Arconic Inc.
Form 10-Q
November 01, 2018

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

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 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	25-0317820
(State of incorporation)	(I.R.S. Employer Identification No.)
390 Park Avenue, New York, New York	10022-4608
(Address of principal executive offices)	(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 every Interactive Data File required to be submitted 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 such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer	__
Non-accelerated filer	__	Smaller reporting company	__
		Emerging growth company	__

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
As of October 24, 2018, there were 483,242,370 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)

	Third quarter ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Sales (C & D)	$3,524	$3,236	$10,542	$9,689
Cost of goods sold (exclusive of expenses below)	2,881	2,591	8,552	7,598
Selling, general administrative, and other expenses	134	152	464	569
Research and development expenses	25	24	77	81
Provision for depreciation and amortization	141	140	427	410
Restructuring and other charges (E)	(2)	19	20	118
Operating income	345	310	1,002	913
Interest expense (N)	88	100	291	398
Other expense (income), net (F)	8	38	69	(410)
Income before income taxes	249	172	642	925
Provision for income taxes (H)	88	53	218	272
Net income	$161	$119	$424	$653
Amounts Attributable to Arconic Common Shareholders (I):				
Net income	$160	$101	$422	$600
Earnings per share - basic	$0.33	$0.23	$0.87	$1.36
Earnings per share - diluted	$0.32	$0.22	$0.86	$1.31
Dividends paid per share	$0.06	$0.06	$0.18	$0.18
Average Shares Outstanding (I):				
Average shares outstanding - basic	483	442	483	441
Average shares outstanding - diluted	502	462	503	501

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

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

	Arconic		Noncontrolling Interests		Total	
Third quarter ended September 30,	2018	2017	2018	2017	2018	2017
Net income	$161	$119	$ —	$ —	$161	$119
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	37	31	—	—	37	31
Foreign currency translation adjustments	(16)	85	—	—	(16)	85
Net change in unrealized gains on available-for-sale securities	1	1	—	—	1	1
Net change in unrecognized losses/gains on cash flow hedges	(10)	10	—	—	(10)	10
Total Other comprehensive income, net of tax	12	127	—	—	12	127
Comprehensive income	$173	$246	$ —	$ —	$173	$246

	Arconic		Noncontrolling Interests		Total	
Nine months ended September 30,	2018	2017	2018	2017	2018	2017
Net income	$424	$653	$ —	$ —	$424	$653
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	209	110	—	—	209	110
Foreign currency translation adjustments	(95)	251	—	—	(95)	251
Net change in unrealized gains on available-for-sale securities	(1)	(133)	—	—	(1)	(133)
Net change in unrecognized gains/losses on cash flow hedges	(13)	13	—	—	(13)	13
Total Other comprehensive income, net of tax	100	241	—	—	100	241
Comprehensive income	$524	$894	$ —	$ —	$524	$894

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

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

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 1,535	$ 2,150
Receivables from customers, less allowances of $5 in 2018 and $8 in 2017 (K)	1,147	1,035
Other receivables (K)	511	339
Inventories (L)	2,622	2,480
Prepaid expenses and other current assets	317	374
Total current assets	6,132	6,378
Properties, plants, and equipment, net (M)	5,645	5,594
Goodwill (A & M)	4,517	4,535
Deferred income taxes	605	743
Intangibles, net	954	987
Other noncurrent assets	474	481
Total assets	$ 18,327	$ 18,718
Liabilities		
Current liabilities:		
Accounts payable, trade	$ 2,061	$ 1,839
Accrued compensation and retirement costs	359	399
Taxes, including income taxes	84	75
Accrued interest payable	97	124
Other current liabilities	371	349
Short-term debt	42	38
Total current liabilities	3,014	2,824
Long-term debt, less amount due within one year (N & O)	6,315	6,806
Accrued pension benefits (G)	2,120	2,564
Accrued other postretirement benefits (G)	773	841
Other noncurrent liabilities and deferred credits	730	759
Total liabilities	12,952	13,794
Contingencies and commitments (Q)		
Equity		
Arconic shareholders’ equity:		
Preferred stock	55	55
Common stock	483	481
Additional capital	8,310	8,266
Accumulated deficit	(943)	(1,248)
Accumulated other comprehensive loss (J)	(2,544)	(2,644)
Total Arconic shareholders’ equity	5,361	4,910
Noncontrolling interests	14	14
Total equity	5,375	4,924
Total liabilities and equity	$ 18,327	$ 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)

