7% of revenue YTD 2017
- Ended quarter with \$1.8B in cash on hand

1) Organic revenue is U.S. GAAP revenue adjusted for Tennessee packaging, divestitures, and changes in aluminum prices and foreign currency fluctuations relative to prior year period

2) Net income attributable to Arconic: \$119M in 3Q 2017 and \$166M in 3Q 2016; \$653M in YTD 2017 and \$317M in YTD 2016

3) LIFO = Last-in, first-out inventory valuation methodology

4) Stands for Selling, General Administrative and Other expenses. Excludes depreciation and amortization.

See Appendix for Reconciliations

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Financial Overview

3Q 2017 Financials and YTD 2017 Highlights

Arconic Financials		
	3Q 2017	
Revenue	\$3.2B	+ 3.1% YoY
- Organic Revenue ¹		+ 4.7% YoY
Combined Segment EBITDA %²	16.6%	+ 20 bps YoY
EBITDA	\$430M	+ 14.4% YoY
EBITDA, excl. special items	\$437M	+ 1.6% YoY
EBITDA %, excl. special items	13.5%	- 20 bps YoY
Net Income	\$119M	
Adj. Income excl. Special Items	\$132M	
RONA %³	6.8%	
Gross Debt	\$6.9B	
Cash	\$1.8B	
Free Cash Flow⁴	\$41M	

YTD 2017 Highlights

- Revenue growth driven by volume gains in all segments
- Net cost savings of 1.7% of revenue
- \$42M of higher costs YoY related to higher aluminum prices
- SG&A⁵ excluding special items at 5.1% of revenue vs. 5.4% prior guidance. Spend down ~\$60M or 11%
- Annualized RONA of 8.1%³
- Monetized 100% of Alcoa Corp. stake for \$1.35B

1) Organic revenue is U.S. GAAP revenue adjusted for Tennessee packaging, divestitures, and changes in aluminum prices and foreign currency fluctuations relative to prior year period; Tennessee packaging business revenues \$176M in 3Q 2016 and \$45M in 3Q 2017

2) Combined Segment EBITDA of \$535M

3) Annualized and adjusted for special items

4) Free Cash Flow = Cash from Operations – Capital Expenditures

5) Stands for Selling, General Administrative and Other expenses. Excludes depreciation and amortization.

Income Statement and Special Items

3Q 2017 Income Statement and Special Items Overview

Income Statement

\$ Millions, except per-share amounts	3Q 2017
Revenue	\$3,236
Cost of Goods Sold ¹	\$2,626
Selling, General Administrative, Other ^{1,2}	\$155
EBITDA	\$430
EBITDA excluding Special Items	\$437
Restructuring and Other Charges	\$19
Effective Tax Rate	30.8%
Operational Tax Rate	33.3%
Net Income	\$119
Net Income per Diluted Share³	\$0.22
Adjusted Income excl. Special Items	\$132
Adjusted Income excl. Special Items per Diluted Share³	\$0.25

Special Items

\$ Millions, except per-share amounts	3Q 2017
Net Income	\$119
Net Income per Diluted Share³	\$0.22
Restructuring Related	(\$19)
Legal and other advisory costs related to Grenfell Tower	(\$7)
Discrete Tax Items / Tax Impact	\$13
Special Items	(\$13)
Adjusted Income excl. Special Items	\$132
Adjusted Income excl. Special Items per Diluted Share³	\$0.25

1) Excludes Depreciation and Amortization

2) 3Q 2017 special items of \$7; SG&A excluding special items: 3Q 2017 = \$148M or 4.6% of sales

3) 3Q 2017 share count of 462 million

See Appendix for Reconciliations

Cash Flow Statement

3Q 2017 Free Cash Flow

YTD 2017 Highlights

(\$M)	3Q 2017
Net Income	\$119
Cash from Operations	\$172
Cash used for Financing Activities	(\$15)
Cash used for Investing Activities	(\$128)
Free Cash Flow	\$41
Cash on Hand	\$1,815

\$360M Capex Spending YTD

Cash on Hand \$1.8B
Gross Debt \$6.9B

2.85x
Net Debt-to-LTM EBITDA¹

EP&S: 3Q EBITDA up 5% driven by volume growth

Engineered Products and Solutions (EP&S) 3Q 2017 Results

3Q 2017

	3Q 2016	3Q 2017	YoY change
Revenue (\$M)	\$1,406	\$1,476	+5%
EBITDA (\$M)	\$296	\$312	+5%
EBITDA %	21.1%	21.1%	0 bps

3Q 2017 YoY Commentary

- **Revenue:** Commercial Aerospace up 5%: Aero Engines up 9% and Airframes up 2%, Aero Defense up 6%, CT¹ up 13%, IGT² down 14%
- **EBITDA:** Up 5% driven by volume growth and Net Cost Savings³ of 1.4% partially offset by unfavorable price / mix. Margin expansion headwind from lower manufacturing yields and higher than planned expediting and outsourcing premiums associated with next generation engine ramp

1) CT = Commercial Transportation

2) IGT= Industrial Gas Turbines

3) Gross Cost Reduction Savings less Cost Headwinds as % of Revenue

See Appendix for Reconciliations

GRP: 3Q EBITDA down 2% driven by volume, price and mix

Global Rolled Products (GRP) 3Q 2017 Results

3Q 2017			
	3Q 2016	3Q 2017	YoY change
Revenue (\$M)	\$1,285	\$1,234	- 4%
-Organic Revenue ¹			+1%
EBITDA (\$M)	\$143	\$140	- 2%
EBITDA %	11.1%	11.3%	+20 bps

3Q 2017 YoY Commentary

- **Revenue:** Al price increase of 20%² and strong Auto and Commercial Transportation, offset by planned ramp-down of the Tenn Pkg business, Airframe destocking, Aero wide body build rates, and pricing pressure in Regional Specialties
- **EBITDA:** Down 2% driven by planned ramp-down of the Tenn Pkg business, reduced Aero wide body build rates (e.g., 777), Airframe destocking, and pricing pressure in Regional Specialties, offset by Net Cost Savings³ of 1.6%. Headwinds from higher aluminum prices
- **EBITDA %:** Includes impact of Al prices of -170 bps

1) Organic revenue is U.S. GAAP revenue adjusted for Tennessee packaging, divestitures, and changes in aluminum prices and foreign currency fluctuations relative to prior year period. Tennessee packaging business revenues \$176M in 3Q 2016 and \$45M in 3Q 2017

2) Reflects Aluminum prices on a 30 day lag

3) Gross Cost Reduction Savings less Cost Headwinds as % of Revenue

See Appendix for Reconciliations

TCS: 3Q EBITDA up 9% driven by volume growth

Transportation and Construction Solutions (TCS) 3Q 2017 Results

3Q 2017

	3Q 2016	3Q 2017	YoY change
Revenue (\$M)	\$450	\$517	+15%
EBITDA (\$M)	\$76	\$83	+9%
EBITDA %	16.9%	16.1%	-80 bps

