Arconic Inc.
Form PRRN14A
March 09, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of The Securities Exchange Act of 1934

(Amendment No. 4)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

ARCONIC INC.
(Name of Registrant as Specified in Its Charter)

ELLIOTT ASSOCIATES, L.P.

ELLIOTT INTERNATIONAL, L.P.

PAUL E. SINGER

ELLIOTT CAPITAL ADVISORS, L.P.

ELLIOTT SPECIAL GP, LLC

BRAXTON ASSOCIATES, INC.

ELLIOTT ASSET MANAGEMENT LLC

ELLIOTT INTERNATIONAL CAPITAL ADVISORS INC.

HAMBLEDON, INC.

ELLIOTT MANAGEMENT CORPORATION

THE LIVERPOOL LIMITED PARTNERSHIP

LIVERPOOL ASSOCIATES LTD.

LARRY A. LAWSON

CHRISTOPHER L. AYERS

ELMER L. DOTY

BERND F. KESSLER

PATRICE E. MERRIN
(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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PRELIMINARY COPY SUBJECT TO COMPLETION
DATED MARCH 9, 2017

ELLIOTT ASSOCIATES, L.P.

ELLIOTT INTERNATIONAL, L.P.

__________, 2017

Dear Fellow Arconic Shareholder:

Elliott Associates, L.P. and Elliott International, L.P., together with their affiliates (collectively, "Elliott" or "we"), beneficially own an aggregate of 51,102,133 shares of common stock, par value $1.00 per share (the "Common Stock"), of Arconic Inc., a Pennsylvania corporation ("Arconic" or the "Company"), and have additional economic exposure comparable to interest in an aggregate of 7,262,517 shares of Common Stock through derivative agreements, giving Elliott combined economic exposure in the Company of approximately 13.2% of the shares of Common Stock outstanding, making us Arconic's largest shareholder.

Elliott is an investment firm founded in 1977 that today manages approximately $32 billion of capital for both institutional and individual investors. Elliott is a multi-strategy firm active in debt, equities, commodities, currencies, and various other asset classes across a range of industries. Active equity investing is one of the firm's core strengths, and Elliott's approach to each such investment is based on extensive diligence, constructive engagement, and a strong preference for collaborative solutions. Elliott has a strong, long-term track record of working with companies in a variety of sectors to create long-term fundamental stakeholder value.

We have performed extensive due diligence on Arconic. We have spent many hundreds or thousands of hours speaking to independent experts, competitors of each business unit, customers, former employees, Wall Street analysts, and institutional and other investors. We also have engaged in discussions with Arconic's management and board of directors (the "Board") regarding the ways in which we believe the Company could improve operational performance, enhance the effectiveness of its capital allocation, strengthen investor communications, and establish improved corporate governance practices. Following Arconic's response to these discussions, including the Board's continued support of the leadership of the Company's current Chairman and CEO Dr. Klaus Kleinfeld, our resulting conclusion is clear and unambiguous: *immediate change in leadership is needed for Arconic to reliably and sustainably create shareholder value*.

We believe that Arconic has enormous potential, possessing a world-class asset base and high-quality workforce, but the Company is being held back by management leadership ill-suited to the key tasks ahead – disciplined operating execution and effective capital allocation. We have urged the Board to do what is clearly in the best interest of Arconic's stakeholders and begin searching for Dr. Kleinfeld's successor. However, thus far the Board, as currently composed, has been unwilling to take this logical step. As a result, we have nominated, and are seeking your support to elect at the Company's 2017 annual meeting of shareholders (the "2017 Annual Meeting"), a slate of independent, highly qualified nominees (the "Nominees") who, if elected, would constitute a minority of the Board. Each of the Nominees would bring substantial expertise and deep experience to the Board, and was selected specifically for his or her ability to empower the current Board to act on the enormous value-creation opportunity present at Arconic today.

The Company has a classified Board, which currently consists of 13 directors and is divided into three classes. Directors are elected for three-year terms. The terms of five directors serving on the Board expire at the 2017 Annual Meeting.

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We are seeking to change a minority of the Board. Through the attached Proxy Statement, we are soliciting proxies to elect not only our four director nominees, but also the candidate who has been nominated by the Company other than Messrs. Hess, Kleinfeld and Tata and Ms. Alving. This gives shareholders the ability to vote for the total number of directors up for election at the 2017 Annual Meeting. The names, backgrounds and qualifications of the Company's nominees, and other information about them, can be found in the Company's proxy statement. There is no assurance that any of the Company's nominees will serve as directors if our nominees are elected.

If elected, our nominees, subject to their fiduciary duties as directors, will seek to work with the other members of the Board to position Arconic to maximize shareholder value. However, our Nominees will constitute a minority on the Board and there can be no guarantee that our Nominees will be able to implement the actions that they believe are necessary to do so, including replacing Dr. Kleinfeld as the Company's CEO and selecting a successor.

We urge you to carefully consider the information contained in the attached Proxy Statement and then support our efforts by signing, dating and returning the enclosed **BLUE** proxy card today. The attached Proxy Statement and the enclosed **BLUE** proxy card are first being furnished to the shareholders on or about ____________, 2017.

If you have already voted for the incumbent management slate, you have every right to change your vote by signing, dating and returning a later dated proxy.

If you have any questions or require any assistance with your vote, please contact Okapi Partners LLC, which is assisting us, at its address and toll-free numbers listed below.

Thank you.

Elliott Management Corporation

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Okapi Partners LLC is assisting Elliott with its effort to solicit proxies. If you have any questions or require assistance in authorizing a proxy or voting your shares of Common Stock, please contact:

1212 Avenue of the Americas, 24th Floor

New York, NY 10036

(212) 297-0720

Call Toll-Free at: (877) 869-0171

E-mail: info@okapipartners.com

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PRELIMINARY COPY SUBJECT TO COMPLETION
DATED MARCH 9, 2017

2017 ANNUAL MEETING OF SHAREHOLDERS

OF

ARCONIC INC.

PROXY STATEMENT
OF
ELLIOTT ASSOCIATES, L.P.
ELLIOTT INTERNATIONAL, L.P.

PLEASE SIGN, DATE AND MAIL THE ENCLOSED BLUE PROXY CARD TODAY

Elliott Associates, L.P., a Delaware limited partnership ("Elliott Associates"), Elliott International, L.P., a Cayman Islands limited partnership ("Elliott International"), together with the other participants named herein (collectively, "Elliott"), are furnishing this proxy statement ("Proxy Statement") and accompanying **BLUE** proxy card to holders of common stock, par value $1.00 per share ("Common Stock"), of Arconic Inc., a Pennsylvania corporation ("Arconic" or the "Company"), in connection with the solicitation of proxies in connection with the Company's 2017 annual meeting of shareholders (including any and all adjournments, postponements, continuations or reschedulings thereof, or any other meeting of shareholders held in lieu thereof, the "2017 Annual Meeting"). The 2017 Annual Meeting is scheduled to be held at ____________ located at ______________, on ____________, at ________, local time.

We are seeking to change a minority of the Board of Directors of the Company (the "Board") because we believe that a change of leadership is required to improve performance at Arconic. We are presenting a slate of four independent, highly qualified nominees for election to the Board, each of whom would bring substantial expertise and deep experience to the Board, and was selected specifically for his or her ability to empower the current Board to act on the enormous value-creation opportunity present at Arconic today. We are seeking your support at the 2017 Annual Meeting for the following:

1. to elect Elliott's four director nominees, Christopher L. Ayers, Elmer L Doty, Bernd F. Kessler and Patrice E. Merrin (collectively, the "Nominees"), to the Board to serve three-year terms expiring at the 2020 Annual Meeting of Shareholders, or until their respective successors are duly elected and qualified;

2. to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2017;

3. to vote, on an advisory basis, on executive compensation;

4. to vote, on an advisory basis, on the frequency of the executive compensation vote;

5. to approve an amendment of the Articles of Incorporation (the “Charter”) to eliminate the supermajority voting requirement in the Charter regarding amending Article SEVENTH (fair price protection);

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6. to approve an amendment of the Charter to eliminate the supermajority voting requirement in the Charter regarding amending Article EIGHTH (director elections);

7. to approve an amendment of the Charter to eliminate the supermajority voting requirement in the Charter relating to the removal of directors;

8. to approve an amendment of the Charter to eliminate the classification of the Board; and

9. to vote on a shareholder proposal, if properly presented at the 2017 Annual Meeting.

We believe that the terms of five directors serving on the Board expire at the 2017 Annual Meeting. This Proxy Statement is soliciting proxies to elect not only our four director nominees, but also the candidate who has been nominated by the Company other than Messrs. Hess, Kleinfeld and Tata and Ms. Alving. This gives shareholders the ability to vote for the total number of directors up for election at the 2017 Annual Meeting.

As of the date hereof, Elliott Associates, Elliott International and the other Participants (as defined below) (other than Mr. Lawson) collectively own 51,102,233 shares of Common Stock (the “Elliott Group Shares”). While we currently intend to vote all of the Elliott Group Shares in favor of the election of the Nominees, we reserve the right to vote some or all of the Elliott Group Shares for some or all of the Company’s director nominees, as we see fit, in order to achieve a Board composition that we believe is in the best interest of all shareholders. We would only intend to vote some or all of the Elliott Group Shares for some or all of the Company’s director nominees in a different manner than we are otherwise recommending in the event it were to become apparent to us, based on the projected voting results at such time, that less than all of the Nominees would be elected at the 2017 Annual Meeting and that by voting the Elliott Group Shares we could help elect the Company nominees that we believe are the most qualified to serve as directors and thus help achieve a Board composition that we believe is in the best interest of all shareholders. Shareholders should understand, however, that all shares of Common Stock represented by the enclosed **BLUE** proxy card will be voted at the 2017 Annual Meeting as marked.

The Company has set the close of business on March 1, 2017 as the record date for determining the shareholders entitled to vote at the 2017 Annual Meeting (the “Record Date”). Each share of Common Stock is entitled to one vote for each of the proposals to be voted on. The principal executive offices of the Company are located at 390 Park Avenue, New York, New York, 10022. According to the Company’s proxy statement, as of the Record Date, there were _________ shares of Common Stock issued, outstanding and entitled to vote at the 2017 Annual Meeting.

THIS SOLICITATION IS BEING MADE BY ELLIOTT AND NOT ON BEHALF OF THE BOARD OR MANAGEMENT OF THE COMPANY.

Elliott URGES YOU TO SIGN, DATE AND RETURN THE **BLUE** PROXY CARD IN FAVOR OF THE ELECTION OF THE NOMINEES.

IF YOU HAVE ALREADY SENT A WHITE PROXY CARD FURNISHED BY COMPANY MANAGEMENT OR THE BOARD, YOU MAY REVOKE THAT PROXY AND VOTE ON EACH OF THE PROPOSALS DESCRIBED IN THIS PROXY STATEMENT BY SIGNING, DATING AND RETURNING THE ENCLOSED **BLUE** PROXY CARD. THE LATEST DATED PROXY IS THE ONLY ONE THAT COUNTS. ANY PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE 2017 ANNUAL MEETING BY DELIVERING A WRITTEN NOTICE OF REVOCATION OR A LATER DATED PROXY FOR THE 2017 ANNUAL MEETING OR BY VOTING IN PERSON AT THE 2017 ANNUAL MEETING.

Important Notice Regarding the Availability of Proxy Materials for the 2017 Annual Meeting:
The proxy materials are available at

www.newarconic.com

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IMPORTANT

Your vote is important, no matter how many or how few shares of Common Stock you own. Elliott urges you to sign, date, and return the enclosed BLUE proxy card today to vote FOR the election of the Nominees and in accordance with Elliott's recommendations on the other proposals on the agenda for the 2017 Annual Meeting.

- If your shares of Common Stock are registered in your own name, please sign and date the enclosed **BLUE** proxy card and return it to Elliott, c/o Okapi Partners LLC ("Okapi Partners"), in the enclosed postage-paid envelope today.
- If your shares of Common Stock are held in a brokerage account or bank, you are considered the beneficial owner of the shares of Common Stock, and these proxy materials, together with a **BLUE** voting form, are being forwarded to you by your broker or bank. As a beneficial owner, you must instruct your broker, trustee or other representative how to vote. Your broker cannot vote your shares of Common Stock on your behalf without your instructions.
- Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or by the Internet. Please refer to the enclosed voting form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed voting form.

Since only your latest dated proxy card will count, we urge you not to return any proxy card you receive from the Company. Even if you return the WHITE management proxy card marked "withhold" as a protest against the incumbent directors, it will revoke any proxy card you may have previously sent to us. Remember, you can vote for our four Nominees only on our **BLUE** proxy card. So please make certain that the latest dated proxy card you return is the **BLUE** proxy card.

Okapi Partners is assisting Elliott with its effort to solicit proxies. If you have any questions or require assistance in authorizing a proxy or voting your shares of Common Stock, please contact:

1212 Avenue of the Americas, 24th Floor

New York, NY 10036

(212) 297-0720

Call Toll-Free at: (877) 869-0171

E-mail: info@okapipartners.com

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QUESTIONS AND ANSWERS RELATING TO THIS PROXY SOLICITATION

The following are some of the questions you may have as a shareholder, as well as the answers to those questions. The following is not a substitute for the information contained in this Proxy Statement, and the information contained below is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this Proxy Statement. We urge you to read this Proxy Statement carefully and in its entirety.

Who is making this solicitation?

The solicitation for election of the Nominees and the other proposals described in this Proxy Statement at the 2017 Annual Meeting is being made by Elliott Associates, Elliott International and certain other participants in this solicitation. Elliott Associates is a Delaware limited partnership and Elliott International is a Cayman Islands limited partnership. The principal business of both Elliott Associates and Elliott International is to purchase, sell, trade and invest in securities. The business address of Elliott Associates, a Delaware limited partnership, is 40 West 57th Street, New York, New York 10019. The business address of Elliott International, a Cayman Islands limited partnership, is c/o Maples & Calder, P.O. Box 309, Ugland House, South Church Street, George Town, Cayman Islands, British West Indies.

What are we asking you to vote for?

We are primarily seeking your support at the 2017 Annual Meeting to elect Elliott's four Nominees, Christopher L. Ayers, Elmer L Doty, Bernd F. Kessler and Patrice E. Merrin, to the Board to serve three-year terms expiring at the 2020 Annual Meeting of Shareholders, or until their respective successors are duly elected and qualified.

In addition to the election of directors, there are a series of other proposals being presented for shareholder approval at the 2017 Annual Meeting. Please see the sections entitled "Proposal No. 2: Ratification of Appointment of Independent Registered Public Accounting Firm," "Proposal No. 3: Advisory Vote on Executive Compensation," "Proposal No. 4: Advisory Vote on Frequency of Executive Compensation Vote," "Proposal No. 5: Eliminate Supermajority Voting Requirement in the Articles of Incorporation Regarding Amending Article SEVENTH (Fair Price Protection)," "Proposal No. 6: Eliminate Supermajority Voting Requirement in the Articles of Incorporation Regarding Amending Article EIGHTH (Director Elections)," "Proposal No. 7: Eliminate Supermajority Voting Requirement in Article EIGHTH of the Articles of Incorporation Relating to the Removal of Directors," "Proposal No. 8: Eliminate the Classified Board Structure By Approving Amendments to the Articles of Incorporation," and "Proposal No. 9: Shareholder Proposal" for more about each of these proposals and our recommendations for how you vote.