	Nine months ended September 30,	
	2018	2017
Operating activities		
Net income	$424	$653
Adjustments to reconcile net income to cash used for operations:		
Depreciation and amortization	427	410
Deferred income taxes	95	24
Restructuring and other charges	20	118
Net loss (gain) from investing activities - asset sales (F)	7	(514)
Net periodic pension benefit cost (G)	100	163
Stock-based compensation	43	59
Other	61	112
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, and foreign currency translation adjustments:		
(Increase) in receivables (B)	(1,020)	(792)
(Increase) in inventories	(184)	(168)
(Increase) decrease in prepaid expenses and other current assets	(3)	6
Increase (decrease) in accounts payable, trade	257	(94)
(Decrease) in accrued expenses	(96)	(138)
Increase in taxes, including income taxes	63	144
Pension contributions	(288)	(257)
(Increase) in noncurrent assets	(33)	(37)
(Decrease) in noncurrent liabilities	(82)	(62)
Cash used for operations	(209)	(373)
Financing Activities		
Net change in short-term borrowings (original maturities of three months or less)	3	15
Additions to debt (original maturities greater than three months) (N)	450	664
Premiums paid on early redemption of debt (B & N)	(17)	(52)
Payments on debt (original maturities greater than three months) (N)	(952)	(1,484)
Proceeds from exercise of employee stock options	15	48
Dividends paid to shareholders	(89)	(132)
Distributions to noncontrolling interests	—	(14)
Other	(19)	(15)
Cash used for financing activities	(609)	(970)
Investing Activities		
Capital expenditures	(497)	(360)
Proceeds from the sale of assets and businesses (P)	7	(9)
Sales of investments (F)	9	890
Cash receipts from sold receivables (B & K)	693	514
Other	(1)	244
Cash provided from investing activities	211	1,279
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(4)	6
Net change in cash, cash equivalents and restricted cash (B)	(611)	(58)
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)	$1,542	$1,820

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							
	Preferred stock	Mandatory convertible preferred stock	Common stock	Additional capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interests	Total Equity
Balance at June 30, 2017	$55	$ 3	$ 441	$ 8,262	$ (567)	$ (2,454)	$ 13	$5,753
Net income	—	—	—	—	119	—	—	119
Other comprehensive income (J)	—	—	—	—	—	127	—	127
Cash dividends declared:								
Preferred-Class A @ $1.875 per share	—	—	—	—	(1)	—	—	(1)
Preferred-Class B @ $6.71875 per share	—	—	—	—	(17)	—	—	(17)
Common @ $0.12 per share	—	—	—	—	(53)	—	—	(53)
Stock-based compensation	—	—	—	11	—	—	—	11
Common stock issued: compensation plans	—	—	1	21	—	—	—	22
Balance at September 30, 2017	$55	$ 3	$ 442	$ 8,294	$ (519)	$ (2,327)	$ 13	$5,961