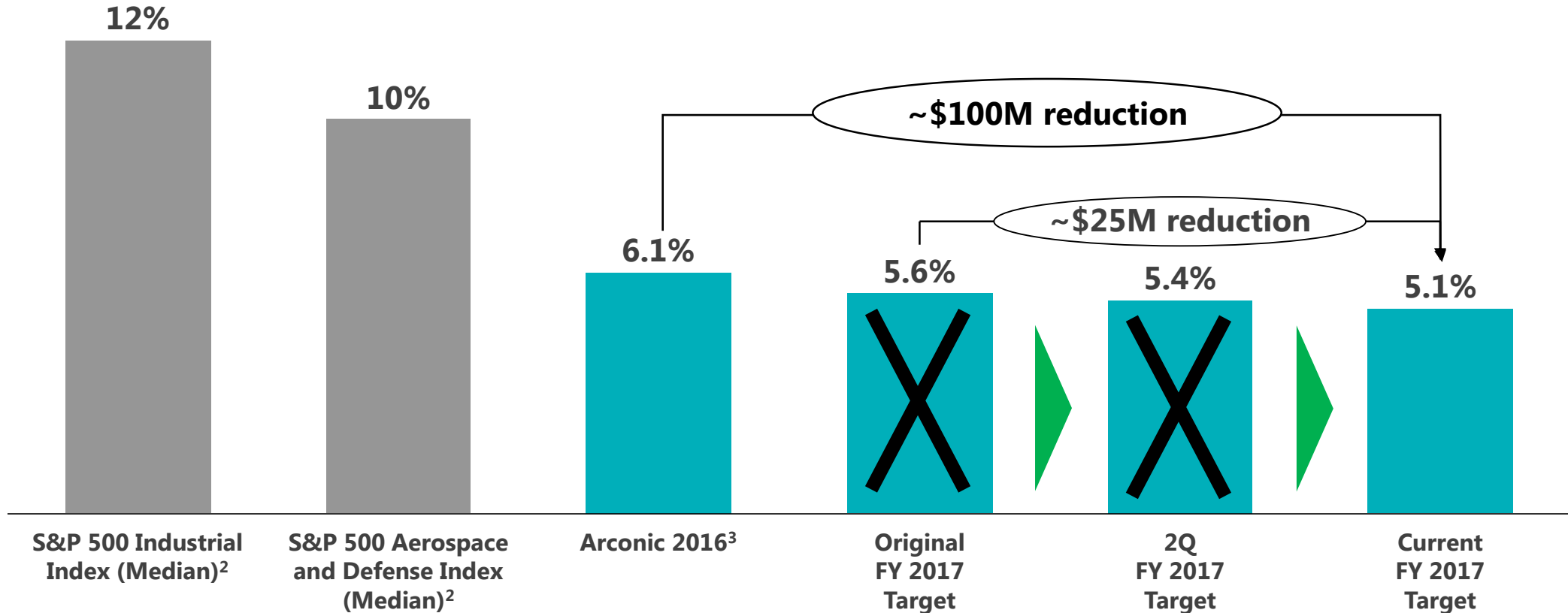
3Q 2017 YoY Commentary

- **Revenue:** Commercial Transportation up 30%, Building and Construction up 5%
- **EBITDA:** Up 9% driven by volume growth and Net Cost Savings¹ of 1.4%; EBITDA and EBITDA % negatively impacted by higher AI prices, pricing in heavy duty truck and natural disasters
- **EBITDA %:** Includes impact of AI prices of -120 bps

Continued cost reduction focus on SG&A¹

Arconic compared to peers

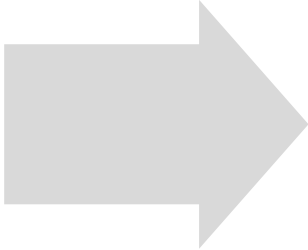
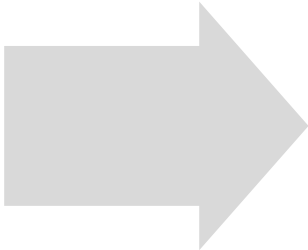
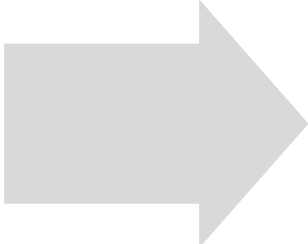
SG&A as a % of Revenue (excl. Special items)



1) Stands for Selling, General Administrative and Other expenses. Excludes depreciation and amortization.
 2) Based on latest actual full year report; excludes Arconic and companies that do not disclose SG&A expense
 3) SG&A based on Arconic continuing operations and excludes separation costs of \$193M
 See Appendix for Reconciliations

Updating 2017 Group Guidance

Arconic Segments – 2016 Financial Highlights, Prior and Current 2017 Outlook

	2016		2017 - Prior			2017 - Updated	
	Revenues	EBITDA %	Revenues	EBITDA %		Revenues	EBITDA %
EP&S	\$5.7B	20.9%	Up low single digit	+30 – 60 bps		Up low single digit <i>No change</i>	Flat <i>Decreased</i>
GRP	\$4.9B	11.9%	Down low single digit	+30 – 50 bps		Up low single digit <i>Increased</i>	~ +10 bps <i>-70 bps Al price impact^{1,2}</i>
TCS	\$1.8B	16.1%	Up mid single digit	+ 0 – 20 bps		Up high single digit <i>Increased</i>	Flat <i>-100 bps Al price impact¹</i>

Updating 2017 Guidance¹

	Prior		Updated	
Revenue²	\$12.3B - \$12.7B	0% to +2% YoY	\$12.6B - \$12.8B	+2% to +3% YoY
EBITDA \$³	\$1,810M - \$1,860M	+6% to +9% YoY	\$1,810M - \$1,860M	+6% to +9% YoY
EBITDA %³	~14.5%	+ ~80 bps YoY	~14.5%	+ ~80 bps YoY
Adjusted EPS³ (~470M shares)	\$1.15 - \$1.20		\$1.15 - \$1.20	
Leverage	\$1.25B ⁴ of debt reduction		\$1.25B ⁴ of debt reduction	
Free Cash Flow	\$350M+		\$350M+	
Capital Expenditures	Up to \$650M		~\$600M	
RONA %³	~9%		8% - 8.5%	

1) Initial 2017 assumption: LME Al cash = \$1,650/MT / Current 2017 Assumption : LME Al cash = \$1,980/MT

2) Tennessee Packaging revenues decline ~\$402M from 2016 to 2017 due to the impact of the Processing Agreement and planned ramp-down (2016 = \$552M, 2017 = ~\$150M)

3) Excludes \$18M of separation costs, \$58M of Proxy, Advisory & Governance-Related Costs, and \$7M of Legal and other advisory costs related to Grenfell Tower;

Adjusted EPS and RONA also exclude \$76M early debt tender cost in 2017

4) Including the impact of \$429M in debt reduction from the Alcoa Corp. Debt for Equity Exchange