Why are we soliciting your vote?

We are seeking to change a minority of the Board because we believe that a change of leadership is required to improve performance at Arconic. We are presenting a slate of four independent, highly qualified nominees to join the Board, each of whom would bring substantial expertise and deep experience to the Board, and was selected specifically for his or her ability to empower the current Board to act on the enormous value-creation opportunity present at Arconic today. We urge the shareholders to support us in this effort by voting "**FOR**" our Nominees.

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Who are the Nominees?

We are proposing that our Nominees, Christopher L. Ayers, Elmer L Doty, Bernd F. Kessler and Patrice E. Merrin, be elected as directors of the Company to serve on the Board until the 2020 Annual Meeting, or until their respective successors are duly elected and qualified.

- **Chris L. Ayers (Former President and CEO, WireCo WorldGroup, Inc.)**: Brings considerable industry expertise having been a former Company executive and former President of the PCC Forgings Division of Precision Castparts Corp., as well as a current director of Universal Stainless & Alloy Products, Inc. We believe that Mr. Ayers' extensive experience in the specialty materials industry, including his previous executive service with the Company prior to its separation into two publicly traded companies, makes him well-qualified to serve on the Board.
- **Elmer L. Doty (Former President and CEO, Accudyne Industries LLC)**: Brings more than 40 years of leadership experience in heavy industry, including as Chief Executive Officer of Accudyne Industries LLC and Vought Aircraft Industries, Inc., and a senior executive of United Defense Industries, Inc. and FMC Corporation. We believe that Mr. Doty's years of management experience as a senior executive and a deep knowledge of the aerospace and defense industries will be a valuable addition to the Board.
- **Bernd F. Kessler (Former CEO, SRTechnics AG)**: Brings valuable insights from a long career as an international business executive, including as a director of Polaris Industries, former President and CEO of MTU Maintenance and former executive at Honeywell International. We believe that Mr. Kessler's significant operating and leadership experience with global businesses and his strong background in engineering, operational excellence and organizational development will make him a valuable addition to the Board.
- **Patrice E. Merrin (Former President and CEO, Luscar Ltd.)**: Brings valuable experience as an international business executive and corporate director who currently serves as a director for Stillwater Mining Company, Glencore plc, and Novadaq Technologies Inc. We believe that Ms. Merrin's significant experience serving as a director of public companies and industry insights will make her a valuable addition to the Board.

We believe that the terms of five directors serving on the Board expire at the 2017 Annual Meeting. This Proxy Statement is soliciting proxies to elect not only our four director nominees, but also the candidate who has been nominated by the Company other than Messrs. Hess, Kleinfeld and Tata and Ms. Alving. This gives shareholders the ability to vote for the total number of directors up for election at the 2017 Annual Meeting.

Who is entitled to vote at the 2017 Annual Meeting and how many votes do you have?

The Company has set the close of business on March 1, 2017 as the Record Date for determining the shareholders entitled to vote at the 2017 Annual Meeting. Each share of Common Stock is entitled to one vote for each of the proposals to be voted on.

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Only shareholders of record on the Record Date will be entitled to notice of and to vote at the 2017 Annual Meeting. Shareholders who sell their shares of Common Stock before the Record Date (or acquire them without voting rights after the Record Date) may not vote such shares of Common Stock. Shareholders of record on the Record Date will retain their voting rights in connection with the 2017 Annual Meeting even if they sell such shares of Common Stock after the Record Date.

According to the Company's proxy statement, as of the Record Date, there were _________ shares of Common Stock outstanding and there are no other securities of the Company outstanding and entitled to vote at the 2017 Annual Meeting.

How do proxies work?

Elliott is asking you to appoint Geoffrey Sorbello, Austin Camporin and Steve Wolosky, and each of them, as your proxy holders to vote your shares of Common Stock at the 2017 Annual Meeting. You make this appointment by voting the enclosed **BLUE** proxy card or by using one of the voting methods described below. Giving us your proxy means you authorize the proxy holders to vote your shares at the 2017 Annual Meeting, according to the directions you provide. You may vote for all, some or none of our director candidates. Whether or not you are able to attend the 2017 Annual Meeting, you are urged to sign, date and return the enclosed **BLUE** proxy card. All valid proxies received prior to the 2017 Annual Meeting will be voted. If you specify a choice with respect to any item by marking the appropriate box on the proxy, the shares of Common Stock will be voted in accordance with that specification.

What is the difference between holding shares as a shareholder of record/registered shareholder and as a beneficial owner of shares?

If your shares of Common Stock are registered directly in your name with the Company's transfer agent, you are considered a "shareholder of record" or a "registered shareholder" of those shares. If your shares are held in an account at a bank, brokerage firm or other similar organization, then you are a beneficial owner of shares held in street name. In that case, you will receive the Company's proxy materials from the bank, brokerage firm or other similar organization holding your account and, as a beneficial owner, you have the right to direct your bank, brokerage firm or similar organization as to how to vote the shares held in your account.

How do you attend the 2017 Annual Meeting?

The 2017 Annual Meeting will be held at ___________, on ___________, at ___________, local time. According to the Company's proxy statement, you may attend the 2017 Annual Meeting if you were a shareholder of record at the close of business on March 1, 2017, the Record Date for the 2017 Annual Meeting. According to the Company's proxy statement, only shareholders and authorized guests of the Company may attend the 2017 Annual Meeting and all attendees will be required to show a valid form of ID (such as a government-issued form of photo identification). If you hold your shares in street name (i.e., through a bank or broker), you must also provide proof of share ownership, such as a letter from your bank or broker or a recent brokerage statement. Street-name holders planning on voting in person at the annual meeting must provide a "legal proxy" from their bank or broker. Please see the Company's proxy statement for a complete description of how to attend the 2017 Annual Meeting.

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What is the quorum requirement for the 2017 Annual Meeting?

A quorum is the minimum number of shares of Common Stock that must be represented at a duly called meeting in person or by proxy in order to legally conduct business at the meeting. A majority of the outstanding shares of Common Stock, present at the meeting or represented by proxy, will constitute a quorum at the 2017 Annual Meeting. Abstentions and broker non-votes count as "shares present" at the 2017 Annual Meeting for purposes of determining a quorum. If you vote to abstain on one or more proposals, your shares of Common Stock will be counted as present for purposes of determining the presence of a quorum unless you vote to abstain on all proposals.

What is the effect of an "ABSTAIN" vote?

Abstentions are considered to be present and entitled to vote with respect to each relevant proposal, but are not considered "votes cast" on these proposals. As a result of the voting requirements for each of the proposals to be considered at the 2017 Annual Meeting, abstentions will have no effect on the outcome of Proposal Nos. 1, 2, 3, 4 and 9, but will have the same effect as a vote AGAINST Proposal Nos. 5, 6, 7 and 8.

What is a broker non-vote?

A "broker non-vote" occurs when a broker submits a proxy for the meeting with respect to a discretionary matter but does not vote on non-discretionary matters because the beneficial owner did not provide voting instructions on those matters. Given the delivery to brokers of competing sets of proxy materials, the New York Stock Exchange ("NYSE") rules governing brokers' discretionary authority will not permit such brokers to exercise discretionary authority regarding any of the proposals to be voted on at the annual meeting, whether "routine" or not, to the extent Street-name holders have been provided with Elliott's materials.

If your shares are held of record by a bank, broker or other nominee, we urge you to give instructions to your bank, broker or other nominee as to how you wish your shares to be voted so you may participate in the shareholder voting on these important matters. As a result of the voting requirements for each of the proposals to be considered at the 2017 Annual Meeting, broker non-votes will have no effect on the outcome of Proposal Nos. 1, 2, 3, 4 and 9, but will have the same effect as a vote AGAINST Proposal Nos. 5, 6, 7 and 8.

What vote is required to elect the Nominees?

According to the Company's proxy statement, the election of directors at the 2017 Annual Meeting is considered a contested election as defined in the Company's By-Laws, and the five nominees receiving the highest number of "FOR" votes cast will be elected. Abstentions and broker non-votes count as "shares present" at the 2017 Annual Meeting for purposes of determining a quorum, but abstentions and broker non-votes are not considered "votes cast" on this proposal and therefore has no effect on the outcome of this proposal.

What vote is required to approve the other proposals described in this Proxy Statement?

According to the Company's proxy statement, the approval of Proposal Nos. 2 and 9 require the affirmative vote of a majority of the "votes cast" for the proposal at the 2017 Annual Meeting. "Votes cast" on these proposals means votes "For" or "Against" a particular proposal, whether by proxy or in person. Abstentions and broker non-votes are not considered "votes cast" on these proposals and therefore have no effect on the outcome of these proposals.

According to the Company's proxy statement, Proposal Nos. 3 and 4 are non-binding, advisory votes requiring further action by the Company to implement any changes. Abstentions and broker non-votes are not considered "votes cast" on these proposals and therefore have no effect on the outcome of these proposals.

With respect to Proposal Nos. 5, 6, 7 and 8, authorization requires the approval of holders of 80% of the outstanding shares of Common Stock. Abstentions and broker non-votes will have the same effect as a vote "AGAINST" each of these proposals.

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What should you do in order to vote for the Nominees and the other proposals?

Your vote is important, no matter how many or how few shares of Common Stock you own. Elliott urges you to sign, date, and return the enclosed BLUE proxy card today to vote FOR the election of the Nominees and in accordance with Elliott's recommendations on the other proposals on the agenda for the 2017 Annual Meeting.

- If your shares of Common Stock are registered in your own name, please sign and date the enclosed **BLUE** proxy card and return it to Elliott, c/o Okapi Partners, in the enclosed postage-paid envelope today.
- If your shares of Common Stock are held in a brokerage account or bank, you are considered the beneficial owner of the shares of Common Stock, and these proxy materials, together with a **BLUE** voting form, are being forwarded to you by your broker or bank. As a beneficial owner, you must instruct your broker, trustee or other representative how to vote. Your broker cannot vote your shares of Common Stock on your behalf without your instructions.
- Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or by the Internet. Please refer to the enclosed voting form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed voting form.

Since only your latest dated proxy card will count, we urge you not to return any proxy card you receive from the Company. Even if you return the WHITE management proxy card marked "withhold" as a protest against the incumbent directors, it will revoke any proxy card you may have previously sent to us. Remember, you can vote for our four Nominees only on our **BLUE** proxy card. So please make certain that the latest dated proxy card you return is the **BLUE** proxy card.

How do you vote if you participate in one of the employee savings plans?

According to the Company's proxy statement, you must provide the trustee of the employee savings plan with your voting instructions in advance of the 2017 Annual Meeting. Also according to the Company's proxy statement, you cannot vote your shares in person at the 2017 Annual Meeting; the trustee is the only one who can vote your shares; the trustee will vote your shares as you have instructed; and if the trustee does not receive your instructions, your shares generally will be voted in proportion to the way the other plan participants voted. To allow sufficient time for voting by the trustee, your voting instructions must be received by __________, on __________, 2017. Please see the Company's proxy statement for a complete description about how to vote if you participate in one of the employee savings plans.

What does it mean if you receive more than one BLUE proxy card on or about the same time?

It generally means you hold shares registered in more than one account. In order to vote all of your shares, please sign, date, and return each **BLUE** proxy card or, if you vote via the Internet or telephone, vote once for each **BLUE** proxy card you receive.

How do I revoke a proxy?

Shareholders of the Company may revoke their proxies at any time prior to exercise by attending the 2017 Annual Meeting and voting in person (although attendance at the 2017 Annual Meeting will not in and of itself constitute revocation of a proxy) or by delivering a written notice of revocation. The delivery of a subsequently dated proxy which is properly completed will constitute a revocation of any earlier proxy. The revocation may be delivered either to Elliott in care of Okapi Partners at the address set forth on the back cover of this Proxy Statement or to the Company at 390 Park Avenue, New York, New York 10022 or any other address provided by the Company. Although a revocation is effective if delivered to the Company, we request that either the original or photostatic copies of all revocations be mailed to Elliott in care of Okapi Partners at the address set forth on the back cover of this Proxy Statement so that we will be aware of all revocations and can more accurately determine if and when proxies have been received from the holders of record on the Record Date of a majority of the outstanding shares of Common Stock. Additionally, Okapi Partners may use this information to contact shareholders who have revoked their proxies in order to solicit later dated proxies for the election of our Nominees.

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Who is paying for the solicitation on behalf of Elliott?

Elliott will pay all costs of the solicitation of proxies on behalf of Elliott and the other participants described in this Proxy Statement for the 2017 Annual Meeting. Elliott does not intend to seek reimbursement of those costs from the Company.

Whom should I call if I have any questions about the solicitation?

Okapi Partners is assisting Elliott with its effort to solicit proxies. If you have any questions or require assistance in authorizing a proxy or voting your shares of Common Stock, please contact:

1212 Avenue of the Americas, 24th Floor

New York, NY 10036

(212) 297-0720

Call Toll-Free at: (877) 869-0171

E-mail: info@okapipartners.com

Your vote is important, no matter how many or how few shares of Common Stock you own. Elliott urges you to sign, date, and return the enclosed BLUE proxy card today to vote FOR the election of our Nominees and in accordance with Elliott's recommendations on the other proposals on the agenda for the 2017 Annual Meeting.

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BACKGROUND OF THE SOLICITATION

The following is a chronology of material events leading up to this proxy solicitation.

- On September 28, 2015, the Company announced that the Board approved a plan to separate the Company into two publicly-traded companies, Upstream Company and Value-Add Company (the "Separation"), with Upstream Company operating under the "Alcoa" name with new leadership and Value-Add Company operating under a new name with Dr. Kleinfeld as Chairman and Chief Executive Officer.
- On November 9, 2015, Elliott met with Dr. Kleinfeld at the Company's offices in New York. During the meeting, they discussed negative investor perception of the Company and the Separation, and a number of opportunities to maximize shareholder value, including by improving investor communications, optimizing the structure of the Separation and reforming shareholder-unfriendly corporate governance practices.
- On November 23, 2015, Elliott filed a Schedule 13D disclosing a 6.4% economic interest in the Company. In the Schedule 13D, Elliott stated that it would seek to engage in a constructive dialogue with the Board and the Company's management regarding the Separation as well as a number of other available opportunities to maximize shareholder value.
- On January 20, 2016, Elliott met with Dr. Kleinfeld and Matthew Garth at the World Economic Forum in Davos, Switzerland. During the meeting, Elliott expressed its conviction that better investor communication, clearly defined long-term margin targets, thoughtful structuring of the Separation and improved corporate governance were needed to fully realize the Company's value potential. Elliott also discussed a need for the Company to add directors with relevant expertise and operational experience to the Board and suggested a number of potential candidates.
- On January 25, 2016, Elliott filed an amendment to its Schedule 13D disclosing a 7.4% economic interest in the Company.
- On February 1, 2016, Elliot entered into a letter agreement with the Company pursuant to which, among other things, (i) the Company agreed that effective as of February 5, 2016, the size of the Board would be increased to 15 directors and the Board would appoint each of Ulrich (Rick) Schmidt, Sean O. Mahoney and John C. Plant to fill the vacancies resulting from such increase, (ii) Elliot agreed that at the Company's 2016 annual meeting of shareholders (the "2016 Annual Meeting"), it would vote all shares of Common Stock that it had the right to vote, as of the record date, in favor of the election of directors nominated by the Board and, subject to certain exceptions relating to any extraordinary transactions, in accordance with the Board's recommendation on any proposals and (iii) Elliot agreed to certain standstill provisions expiring on January 7, 2017, subject to certain exceptions. Elliott also filed an amendment to its Schedule 13D disclosing a 7.5% economic interest in the Company.
- On November 1, 2016, the Company completed the Separation into "Arconic Inc." and "Alcoa Corporation".