	Arconic Shareholders							
	Preferred stock	Mandatory convertible preferred stock	Common stock	Additional capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interests	Total Equity
Balance at June 30, 2018	$55	$ —	$ 483	$ 8,295	$ (1,073)	$ (2,556)	$ 14	$5,218
Net income	—	—	—	—	161	—	—	161
Other comprehensive income (J)	—	—	—	—	—	12	—	12
Cash dividends declared:								—
Preferred-Class A @ $0.9375 per share	—	—	—	—	(1)	—	—	(1)
Common @ $0.06 per share	—	—	—	—	(30)	—	—	(30)
Stock-based compensation	—	—	—	14	—	—	—	14
Common stock issued: compensation plans	—	—	—	1	—	—	—	1
Balance at September 30, 2018	$55	$ —	$ 483	$ 8,310	$ (943)	$ (2,544)	$ 14	$5,375

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

	Arconic Shareholders Preferred stock	Mandatory convertible preferred stock	Common stock	Additional capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interests	Total Equity
Balance at December 31, 2016	$55	$ 3	$ 438	$ 8,214	$ (1,027)	$ (2,568)	$ 26	$5,141
Net income	—	—	—	—	653	—	—	653
Other comprehensive income (J)	—	—	—	—	—	241	—	241
Cash dividends declared:								
Preferred-Class A @ $3.75 per share	—	—	—	—	(2)	—	—	(2)
Preferred-Class B @ $20.1563 per share	—	—	—	—	(51)	—	—	(51)
Common @ $0.24 per share	—	—	—	—	(107)	—	—	(107)
Stock-based compensation	—	—	—	59	—	—	—	59
Common stock issued: compensation plans	—	—	4	21	—	—	—	25
Distributions	—	—	—	—	—	—	(14)	(14)
Other	—	—	—	—	15	—	1	16
Balance at September 30, 2017	$55	$ 3	$ 442	$ 8,294	$ (519)	$ (2,327)	$ 13	$5,961

	Arconic Shareholders Preferred stock	Mandatory convertible preferred stock	Common stock	Additional capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interests	Total Equity
Balance at December 31, 2017	$55	$ —	$ 481	$ 8,266	$ (1,248)	$ (2,644)	$ 14	$4,924
Net income	—	—	—	—	424	—	—	424
Other comprehensive income (J)	—	—	—	—	—	100	—	100
Cash dividends declared:								—
Preferred-Class A @ $2.8125 per share	—	—	—	—	(2)	—	—	(2)
Common @ $0.24 per share	—	—	—	—	(117)	—	—	(117)
Stock-based compensation	—	—	—	43	—	—	—	43
Common stock issued: compensation plans	—	—	2	1	—	—	—	3
Balance at September 30, 2018	$55	$ —	$ 483	$ 8,310	$ (943)	$ (2,544)	$ 14	$5,375

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 and Note D).

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 Consolidated 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 estimated fair value of each reporting unit substantially 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). See Note M for further details of an interim goodwill impairment evaluation that was performed for the Arconic Engines reporting unit during the second quarter of 2018.

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 be applied retrospectively. As a result of the adoption, Arconic reclassified cash received related to beneficial interest in previously transferred trade accounts receivable 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 receivable was $514 for the nine months ended September 30, 2017. In addition, Arconic reclassified $52 of cash paid for debt prepayments including extinguishment costs from operating activities to financing activities for the nine months ended September 30, 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 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. Restricted cash was $7, $4 and $5 at September 30, 2018, December 31, 2017 and September 30, 2017, respectively.

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 $39 and $116, while there was no impact to consolidated Net income, for the third quarter or nine months ended September 30, 2017, respectively.

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.

In August 2018, the FASB issued guidance which requires cloud computing arrangement implementation costs to be accounted for in accordance with the software stage model, regardless of whether or not the cloud computing arrangement contains a license. Arconic adopted this guidance in the third quarter of 2018. 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. As originally released, the standards update required application at the beginning of the earliest comparative period presented at the time of adoption. However, in July 2018, the

FASB provided entities the option to instead apply the provisions of the new leases guidance at the effective date, without adjusting the comparative periods presented. The Company expects to apply the provisions of the new leases guidance at the effective date, without adjusting the comparative periods presented. 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. Arconic has engaged a third-party consultant to assist with a review of the Company’s risk management and hedging strategies, with any changes to be implemented in conjunction with the adoption of the new guidance. Management is currently evaluating the potential impact of this guidance on the Consolidated Financial Statements.