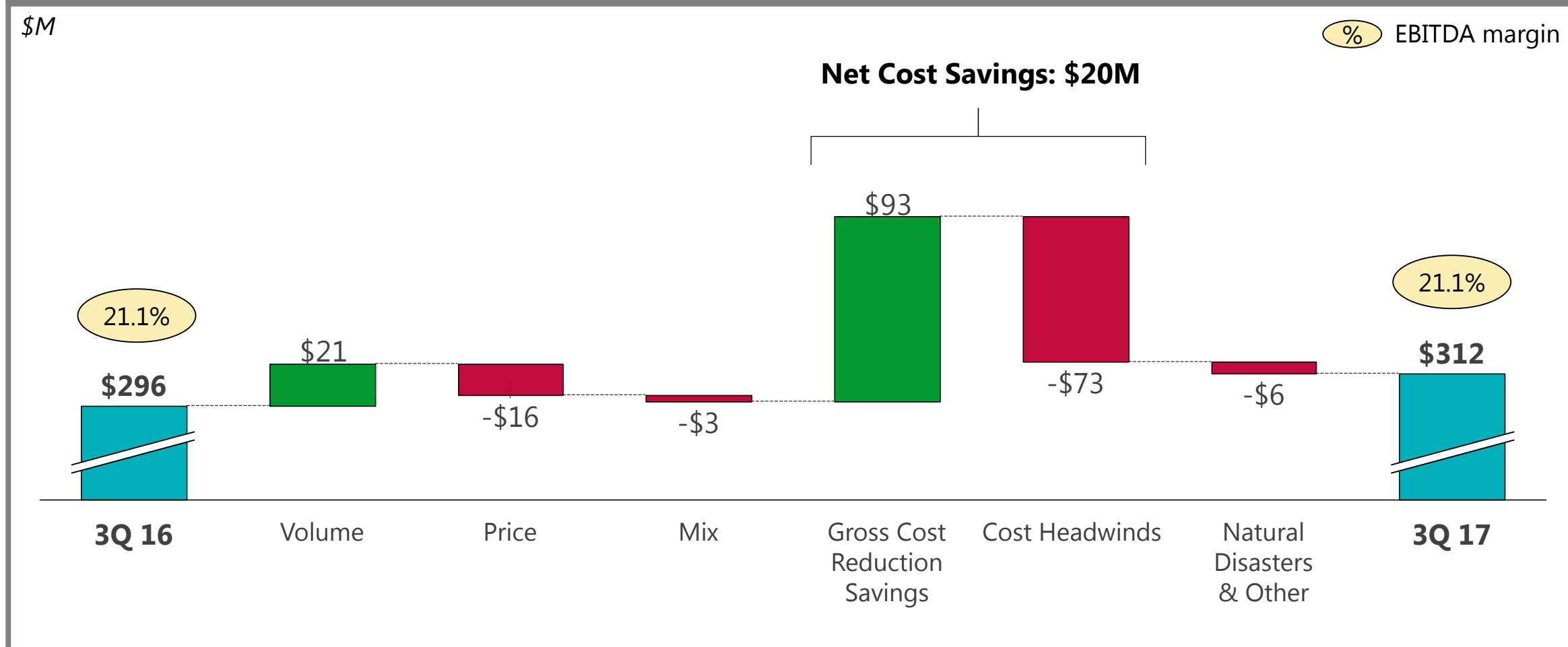


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EP&S: 3Q EBITDA up \$16M, Volume +\$21M, Price / Mix -\$19M, Net Cost Savings 1.4%¹

EP&S 3Q 2017 Results

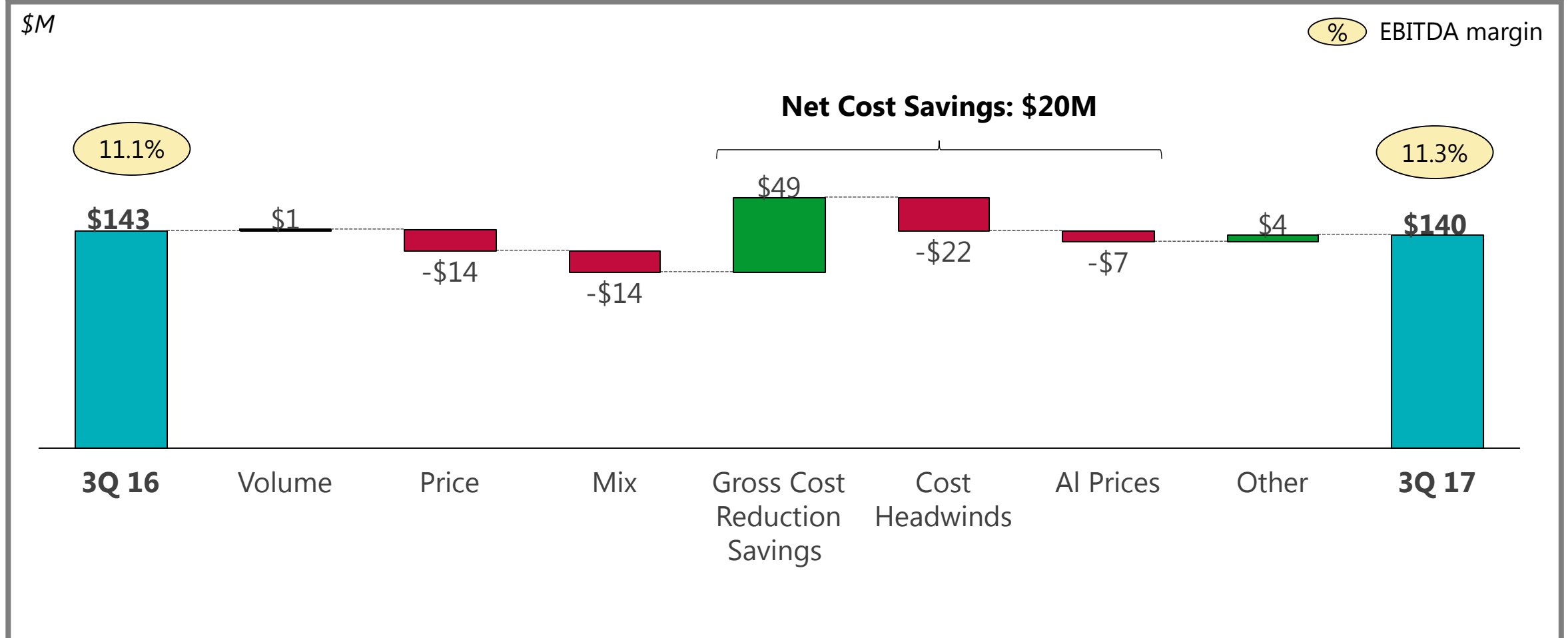
EBITDA Bridge: 3Q 2017



GRP: 3Q EBITDA down 2%, Aero volume & mix down and Pricing Pressure, Net Cost Savings 1.6%¹

GRP 3Q 2017 Results

EBITDA Bridge: 3Q 2017

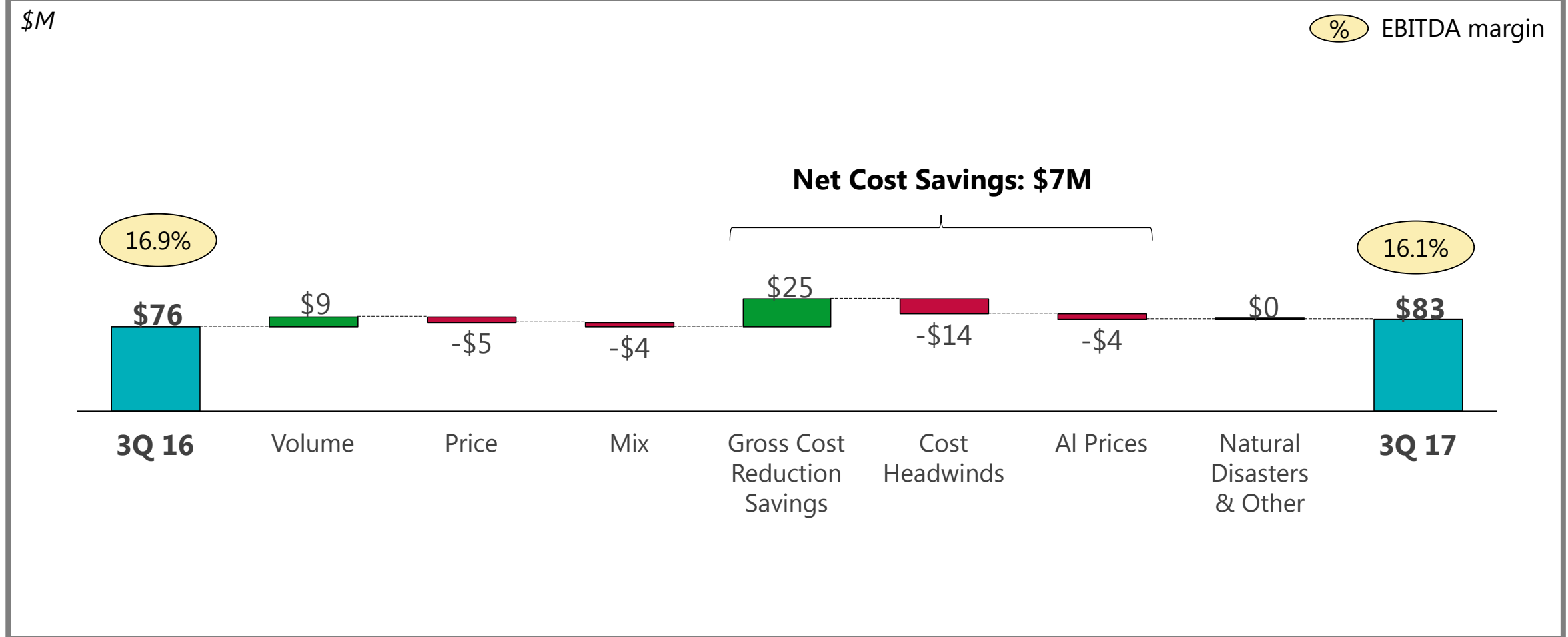


1) Gross Cost Reduction Savings less Cost Headwinds as % of Revenue
 AI Impact versus 3Q16: +\$102M Revenue, -\$7M EBITDA, -170 bps EBITDA %
 See Appendix for Reconciliations