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- On November 4, 2016, Elliott filed an amendment to its Schedule 13D disclosing a 9.0% economic interest in the Company.
- On November 15, 2016, Elliott filed an amendment to its Schedule 13D disclosing a 10.0% economic interest in the Company.
- On December 8, 2016, Elliott and the Company entered into a confidentiality agreement expiring on December 14, 2016, the day of the Company's upcoming 2016 investor day event (the "2016 Investor Day"), pursuant to which the Company provided Elliott with a copy of the planned presentation for the 2016 Investor Day. Elliott also filed an amendment to its Schedule 13D disclosing an 11.1% economic interest in the Company.
- During the standstill period, from February 1, 2016 to January 7, 2017, Elliott met with members of the Board and Company management on a number of occasions to privately express Elliott's views regarding the Company's disappointing performance and shareholder views on the performance of existing management.
- On January 7, 2017, certain standstill provisions related to the February 1, 2016 letter agreement expired.
- On January 9, 2017, Elliott sent a private letter to the Board informing them that after extensive due diligence on the Company and multiple meetings with management, Elliott concluded that immediate change in the Company's leadership is needed. Elliott expressed its preference to work constructively and privately with the Board so the Board would voluntarily take appropriate action to address the Company's disappointing performance and the management issues at the Company.
- On January 10, 2017, Elliott met with Company directors Messrs. O'Neal, Collins, Mahoney and Mme. Russo. During the meeting, they discussed the contents of Elliott's January 9, 2017 letter and how the Board intends to address Elliott's concerns.
- On January 25, 2017, Elliott filed an amendment to its Schedule 13D disclosing an 11.9% economic interest in the Company.
- On January 30, 2017, Elliott met with Company directors Messrs. O'Neal, Collins, Mahoney, Gupta, and Mme. Russo. In Elliott's view, the measures proposed by the directors failed to properly address the Company's performance issues and Elliott's concerns regarding existing management.
- On January 31, 2017, Elliott delivered a letter to the Company (the "Nomination Letter") nominating Christopher L. Ayers, Elmer L. Doty, Charles M. Hall, Bernd F. Kessler and Patrice E. Merrin for election to the Board at the 2017 Annual Meeting. In the Nomination Letter, Elliott stated that to the extent the Company includes Ulrich "Rick" Schmidt on its slate of director candidates for election at the 2017 Annual Meeting, Elliott intends to withdraw one of the Nominees. Elliott also issued an investor presentation stating Elliott's views on Arconic and Dr. Kleinfeld's leadership.
- Between January 31, 2017 and February 3, 2017, Elliott issued four updated versions of the investor presentation dated January 31, 2017, mainly in order to clarify Elliott's beliefs as to the likely extent of the opportunity at Global Rolled Products ("GRP") and to provide additional clarification and support with respect to certain of the information presented. The key differences between the final version of the presentation (referred to as version 5) and earlier versions (referred to as versions 1 to 4) are discussed below:

    - In version 1, slide 7 described the upper bound of the perceived opportunity at GRP as achieving "best-in-class" performance, entailing an increase in EBITDA of ~$750 million, worth $13.50 per share. On slide 20, supporting detail regarding "best-in-class" performance was incorrectly referred to as "Industry Average". In version 3, that typo was corrected to read "best-in-class".
    - In version 3, slide 21 used a metric "best-in-class production cost," defined as the "(lowest cost line item across top 10 producers) summed across Raw Material, Overhead, & WIP, and Other." To further clarify the methodology used, subsequent versions renamed the metric as "Best Demonstrated Practice" ("BDP"). This name was designed to convey that the metric summed up the lowest costs from multiple producers (as previously described in the footnote). Understanding that there may be some debate about the extent to which BDP is fully-achievable, the footnote on slide 21 was modified to make clear that this upper bound figure "may not be fully achievable" since "the components of rolling costs are interactive."

Moreover, Elliott modified its “High” case to the achievement of $245 million of cost savings at GRP, worth $4.41 per share. The “High” case corporate multiple used is a summary product of the weighted components of the business and any changes to that multiple reflect the changing weights of the various businesses. As a result of these changes, in version 5, Elliott reduced the “High” case price per share from $54 per share to $46 per share and the percentage upside from 138% to a maximum of 105%.

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- In version 4 of the presentation, in an effort to enable investors to determine for themselves the amount of possible cost savings at GRP, an appendix was added with additional rolling cost data illustrating GRP against four possible approaches to GRP cost savings: Industry Average bucketed costs; Best-in-Class Producer (defined as a single producer); Best-in-Class Producer with BDP for Overhead & WIP; and BDP. In version 5, slide 21 was updated to provide a summary view of the four possible approaches to GRP cost savings, with each approach and the related terminology explained in detail in a supporting footnote. The slide also clarified that Elliott's approach reflected its analysis of Industry Data rather than simply raw industry cost data. The appendix was eliminated in version 5 as Elliott believed that using the summary approach alone resulted in a presentation that is more useful to the typical reader.
- Version 5 differed from version 1 on slides 7 and 20 in describing the gap between Arconic's margins and that of its competitor Precision Castparts ("PCC"). Version 1 contained a graph comparing PCC and Arconic margins by year. Recognizing that differences in the reporting periods (PCC reports fiscal years that end on 3/31 while Arconic reports fiscal years that end on 12/31) could lead to some confusion, subsequent versions clarified this to match PCC to Arconic's calendar year reporting. Adjustments were also made for allocation of corporate expenses, one-time expenses, and pension expenses at both companies. From version 1 to version 5, the gap was reduced to from 690 bps to 590 in 2008 and from 730 to 620 in 2015. Elliott also described the gap as an average of 700 bps rather than a range of 700 bps to 1100 bps. Elliott does not believe that these changes had a material effect on its analysis.
- In version 2, Elliott eliminated the reference to 50% upside from EPS improvements and 7% upside from corporate expense reduction to reflect a uniform approach for all aspects of the business (Elliott had not provided percentage changes for improvement at GRP and TCS). Elliott does not believe that these changes had a material effect on its analysis.
- In version 5, Elliott's description of Arconic's 2016 Revenue Guidance was adjusted from $14.7 billion of revenue to $14.4 billion to reflect LME/FX changes and the sale of the Remele medical device business. Elliott believed that this change was more favorable to Arconic.
- In version 4, slide 25 was adjusted to exclude EVP Business Services and EVP Business Development roles given the unclear status of these roles at Arconic today.

- On February 1, 2017, Elliott issued a letter to the Company's shareholders stating that Elliott believes fundamental change is needed at the Company, and the election of the Nominees to the Board is necessary to catalyze such a change. In the letter, Elliott also discussed its engagement of former Spirit AeroSystems, Inc. ("Spirit AeroSystems") CEO Larry Lawson as a consultant. Elliott also filed an amendment to its Schedule 13D disclosing a 12.1% economic interest in the Company.

- On February 3, 2017, Elliott updated its letter to the Company's shareholders dated February 1, 2017, to provide additional information with respect to the opportunity size of potential operational improvements at Arconic and to reduce the illustrative upper end of the range of share prices that Elliott believes Arconic can achieve (based on the application of an appropriate industry multiple) following the implementation of certain improvements.
- On February 6, 2017, the Board issued a letter to Arconic's shareholders stating the Board's support for the Company's strategic direction and the continued leadership of Chairman and CEO Dr. Kleinfeld.

- On February 7, 2017, Elliott issued a letter to the Board responding to its letter dated February 6, 2017. Elliott also issued a press release including the full text of the letter.

- On February 13, 2017, Elliott issued a letter calling for the Board to take action, in light of the level of shareholder support witnessed since Elliott announced its nomination of the Nominees for election to the Board at the 2017 Annual Meeting, and suggested the Board consider Larry Lawson as Chief Executive Officer. Elliott also issued a press release including the full text of the letter.

- On February 23, 2017, Elliott issued a letter to the Board requesting that the Board form a search committee and conduct a full search for a new Chief Executive Officer without delay, and suggesting that the Board consider Larry Lawson as a lead candidate. Elliott also issued a press release including the full text of the letter.
- On February 24, 2017, Jon Pollock, Co-Chief Executive Officer and Co-Chief Investment Officer of Elliott Management Corporation, spoke to Company director Mme. Russo about engaging on a collaborative solution at Arconic and encouraged Mme. Russo and the other members of the Board to work constructively with Elliott to achieve a positive outcome for all involved.
- On February 28, 2017, Elliott filed an amendment to its Schedule 13D disclosing a 13.4% economic interest in the Company.
- On March 2, 2017, the Company announced the appointment of David P. Hess to the Board to take the seat to be vacated by Martin S. Sorrell, effective March 10, 2017. The Company also announced certain proposed changes to the Company's corporate governance practices, including certain proposals to be reflected in the Company's proxy statement, and the Board issued a letter to Arconic's shareholders reaffirming its support for the continued leadership of Dr. Kleinfeld.

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REASONS FOR THE SOLICITATION

WE BELIEVE THAT immediate change in leadership is needed AT Arconic

We have a 13.2% economic interest in Arconic, making us the Company's largest shareholder. We are convinced that Arconic has a world-class asset base and a high-quality workforce that, if managed properly, with prudent reinvestment of capital, should produce substantial returns for its shareholder owners. However, under the leadership of current CEO Dr. Klaus Kleinfeld, the Company has failed to achieve its potential, and has destroyed considerable shareholder value. After performing extensive due diligence on the Company and holding numerous meetings with management and Arconic directors, our conclusion is clear and unambiguous: *immediate change in leadership is needed for Arconic to reliably and sustainably create shareholder value*.

At this juncture in the Company's evolution, with its focus having been narrowed, we believe that a leader with a demonstrated capability to deliver consistently excellent operational results would greatly benefit Arconic and its long-term shareholders. We have engaged former Spirit AeroSystems CEO Larry Lawson as a consultant based on our belief that Mr. Lawson should be a leading candidate for the Board to consider to become the Company's CEO.

Elliott agrees with the Board that this is a critically important, formative time for Arconic. We strongly believe that Arconic has enormous potential, possessing a world-class asset base and high-quality workforce, but is held back by management leadership ill-suited to the key tasks ahead – disciplined operating execution and effective capital allocation. We have urged the Board to do what is clearly in the best interest of Arconic's stakeholders and begin searching for Dr. Kleinfeld's successor. However, thus far the Board, as currently composed, has been unwilling to take this logical step. As a result, we are soliciting your support to elect our Nominees at the 2017 Annual Meeting. Our Nominees would bring substantial expertise and deep experience to the Board, and would work with the other members of the Board to position the Company to act on the enormous value-creation opportunity present at Arconic today.

We are Concerned with the Company's History of Disappointing Financial Results
Under Dr. Kleinfeld's Leadership

Since Dr. Kleinfeld became CEO, on a total shareholder return basis, the Company has underperformed its own self-selected Proxy Peers' median by 156% and the S&P 500 by 150%. In addition, the Company has underperformed the median return of its self-selected Industrials Proxy Peers, Materials Proxy Peers, and Aluminum Peers since Dr. Kleinfeld became CEO, and over nearly every cumulative annual period over the past eight years.[1]

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[1] Source: Bloomberg. TSR 5/1/2008 – 10/31/2016, ending the day prior to the Separation. Proxy Peers, Industrial Proxy Peers, Material Proxy Peers, and Aluminum Peers as described in Alcoa's 2016 Proxy Statement filed with the SEC on March 24, 2016.

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As we detailed in our investor presentation dated January 31, 2017, even on an absolute basis, the Company's annual returns were negative in most years since Dr. Kleinfeld has been its CEO, with the Company's stock only outperforming peers in a single year since 2008.[2] Making matters worse, in 23 of 35 quarters under Dr. Kleinfeld's leadership, the Company's stock price declined following earnings, including *eight of the most recent ten quarters*.[3]

In our view, the main driver of the Company's undervaluation during Dr. Kleinfeld's tenure is clear: the Company's poor leadership culture. This is evidenced not only by the Company's disappointing stock performance, but also its underwhelming operating results and high turnover among the Company's executive leadership.

Operational, Strategic and Communications Failures During Dr. Kleinfeld's Tenure
Evidence Arconic's Need for New Leadership

We believe that the Company has made several value-destructive capital allocation decisions during Dr. Kleinfeld's tenure as CEO. Most notably, the Company acquired Firth Rixson for approximately $3 billion (inclusive of a $150 million earn-out) in late 2014, more than 22x 2016 EBITDA. This acquisition was a startling and deeply concerning display of poor judgment, resulting in Firth Rixson contributing 61% less EBITDA and 41% less revenue than management promised. Management's full history of poor strategic decisions can been seen when comparing the Company's return on invested capital to its cost of capital.[4]

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[2] Peer Group Average. Peers as described in Alcoa's 2016 Proxy Statement filed with the SEC on March 24, 2016. Source: Bloomberg. 2016 TSR: 1/1/2016 - 10/31/2016, the day before the Separation. 2008 TSR: 5/1/2008 - 12/31/2008, as Dr. Kleinfeld became Alcoa's CEO in May of 2008. Peers are Alcoa's 2016 self-selected Proxy Peers.

[3] Analysis takes into account post-market trading following the release of the Company's fourth quarter 2016 results, prior to Elliott's announcement of its director nominations.

[4] Bloomberg quarterly data June 2008 – September 2016.

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We believe that Arconic also has a history of poor communication with investors and broken promises. Arconic's largest and most valuable business, Engineered Products & Solutions (EPS), substantially missed both the original performance targets that management set for 2016 – at the 2015 Investor Day (November 2015) – and the subsequently revised-down targets set on the Q1 Earnings Call (April 2016).

We believe that lack of investor confidence in management's ability to hit targets has resulted in an effective "management discount" for Arconic relative to peers. We believe that this view is supported by the significant positive movement in the Company's stock price following our public announcement of our conclusion regarding the immediate need for change in leadership at Arconic.[5]

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[5] In the eight trading days following the January 31st announcement of Elliott's board nominations, through February 10th, Arconic stock has increased approximately thirty percent.