In February 2018, the FASB issued guidance that allows an optional 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.

In August 2018, the FASB issued guidance that impacts disclosures for defined benefit pension plans. These changes become effective for Arconic's annual report for the year ending December 31, 2020, with early adoption permitted. Management has determined that the adoption of this guidance will not have a material impact on the Consolidated Financial Statements.

Also, in August 2018, the Securities and Exchange Commission (SEC) issued guidance to eliminate or modify certain disclosure requirements that have become redundant, overlapping, outdated or superseded in light of other SEC rules, GAAP or changes in the information environment. This guidance becomes effective on November 5, 2018 and will be applied to filings thereafter. Management has determined that the adoption of this guidance will not have a material impact on the Consolidated Financial Statements.

C. Revenue from Contracts with Customers

The Company's contracts with customers are comprised of acknowledged purchase orders incorporating the Company’s standard terms and conditions, or for larger customers, may also generally include terms under negotiated multi-year agreements. 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. The Company’s objective is to have net 30-day terms. 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. In the nine months ended September 30, 2018, Corporate included $38 of costs related to settlements of certain customer claims primarily related to product introductions.

	Engineered Products and Solutions	Global Rolled Products	Transportation and Construction Solutions	Total Segment
Third quarter ended September 30, 2018				
Aerospace	$ 1,244	$ 220	$ —	$ 1,464
Transportation	110	625	237	972
Building and construction	—	59	293	352
Industrial and Other	212	522	—	734
Total end-market revenue	$ 1,566	$ 1,426	$ 530	$ 3,522
Third quarter ended September 30, 2017				
Aerospace	$ 1,130	$ 214	$ —	$ 1,344
Transportation	98	490	214	802
Building and construction	—	56	286	342
Industrial and Other	249	474	23	746
Total end-market revenue	$ 1,477	$ 1,234	$ 523	$ 3,234
Nine months ended September 30, 2018				
Aerospace	$ 3,675	$ 645	$ —	$ 4,320
Transportation	326	1,835	733	2,894
Building and construction	—	167	875	1,042
Industrial and Other	702	1,596	21	2,319
Total end-market revenue	$ 4,703	$ 4,243	$ 1,629	$ 10,575
Nine months ended September 30, 2017				
Aerospace	$ 3,426	$ 670	$ —	$ 4,096
Transportation	288	1,458	587	2,333
Building and construction	—	156	831	987
Industrial and Other	735	1,469	65	2,269
Total end-market revenue	$ 4,449	$ 3,753	$ 1,483	$ 9,685

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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
Third quarter ended September 30, 2018				
Sales:				
Third-party sales	$ 1,566	$ 1,426	$ 530	$ 3,522
Intersegment sales	—	34	—	34
Total sales	$ 1,566	$ 1,460	$ 530	$ 3,556
Profit and loss:				
Segment operating profit	$ 238	$ 74	$ 77	$ 389
Restructuring and other charges	15	2	—	17
Provision for depreciation and amortization	71	50	12	133
Third quarter ended September 30, 2017				
Sales:				
Third-party sales	$ 1,477	$ 1,234	$ 523	$ 3,234
Intersegment sales	—	36	—	36
Total sales	$ 1,477	$ 1,270	$ 523	$ 3,270
Profit and loss:				
Segment operating profit	$ 239	$ 64	$ 74	$ 377
Restructuring and other charges	10	2	2	14
Provision for depreciation and amortization	68	52	13	133