TCS: 3Q EBITDA up 9%, Heavy Duty Truck up, Construction up, Net Cost Savings +1.4%¹

TCS 3Q 2017 Results

EBITDA Bridge: 3Q 2017



Aluminum price impacts on 3Q 2017 and YTD 2017

Year-over-Year Impact from Al Price Changes

	3Q 2017			YTD 2017		
	Revenue (\$M)	EBITDA (\$M)	EBITDA %	Revenue (\$M)	EBITDA (\$M)	EBITDA %
GRP	\$102	(\$7)	-170 bps	\$259	(\$11)	-120 bps
TCS	\$13	(\$4)	-120 bps	\$24	(\$12)	-110 bps
<i>Subtotal – Segments</i>	<i>\$115</i>	<i>(\$11)</i>		<i>\$283</i>	<i>(\$23)</i>	
LIFO (Corporate) ¹	-	(\$47)		-	(\$52)	
Metal Lag (Corporate) ¹	-	(\$2)		-	\$33	
<i>Subtotal – Corporate</i>	<i>-</i>	<i>(\$49)</i>		<i>-</i>	<i>(\$19)</i>	
Arconic	\$115	(\$60)	-240 bps	\$283	(\$42)	-90 bps

Organic Revenue¹ Growth for 3Q 2017 and YTD 2017

Year-over-Year Organic Revenue Growth (\$M)

	3Q 2016	3Q 2017	% Change	YTD 2016	YTD 2017	% Change
Arconic Revenue	\$3,138	\$3,236	3.1%	\$9,427	\$9,689	2.8%
less TN Packaging	\$176	\$45		\$515	\$150	
less Fusina	\$39	-		\$128	\$54	
less Remmele Medical	-	-		\$23	-	
less Aluminum Price Impact ²	N/A	\$115		N/A	\$283	
less Foreign Currency Impact ²	N/A	\$17		N/A	(\$10)	
Arconic Organic Revenue¹	\$2,923	\$3,059	4.7%	\$8,761	\$9,212	5.1%
	3Q 2016	3Q 2017	% Change	YTD 2016	YTD 2017	% Change
GRP Revenue	\$1,285	\$1,234	-4.0%	\$3,785	\$3,751	-0.9%
less TN Packaging	\$176	\$45		\$515	\$150	
less Fusina	\$39	-		\$128	\$54	
less Aluminum Price Impact ²	N/A	\$102		N/A	\$259	
less Foreign Currency Impact ²	N/A	\$5		N/A	\$11	
GRP Organic Revenue¹	\$1,070	\$1,082	1.1%	\$3,142	\$3,277	4.3%

1) Organic revenue is U.S. GAAP revenue adjusted for Tennessee packaging, divestitures, and changes in aluminum prices and foreign currency fluctuations relative to prior year period

2) Impacts of changes in aluminum prices and foreign currency fluctuations relative to the prior year period

2017 Estimated LIFO¹ Charge

	<u>Metal Prices</u> (\$/MT) ²	<u>Annual LIFO¹ Estimate</u> (\$M)	<u>Annual Estimate To Book YTD</u>	<u>1Q</u> (\$M)	<u>2Q</u> (\$M)	<u>3Q</u> (\$M)
1Q	\$2,174	(\$76M)	25%	(\$19M)	(\$19M)	(\$19M)
2Q	\$2,097	(\$60M)	50%		(\$11M)	(\$11M)
3Q	\$2,267	(\$104M)	75%			(\$48M)
YTD Entry				(\$19M)	(\$30M)	(\$78M)

Capital Structure: \$5.0B in Net Debt

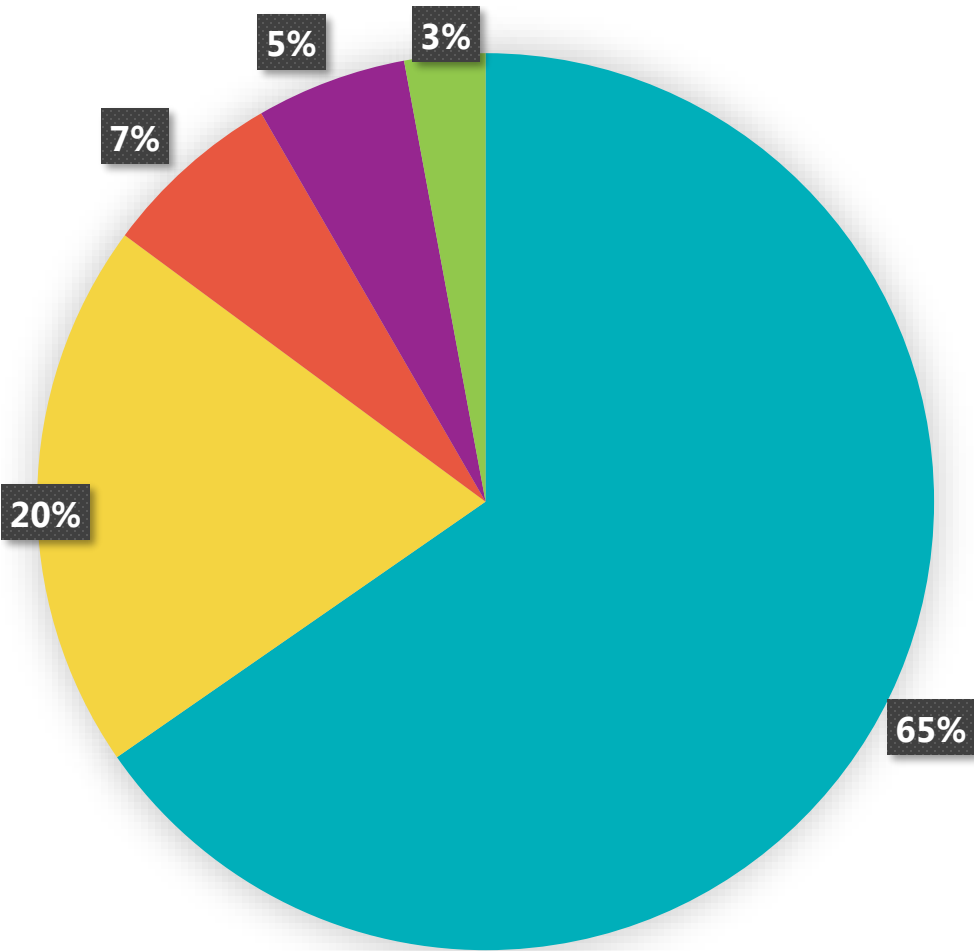
Capital Structure as of September 30, 2017

Capitalization at September 30, 2017

(\$B)	Amount
Cash	\$1.82
Gross Debt	\$6.86
Net Debt	\$5.04
Net Debt-to-LTM EBITDA ¹	2.85x