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We Question the Company's Recently Announced Corporate Governance Changes

We believe that the Company's recently announced initiatives to change its corporate governance practices are reactionary and taken as a result of the scrutiny brought by Elliott's criticisms of the Board in order to help prolong and preserve the leadership status quo at Aronic. We further believe that these changes effectively constitute an acknowledgment by Arconic of its historically poor corporate governance practices under Mr. Kleinfeld's leadership as the Company's Chairman and Chief Executive Officer. The Board had ample time and opportunity under Mr. Kleinfeld's leadership to address Arconic's corporate governance practices, including its classified board structure and supermajority shareholder approval requirements. Notably, Arconic could have sought to enhance its corporate governance in connection with the Separation by following suit with Alcoa Corporation's Delaware incorporation (rather than Pennsylvania), annually elected board of directors, majority voting requirements and separated Chairman and CEO structure.

We are further concerned that the Company's own supermajority voting provisions (requiring the approval of holders of 80% of the outstanding shares of Common Stock) make it extremely difficult for the proposals to declassify the Board and eliminate the supermajority voting provisions in the Charter to be approved by shareholders at the 2017 Annual Meeting. According to the Company's proxy statement:

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"In recent years, at several annual meetings, the Board of Directors has recommended to shareholders that they approve eliminating these three supermajority vote requirements in our Articles of Incorporation. However, these proposals did not receive sufficient support of the shareholders to be adopted."

Notably, at the Company's past five annual meetings of shareholders, an average of just 77.8% of the outstanding shares have been represented in person or by proxy, which amount would not be enough to constitute approval of the Company's currently-proposed Charter amendments even if every single share present were voted in favor of a proposal. The Company's proxy statement also states that the Board previously submitted and recommended in favor of a declassification proposal at the Company's 2012 annual meeting of shareholders, but that the proposal failed to receive sufficient support. It should be noted that the Board recommended against a shareholder proposal to declassify the Board at the prior year's 2011 annual meeting of shareholders. As a result, not only do we question the Board's intentions with respect to these governance proposals, but we also question the manner in which the Board is seeking to implement these changes.

The Board acknowledges that these governance changes could be achieved through a Delaware reincorporation, which would only require the approval of a majority of the votes cast by holders of Common Stock, and potentially Arconic's classes of preferred stock as separate classes, in connection with such a reincorporation. We therefore do not understand the Company's decision to put these governance changes up for shareholder approval as Charter amendments when identical proposals have failed to garner the level of support required at several previous annual meetings. We believe that a change in corporate jurisdiction to Delaware would also further improve the Company's corporate governance (through the application of Delaware corporate law going forward). We believe that if the Board were fully committed to enhancing the Company's corporate governance in the timeliest and most probable manner, then it would have proposed to effect the transfer of the Company's jurisdiction from Pennsylvania to Delaware at the 2017 Annual Meeting.

Our Nominees Have the Experience, Qualifications and Commitment Necessary
to Unlock Value for Shareholders

For the reasons set forth above, we believe that immediate change in leadership is needed for Arconic to reliably and sustainably create shareholder value. We have identified and are nominating four highly qualified directors who would bring substantial expertise and deep experience to the Board, and would work with the other members of the Board to position the Company to act on the enormous value-creation opportunity present at Arconic today.

Christopher L. Ayers recently served as the President and Chief Executive Officer of WireCo WorldGroup, Inc., a leading producer of specialty steel wire ropes and high performance synthetic ropes, from July 2013 to January 2017. Prior to joining WireCo, Mr. Ayers served as an Executive Vice President of Alcoa Inc. and President of its Global Primary Products Business and President of the PCC Forgings Division of Precision Castparts Corp. Mr. Ayers' extensive experience in the specialty materials industry, including his previous executive service with the Company prior to its separation into two publicly traded companies, makes him well-qualified to serve on the Board.

Elmer L. Doty is currently an Operating Executive at The Carlyle Group LP, a multinational private equity, alternative asset management and financial services corporation. Mr. Doty's professional background also includes experience as Chief Executive Officer of Accudyne Industries LLC and Vought Aircraft Industries, Inc., and a senior executive of United Defense Industries, Inc. and FMC Corporation. Mr. Doty's years of management experience as a senior executive and a deep knowledge of the aerospace and defense industries will be a valuable addition to the Board.

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Bernd F. Kessler is currently self-employed and has served as a director of Polaris Industries Inc., a manufacturer of motorcycles, snowmobiles, ATVs and neighborhood electric vehicles, where he also serves as a member of its Audit Committee, Corporate Governance and Nominating Committee and Technology Committee. Mr. Kessler's significant operating and leadership experience with global businesses and his strong background in engineering, operational excellence and organizational development will make him a valuable addition to the Board.

Patrice E. Merrin is currently an international business executive and corporate director. Ms. Merrin currently serves as a director of Stillwater Mining Company, a palladium and platinum mining company, where she is also Chairman of the Corporate Governance & Nominating Committee and a member of the Compensation Committee, Glencore plc, a multinational commodity trading and mining company, and Novadaq Technologies Inc., a developer of fluorescence imaging solutions. Ms. Merrin's significant experience serving as a director of public companies and industry insights will make her a valuable addition to the Board.

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PROPOSAL NO. 1 — ELECTION OF DIRECTORS

The Company has a classified Board, which currently consists of 13 directors and is divided into three classes. Directors are elected for three-year terms. We believe that the terms of five directors serving on the Board expire at the 2017 Annual Meeting. We are seeking to change a minority of the Board. We are soliciting proxies to elect not only our four director nominees, but also the candidate who has been nominated by the Company other than Messrs. Hess, Kleinfeld and Tata and Ms. Alving. This gives shareholders the ability to vote for the total number of directors up for election at the 2017 Annual Meeting. If elected, our nominees, subject to their fiduciary duties as directors, will seek to work with the other members of the Board to position Arconic to maximize shareholder value. However, our Nominees will constitute a minority on the Board and there can be no guarantee that our nominees will be able to implement the actions that they believe are necessary to do so, including replacing Dr. Kleinfeld as the Company's CEO and selecting a successor.

THE NOMINEES

Set forth below are the names, ages, business addresses and business experience for the past five years and certain other information for our Nominees. The nominations were made in a timely manner and in compliance with the applicable provisions of the Company's governing instruments. This information has been furnished to Elliott by our Nominees. In addition, the table below sets forth a brief discussion of the specific experience, qualifications, attributes or skills that led to the conclusion that the Nominee should serve as a director for the Company as of the date hereof, in light of the Company's business and structure.

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Christopher
L. Ayers

Age: 50

Mr. Ayers most recently served as the President and Chief Executive Officer of WireCo WorldGroup, Inc. ("WireCo"), a leading producer of specialty steel wire ropes and high performance synthetic ropes, from July 2013 to January 2017. Mr. Ayers has served as a director of Universal Stainless & Alloy Products, Inc. (NASDAQ:USAP), a producer of semi-finished and finished specialty steel including nickel alloy, aerospace grade low alloy and stainless steel, since 2009, where he also serves as a member of its Audit Committee, Nominating and Governance Committee and Compensation Committee (which he chairs). Prior to joining WireCo, Mr. Ayers served as an Executive Vice President of Alcoa Inc. and President of its Global Primary Products Business from May 2011 to May 2013. Prior to becoming President of that business, Mr. Ayers served as Chief Operating Officer from September 2010 to May 2011. Mr. Ayers also served as the Chief Operating Officer of Alcoa Cast, Forged and Extruded Products from February 2010 to August 2010. From 1999 through 2008, Mr. Ayers served in various management roles at Precision Castparts Corp., a manufacturer of metal components and products, including as Executive Vice President from 2006 to 2008, President - PCC Forgings Division from 2006 to 2008, President - Wyman Gordon Forgings from 2004 to 2006 and Vice President/General Manager from 2003 to 2004. Mr. Ayers earned a Master's of Business Administration degree from the University of Connecticut, and from the Georgia Institute of Technology he earned both a Master's of Science and Bachelor's degree in Aerospace Engineering. We believe that Mr. Ayers' extensive experience in the specialty materials industry, including his previous executive service with the Company prior to its separation into two publicly traded companies, makes him well-qualified to serve on the Board.

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Elmer L. Doty

Age: 62

Mr. Doty has served as an Operating Executive at The Carlyle Group LP (NASDAQ:CG), a multinational private equity, alternative asset management and financial services corporation, since March 2016, where he previously held the same role from March 2012 to December 2012. From December 2012 to February 2016, Mr. Doty served as President and Chief Executive Officer of Accudyne Industries LLC, a provider of precision engineered, process-critical and technologically advanced flow control systems and industrial compressors. From 2006 until its acquisition by Triumph Group, Inc. (NYSE:TGI) ("Triumph Group") in 2010, Mr. Doty served as the President and Chief Executive Officer of Vought Aircraft Industries, Inc. ("Vought"), a former aerospace firm, where he also served as a director. Following Triumph Group's acquisition of Vought, Mr. Doty served as the President of Triumph Aerostructures – Vought Aircraft Division until December 2010, and also as a director of Triumph Group, a leader in manufacturing and overhauling aerospace structures, systems and components, from June 2010 to December 2013. Prior to joining Vought, from 2001 to 2005, Mr. Doty served as EVP and General Manager – Land Systems Division of United Defense Industries, Inc. (now BAE Systems), a former United States defense contractor. Mr. Doty's professional background also includes experience with General Electric Company and FMC Corporation. Mr. Doty earned a Master's of Science degree in Mechanical Engineering and a Bachelor of Science in Nuclear Engineering, both from the University of Missouri. We believe that Mr. Doty's years of management experience as a senior executive and a deep knowledge of the aerospace and defense industries will be a valuable addition to the Board.

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Dallas, TX 75230

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Bernd F. Kessler Age: 58 Burgstrasse 10 82064 Strasslach Germany	Mr. Kessler is currently self-employed and has served as a director of Polaris Industries Inc. (NYSE:PII), a manufacturer of motorcycles, snowmobiles, ATVs and neighborhood electric vehicles, since 2010, where he also serves as a member of its Audit Committee, Corporate Governance and Nominating Committee and Technology Committee. From January 2008 through January 2010, Mr. Kessler served as Chief Executive Officer of SRTechnics AG, one of the world's largest independent aircraft, component and engine service providers. From September 2004 through October 2007, Mr. Kessler was the President and Chief Executive Officer of MTU Maintenance, a subsidiary of MTU Aero Engines AG (ETR:MTX), an aero engine design, development, manufacturing and service company. Prior to September 2004, Mr. Kessler held management and executive positions for 20 years at Honeywell International Inc. (NYSE:HON), a diversified technology and manufacturing company, and at its predecessor company AlliedSignal Inc. Among other roles he held, Mr. Kessler led Honeywell's Aerospace aftermarket services business with 27 facilities around the world. Mr. Kessler also currently serves as a director of each of Flowcastings GmbH, a company specializing in the development and investment casting of components for the High Pressure Turbine (HPT) and Low Pressure Turbine (LPT) sections of commercial and military aircraft engines (since May 2013); Zitec GmbH, a modern trade, technology and service company (since May 2013); and RENA Technologies GmbH, one of the world's leading suppliers of production equipment for wet chemical surface treatment (since March 2015), where he also serves as its Chairman. Mr. Kessler previously served as a director of each of JorAMCo Ltd., a leading commercial aircraft maintenance, repair and overhaul (MRO) facility (December 2010 to September 2016), and Finnair Technical Services Oy, a provider of aircraft and component repair and overhaul services (April 2010 to December 2012). Mr. Kessler earned a Masters of Business Administration degree from City University Bellevue (Washington) and graduated with a Dipl. Ing. (B.Sc.) in Mechanical Engineering from Constance College (Germany). We believe that Mr. Kessler's significant operating and leadership experience with global businesses and his strong background in engineering, operational excellence and organizational development will make him a valuable addition to the Board.

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Patrice E. Merrin

Age: 68

92 Birch Avenue

Toronto, Ontario M4V1C8

Ms. Merrin is an international business executive and corporate director. Ms. Merrin has served as a director of Stillwater Mining Company (NYSE:SWC), a palladium and platinum mining company, since May 2013, where she is also Chairman of the Corporate Governance & Nominating Committee and a member of the Compensation Committee. She has also served as a director of Glencore plc (LON:GLEN), a multinational commodity trading and mining company, since June 2014, and Novadaq Technologies Inc. (NASDAQ:NVDQ), a developer of fluorescence imaging solutions, since March 2015. Previously, Ms. Merrin served as Chairman of the board of directors of CML HealthCare Inc., a leading provider of private laboratory testing services, from 2011 until October 2013, where she had served as a director since 2008. She served as a director of Ornge, Ontario's air ambulance service, from January 2012 to January 2015, and was a director of Climate Change and Emissions Management Corporation, created to support Alberta's initiatives on climate change and the reduction of emissions, from 2009 to April 2014. From October 2009 to June 2011, Ms. Merrin served as a director of Enssolutions Group Inc., a provider of engineered environmental applications for mine tailings control, process dust and stockpile sealing. She also served as a director of The NB Power Group, which generates and distributes electricity from nuclear, hydro, wind and oil, from 2007 to 2009. From 2005 to 2006, Ms. Merrin served as President, CEO and a director of Luscar Ltd. ("Luscar"), Canada's largest producer of thermal coal, and as Executive Vice President from 2004 to 2005. Before joining Luscar, from 1999 to 2004, Ms. Merrin was Executive Vice President and Chief Operating Officer of Sherritt International Corporation (TSE:S), a diversified international natural resources company. Ms. Merrin was a member of the National Advisory Panel on Sustainable Energy Science & Technology from 2005 to 2006, and from 2003 to 2006, was a member of Canada's National Round Table on the Environment and the Economy. Ms. Merrin holds a Bachelor of Arts degree from Queen's University in Kingston, Ontario, and completed the Advanced Management Programme at INSEAD. We believe that Ms. Merrin's significant experience serving as a director of public companies and industry insights will make her a valuable addition to the Board.

As of the date hereof, Mr. Ayers beneficially owns 100 shares of Common Stock. The shares of Common Stock directly owned by Mr. Ayers were purchased in the open market with personal funds. Except for a purchase of 100 shares of Common Stock on November 1, 2016, there have been no transactions in the securities of the Company during the past two years by Mr. Ayers. As of the date hereof, Messrs. Doty, and Kessler and Ms. Merrin do not own beneficially or of record any securities of the Company and have not entered into any transactions in securities of the Company during the past two years. Messrs. Ayers and Doty are citizens of the United States of America. Mr. Kessler is a citizen of Germany. Ms. Merrin is a citizen of each of Canada and Ireland.

Each of the Nominees may be deemed to be a member of the Group (as defined below) for the purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Each of the Nominees specifically disclaims beneficial ownership of shares of Common Stock that he or she does not directly own.

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Elliott Associates, Elliott International, and the other Participants (other than Mr. Lawson) are collectively referred to as the “Group” herein.