	Engineered Products and Solutions	Global Rolled Products	Transportation and Construction Solutions	Total Segment
Nine months ended September 30, 2018				
Sales:				
Third-party sales	$ 4,703	$ 4,243	$ 1,629	$ 10,575
Intersegment sales	—	122	—	122
Total sales	$ 4,703	$ 4,365	$ 1,629	$ 10,697
Profit and loss:				
Segment operating profit	$ 671	$ 309	$ 241	$ 1,221
Restructuring and other charges	25	2	—	27
Provision for depreciation and amortization	212	154	37	403
Nine months ended September 30, 2017				
Sales:				
Third-party sales	$ 4,449	$ 3,753	$ 1,483	$ 9,685
Intersegment sales	—	107	—	107
Total sales	$ 4,449	$ 3,860	$ 1,483	$ 9,792
Profit and loss:				
Segment operating profit	$ 736	$ 333	$ 213	$ 1,282
Restructuring and other charges	24	76	11	111
Provision for depreciation and amortization	198	153	37	388

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

	Third quarter ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Total segment operating profit	$ 389	$ 377	$ 1,221	$ 1,282
Unallocated amounts:				
Restructuring and other charges	2	(19)	(20)	(118)
Corporate expense	(46)	(48)	(199)	(251)
Consolidated operating income	$ 345	$ 310	$ 1,002	$ 913
Interest expense	(88)	(100)	(291)	(398)
Other (expense) income, net	(8)	(38)	(69)	410
Consolidated income before income taxes	$ 249	$ 172	$ 642	$ 925

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

	September 30, 2018	December 31, 2017
Engineered Products and Solutions	$ 10,522	$ 10,325
Global Rolled Products	4,112	3,955
Transportation and Construction Solutions	1,091	1,041
Total segment assets	$ 15,725	$ 15,321

The following table reconciles Total segment assets to Consolidated assets:

	September 30, 2018	December 31, 2017
Total segment assets	$ 15,725	$ 15,321
Unallocated amounts:		
Cash and cash equivalents	1,535	2,150
Deferred income taxes	605	743
Corporate fixed assets, net	307	310
Fair value of derivative contracts	28	91
Other	127	103
Consolidated assets	$ 18,327	$ 18,718

E. Restructuring and Other Charges

In the third quarter of 2018, Restructuring and other charges was a net benefit of $2 ($3 after-tax), which included a postretirement curtailment benefit of $28 ($22 after-tax) (see Note G); a charge of $12 ($9 after-tax) for contract termination costs and asset impairments associated with the shutdown of a facility in Acuna, Mexico; a charge of $8 ($6 after-tax) for layoff costs, including the separation of approximately 85 employees (65 in the Engineered Products and Solutions segment and 20 in Corporate); a charge of $4 ($3 after-tax) for a pension settlement; a charge of $3 ($2 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.

In the nine months ended September 30, 2018, Arconic recorded Restructuring and other charges of $20 ($14 after-tax), which included a postretirement curtailment benefit of $28 ($22 after-tax) (see Note G); a charge of $14 ($11 after-tax) for pension curtailments; a charge of $16 ($12 after-tax) for layoff costs, including the separation of approximately 125 employees (89 in the Engineered Products and Solutions segment and 36 in Corporate); a charge of $12 ($9 after-tax) related to the shutdown of a facility in Acuna, Mexico as noted above; a charge of $7 ($5 after-tax) for other miscellaneous items; a charge of $5 ($4 after-tax) for exit costs primarily related to the New York office; a charge of $4 ($3 after-tax) for a pension settlement; and a benefit of $10 ($8 after-tax) for the reversal of a number of small layoff reserves related to prior periods.

In the third quarter of 2017, Arconic recorded Restructuring and other charges of $19 ($13 after-tax), which included a charge of $11 ($8 after-tax) for layoff costs related to cost reduction initiatives including the separation of 124 employees (111 in the Engineered Products and Solutions segment, 12 in Corporate and 1 in the Global Rolled Products segment) and a net charge of $8 ($5 after-tax) for other miscellaneous items.