Geographic Breakdown of Revenues – 3Q 2017

3Q 2017 Revenue by Region

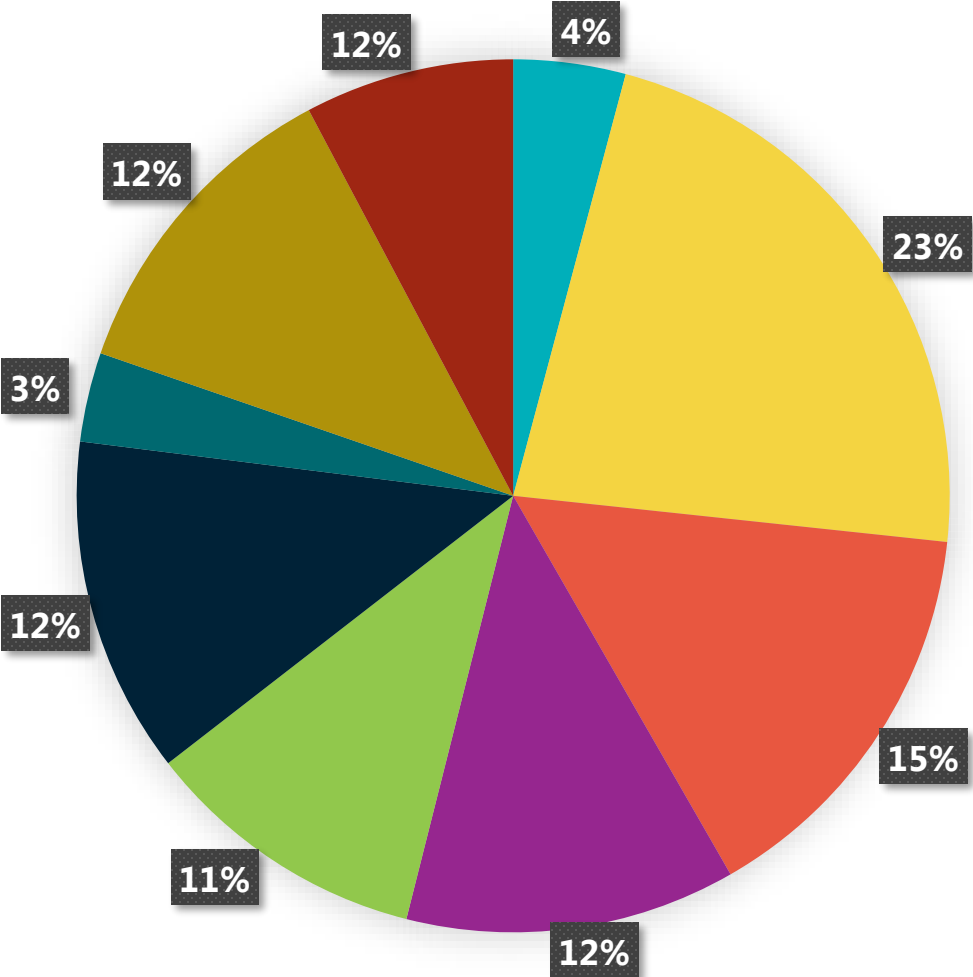


Year-over-Year Change

North America	2%
Continental Europe	3%
Asia	6%
United Kingdom	3%
Other	20%

Revenue Change by Market – 3Q 2017

3Q 2017 Revenue by Market



Year-over-Year Change

Aerospace - Defense	12%
Aerospace - Commercial Airframe	(3%)
Aerospace - Commercial Engine	9%
Automotive ¹	16%
Building & Construction	4%
Commercial Transportation	31%
IGT	(14%)
Industrial & Other	15%
Packaging ²	(35%)

Note: 3Q 2016 Third Party Revenue by Market excludes Discontinued Operations
 1) Includes brazing and automotive sheet
 2) Includes Tennessee packaging business revenues of \$45M in 3Q 2017. Revenues were \$176M in 3Q 2016.

Arconic Revenue and EBITDA Sensitivities¹

2017 Arconic Run Rate Revenue² and EBITDA Sensitivities

	Benchmark moves		Impact to		
	From ('17 plan)		To	Revenue	EBITDA
LME AI^{2,3}	\$1,650/MT	+ \$100/MT	\$1,750/MT	~\$115M	~(\$10M)
EUR	1.00 EUR = 1.11 USD	- 0.10 USD/EUR	1.00 EUR = 1.01 USD	~(\$110M)	~(\$20M)
GBP	1.00 GBP = 1.31 USD	- 0.10 USD/GBP	1.00 GBP = 1.21 USD	~(\$25M)	~\$10M

1) Initial 2017 assumptions: LME AI cash = \$1,650/MT, 1.00 EUR = 1.11 USD, 1.00 GBP = 1.31 USD /
Current 2017 Assumptions : LME AI cash = \$1,980/MT, 1.00 EUR = 1.13 USD, 1.00 GBP = 1.29 USD

2) Due to pass-through pricing lags, AI revenue sensitivity is most effective on a run rate basis;
AI one month lag can be used to estimate shorter term pricing impacts.

3) Does not include LIFO / metal lag inventory revaluations

Reconciliation of Adjusted Income

(\$ in millions, except per-share amounts)	Adjusted Income			Diluted EPS ⁽⁵⁾		
	Quarter ended			Quarter ended		
	September 30, <u>2016</u>	June 30, <u>2017</u>	September 30, <u>2017</u>	September 30, <u>2016</u>	June 30, <u>2017</u>	September 30, <u>2017</u>
Net income attributable to Arconic	\$166	\$212	\$119	\$0.33	\$0.43	\$0.22
Discontinued operations ⁽¹⁾	(100)	-	-			
Special items:						
Restructuring and other charges	3	26	19			
Discrete tax items ⁽²⁾	7	-	2			
Other special items ⁽³⁾	73	(23)	-			
Tax impact ⁽⁴⁾	(12)	(50)	(8)			
Net income attributable to Arconic – as adjusted	\$137	\$165	\$132	\$0.27	\$0.32	\$0.25

Net income attributable to Arconic – as adjusted is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because management reviews the operating results of Arconic excluding the impacts of restructuring and other charges, discrete tax items, and other special items (collectively, “special items”). There can be no assurances that additional special items will not occur in future periods. To compensate for this limitation, management believes that it is appropriate to consider both Net income attributable to Arconic determined under GAAP as well as Net income attributable to Arconic – as adjusted.

⁽¹⁾ On November 1, 2016, the former Alcoa Inc. was separated into two standalone, publicly-traded companies, Arconic and Alcoa Corporation, by means of a pro rata distribution of 80.1 percent of the outstanding common stock of Alcoa Corporation to Alcoa Inc. shareholders. Accordingly, the results of operations of Alcoa Corporation have been reflected as discontinued operations for the quarter ended September 30, 2016.

⁽²⁾ Discrete tax items for each period included a net charge related to a number of small items.

Reconciliation of Adjusted Income, continued

⁽³⁾ Other special items included the following:

- for the quarter ended September 30, 2016, an unfavorable tax impact resulting from the difference between Arconic's consolidated estimated annual effective tax rate and the statutory rate applicable to special items (\$68), costs associated with the separation of Alcoa Inc. (\$55), a favorable tax impact related to the interim period treatment of operational income in certain foreign jurisdictions for which no tax expense was recognized (\$30), and a favorable post-closing adjustment related to the November 2014 acquisition of Firth Rixson (\$20);
- for the quarter ended June 30, 2017, a gain on the exchange of the remaining portion of Arconic's investment in Alcoa corporate common stock (\$167), costs associated with the Company's early redemption of \$1,250 of outstanding senior notes (\$76), proxy, advisory and governance-related costs (\$42), an unfavorable tax impact resulting from the difference between Arconic's consolidated estimated annual effective tax rate and the statutory rate applicable to special items (\$30), and a favorable tax impact related to the interim period treatment of operational losses in certain foreign jurisdictions for which no tax expense was recognized (\$4);
- for the quarter ended September 30, 2017, legal and other advisory costs related to Grenfell Tower (\$7) and a favorable tax impact resulting from the difference between Arconic's consolidated estimated annual effective tax rate and the statutory rate applicable to special items (\$7).

⁽⁴⁾ The tax impact on special items is based on the applicable statutory rates whereby the difference between such rates and Arconic's consolidated estimated annual effective tax rate is itself a special item.