Elliott Associates and Elliott International have entered into an engagement and indemnification agreement with each of the Nominees. Pursuant to such agreements, Elliott Associates and Elliott International have agreed to indemnify each of the Nominees for certain potential claims in connection with their standing as candidates for election to the Board, and Elliott Associates and Elliott International have agreed to pay each Nominee (i) a fee of $50,000 upon submission of all information required in connection with their respective nominations and (ii) an additional fee of $50,000 upon being named as a nominee in the preliminary proxy statement filed by Elliott Associates and Elliott International in connection with the 2017 Annual Meeting. The Nominees are required to use the after-tax proceeds from such fees to purchase shares of Common Stock promptly following the date of the 2017 Annual Meeting; provided, however, in the event a Nominee is unable to transact in the securities of the Company due to possession of material non-public information or any other limitation or restriction, such Nominee shall have five (5) days from the first date that such Nominee can transact in the securities of the Company to acquire such securities. Such agreements have no ongoing obligations or contingencies relating to the time from and after the Nominees are elected as directors of the Company.

On January 31, 2016, Elliott Associates, Elliott International, EICA (as defined below) and the Nominees entered into a Joint Filing and Solicitation Agreement in which, among other things the parties agreed to (i) the joint filing on behalf of each of them of statements on Schedule 13D, and any amendments thereto, with respect to the securities of the Company and (ii) solicit proxies for the election of the Nominees at the 2017 Annual Meeting.

Other than as stated herein, there are no arrangements or understandings between Elliott Associates, Elliott International, and the other Participants or any other person or persons pursuant to which the nomination of the Nominees described herein is to be made, other than the consent by each of the Nominees to be named in this Proxy Statement and to serve as a director of the Company if elected as such at the 2017 Annual Meeting. None of the Nominees is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries in any material pending legal proceedings.

The corporate governance guidelines of the Company, which are available on the Company’s website at http://www.arconic.com/global/en/investors/governance-guidelines.asp, provide that determinations of independence shall be made by the Board in accordance with the listing standards of the New York Stock Exchange and Arconic’s Director Independence Standards, which are available on the Company’s website at http://www.arconic.com/global/en/investors/director-independence-std.asp. Based on the information furnished by the Nominees, Elliott believes each of the Nominees is independent under such standards and Elliott has no knowledge of any facts that would prevent the determination that each of the Nominees is independent under such standards. No Nominee is a member of the Company’s audit, compensation and benefits, executive, governance and nominating, or international committee that is not independent under any such committee’s applicable independence standards.

The Nominees, if elected at the 2017 Annual Meeting, would hold office until the Company’s 2020 Annual Meeting of Shareholders or until their respective successors have been duly elected and qualified. Each of the Nominees has consented to being named as a nominee in this Proxy Statement and, if elected, to serving as a director of the Company.

In addition, each of the Nominees understands that, if elected as a director of the Company, each Nominee would have an obligation to act in the best interests of the Company and the shareholders in accordance with his or her duties as a director.

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While we currently intend to vote all of the Elliott Group Shares in favor of the election of the Nominees, we reserve the right to vote some or all of the Elliott Group Shares for some or all of the Company's director nominees, as we see fit, in order to achieve a Board composition that we believe is in the best interest of all shareholders. We would only intend to vote some or all of the Elliott Group Shares for some or all of the Company's director nominees in a different manner than we are otherwise recommending in the event it were to become apparent to us, based on the projected voting results at such time, that less than all of the Nominees would be elected at the 2017 Annual Meeting and that by voting the Elliott Group Shares we could help elect the Company nominees that we believe are the most qualified to serve as directors and thus help achieve a Board composition that we believe is in the best interest of all shareholders. Shareholders should understand, however, that all shares of Common Stock represented by the enclosed **BLUE** proxy card will be voted at the 2017 Annual Meeting as marked.

WE STRONGLY URGE YOU TO VOTE "FOR" THE ELECTION OF THE NOMINEES ON THE ENCLOSED BLUE PROXY CARD

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PROPOSAL NO. 2 — RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

As discussed in further detail in the Company's proxy statement, the Company has proposed that the shareholders ratify the Audit Committee's appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017. Additional information regarding this proposal is contained in the Company's proxy statement.

We do not object to the ratification of the Audit Committee's appointment of PricewaterhouseCoopers LLP and recommend that you vote "**FOR**" this proposal by checking the appropriate box and signing, dating and returning the enclosed **BLUE** proxy card.

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PROPOSAL NO. 3 — ADVISORY VOTE ON EXECUTIVE COMPENSATION

As discussed in further detail in the Company's proxy statement, the Company has proposed that the shareholders vote to approve, on an advisory basis, the executive compensation programs and policies and the resulting 2016 compensation of the individuals listed in the "2016 Summary Compensation Table" on page 77 (the Company's "named executive officers"), as described in the Company's proxy statement. The Board is asking shareholders to approve of the following resolution:

"RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, the executive compensation tables and the related narrative discussion, is hereby APPROVED."

As discussed in the Company's proxy statement, this advisory vote on executive compensation will not be binding on the Compensation and Benefits Committee of the Board and it will not affect, limit or augment any existing compensation or awards. As discussed in the Company's proxy statement, the Compensation and Benefits Committee will, however, take into account the outcome of the vote when considering future compensation arrangements. Additional information regarding this proposal is contained in the Company's proxy statement.

We make no recommendation with respect to the approval, on an advisory basis, of the compensation of the Company's named executive officers, and intend to vote our shares "**AGAINST**" this proposal.

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PROPOSAL NO. 4 — ADVISORY VOTE ON FREQUENCY OF EXECUTIVE COMPENSATION VOTE

As discussed in further detail in the Company's proxy statement, the Company has proposed that the shareholders vote on the frequency of the required advisory vote on the compensation of the Company's named executive officers. Shareholders may elect to have the vote held annually, every two years or every three years, or may abstain. According to the Company's proxy statement, the Company has adopted a policy that it will follow the alternative that receives the plurality of votes cast. Additional information regarding this proposal is contained in the Company's proxy statement.

We recommend that you vote "**ONE YEAR**" with respect to the Company's proposal to approve, on an advisory basis, of the frequency of the executive compensation vote, by checking the appropriate box and signing, dating and returning the enclosed **BLUE** proxy card.

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PROPOSAL NO. 5 — ELIMINATE SUPERMAJORITY VOTING REQUIREMENT IN THE ARTICLES OF INCORPORATION REGARDING AMENDING ARTICLE SEVENTH (FAIR PRICE PROTECTION)

As discussed in further detail in the Company's proxy statement, the Company has proposed to eliminate the supermajority voting requirement as it applies to Article SEVENTH, concerning fair price protection, in the Charter and replace it with a majority of the outstanding voting shares requirement. This proposal requires the approval of holders of 80% of the outstanding shares of Common Stock. Additional information regarding this proposal is contained in the Company's proxy statement.

Elliott had previously publicly urged the Board to bring its corporate-governance standards into line with globally-recognized best practices, including, but not limited to, by eliminating supermajority voting requirements from the Charter. Elliott is disappointed that the Company determined to propose these corporate governance changes as a series of Charter amendments rather than through a proposal to reincorporate the Company in Delaware.

Nevertheless, we recommend that you vote "**FOR**" this proposal by checking the appropriate box and signing, dating and returning the enclosed **BLUE** proxy card.

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PROPOSAL NO. 6 — ELIMINATE SUPERMAJORITY VOTING REQUIREMENT IN THE ARTICLES OF INCORPORATION REGARDING AMENDING ARTICLE EIGHTH (DIRECTOR ELECTIONS)

As discussed in further detail in the Company's proxy statement, the Company has proposed an approval to eliminate the supermajority voting requirement as it applies to Article EIGHTH, concerning director elections, in the Charter and replace it with a majority of the outstanding voting shares requirement. This proposal requires the approval of holders of 80% of the outstanding shares of Common Stock. Additional information regarding this proposal is contained in the Company's proxy statement.

Elliott had previously publicly urged the Board to bring its corporate-governance standards into line with globally-recognized best practices, including, but not limited to, by eliminating supermajority voting requirements from the Charter. Elliott is disappointed that the Company determined to propose these corporate governance changes as a series of Charter amendments rather than through a proposal to reincorporate the Company in Delaware.

Nevertheless, we recommend that you vote "**FOR**" this proposal by checking the appropriate box and signing, dating and returning the enclosed **BLUE** proxy card.

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PROPOSAL NO. 7 — ELIMINATE SUPERMAJORITY VOTING REQUIREMENT IN ARTICLE EIGHTH OF THE ARTICLES OF INCORPORATION RELATING TO THE REMOVAL OF DIRECTORS

As discussed in further detail in the Company's proxy statement, the Company has proposed an approval to eliminate the supermajority voting requirement as it applies to Article EIGHTH, relating to the removal of directors, in the Charter and replace it with a majority of the outstanding voting shares requirement. This proposal requires the approval of holders of 80% of the outstanding shares of Common Stock. Additional information regarding this proposal is contained in the Company's proxy statement.

Elliott had previously publicly urged the Board to bring its corporate-governance standards into line with globally-recognized best practices, including, but not limited to, by eliminating supermajority voting requirements from the Charter. Elliott is disappointed that the Company determined to propose these corporate governance changes as a series of Charter amendments rather than through a proposal to reincorporate the Company in Delaware.

Nevertheless, we recommend that you vote "**FOR**" this proposal by checking the appropriate box and signing, dating and returning the enclosed **BLUE** proxy card.

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PROPOSAL NO. 8 — ELIMINATE THE CLASSIFIED BOARD STRUCTURE BY APPROVING AMENDMENTS TO THE ARTICLES OF INCORPORATION

As discussed in further detail in the Company's proxy statement, the Company has proposed to eliminate its classified Board structure by approving certain amendments to the Charter. Under Article EIGHTH of the Charter, the Board is divided into three classes, composed of directors each serving terms of office of three years. These proposed amendments to the Charter, if implemented, will eliminate the Company's classified Board structure, so that directors will be elected on an annual basis with one-year terms. This proposal requires the approval of holders of 80% of the outstanding shares of Common Stock. Additional information regarding this proposal is contained in the Company's proxy statement.

Elliott had previously publicly urged the Board to bring its corporate-governance standards into line with globally-recognized best practices, including, but not limited to, by eliminating its classified Board structure. Elliott is disappointed that the Company determined to propose these corporate governance changes as a series of Charter amendments rather than through a proposal to reincorporate the Company in Delaware.

Nevertheless, we recommend that you vote "**FOR**" this proposal by checking the appropriate box and signing, dating and returning the enclosed **BLUE** proxy card.

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PROPOSAL NO. 9 — SHAREHOLDER PROPOSAL

As discussed in further detail in the Company’s proxy statement. Kenneth Steiner, a shareholder of the Company, has submitted a proposal to the Company, which calls for the Board to take the steps necessary so that each voting requirement in the Charter and By-laws that calls for a greater than simple majority vote be eliminated, and replaced by a requirement for a majority of the votes cast for and against applicable proposals, or a simple majority in compliance with applicable laws. Accordingly, the text of Mr. Steiner’s proposal follows:

“Proposal 9 — Simple Majority Vote

RESOLVED, Shareholders request that our board take the steps necessary so that each voting requirement in our charter and bylaws that calls for a greater than simple majority vote be eliminated, and replaced by a requirement for a majority of the votes cast for and against applicable proposals, or a simple majority in compliance with applicable laws. If necessary this means the closest standard to a majority of the votes cast for and against such proposals consistent with applicable laws.

Shareowners are willing to pay a premium for shares of companies that have excellent corporate governance. Supermajority voting requirements have been found to be one of 6 entrenching mechanisms that are negatively related to company performance according to “What Matters in Corporate Governance” by Lucien Bebchuk, Alma Cohen and Allen Ferrell of the Harvard Law School. Supermajority requirements are used to block initiatives supported by most shareowners but opposed by a status quo management.

This proposal topic won from 74% to 88% support at Weyerhaeuser, Alcoa, Waste Management, Goldman Sachs, FirstEnergy, McGraw-Hill and Macy’s. The proponents of these proposals included Ray T. Chevedden and William Steiner.

Currently a 1%-minority can frustrate the will of our 79%-shareholder majority. In other words a 1%-minority could have the power to prevent shareholders from improving our charter and bylaws.

Please vote to enhance shareholder value: Simple Majority Vote- Proposal 9.”

We recommend that you vote "**FOR**" this proposal, if properly presented, by checking the appropriate box and signing, dating and returning the enclosed **BLUE** proxy card.

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SOLICITATION OF PROXIES

Proxies may be solicited by mail, facsimile, telephone, telegraph, electronic mail, in person and by advertisements. Solicitations may also be made by certain of the respective directors, officers, members and employees of Elliott, none of whom will, except as described elsewhere in this Proxy Statement, receive additional compensation for such solicitation. The Nominees may make solicitations of proxies but, except as described herein, will not receive compensation for acting as nominees.

We have retained Okapi Partners for solicitation and advisory services in connection with solicitations relating to the 2017 Annual Meeting. Okapi Partners has earned fees of $225,000, through the date of this proxy statement, applicable toward the final fee to be mutually agreed upon by Elliott and Okapi Partners and reimbursement of reasonable out-of-pocket expenses for its services to Elliott in connection with the solicitation. Approximately 300 people may be employed by Okapi Partners to solicit proxies from the Company’s shareholders for the 2017 Annual Meeting. Elliott has agreed to indemnify Okapi Partners in its capacity as solicitation agent against certain liabilities and expenses in connection with the solicitation. Arrangements will also be made with custodians, nominees and fiduciaries for forwarding proxy solicitation materials to beneficial owners of Common Stock held as of the Record Date. Elliott will reimburse such custodians, nominees and fiduciaries for reasonable expenses incurred in connection herewith. In addition, directors, officers, members and certain other employees of Elliott and its affiliates may solicit proxies as part of their duties in the normal course of their employment without any additional compensation.

Elliott will pay all costs of the solicitation of proxies on behalf of Elliott and the other participants described in this Proxy Statement for the 2017 Annual Meeting. Elliott does not intend to seek reimbursement of those costs from the Company. The expenses incurred by Elliott or on Elliott’s behalf to date in furtherance of, or in connection with, the solicitation of proxies for the 2017 Annual Meeting is $1 million and Elliott anticipates that its total expenses will be approximately $15 million. The actual amount could be higher or lower depending on the facts and circumstances arising in connection with any such solicitation.

Through this Proxy Statement, we are soliciting proxies to elect not only our four director nominees, but also the candidate who has been nominated by the Company other than Messrs. Hess, Kleinfeld and Tata and Ms. Alving. This gives shareholders the ability to vote for the total number of directors up for election at the 2017 Annual Meeting. The names, backgrounds and qualifications of the Company’s nominees, and other information about them, can be found in the Company’s proxy statement.

ADDITIONAL PARTICIPANT INFORMATION

The “Participants” in the proxy solicitation are Elliott Associates, Elliott International, Paul E. Singer (“Singer”), Elliott Capital Advisors, L.P., a Delaware limited partnership (“Capital Advisors”), Elliott Special GP, LLC, a Delaware limited liability company (“Special GP”), Braxton Associates, Inc., a Delaware corporation (“Braxton”), Elliott Asset Management LLC, a Delaware limited liability company (“Asset Management”), Elliott International Capital Advisors Inc., a Delaware corporation (“EICA”), Hambledon, Inc., a Cayman Islands corporation (“Hambledon”), Elliott Management Corporation, a Delaware corporation (“EMC”), The Liverpool Limited Partnership, a Bermuda limited partnership (“Liverpool”), Liverpool Associates Ltd., a Bermuda company (“Liverpool Associates”), Larry A. Lawson, Christopher L. Ayers, Elmer L. Doty, Bernd F. Kessler and Patrice E. Merrin.