In the nine months ended September 30, 2017, Arconic recorded Restructuring and other charges of $118 ($99 after-tax), which included a charge of $59 ($40 after-tax) for layoff costs related to cost reduction initiatives including the separation of approximately 800 employees (350 in the Engineered Products and Solutions segment, 243 in the Global Rolled Products segment, 133 in the Transportation and Construction Solutions segment and 74 in Corporate); a charge of $60 ($60 after-tax) related to the sale of the Fusina, Italy rolling mill; a net benefit of $6 ($4 after-tax) for the reversal of forfeited executive stock compensation of $13, partially offset by a charge of $7 for the related severance; a net charge of $7 ($5 after-tax) for other miscellaneous items; and a benefit of $2 ($2 after-tax) for the reversal of a number of small layoff reserves related to prior periods.

As of September 30, 2018, approximately 35 of the 125 employees associated with 2018 restructuring programs and approximately 570 of the 760 employees (previously 830) associated with 2017 restructuring programs (with planned departures in 2018) were separated; all of the separations associated with 2016 restructuring programs were essentially complete. The remaining separations for the 2018 restructuring programs are expected to be completed by mid-2019. All of the remaining separations for the 2017 restructuring programs are expected to be completed by the end of 2018.

For the third quarter and nine months ended September 30, 2018, cash payments of $3 and $6, respectively, were made against layoff reserves related to 2018 restructuring programs, cash payments of $4 and $27, respectively, were made against layoff reserves related to 2017 restructuring programs, and cash payments of $0 and $4, respectively, 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	56	2	58
Cash payments	(37)	(1)	(38)
Restructuring charges	8	13	21
Other[(1)]	—	—	—
Reserve balances at September 30, 2018	$ 27	$ 14	$ 41

(1) Other includes reversals of previously recorded restructuring charges and credits, and the effects of foreign currency translation. In 2018, Other for layoff costs included the following: a reclassification of a $28 credit in postretirement benefits, as the impact to the liability was reflected in Arconic's separate liability for postretirement benefits; a reclassification of $18 in pension costs, as this liability was reflected in Arconic's separate liability for pension benefits; and reversals of $10 for previously recorded layoff charges. In 2017, Other for layoff costs included a reclassification of a stock awards reversal of $13 and reversals of $11 for previously recorded layoff reserves.

The remaining reserves are expected to be paid in cash during 2018, with the exception of approximately $18 to $20, which is expected to be paid over the next several years for lease termination costs and special termination benefit payments.

F. Other Expense (Income), Net

	Third quarter ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Non-service related net periodic benefit cost	$ 27	$ 39	$ 83	$ 116
Interest income	(6)	(5)	(16)	(13)
Foreign currency losses (gains), net	6	(1)	20	(4)
Net loss (gain) from asset sales	2	1	7	(514)
Other, net	(21)	4	(25)	5
	$ 8	$ 38	$ 69	$ (410)

For the third quarter and nine months ended September 30, 2018, Non-service related net periodic benefit cost included lower net actuarial losses as a result of pension actions taken during 2018 (see Note G). For the third quarter and nine months ended September 30, 2018, Other, net included a benefit from establishing a tax indemnification receivable of $29 reflecting Alcoa Corporation's 49% share of a Spanish tax reserve (see Notes H and Q). For the nine months ended September 30, 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 that resulted in cash proceeds of $888 which were recorded in Sale of investments within Investing Activities in the Statement of Consolidated Cash Flows and a $167 gain on the debt-for-equity exchange with two investment banks (the "Investment Banks") of the remaining portion of Arconic's retained interest in Alcoa Corporation common stock for a portion of the Company's outstanding notes held by the Investment Banks (the "Debt-for-Equity Exchange").