⁽⁵⁾ At a special meeting of Arconic common shareholders held on October 5, 2016, shareholders approved a 1-for-3 reverse stock split of Arconic's outstanding and authorized shares of common stock which became effective on October 6, 2016. All share and per share data for all periods presented have been updated to reflect the reverse stock split.

The average number of shares applicable to diluted EPS for Net income attributable to Arconic common shareholders – as adjusted includes certain share equivalents as their effect was dilutive. Specifically:

- for the quarter ended September 30, 2016, share equivalents associated with outstanding employee stock options and awards and shares underlying outstanding convertible debt (acquired through the acquisition of RTI International Metals, Inc. ("RTI")) were dilutive based upon Net income attributable to Arconic common shareholders – as adjusted, resulting in a diluted average number of shares of 453,152,896; and
- for the quarter ended June 30, 2017, share equivalents associated with outstanding employee stock options and awards and shares underlying outstanding convertible debt (acquired through the acquisition of RTI) were dilutive based on Net income attributable to Arconic common shareholders – as adjusted, resulting in a diluted average number of shares of 461,826,510.
- for the quarter ended September 30, 2017, share equivalents associated with outstanding employee stock options and awards and shares underlying outstanding convertible debt (acquired through the acquisition of RTI) were dilutive based on Net income attributable to Arconic common shareholders – as adjusted, resulting in a diluted average number of shares of 462,055,864;

Reconciliation of Adjusted Income

(\$ in millions, except per-share amounts)	Adjusted Income		Diluted EPS ⁽⁵⁾	
	Nine months ended		Nine months ended	
	September 30, 2016	September 30, 2017	September 30, 2016	September 30, 2017
Net income attributable to Arconic	\$317	\$653	\$0.60	\$1.31
Discontinued operations ⁽¹⁾	(88)	-		
Special items:				
Restructuring and other charges	33	118		
Discrete tax items ⁽²⁾	10	3		
Other special items ⁽³⁾	192	(348)		
Tax impact ⁽⁴⁾	(30)	40		
Net income attributable to Arconic – as adjusted	\$434	\$466	\$0.86	\$0.91

Net income attributable to Arconic – as adjusted is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because management reviews the operating results of Arconic excluding the impacts of restructuring and other charges, discrete tax items, and other special items (collectively, “special items”). There can be no assurances that additional special items will not occur in future periods. To compensate for this limitation, management believes that it is appropriate to consider both Net income attributable to Arconic determined under GAAP as well as Net income attributable to Arconic – as adjusted.

⁽¹⁾ On November 1, 2016, the former Alcoa Inc. was separated into two standalone, publicly-traded companies, Arconic and Alcoa Corporation, by means of a pro rata distribution of 80.1% of the outstanding common stock of Alcoa Corporation to Alcoa Inc. shareholders. Accordingly, the results of operations of Alcoa Corporation have been reflected as discontinued operations for the nine month period ended September 30, 2016.

⁽²⁾ Discrete tax items for each period included a net charge related to a number of small items.

Reconciliation of Adjusted Income, continued

⁽³⁾ Other special items included the following:

- for the nine months ended September 30, 2016, an unfavorable tax impact resulting from the difference between Arconic's consolidated estimated annual effective tax rate and the statutory rate applicable to special items (\$131), costs associated with the separation of Alcoa Inc. (\$118), a favorable tax impact related to the interim period treatment of operational losses in certain foreign jurisdictions for which no tax benefit was recognized (\$37); and a favorable post-closing adjustment related to the November 2014 acquisition of Firth Rixson (\$20); and
- for the nine months ended September 30, 2017, a gain on the sale of a portion of Arconic's investment in Alcoa Corporation common stock (\$351), and a gain on the exchange of the remaining portion of Arconic's investment in Alcoa Corporation common stock (\$167), costs associated with the Company's early redemption of \$1,250 of outstanding senior notes (\$76), proxy, advisory, and governance-related costs (\$58), costs associated with the separation of Alcoa Inc. (\$18), legal and other advisory costs related to Grenfell Tower (\$7), an unfavorable tax impact resulting from the difference between Arconic's consolidated estimated annual effective tax rate and the statutory rate applicable to special items (\$6) and an unfavorable tax impact related to the interim period treatment of operational losses in certain foreign jurisdictions for which no tax benefit was recognized (\$5).

⁽⁴⁾ The tax impact on special items is based on the applicable statutory rates whereby the difference between such rates and Arconic's consolidated estimated annual effective tax rate is itself a special item.

⁽⁵⁾ At a special meeting of Arconic common shareholders held on October 5, 2016, shareholders approved a 1-for-3 reverse stock split of Arconic's outstanding and authorized shares of common stock which became effective on October 6, 2016. All share and per share data for all periods presented have been updated to reflect the reverse stock split.

The average number of shares applicable to diluted EPS for Net income attributable to Arconic common shareholders – as adjusted includes certain share equivalents as their effect was dilutive. Specifically:

- for the nine months ended September 30, 2016, share equivalents associated with outstanding employee stock options and awards and shares underlying outstanding convertible debt (acquired through the acquisition of RTI) were dilutive based on Net income attributable to Arconic common shareholders – as adjusted, resulting in a diluted average number of shares of 452,062,290; and
- for the nine months ended September 30, 2017, share equivalents associated with outstanding employee stock options and awards and shares underlying outstanding convertible debt (acquired through the acquisition of RTI) were dilutive based on Net income attributable to Arconic common shareholders – as adjusted, resulting in a diluted average number of shares of 461,287,601.

Reconciliation of Operational Tax Rate

(\$ in millions)

	Quarter ended September 30, 2017			Nine months ended September 30, 2017		
	As reported	Special items ⁽¹⁾	As adjusted	As reported	Special items ⁽¹⁾	As adjusted
Income from continuing operations before income taxes	\$172	\$26	\$198	\$925	\$(241)	\$684
Provision for income taxes	\$53	\$13	\$66	\$272	\$(54)	\$218
Tax rate	30.8%		33.3%	29.4%		31.9%

Operational tax rate is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because management reviews the operating results of Arconic excluding the impacts of restructuring and other charges, discrete tax items, and other special items (collectively, “special items”). There can be no assurances that additional special items will not occur in future periods. To compensate for this limitation, management believes that it is appropriate to consider both the Effective tax rate determined under GAAP as well as the Operational tax rate.

⁽¹⁾ See Reconciliation of Adjusted Income for description of special items.

Calculation of Engineered Products and Solutions Adjusted EBITDA Margin

(\$ in millions)	<u>1Q16</u>	<u>2Q16</u>	<u>3Q16</u>	<u>4Q16</u>	<u>2016</u>	<u>1Q17</u>	<u>2Q17</u>	<u>3Q17</u>
Adjusted EBITDA	\$305	\$329	\$296	\$265	\$1,195	\$306	\$310	\$312
Third-party sales	\$1,449	\$1,465	\$1,406	\$1,408	\$5,728	\$1,485	\$1,484	\$1,476
Adjusted EBITDA Margin	21.0%	22.5%	21.1%	18.8%	20.9%	20.6%	20.9%	21.1%

Arconic's definition of Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. The Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

Calculation of Global Rolled Products Adjusted EBITDA Margin⁽¹⁾

(\$ in millions, except per metric ton amounts)	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17
Adjusted EBITDA	\$155	\$163	\$143	\$116	\$577	\$171	\$164	\$140
Total shipments (thousand metric tons) (kmt) ⁽²⁾	385	429	422	353	1,587	414	405	387
Adjusted EBITDA / Total shipments (\$ per metric ton)	\$403	\$380	\$339	\$329	\$364	\$413	\$405	\$362
Third party sales	\$1,184	\$1,316	\$1,285	\$1,079	\$4,864	\$1,249	\$1,268	\$1,234
Adjusted EBITDA Margin	13.1%	12.4%	11.1%	10.8%	11.9%	13.7%	12.9%	11.3%

Arconic's definition of Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. The Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

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

⁽²⁾ Includes 65 thousand metric tons (kmt), 72 kmt, 76 kmt, and 54 kmt for 3Q17, 2Q17, 1Q17, and 4Q16, respectively, for the Tennessee packaging business. These amounts represent the volume at Arconic's Tennessee operations associated with the Toll Processing and Services Agreement that Arconic and Alcoa Corporation entered into in connection with the separation of the companies. Pursuant to this agreement, this amount is not reported in Arconic's shipments but has been included in the calculation of Adjusted EBITDA / Total shipments for historical comparative purposes.