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The principal business of Elliott Associates is to purchase, sell, trade and invest in securities. The principal business of Elliott International is to purchase, sell, trade and invest in securities. The principal business of Capital Advisors is the furnishing of investment advisory services, and Capital Advisors also serves as general partner of Elliott Associates and managing member of Special GP. The principal business of Special GP is serving as a general partner of Elliott Associates. The principal business of Braxton is serving as a general partner of Capital Advisors. The principal business of Asset Management is serving as a general partner of Capital Advisors. The principal business of EICA is serving as the investment manager for Elliott International. The principal business of Hambledon is serving as a general partner of Elliott International. The principal business of EMC is providing management services to Elliott Associates, Elliott International and their affiliates. The principal business of Liverpool is to purchase, sell, trade and invest in securities. The principal business of Liverpool Associates is serving as a general partner of Liverpool. The principal occupation of Mr. Singer is serving as a general partner of Elliott Associates and Capital Advisors; sole director and president of EICA, as a managing member of Special GP, as a director and the president of Hambledon and as a director and the president and treasurer of Braxton. The principal occupation of Mr. Lawson is operating as a business consultant.

The business address of Elliott Associates is 40 West 57th Street, New York, New York 10019. The business address of Elliott International is c/o Maples & Calder, P.O. Box 309, Ugland House, South Church Street, George Town, Cayman Islands, British West Indies. The business address of Capital Advisors is 40 West 57th Street, New York, New York 10019. The business address of Special GP is 40 West 57th Street, New York, New York 10019. The business address of Braxton is 40 West 57th Street, New York, New York 10019. The business address of Asset Management is 40 West 57th Street, New York, New York 10019. The business address of EICA is c/o Maples & Calder, P.O. Box 309, Ugland House, South Church Street, George Town, Cayman Islands, British West Indies. The business address of Hambledon is Maples & Calder, P.O. Box 309, Ugland House, South Church Street George Town, Cayman Islands, British West Indies. The business address of EMC is 40 West 57th Street, New York, New York 10019. The business address of Liverpool is c/o Appleby Corporate Services (Bermuda) Ltd., Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The business address of Liverpool Associates is c/o Appleby Corporate Services (Bermuda) Ltd., Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. Liverpool Associates also has a business address c/o Elliott Associates, 40 West 57th Street, New York, New York 10019. The business address of Mr. Lawson is 100 Beach Road, Jupiter, Florida 33469.

Each of Messrs. Lawson and Singer is a citizen of the United States of America.

As of the date hereof, Elliott Associates, Elliott International and their affiliates beneficially owns 51,102,133 shares of Common Stock, representing approximately 11.6% of the outstanding shares of Common Stock. As of the date hereof, Elliott Associates beneficially owns 16,352,683 shares of Common Stock (including 8,002,092 shares of Common Stock owned directly by Liverpool, a wholly-owned subsidiary of Elliott Associates), constituting approximately 3.7% of the shares of Common Stock outstanding, and Elliott International beneficially owns 34,749,450 shares of Common Stock, constituting approximately 7.9% of the shares of Common Stock outstanding. EICA, as the investment manager of Elliott International, may be deemed to beneficially own the 34,749,450 shares of Common Stock beneficially owned by Elliott International, constituting approximately 7.9% of the shares of Common Stock outstanding. As of the date hereof, Mr. Ayers beneficially owns 100 shares of Common Stock. As of the date hereof, none of Messrs. Lawson, Doty, or Kessler or Ms. Merrin beneficially owns any shares of Common Stock.

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In addition, (i) Singer, and Capital Advisors and Special GP, which are controlled by Singer, are the general partners of Elliott Associates and may all be deemed to beneficially own the shares of Common Stock held by Elliott Associates, (ii) Singer, Braxton and Asset Management are the general partners of Capital Advisors and may be deemed to beneficially own the shares of Common Stock held by Elliott Associates, (iii) Liverpool Partnership is a wholly-owned subsidiary of Elliott Associates, and Liverpool Associates is a wholly-owned subsidiary of Elliott Associates and is the sole general partner of Liverpool Partnership and may be deemed to beneficially own the shares of Common Stock held by Liverpool Partnership, and (iv) EICA, as investment manager of Elliott International, and Hambledon, which is also controlled by Singer, as the sole general partner of Elliott International, and Singer, may be deemed to beneficially own the shares of Common Stock held by Elliott International. EMC provides management services to Elliott Associates, Elliott International and their affiliates.

Elliott Associates, through Liverpool, and Elliott International have entered into notional principal amount derivative agreements (the “Derivative Agreements”) in the form of cash settled swaps with respect to 2,324,005 and 4,938,512 shares of Common Stock, respectively (representing economic exposure comparable to less than 1% and approximately 1.1% of the shares of Common Stock of the Company, respectively). Collectively, the Derivative Agreements held by such parties represent economic exposure comparable to an interest in approximately 1.6% of the shares of Common Stock. The Derivative Agreements provide Elliott Associates and Elliott International with economic results that are comparable to the economic results of ownership but do not provide them with the power to vote or direct the voting or dispose of or direct the disposition of the shares that are referenced in the Derivative Agreements (such shares, the “Subject Shares”). Each of Elliott Associates, Elliott International and their affiliates disclaim beneficial ownership in the Subject Shares.

On January 31, 2017, Elliott Associates and Elliott International entered into a Consulting Agreement (the “Consulting Agreement”) with Mr. Lawson. Elliott Associates and Elliott International have engaged Mr. Lawson as a consultant based on our belief that Mr. Lawson should be a leading candidate for the Board to consider to become the Company’s CEO. Mr. Lawson most recently served as President, Chief Executive Officer and a director of Spirit AeroSystems, the largest Tier 1 designer and manufacturer of metal and carbon fiber aero-structures for commercial and military aircraft, from April 2013 through July 2016. During his time leading Spirit AeroSystems and in prior positions with Lockheed Martin Corporation and its predecessor companies, Mr. Lawson gained extensive executive leadership experience with multinational aerospace and manufacturing companies, and significant knowledge relative to aircraft manufacturing, business development, engineering operations, international marketing and performance-based logistics. We have engaged Mr. Lawson, at our own expense, because we understand the value of finding a highly-in-demand operating executive with such a superb track record and directly relevant experience who would be available to lead the kind of turnaround necessary at Arconic.

Pursuant to the Consulting Agreement, Mr. Lawson has agreed to perform certain consulting, advisory and other services to Elliott Associates and Elliott International, including with respect to Elliott International’s nomination of the Nominees for election to the Board and the anticipated proxy solicitation in connection therewith. In February, the parties clarified that those services are limited to providing information to Elliott, Arconic’s shareholders, proxy advisory services and/or the public concerning Mr. Lawson’s prospective service as a CEO of Arconic, and how he believes he could improve Arconic’s performance. The parties also agreed that Elliott was not asking Mr. Lawson to, and that Mr. Lawson would not: provide, use, or rely upon any trade secrets or confidential information belonging to Spirit AeroSystems or any information he obtained during his tenure at Spirit AeroSystems; provide or disclose to Elliott, or analyze for Elliott, information regarding the manufacture, fabrication, maintenance, repair, overhaul, or modification of aerostructures and aircraft components; assist with the ownership, management, operation, or control of Arconic; advise Elliott concerning Arconic’s relationship with Spirit AeroSystems, including but not limited to any potential competition with Spirit AeroSystems; or provide, use, or rely upon any information inconsistent with Mr. Lawson’s obligations under any agreements with Spirit AeroSystems. Elliott Associates and Elliott International have agreed to pay Mr. Lawson $100,000 per calendar month during the term of the agreement, which is to expire on May

31, 2017; provided, that (i) Mr. Lawson may terminate the Consulting Agreement immediately upon written notice to Elliott Associates and Elliott International, (ii) following May 31, 2017 and the payment of the fee due on August 1, 2017 (if applicable and as explained further below), Elliott Associates and Elliott International may terminate the Consulting Agreement immediately upon written notice to Mr. Lawson, and (iii) unless written notice of non-renewal is provided prior to the expiration of the then effective term, the Consulting Agreement shall automatically extend for successive periods of three calendar months. Further, Elliott Associates and Elliott International have agreed to pay Mr. Lawson a lump sum of $1,000,000 on the date of such agreement, and if Mr. Lawson becomes the Chief Executive Officer of the Company on or prior to July 31, 2017, Mr. Lawson is required to use the after-tax proceeds from such lump sum payment to purchase shares of Common Stock on the public market within fifteen (15) days of such date, subject to applicable trading restrictions imposed by the Company. Elliott Associates and Elliott International have also agreed to pay Mr. Lawson an additional fee of $3,000,000 on August 1, 2017 to the extent he is not named as Chief Executive of the Company on or prior to July 31, 2017.

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Before Mr. Lawson retired from Spirit AeroSystems, he executed a Retirement and Consulting Agreement and General Release, dated as of June 7, 2016 (the “Retirement Agreement”), which provided for, among other things, the extension of his then-existing non-competition obligations under his prior employment agreement with Spirit AeroSystems through July 31, 2018 and the continued vesting of grants previously received by Mr. Lawson under Spirit AeroSystems’ long-term incentive plans. Neither Elliott nor Mr. Lawson believes that his service as a consultant to Elliott or his potential service as a Chief Executive Officer of the Company would violate the terms of his Retirement Agreement.

In connection with the Consulting Agreement, Elliott Associates, Elliott International and Mr. Lawson also entered into an Indemnification Agreement pursuant to which Elliott Associates and Elliott International have agreed to indemnify Mr. Lawson for certain potential claims, losses and expenses. Spirit AeroSystems has taken the position that Mr. Lawson’s service as a consultant to Elliott constitutes a breach of the Retirement Agreement and has withheld certain payments thereunder. Elliott has indemnified Mr. Lawson for such withheld payments. Spirit AeroSystems has, to date, withheld 70,655 shares granted under its long-term incentive plans and $1,232,384.62 in cash payments otherwise due to Mr. Lawson under the Retirement Agreement. Spirit AeroSystems’ total remaining payment obligations due to Mr. Lawson under the Retirement Agreement amount to approximately 408,596 additional shares granted under its long-term incentive plans and an additional $2,032,000.00 in cash. To date, Elliott has paid $5,439,889.87 under the Indemnification Agreement.

Other than as disclosed on elsewhere in this Proxy Statement, Elliott Associates, Elliott International, and the other Participants have not effected any transaction in securities of the Company in the past two years. The shares of Common Stock owned by Elliott Associates and Elliott International were acquired by Elliott Associates and Elliott International using prime brokerage account margin borrowing and cash on hand. The Common Stock owned by Elliott Associates and Elliott International may be held in brokerage custodian accounts which, from time to time in the ordinary course, may utilize margin borrowing and/or stock borrowing in connection with purchasing, borrowing or holding of securities, and such Common Stock may thereby have been, or in the future may become, subject to the terms and conditions of such margin debt and/or stock loan terms, together with all other securities held therein. As of the date hereof, no part of the purchase price or market value of any of the Common Stock held by Elliott is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such Common Stock. Each of the Participants disclaims beneficial ownership with respect to the shares of Common Stock reported owned in this Proxy Statement except to the extent of his, her or its pecuniary interest therein.

The Group may be deemed to beneficially own the 51,102,233 shares of Common Stock owned in the aggregate by all of the Participants (other than Mr. Lawson). Each Participant disclaims beneficial ownership of the shares of Common Stock he, she or it does not directly own. For information regarding purchases and sales of securities of the Company during the past two years by the Participants, see Schedule I.

Except as set forth in this Proxy Statement (including the Schedules hereto), (i) during the past 10 years, no participant in this solicitation has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors); (ii) no participant in this solicitation directly or indirectly beneficially owns any securities of the Company; (iii) no participant in this solicitation owns any securities of the Company which are owned of record but not beneficially; (iv) no participant in this solicitation has purchased or sold any securities of the Company during the past two years; (v) no part of the purchase price or market value of the securities of the Company owned by any participant in this solicitation is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such securities; (vi) no participant in this solicitation is, or within the past year was, a party to any contract, arrangements or understandings with any person with respect to any securities of the Company, including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies; (vii) no associate of any participant in this solicitation owns beneficially, directly or indirectly, any securities of the Company; (viii) no participant in this solicitation owns beneficially, directly or indirectly, any securities of any parent or subsidiary of the Company; (ix) no participant in this solicitation or any of his, her or its associates was a party to any transaction, or series of similar transactions, since the beginning of the Company's last fiscal year, or is a party to any currently proposed transaction, or series of similar transactions, to which the Company or any of its subsidiaries was or is to be a party, in which the amount involved exceeds $120,000; (x) no participant in this solicitation or any of his, her or its associates has any arrangement or understanding with any person with respect to any future employment by the Company or its affiliates, or with respect to any future transactions to which the Company or any of its affiliates will or may be a party; (xi) no participant in this solicitation has a substantial interest, direct or indirect, by securities holdings or otherwise, in any matter to be acted on at the 2017 Annual Meeting; (xii) no participant holds any positions or offices with the Company; (xiii) no participant has a family relationship with any director, executive officer, or person nominated or chosen by the Company to become a director or executive officer; and (xiv) no companies or organizations, with which any of the participants has been employed in the past five years, is a parent, subsidiary or other affiliate of the Company.

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There are no material proceedings to which any Participant or any of his, her or its associates is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries. With respect to each of the Participants, none of the events enumerated in Item 401(f)(1)-(8) of Regulation S-K of the Exchange Act occurred during the past ten years.

CERTAIN ADDITIONAL INFORMATION

Some banks, brokers and other nominee record holders may be participating in the practice of “householding” proxy statements and annual reports. This means that only one copy of this Proxy Statement may have been sent to multiple shareholders in your household. Elliott will promptly deliver a separate copy of the document to you if you write to our proxy solicitor, Okapi Partners, at the following address or phone number: 1212 Avenue of the Americas, 24th Floor, New York, NY 10036, or call toll free at (877) 869-0171. If you want to receive separate copies of our proxy materials in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or you may contact our proxy solicitor at the above address and phone number.

The information concerning the Company and the proposals in the Company’s proxy statement contained in this Proxy Statement has been taken from, or is based upon, publicly available documents on file with the SEC and other publicly available information. Although we have no knowledge that would indicate that statements relating to the Company contained in this Proxy Statement, in reliance upon publicly available information, are inaccurate or incomplete, to date we have not had access to the books and records of the Company, were not involved in the preparation of such information and statements and are not in a position to verify such information and statements. All information relating to any person other than the Participants is given only to the knowledge of Elliott.

This Proxy Statement is dated ___________, 2017. You should not assume that the information contained in this Proxy Statement is accurate as of any date other than such date, and the mailing of this Proxy Statement to shareholders shall not create any implication to the contrary.