G. Pension and Other Postretirement Benefits

The components of net periodic benefit cost were as follows:

	Third quarter ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Pension benefits				
Service cost	$ 9	$ 23	$ 37	$ 67
Interest cost	54	59	164	175
Expected return on plan assets	(76)	(83)	(230)	(248)
Recognized net actuarial loss	42	55	126	165
Amortization of prior service cost (benefit)	1	1	3	4
Settlements	4	—	4	—
Curtailments	—	—	14	—
Net periodic benefit cost(1)	$ 34	$ 55	$ 118	$ 163
Other postretirement benefits				
Service cost	$ 2	$ 2	$ 6	$ 6
Interest cost	7	7	21	22
Recognized net actuarial loss	1	2	5	4
Amortization of prior service cost (benefit)	(2)	(2)	(6)	(6)
Curtailments	(28)	—	(28)	—
Net periodic benefit cost(1)	$ (20)	$ 9	$ (2)	$ 26

(1) Service cost was included within Cost of goods sold, Selling, general administrative, and other expenses, and Research and development expenses; curtailments and settlements 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.

In the first quarter of 2018, the Company announced that, effective 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 benefits 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. In the third quarter of 2018, the 2018 U.S. pension plan valuations were completed and additional pension contributions of $16 that were made in the first quarter of 2018 were able to be used to partially satisfy the third $50 requirement. The remaining $34 payment is expected to be made in 2019. Through the third quarter of 2018, $116 of pension contributions have been made toward the $150 requirement.

On April 13, 2018, the United Auto Workers ratified a new five-year labor agreement, covering approximately 1,300 U.S. employees of Arconic, which expires on March 31, 2023. 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 $9 was recorded in Restructuring and other charges in the second quarter of 2018.

In the third quarter of 2018, the Company announced that effective December 31, 2018, it will end all pre-Medicare medical, prescription drug and vision coverage for current and future salaried and non-bargained hourly employees and retirees of the Company and its subsidiaries. As a result of this change, in the third quarter of 2018, the Company recorded a decrease to the Accrued other postretirement benefits liability of $32 related to the reduction of future benefits, $4 offset in Accumulated other comprehensive loss, and a curtailment benefit of $28 in Restructuring and other charges.

In the third quarter of 2018, settlement accounting applied to a U.S. pension plan due to the payment of lump sums, resulting in a charge of $4 that was recorded in Restructuring and other charges.
In the fourth quarter of 2018, settlement accounting is expected to apply to certain U.S. pension plans due to the significant amount of lump sum payments made to participants. The settlement will result in a charge that is expected to be in the range of $70 to $85 that will be recorded in Restructuring and other charges. The actual charge will be based on the total lump sum payments for the year along with any updates to the plan assets and obligations based upon market conditions.

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 judgment 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 nine months ended September 30, 2018, the estimated annual effective tax rate, before discrete items, applied to ordinary income was 26.5%. This rate was 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 the additional estimated U.S. tax on Global Intangible Low-Taxed Income (GILTI) pursuant to the 2017 Act, domestic taxable income in certain U.S. states no longer subject to valuation allowance, and foreign income taxed in higher rate jurisdictions, partially offset by the favorable impact related to the portion of an indemnification receivable recorded through pre-tax income (see Note Q) that is not subject to tax and a benefit for tax credits allowed.
For the nine months ended September 30, 2017, Arconic's estimated annual effective tax rate, before discrete items, was 28.5%. This rate is lower than the federal statutory rate of 35% due to foreign income taxed in lower rate jurisdictions, a tax basis in excess of book basis in Alcoa Corporation common stock sold, and a nontaxable gain on the Debt-for-Equity Exchange. These beneficial items were partially offset by a loss on the sale of a rolling mill in Fusina, Italy for which no net tax benefit was recognized and valuation allowances recorded against U.S. foreign tax credits.
For the third quarter ended September 30, 2018 and September 30, 2017, the tax rate including discrete items was 35.3% and 30.8%, respectively. A discrete charge of $26 was recorded in the third quarter ended September 30, 2018 related to the establishment of a $59 tax reserve in Spain (see Note Q) and prior year adjustments of $13 related to various jurisdictions, partially offset by the reversal of a $38 foreign tax reserve that is effectively settled and an $8 reduction to the estimate of the provisional impact of the enactment of the 2017 Act discussed further below. A discrete charge of $2 was recorded in the third quarter ended September 30, 2017, primarily related to the tax effects of expired stock compensation, partially offset by a number of small items.
The tax provisions for the third quarter and nine months ended September 30, 2018 and 2017 were comprised of the following:

	Third quarter ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Pre-tax income at estimated annual effective income tax rate before discrete items	$ 66	$ 49	$ 170	$ 264
Catch-up adjustment to revalue previous quarter pre-tax income at current estimated annual effective tax rate	(2)	1	—	—
Interim period treatment of operational losses in foreign jurisdictions for which no tax benefit is recognized	(2)	1	(1)	5
Other discrete items	26	2	49	3
Provision for income taxes	$ 88	$ 53	$ 218	$ 272

On December 22, 2017, the 2017 Act was signed into law, making significant changes to the Internal Revenue Code. 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 SEC 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.

The Company's analysis of U.S. tax reform legislation updated through September 30, 2018, resulted in a decrease of $8 and an increase of $13 in the third quarter and nine months ended September 30, 2018, respectively, to the 2017 year-end provisional charge of $272. In the third quarter ended September 30, 2018, a benefit of $8 was recorded related to a $2 decrease in the estimate of the one-time transition tax and $6 for U.S. tax rate change impacts. In the nine months ended September 30, 2018, a net charge of $13 was recorded for an increase of $16 in the estimate of the one-time transition tax and a charge of $3 for alternative minimum tax (AMT) credits expected to be refunded upon filing the 2018 tax return that will result in no benefit under government sequestration, partly offset by beneficial U.S. tax rate change impacts of $6. The Company's estimates of the impact of the 2017 Act remain provisional through September 30, 2018.

The impact of the rate reduction will be finalized in the fourth quarter of 2018 upon the filing of the 2017 U.S. income tax return and the expected completion of the Internal Revenue Service’s 2017 audit. 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 further 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, AMT 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 September 30, 2018, there were no changes to the estimates related to the realizability of deferred tax assets. Further analysis, or the issuance of additional guidance, could result in changes to the realizability of this and other 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 September 30, 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. In the first quarter ended March 31, 2018, Arconic 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):

	Third quarter ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income	$161	$119	$424	$653
Less: Preferred stock dividends declared	(1)	(18)	(2)	(53)
Net income available to Arconic common shareholders - basic	160	101	422	600
Add: Interest expense related to convertible notes	3	2	8	7
Add: Dividends related to mandatory convertible preferred stock	—	—	—	50
Net income available to Arconic common shareholders - diluted	$163	$103	$430	$657
Average shares outstanding - basic	483	442	483	441
Effect of dilutive securities:				
Stock options	—	1	1	2
Stock and performance awards	5	5	5	5
Mandatory convertible preferred stock	—	—	—	39
Convertible notes	14	14	14	14
Average shares outstanding - diluted	502	462	503	501

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

	Third quarter ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Mandatory convertible preferred stock	—	39	—	—
Stock options[1]	6	3	6	3

(1) The average exercise price of options per share was $29.14 for the third quarter and nine months ended September 30, 2018 and $33.33 for the third quarter and nine months ended September 30, 2017.

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:

	Arconic		Noncontrolling Interests	
Third quarter ended September 30,	2018	2017	2018	2017
Pension and other postretirement benefits (G)				
Balance at beginning of period	$(2,058)	$(1,931)	$ —	$ —
Other comprehensive income:				
Unrecognized net actuarial loss and prior service cost/benefit	30	(7)	—	—
Tax (expense) benefit	(7)	1	—	—
Total Other comprehensive income (loss) before reclassifications, net of tax	23	(6)	—	—
Amortization of net actuarial loss and prior service cost[(1)]	18			