Calculation of Transportation and Construction Solutions Adjusted EBITDA Margin

(\$ in millions)	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17
Adjusted EBITDA	\$64	\$76	\$76	\$75	\$291	\$72	\$82	\$83
Third-party sales	\$429	\$467	\$450	\$456	\$1,802	\$449	\$501	\$517
Adjusted EBITDA Margin	14.9%	16.3%	16.9%	16.4%	16.1%	16.0%	16.4%	16.1%

Arconic's definition of Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. The Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

Calculation of Combined Segment Adjusted EBITDA Margin

(\$ in millions)	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17
Sales – Engineered Products and Solutions	\$1,449	\$1,465	\$1,406	\$1,408	\$5,728	\$1,485	\$1,484	\$1,476
Sales – Global Rolled Products	1,184	1,316	1,285	1,079	4,864	1,249	1,268	1,234
Sales – Transportation and Construction Solutions	429	467	450	456	1,802	449	501	517
Combined segment sales	\$3,062	\$3,248	\$3,141	\$2,943	\$12,394	\$3,183	\$3,253	\$3,227
Combined segment adjusted EBITDA ⁽¹⁾	\$524	\$568	\$515	\$456	\$2,063	\$549	\$556	\$535
Combined segment adjusted EBITDA margin	17.1%	17.5%	16.4%	15.5%	16.6%	17.2%	17.1%	16.6%

Arconic's definition of Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. Combined segment adjusted EBITDA and Combined segment adjusted EBITDA margin are non-GAAP financial measures. Management believes that these measures are meaningful to investors because they provide additional information with respect to Arconic's operating performance and the Company's ability to meet its financial obligations. The Combined segment adjusted EBITDA and Combined segment adjusted EBITDA margin measures presented may not be comparable to similarly titled measures of other companies.

⁽¹⁾ See Reconciliation of Combined Segment Adjusted EBITDA to Consolidated Net Income (Loss) Attributable to Arconic.

Reconciliation of Combined Segment Adjusted EBITDA to Consolidated Net Income (Loss) Attributable to Arconic⁽¹⁾

(\$ in millions)	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17
Combined segment adjusted EBITDA	\$524	\$568	\$515	\$456	\$2,063	\$549	\$556	\$535
Unallocated amounts:								
Depreciation and amortization	(133)	(133)	(136)	(133)	(535)	(133)	(137)	(140)
Restructuring and other charges	(16)	(14)	(3)	(122)	(155)	(73)	(26)	(19)
Impact of LIFO	(12)	(13)	(1)	8	(18)	(19)	(11)	(48)
Metal price lag	-	6	4	17	27	22	19	2
Corporate expense	(76)	(115)	(113)	(150)	(454)	(91)	(91)	(42)
Other	(17)	(16)	(29)	(47)	(109)	(10)	(29)	(17)
Operating income	\$270	\$283	\$237	\$29	\$819	\$245	\$281	\$271
Other income, net ⁽¹⁾	12	17	11	54	94	354	171	1
Interest expense ⁽²⁾	(121)	(124)	(126)	(128)	(499)	(115)	(183)	(100)
Income taxes ⁽³⁾	(51)	(123)	(56)	(1,246)	(1,476)	(162)	(57)	(53)
Discontinued operations ⁽⁴⁾	(94)	82	100	33	121	-	-	-
Consolidated net income (loss) attributable to Arconic	\$16	\$135	\$166	\$(1,258)	\$(941)	\$322	\$212	\$119

⁽¹⁾ Other income, net includes the following:

- for the quarter ended March 31, 2017, a \$351 gain on the sale of a portion of Arconic's investment in Alcoa Corporation common stock; and
- for the quarter ended June 30, 2017, a \$167 gain on the exchange of Arconic's remaining investment in Alcoa Corporation common stock for a portion of the Company's outstanding senior notes.

⁽²⁾ Interest expense for the quarter ended June 30, 2017 includes \$76 related to the early redemption of the Company's outstanding 6.500% Senior Notes due 2018 and 6.750% Senior Notes due 2018 and a portion of the Company's outstanding 5.720% Senior Notes due 2019.

⁽³⁾ Income taxes for both the quarter ended December 31, 2016 and the year ended December 31, 2016 included a charge for valuation allowances related to the November 1, 2016 separation (\$1,267) and a net charge for the remeasurement of certain deferred tax assets due to tax rate and tax law changes (\$51).

⁽⁴⁾ On November 1, 2016, Alcoa Inc. completed its separation into two standalone, publicly-traded companies. Arconic includes the former Alcoa Inc. segments: Engineered Products and Solutions, Transportation and Construction Solutions, and Global Rolled Products, except for the Warrick, IN rolling operations and the equity interest in the rolling mill at the joint venture in Saudi Arabia which both became part of Alcoa Corporation. The Global Rolled Products segment information has been updated to exclude the Warrick, IN rolling operations and the equity interest in the rolling mill at the joint venture in Saudi Arabia.

Reconciliation of Arconic Adjusted EBITDA and Adjusted EBITDA Excluding Special Items

(\$ in millions)	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17
Net income (loss) attributable to Arconic	\$16	\$135	\$166	\$(1,258)	\$(941)	\$322	\$212	\$119
Discontinued operations ⁽¹⁾	94	(82)	(100)	(33)	(121)	-	-	-
Income (loss) from continuing operations after income taxes and noncontrolling interests	110	53	66	(1,291)	(1,062)	322	212	119
Add:								
Provision for income taxes	51	123	56	1,246	1,476	162	57	53
Other income, net	(12)	(17)	(11)	(54)	(94)	(354)	(171)	(1)
Interest expense	121	124	126	128	499	115	183	100
Restructuring and other charges	16	14	3	122	155	73	26	19
Provision for depreciation and amortization	133	133	136	133	535	133	137	140
Arconic adjusted EBITDA	\$419	\$430	\$376	\$284	\$1,509	\$451	\$444	\$430
Special items:								
Separation costs	18	45	54	76	193	18	-	-
Proxy, advisory and governance-related costs	-	-	-	-	-	16	42	-
Legal and other advisory costs related to Grenfell Tower	-	-	-	-	-	-	-	7
Arconic adjusted EBITDA excluding special items	\$437	\$475	\$430	\$360	\$1,702	\$485	\$486	\$437
Last twelve months Arconic adjusted EBITDA excluding special items					\$1,702	\$1,750	\$1,761	\$1,768
Sales	\$3,055	\$3,234	\$3,138	\$2,967	\$12,394	\$3,192	\$3,261	\$3,236
Arconic adjusted EBITDA margin	13.7%	13.3%	12.0%	9.6%	12.2%	14.1%	13.6%	13.3%
Arconic adjusted EBITDA margin excluding special items	14.3%	14.7%	13.7%	12.1%	13.7%	15.2%	14.9%	13.5%

Arconic's definition of Adjusted EBITDA (Earnings before interest, taxes, depreciation and amortization) is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. Adjusted EBITDA is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because Adjusted EBITDA provides additional information with respect to Arconic's operating performance and the Company's ability to meet its financial obligations. The Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

Additionally Adjusted EBITDA, excluding special items, is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because management reviews the operating results of Arconic excluding the impacts of special items, such as costs associated with the separation of Alcoa Inc., proxy, advisory and governance-related costs, and legal and other advisory costs related to Grenfell Tower (collectively, "special items"). This measure provides additional information with respect to Arconic's operating performance and the Company's ability to meet its financial obligations excluding the impact of such costs.