SHAREHOLDER PROPOSALS

Proposals of shareholders intended to be presented at the Company’s 2018 Annual Meeting of Shareholders (the “2018 Annual Meeting”) must, in order to be considered for inclusion in the Company’s proxy statement and the form of proxy for the 2018 Annual Meeting, be received by the Company at its principal executive officers no later than ___________, 2018 and must otherwise comply with Rule 14a-8. Address all shareholder proposals to: Arconic Inc., 390 Park Avenue, New York, New York 10022.

For any proposal that is not submitted for inclusion in next year’s proxy statement, but is instead sought to be presented directly at the 2018 Annual Meeting, notice of intention to present the proposal, including all information required to be provided by the shareholder in accordance with the By-Laws, must be received in writing at the Company’s principal executive offices by ___________. Address all notices of intention to present proposals at the 2018 Annual Meeting to: Arconic Inc., Corporate Secretary’s Office, 390 Park Avenue, New York, New York 10022.

The information set forth above regarding the procedures for submitting shareholder proposals for consideration at the 2018 Annual Meeting is based on information contained in the Company’s proxy statement and the By-Laws. The incorporation of this information in this Proxy Statement should not be construed as an admission by any of the participants that such procedures are legal, valid or binding.

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INCORPORATION BY REFERENCE

WE HAVE OMITTED FROM THIS PROXY STATEMENT CERTAIN DISCLOSURE REQUIRED BY APPLICABLE LAW THAT IS EXPECTED TO BE INCLUDED IN THE COMPANY'S PROXY STATEMENT RELATING TO THE 2017 ANNUAL MEETING BASED ON RELIANCE ON RULE 14A-5(C). THIS DISCLOSURE IS EXPECTED TO INCLUDE, AMONG OTHER THINGS, CURRENT BIOGRAPHICAL INFORMATION ON THE COMPANY'S DIRECTORS, INFORMATION CONCERNING EXECUTIVE COMPENSATION, AND OTHER IMPORTANT INFORMATION. SEE SCHEDULE II FOR INFORMATION REGARDING PERSONS WHO BENEFICIALLY OWN MORE THAN 5% OF THE SHARES AND THE OWNERSHIP OF THE SHARES BY THE DIRECTORS AND MANAGEMENT OF THE COMPANY.

___________, 2017

Thank you for your support.

ELLIOTT ASSOCIATES, L.P.

ELLIOTT INTERNATIONAL, L.P.

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SCHEDULE I

TRANSACTIONS IN SECURITIES OF THE COMPANY
DURING THE PAST TWO YEARS

Transactions listed below taking place prior to November 1, 2016 were in securities of "Alcoa Inc.", prior to its Separation into "Arconic Inc." and "Alcoa Corporation". Transactions listed below taking place on or after November 1, 2016 were in securities of "Arconic Inc.".

Transactions listed below taking place prior to October 6, 2016 do not reflect the Company's 1 for 3 reverse stock split of the Common Stock effective at market open on October 6, 2016.

Elliott Associates, L.P.

The following transactions were effected by Elliott Associates, L.P. in the Common Stock:

Security	Date	Amount of Shs. Bought
Common Stock	24-Feb-2017	80,001
Common Stock	24-Feb-2017	144,000
Common Stock	23-Feb-2017	192,000
Common Stock	22-Feb-2017	240,000
Common Stock	21-Feb-2017	128,000
Common Stock	17-Feb-2017	(2,170,227)*
Common Stock	16-Feb-2017	(2,001,199)*
Common Stock	16-Feb-2017	128,000
Common Stock	15-Feb-2017	136000
Common Stock	14-Feb-2017	72,000
Common Stock	13-Feb-2017	24,000
Common Stock	13-Feb-2017	40,000
Common Stock	10-Feb-2017	40,000
Common Stock	07-Feb-2017	16,000
Common Stock	06-Feb-2017	24,000
Common Stock	01-Feb-2017	80,000
Common Stock	27-Jan-2017	80,000
Common Stock	19-Jan-2017	33,600
Common Stock	19-Jan-2017	35,200
Common Stock	19-Jan-2017	72,000
Common Stock	17-Jan-2017	79,422
Common Stock	13-Jan-2017	305,600

Common Stock	13-Jan-2017	24,000
Common Stock	13-Jan-2017	20,880
Common Stock	12-Jan-2017	129,856
Common Stock	12-Jan-2017	375,040
Common Stock	12-Jan-2017	64,000
Common Stock	11-Jan-2017	52,203
Common Stock	11-Jan-2017	145,308
Common Stock	10-Jan-2017	25,495
Common Stock	10-Jan-2017	112,000
Common Stock	09-Jan-2017	94,023
Common Stock	06-Jan-2017	43,426

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Common Stock	05-Jan-2017	216,000
Common Stock	05-Jan-2017	64,000
Common Stock	05-Jan-2017	64,000
Common Stock	05-Jan-2017	46,550
Common Stock	01-Dec-2016	160,000
Common Stock	01-Dec-2016	397,411
Common Stock	29-Nov-2016	32,000
Common Stock	29-Nov-2016	48,000
Common Stock	29-Nov-2016	130,589
Common Stock	29-Nov-2016	32,000
Common Stock	15-Nov-2016	19
Common Stock	14-Nov-2016	272,000
Common Stock	11-Nov-2016	167,360
Common Stock	11-Nov-2016	6,701
Common Stock	10-Nov-2016	320,000
Common Stock	09-Nov-2016	43,689
Common Stock	09-Nov-2016	320,000
Common Stock	08-Nov-2016	276,311
Common Stock	04-Nov-2016	24,000
Common Stock	04-Nov-2016	32,000
Common Stock	04-Nov-2016	232,000
Common Stock	03-Nov-2016	176,000
Common Stock	02-Nov-2016	320,000
Common Stock	01-Nov-2016	226,666.00
Common Stock	01-Nov-2016	188.00
Common Stock	01-Nov-2016	1,808,255.00
Common Stock	21-Oct-2016	112,000
Common Stock	21-Oct-2016	112,000
Common Stock	20-Oct-2016	2,667
Common Stock	20-Oct-2016	64,000
Common Stock	19-Oct-2016	40,000
Common Stock	19-Oct-2016	96,000
Common Stock	18-Oct-2016	834
Common Stock	18-Oct-2016	35,185
Common Stock	18-Oct-2016	107,981
Common Stock	18-Oct-2016	176,000
Common Stock	29-Jan-2016	244,040
Common Stock	26-Jan-2016	1,700,000*
Common Stock	25-Jan-2016	187,000*
Common Stock	22-Jan-2016	1,882,750*
Common Stock	22-Jan-2016	1,360,000*
Common Stock	05-Jan-2016	51,000
Common Stock	05-Jan-2016	102,000
Common Stock	04-Jan-2016	102,000
Common Stock	04-Jan-2016	68,000
Common Stock	31-Dec-2015	12,172
Common Stock	10-Dec-2015	850,000

Common Stock	10-Dec-2015	3,922,750
Common Stock	10-Dec-2015	1,882,750
Common Stock	10-Dec-2015	3,922,750
Common Stock	07-Dec-2015	6,681,300
Common Stock	20-Nov-2015	85,000
Common Stock	20-Nov-2015	255,000
Common Stock	20-Nov-2015	256,088
Common Stock	20-Nov-2015	170,000
Common Stock	26-Oct-2015	3,400
Common Stock	15-Oct-2015	510,000
Common Stock	07-Oct-2015	340,000
Common Stock	07-Oct-2015	510,000
Common Stock	07-Oct-2015	510,000

* Reflects an internal transfer of Common Stock between Elliott Associates and Liverpool.

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Transactions Effected by Elliott Associates, L.P. in Call Options at $11 Expiring on April 21, 2017:

Date	Amount of Securities Bought
18-Oct-2016	32,000
16-Sep-2016	13,120

Transactions Effected by Elliott Associates, L.P. in Call Options at $11 Expiring on January 20, 2017:

Date	Amount of Securities Bought / (Sold)
18-Oct-2016	(32,000)
13-Sep-2016	32,000

Transactions Effected by Elliott Associates, L.P. in Call Options at $11 Expiring on October 21, 2016:

Date	Amount of Securities Bought / (Sold)
16-Sep-2016	(13,120)
13-Sep-2016	(33,410)

Transactions Effected by Elliott Associates, L.P. in Call Options at $5 Expiring on December 1, 2015:

Date	Amount of Securities Bought / (Sold)
01-Oct-2015	4,420
30-Sep-2015	6,630
29-Sep-2015	7,198
28-Sep-2015	5,188
25-Sep-2015	2,968
24-Sep-2015	3,519
23-Sep-2015	2,550
22-Sep-2015	340
21-Sep-2015	6,800
18-Sep-2015	17,850
17-Sep-2015	9,350

Transactions Effected by Elliott Associates, L.P. in Physically Settled Swaps:

Date	Amount of Securities Bought / (Sold)
10-Dec-2015	(12,461,000)

10-Dec-2015	(2,720,000)
20-Nov-2015	510,000
19-Nov-2015	1,190,000
18-Nov-2015	510,000
17-Nov-2015	680,000
16-Nov-2015	680,000
13-Nov-2015	1,020,000
12-Nov-2015	1,020,000
11-Nov-2015	391,000
10-Nov-2015	510,000
09-Nov-2015	510,000
06-Nov-2015	340,000
05-Nov-2015	1,020,000
04-Nov-2015	1,020,000
03-Nov-2015	340,000
02-Nov-2015	510,000
30-Oct-2015	510,000
29-Oct-2015	1,360,000
28-Oct-2015	340,000

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Elliott Associates, L.P. (through Liverpool)

The following transactions were effected by Elliott Associates, L.P. (through Liverpool) in the Common Stock:

Security	Date	Amount of Shs. Bought/ (Sold)
Common Stock	17-Feb-2017	128,000
Common Stock	17-Feb-2017	2,170,227*
Common Stock	16-Feb-2017	2,001,199*
Common Stock	26-Jan-2017	16,000
Common Stock	26-Jan-2017	16,000
Common Stock	26-Jan-2017	16,000
Common Stock	26-Jan-2017	32,000
Common Stock	25-Jan-2017	16,000
Common Stock	25-Jan-2017	80,000
Common Stock	24-Jan-2017	53,317
Common Stock	24-Jan-2017	90,683
Common Stock	23-Jan-2017	40,000
Common Stock	23-Jan-2017	72,000
Common Stock	20-Jan-2017	160,000
Common Stock	26-Jan-2016	(1,700,000)*
Common Stock	25-Jan-2016	(187,000)*
Common Stock	22-Jan-2016	(1,360,000)*
Common Stock	22-Jan-2016	(1,882,750)*
Common Stock	21-Jan-2016	34,000
Common Stock	21-Jan-2016	680,000
Common Stock	21-Jan-2016	136,000
Common Stock	21-Jan-2016	510,000
Common Stock	21-Jan-2016	340,000
Common Stock	20-Jan-2016	187,000
Common Stock	06-Jan-2016	68,000
Common Stock	06-Jan-2016	272,000
Common Stock	10-Dec-2015	1,882,750
Common Stock	15-Oct-2015	(510,000)
Common Stock	07-Oct-2015	510,000
Common Stock	06-Oct-2015	170,000
Common Stock	06-Oct-2015	510,000
Common Stock	05-Oct-2015	85,000
Common Stock	05-Oct-2015	85,000
Common Stock	02-Oct-2015	98,876
Common Stock	02-Oct-2015	35,998
Common Stock	02-Oct-2015	35,126

* Reflects an internal transfer of Common Stock between Elliott Associates and Liverpool.

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Transactions Effected by Elliott Associates, L.P. (through Liverpool) in Call Options at $8 Expiring on July 15, 2016:

Date	Amount of Securities Bought / (Sold)
29-Jan-2016	204
27-Jan-2016	17,000
25-Jan-2016	53
22-Jan-2016	1,783
20-Jan-2016	3,400
15-Jan-2016	6,800

Transactions Effected by Elliott Associates, L.P. (through Liverpool) in Call Options at $8 Expiring on June 17, 2016:

Date	Amount of Securities Bought / (Sold)
27-Jan-2016	(17,000)
15-Jan-2016	17,000

Transactions Effected by Elliott Associates, L.P. (through Liverpool) in Call Options at $10 Expiring on April 15, 2016:

Date	Amount of Securities Bought / (Sold)
10-Nov-2015	(5,100)
09-Nov-2015	(5,100)
22-Oct-2015	3,400
28-Sep-2015	6,800

Elliott International, L.P.

The following transactions were effected by Elliott International, L.P. in the Common Stock:

Security	Date	Amount of Shs. Bought/(Sold)
Common Stock	24-Feb-2017	169,999
Common Stock	24-Feb-2017	306,000
Common Stock	23-Feb-2017	408,000
Common Stock	22-Feb-2017	510,000
Common Stock	21-Feb-2017	272,000
Common Stock	17-Feb-2017	272,000
Common Stock	16-Feb-2017	272,000
Common Stock	15-Feb-2017	289,000
Common Stock	14-Feb-2017	153,000

Common Stock	13-Feb-2017	51,000
Common Stock	13-Feb-2017	85,000
Common Stock	10-Feb-2017	85,000
Common Stock	09-Feb-2017	68,000
Common Stock	08-Feb-2017	51,000
Common Stock	07-Feb-2017	34,000

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Common Stock	H6-Feb-2017	51,000
Common Stock	03-Feb-2017	153,000
Common Stock	02-Feb-2017	85,000
Common Stock	02-Feb-2017	51,000
Common Stock	01-Feb-2017	170,000
Common Stock	27-Jan-2017	170,000
Common Stock	26-Jan-2017	34,000
Common Stock	26-Jan-2017	68,000
Common Stock	26-Jan-2017	34,000
Common Stock	26-Jan-2017	34,000
Common Stock	25-Jan-2017	34,000
Common Stock	25-Jan-2017	170,000
Common Stock	24-Jan-2017	113,300
Common Stock	24-Jan-2017	192,700
Common Stock	23-Jan-2017	85,000
Common Stock	23-Jan-2017	153,000
Common Stock	20-Jan-2017	340,000
Common Stock	19-Jan-2017	153,000
Common Stock	19-Jan-2017	74,800
Common Stock	19-Jan-2017	71,400
Common Stock	17-Jan-2017	168,771
Common Stock	13-Jan-2017	649,400
Common Stock	13-Jan-2017	51,000
Common Stock	13-Jan-2017	44,371
Common Stock	12-Jan-2017	136,000
Common Stock	12-Jan-2017	275,943
Common Stock	12-Jan-2017	796,960
Common Stock	11-Jan-2017	308,778
Common Stock	11-Jan-2017	110,930
Common Stock	10-Jan-2017	238,000
Common Stock	10-Jan-2017	54,176
Common Stock	09-Jan-2017	199,800
Common Stock	06-Jan-2017	92,281
Common Stock	05-Jan-2017	136,000
Common Stock	05-Jan-2017	98,920
Common Stock	05-Jan-2017	136,000
Common Stock	05-Jan-2017	459,000
Common Stock	01-Dec-2016	340,000
Common Stock	01-Dec-2016	844,499
Common Stock	29-Nov-2016	68,000
Common Stock	29-Nov-2016	68,000
Common Stock	29-Nov-2016	277,501
Common Stock	29-Nov-2016	102,000
Common Stock	15-Nov-2016	39
Common Stock	14-Nov-2016	578,000
Common Stock	11-Nov-2016	355,640
Common Stock	11-Nov-2016	14,241