⁽¹⁾ On November 1, 2016, the former Alcoa Inc. was separated into two standalone, publicly-traded companies, Arconic and Alcoa Corporation, by means of a pro rata distribution of 80.1 percent of the outstanding common stock of Alcoa Corporation to Alcoa Inc. shareholders. Accordingly, the results of operations of Alcoa Corporation have been reflected as discontinued operations for all periods presented prior to November 1, 2016.

Reconciliation of Organic Revenue

(\$ in millions)	Quarter ended September 30,		Nine months ended September 30,	
	2016	2017	2016	2017
<u>Arconic</u>				
Sales – Arconic	\$3,138	\$3,236	\$9,427	\$9,689
Less:				
Sales – Tennessee packaging	176	45	515	150
Sales – Fusina rolling mill	39	-	128	54
Sales – Remmele Medical	-	-	23	-
Aluminum price impact	n/a	115	n/a	283
Foreign currency impact	n/a	17	n/a	(10)
Arconic Organic revenue	<u>\$2,923</u>	<u>\$3,059</u>	<u>\$8,761</u>	<u>\$9,212</u>
<u>Global Rolled Products Segment (GRP)⁽¹⁾</u>				
Sales – GRP	\$1,285	\$1,234	\$3,785	\$3,751
Less:				
Sales – Tennessee packaging	176	45	515	150
Sales – Fusina rolling mill	39	-	128	54
Aluminum price impact	n/a	102	n/a	259
Foreign currency impact	n/a	5	n/a	11
GRP Organic revenue	<u>\$1,070</u>	<u>\$1,082</u>	<u>\$3,142</u>	<u>\$3,277</u>

Organic revenue is a non-GAAP financial measure. Management believes this measure is meaningful to investors as it presents revenue on a comparable basis for all periods presented due to the impact of the ramp-down and Toll Processing and Services Agreement with Alcoa Corporation at the North America packaging business at its Tennessee operations, the sale of the Fusina, Italy rolling mill, the sale of the Remmele Medical business, and the impact of changes in aluminum prices and foreign currency fluctuations relative to the prior year periods.

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

Reconciliation of Adjusted SG&A Excluding Special Items

(\$ in millions)	<u>1Q16⁽¹⁾</u>	<u>2Q16⁽¹⁾</u>	<u>3Q16⁽¹⁾</u>	<u>4Q16⁽¹⁾</u>	<u>2016⁽¹⁾</u>	<u>1Q17</u>	<u>2Q17</u>	<u>3Q17</u>
Sales	\$3,055	\$3,234	\$3,138	\$2,967	\$12,394	\$3,192	\$3,261	\$3,236
SG&A	205	239	229	269	942	221	204	155
SG&A % of sales	6.7%	7.4%	7.3%	9.1%	7.6%	6.9%	6.3%	4.8%
Special items:								
Separation costs	18	45	54	76	193	18	-	-
Proxy, advisory and governance-related costs	-	-	-	-	-	16	42	-
Legal and other advisory costs related to Grenfell Tower	-	-	-	-	-	-	-	7
Adjusted SG&A excluding special items	187	194	175	193	754	187	162	148
Adjusted SG&A excluding special items as a % of sales	6.1%	6.0%	5.6%	6.5%	6.1%	5.9%	5.0%	4.6%

Adjusted SG&A excluding special items is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because Adjusted SG&A excluding special items is more reflective of historical SG&A cost performance.

(1) On November 1, 2016, the former Alcoa Inc. was separated into two standalone, publicly-traded companies, Arconic and Alcoa Corporation, by means of a pro rata distribution of 80.1 percent of the outstanding common stock of Alcoa Corporation to Alcoa Inc. shareholders. Accordingly, the results of operations of Alcoa Corporation have been reflected as discontinued operations for all periods presented.

Reconciliation of Free Cash Flow⁽¹⁾

(\$ in millions)	1Q16⁽¹⁾	2Q16⁽¹⁾	3Q16⁽¹⁾	4Q16⁽¹⁾	2016⁽¹⁾	1Q17	2Q17	3Q17
Cash from operations	\$(430)	\$332	\$306	\$662	\$870	\$(300)	\$217	\$172
Capital expenditures	(251)	(277)	(286)	(311)	(1,125)	(103)	(126)	(131)
Free cash flow	\$(681)	\$55	\$20	\$351	\$(255)	\$(403)	\$91	\$41

Free cash flow is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because management reviews cash flows generated from operations after taking into consideration capital expenditures due to the fact that these expenditures are considered necessary to maintain and expand Arconic's asset base and are expected to generate future cash flows from operations. It is important to note that Free cash flow does not represent the residual cash flow available for discretionary expenditures since other non-discretionary expenditures, such as mandatory debt service requirements, are not deducted from the measure.

⁽¹⁾ On November 1, 2016, the former Alcoa Inc. was separated into two standalone, publicly-traded companies, Arconic and Alcoa Corporation, by means of a pro rata distribution of 80.1 percent of the outstanding common stock of Alcoa Corporation to Alcoa Inc. shareholders. Cash from operations and capital expenditures for Alcoa Corporation have not been segregated and are included in this table for all periods prior to November 1, 2016.

Reconciliation of Net Debt and Net Debt/Adjusted EBITDA

(\$ in millions)	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017
Short-term borrowings	\$36	\$47	\$48	\$54
Long-term debt due within one year	4	–	–	1
Long-term debt, less amount due within one year	8,044	8,046	6,796	6,802
Total debt	8,084	8,093	6,844	6,857
Less: Cash and cash equivalents	1,863	2,553	1,785	1,815
Net debt	\$6,221	\$5,540	\$5,059	\$5,042
Trailing twelve month (TTM) Arconic adjusted EBITDA excluding special items ⁽¹⁾	\$1,702	\$1,750	\$1,761	\$1,768
Net debt/TTM Arconic adjusted EBITDA excluding special items	3.66	3.17	2.87	2.85

Net debt is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because management assesses Arconic's leverage position after factoring in available cash that could be used to repay outstanding debt.

Net debt/Arconic adjusted EBITDA excluding special items is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because management compares Arconic's leverage position to its ability to generate earnings that could be used to repay outstanding debt.

⁽¹⁾ See Reconciliation of Arconic Adjusted EBITDA and Adjusted EBITDA Excluding Special Items.

Reconciliation of Return on Net Assets (RONA)

(\$ in millions)	<u>3Q17</u>	<u>Nine months ended September 30, 2017</u>
Net income attributable to Arconic	\$119	\$653
Special items ⁽¹⁾	13	(187)
Net income attributable to Arconic – as adjusted	\$132	\$466
Annualized net income attributable to Arconic-as adjusted	\$528	\$621
Net Assets:		
Add: Receivables from customers, less allowances	\$1,150	\$1,150
Add: Deferred purchase program ⁽²⁾	238	238
Add: Inventories	2,453	2,453
Less: Accounts payable, trade	<u>1,656</u>	<u>1,656</u>
Working Capital	2,185	2,185
Properties, plants, and equipment, net	<u>5,526</u>	<u>5,526</u>
Net assets – total	\$7,711	\$7,711
RONA	6.8%	8.1%

Return on net assets (RONA) is a non-GAAP financial measure. RONA is calculated as Net income attributable to Arconic – as adjusted divided by Working capital and Net PP&E. Management believes that this measure is meaningful to investors as RONA helps management and investors determine the percentage of net income the company is generating from its assets. This ratio tells how effectively and efficiently the company is using its assets to generate earnings.

⁽¹⁾ See Reconciliation of Adjusted Income for a description of special items.

⁽²⁾ The Deferred purchase program relates to an arrangement to sell certain customer receivables to several financial institutions on a recurring basis. Arconic is adding back the receivable for the purposes of the Working capital calculation.