Common Stock	10-Nov-2016	680,000
Common Stock	09-Nov-2016	680,000
Common Stock	09-Nov-2016	92,838
Common Stock	08-Nov-2016	587,162
Common Stock	04-Nov-2016	51,000
Common Stock	04-Nov-2016	68,000
Common Stock	04-Nov-2016	493,000
Common Stock	03-Nov-2016	374,000
Common Stock	02-Nov-2016	680,000

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Common Stock	21-Oct-2016	238,000
Common Stock	21-Oct-2016	238,000
Common Stock	20-Oct-2016	5,668
Common Stock	20-Oct-2016	136,000
Common Stock	19-Oct-2016	204,000
Common Stock	19-Oct-2016	85,000
Common Stock	18-Oct-2016	74,767
Common Stock	18-Oct-2016	374,000
Common Stock	18-Oct-2016	1,772
Common Stock	18-Oct-2016	229,461
Common Stock	29-Jan-2016	2,755,960
Common Stock	21-Jan-2016	264,000
Common Stock	21-Jan-2016	1,320,000
Common Stock	21-Jan-2016	660,000
Common Stock	21-Jan-2016	66,000
Common Stock	21-Jan-2016	990,000
Common Stock	20-Jan-2016	363,000
Common Stock	06-Jan-2016	528,000
Common Stock	06-Jan-2016	132,000
Common Stock	05-Jan-2016	99,000
Common Stock	05-Jan-2016	198,000
Common Stock	04-Jan-2016	198,000
Common Stock	04-Jan-2016	132,000
Common Stock	31-Dec-2015	23,628
Common Stock	10-Dec-2015	3,654,750
Common Stock	10-Dec-2015	3,654,750
Common Stock	10-Dec-2015	7,614,750
Common Stock	10-Dec-2015	1,650,000
Common Stock	10-Dec-2015	7,614,750
Common Stock	07-Dec-2015	12,969,700
Common Stock	20-Nov-2015	497,112
Common Stock	20-Nov-2015	495,000
Common Stock	20-Nov-2015	330,000
Common Stock	20-Nov-2015	165,000
Common Stock	26-Oct-2015	6,600
Common Stock	07-Oct-2015	990,000
Common Stock	07-Oct-2015	990,000
Common Stock	07-Oct-2015	660,000
Common Stock	07-Oct-2015	990,000
Common Stock	06-Oct-2015	330,000
Common Stock	06-Oct-2015	990,000
Common Stock	05-Oct-2015	165,000
Common Stock	05-Oct-2015	165,000
Common Stock	02-Oct-2015	191,936
Common Stock	02-Oct-2015	68,186
Common Stock	02-Oct-2015	69,878

Transactions Effected by Elliott International, L.P. in Physically Settled Swaps:

Date	Amount Of Securities Bought / (Sold)
10-Dec-2015	(24,189,000)
20-Nov-2015	990,000
19-Nov-2015	2,310,000
18-Nov-2015	990,000
17-Nov-2015	1,320,000
16-Nov-2015	1,320,000
13-Nov-2015	1,980,000
12-Nov-2015	1,980,000
11-Nov-2015	759,000
10-Nov-2015	990,000
09-Nov-2015	990,000
06-Nov-2015	660,000
05-Nov-2015	1,980,000
04-Nov-2015	1,980,000
03-Nov-2015	660,000
02-Nov-2015	990,000
30-Oct-2015	990,000
29-Oct-2015	2,640,000
28-Oct-2015	660,000

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Transactions Effected by Elliott International, L.P. in Call Options at $11 Expiring on April 21, 2017:

Date	Amount of Securities Bought
18-Oct-2016	68,000
16-Sep-2016	27,880

Transactions Effected by Elliott International, L.P. in Call Options at $11 Expiring on January 20, 2017:

Date	Amount of Securities Bought / (Sold)
18-Oct-2016	(68,000)
13-Sep-2016	68,000

Transactions Effected by Elliott International, L.P. in Call Options at $11 Expiring on October 21, 2016:

Date	Amount of Securities Bought / (Sold)
16-Sep-2016	(27,880)
13-Sep-2016	(66,590)

Transactions Effected by Elliott International, L.P. in Call Options at $8 Expiring on July 15, 2016:

Date	Amount of Securities Bought / (Sold)
29-Jan-2016	398
27-Jan-2016	33,000
25-Jan-2016	102
22-Jan-2016	3,460
20-Jan-2016	6,600
15-Jan-2016	13,200

Transactions Effected by Elliott International, L.P. in Call Options at $8 Expiring on June 17, 2016:

Date	Amount of Securities Bought / (Sold)
27-Jan-2016	(33,000)
15-Jan-2016	33,000

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Transactions Effected by Elliott International, L.P. in Call Options at $10 Expiring on April 15, 2016:

Date	Amount of Securities Bought / (Sold)
10-Nov-2015	(9,900)
09-Nov-2015	(9,900)
22-Oct-2015	6,600
28-Sep-2015	13,200

Transactions Effected by Elliott International, L.P. in Call Options at $5 Expiring on December 1, 2015:

Date	Amount of Securities Bought / (Sold)
01-Oct-2015	8,580
30-Sep-2015	12,870
29-Sep-2015	13,972
28-Sep-2015	10,072
25-Sep-2015	5,762
24-Sep-2015	6,831
23-Sep-2015	4,950
22-Sep-2015	660
21-Sep-2015	13,200
18-Sep-2015	34,650
17-Sep-2015	18,150

Christopher L. Ayers

Security	Date	Amount of Shs. Bought
Common Stock	01-Nov-2016	100

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SCHEDULE II

The following table is reprinted from the definitive proxy statement filed by Arconic Inc. with the Securities and Exchange Commission on ___________, 2017.

SECURITY OWNERSHIP OF
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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IMPORTANT

Tell the Board what you think! Your vote is important. No matter how many shares of Common Stock you own, please give Elliott your proxy FOR the election of the Nominees and in accordance with Elliott's recommendations on the other proposals on the agenda for the 2017 Annual Meeting by taking these three steps:

- SIGNING the enclosed **BLUE** proxy card;
- DATING the enclosed **BLUE** proxy card; and
- MAILING the enclosed **BLUE** proxy card TODAY in the envelope provided (no postage is required if mailed in the United States).

If any of your shares of Common Stock are held in the name of a brokerage firm, bank, bank nominee or other institution, only it can vote such shares of Common Stock and only upon receipt of your specific instructions. Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or by the Internet. Please refer to the enclosed voting form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed **BLUE** voting form.

If you have any questions or require any additional information concerning this Proxy Statement, please contact Okapi Partners at the address set forth below.

1212 Avenue of the Americas, 24th Floor

New York, NY 10036

(212) 297-0720

Call Toll-Free at: (877) 869-0171

E-mail: info@okapipartners.com

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BLUE PROXY CARD

PRELIMINARY COPY SUBJECT TO COMPLETION
DATED MARCH 9, 2017

Arconic Inc.

2017 ANNUAL MEETING OF shareHOLDERS

THIS PROXY IS SOLICITED ON BEHALF OF

ELLIOTT ASSOCIATES, L.P.
ELLIOTT INTERNATIONAL, L.P.

THE BOARD OF DIRECTORS OF **Arconic Inc.**

IS NOT SOLICITING THIS PROXY

P R O X Y

The undersigned appoints Geoffrey Sorbello, Austin Camporin and Steve Wolosky, and each of them, attorneys and agents with full power of substitution to vote all shares of common stock of Arconic Inc., a Pennsylvania corporation (the "Company"), which the undersigned would be entitled to vote if personally present at the 2017 annual meeting of shareholders of the Company scheduled to be held on ____________, at ________, local time, at _______________________________ (including any adjournments or postponements thereof and any meeting called in lieu thereof, the "Annual Meeting").

The undersigned hereby revokes any other proxy or proxies heretofore given to vote or act with respect to the shares of common stock of the Company held by the undersigned, and hereby ratifies and confirms all action the herein named attorneys and proxies, their substitutes, or any of them may lawfully take by virtue hereof. If properly executed, this Proxy will be voted as directed on the reverse.

This Proxy will be valid until the completion of the Annual Meeting. This Proxy will only be valid in connection with the solicitation of proxies for the Annual Meeting by Elliott Associates, L.P. and Elliott International, L.P. (collectively, "Elliott").

IMPORTANT: PLEASE SIGN, DATE AND MAIL THIS PROXY CARD PROMPTLY!

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

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[X] Please mark vote as in this example

elliott STRONGLY RECOMMENDS THAT SHAREHOLDERS VOTE IN FAVOR OF THE NOMINEES LISTED BELOW IN PROPOSAL 1. **elliott** ALSO RECOMMEDS THAT SHAREHOLDERS VOTE "FOR" PROPOSAL 2, PROPOSAL 5, PROPOSAL 6, PROPOSAL 7, PROPOSAL 8, AND PROPOSAL 9, AND "1 YEAR" WITH RESPECT TO PROPOSAL 4. **elliott MAKES NO RECOMMENDATiON WITH RESPECT TO PROPOSAL 3.**

1. Elliott's proposal to elect Christopher L. Ayers, Elmer L Doty, Bernd F. Kessler and Patrice E. Merrin to the Company's Board of Directors to serve three-year terms expiring at the 2020 Annual Meeting of Shareholders, or until their respective successors are duly elected and qualified.

	FOR ALL NOMINEES	**WITHHOLD AUTHORITY TO VOTE FOR ALL NOMINEES**	**FOR ALL EXCEPT NOMINEE(S) WRITTEN BELOW**
Nominees: Christopher L. Ayers Elmer L Doty Bernd F. Kessler Patrice E. Merrin	[ ]	[ ]	[ ] ________________ ________________

Elliott intends to use this proxy to vote (i) "for" Messrs. ayers, Doty, and Kessler, and Ms. Merrin, and (ii) "for" the candidate who HAS been nominated by the Company other than Messrs. Hess, Kleinfeld and Tata and Ms. Alving, FOR WHOM elliott IS NOT SEEKING AUTHORITY to vote for and will not exercise any such authority. The names, backgrounds and qualifications of the Company's nominees, and other information about them, can be found in the Company's proxy statement. There is no assurance that any of the Company's nominees will serve as directors if our nominees are elected.

NOTE: IF YOU DO NOT WISH FOR YOUR SHARES TO BE VOTED "FOR" A PARTICULAR NOMINEE, MARK THE "FOR ALL EXCEPT NOMINEE(S) WRITTEN BELOW" BOX AND WRITE THE NAME(S) OF THE NOMINEE(S) YOU DO NOT SUPPORT ON THE LINE BELOW. YOUR SHARES WILL BE VOTED FOR THE REMAINING NOMINEE(S).

____

2. Company's proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2017.
   FOR AGAINST ABSTAIN
3. Company's proposal to approve, on an advisory basis, the compensation of the Company's named executive officers.
   FOR AGAINST ABSTAIN
4. Company's proposal to approve, on an advisory basis, the frequency of the executive compensation vote.
   1 YEAR 2 YEARS 3 YEARS ABSTAIN

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5. Company's proposal to amend the Articles of Incorporation to eliminate supermajority voting requirement in the Articles of Incorporation regarding amending Article SEVENTH (Fair Price Protection).

FOR AGAINST ABSTAIN

6. Company's proposal to amend the Articles of Incorporation to eliminate supermajority voting requirement in the Articles of Incorporation regarding amending Article EIGHTH (Director Elections).

FOR AGAINST ABSTAIN

7. Company's proposal to amend the Articles of Incorporation to eliminate supermajority voting requirement in Article EIGHTH of the Articles of Incorporation relating to the removal of directors.

FOR AGAINST ABSTAIN

8. Company's proposal to amend the Articles of Incorporation to eliminate the classification of the Board of Directors.

FOR AGAINST ABSTAIN

9. Shareholder proposal regarding elimination of supermajority provisions.

FOR AGAINST ABSTAIN

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DATED: ____________________________

____

(Signature)

____

(Signature, if held jointly)

____

(Title)

WHEN SHARES ARE HELD JOINTLY, JOINT OWNERS SHOULD EACH SIGN. EXECUTORS, ADMINISTRATORS, TRUSTEES, ETC., SHOULD INDICATE THE CAPACITY IN WHICH SIGNING. PLEASE SIGN EXACTLY AS NAME APPEARS ON THIS PROXY.

#D9D9D9 ;border-left:1pt none #D9D9D9 ;border-bottom:1pt solid #000000 ;border-right:1pt none #D9D9D9 ;background-color: #auto;padding:0pt;">

Commercial

Residential

Consumer

Total

Allowance for loan losses:

Beginning Balance April 1, 2015

$

2,420

$

3,087

$

3,909

`

1,387

`

10,803

Charge-offs

(3)

(30)

(35)

(106)

(174)

Recoveries

3

5

3

38

49

Provisions

15

128

150

457

750

Ending balance

$

2,435

$

3,190

$

4,027

$

1,776

$

11,428

Real estate

June 30, 2015

Commercial

Commercial

Residential

Consumer

Total

Allowance for loan losses:

Beginning Balance January 1, 2015

$

2,321

$

3,037

$

3,690

$

1,290

$

10,338

Charge-offs

(40)

(79)

(234)

(186)

(539)

Recoveries

64

6

8

51

129

Provisions

90

226

563

621

1,500

Ending balance

$

2,435

$

3,190

$

4,027

$

1,776

$

11,428

The allocation of the allowance for loan losses and the related loans by major classifications of loans at June 30, 2016 and December 31, 2015 is summarized as follows:

June 30, 2016	Commercial	Real estate Commercial	Residential	Consumer	Unallocated	Total
Allowance for loan losses:						
Ending balance	$ 3,263	$ 5,077	$ 4,465	$ 1,679	$ 315	$ 14,799
Ending balance: individually evaluated for impairment	615	405	723	71		1,814
Ending balance: collectively evaluated for impairment	2,648	4,672	3,742	1,608	315	12,985
Ending balance: loans acquired with deteriorated credit quality	$	$	$	$	$	$ —
Loans receivable:						
Ending balance	$ 394,283	$ 647,058	$ 299,037	$ 124,430	$	$ 1,464,808
Ending balance: individually evaluated	870	5,073	3,177	228		9,348

for impairment						
Ending balance: collectively evaluated for impairment	392,372	640,642	295,817	124,202		1,453,033
Ending balance: loans acquired with deteriorated credit quality	$ 1,041	$ 1,343	$ 43	$	$	$ 2,427

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Peoples Financial Services Corp.

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December 31, 2015	Commercial	Real estate Commercial	Residential	Consumer	Unallocated	Total
Allowance for loan losses:						
Ending balance	$ 3,042	$ 4,245	$ 4,082	$ 1,583	$ 23	$ 12,975
Ending balance: individually evaluated for impairment	759	126	1,138	117		2,140
Ending balance: collectively evaluated for impairment	2,283	4,012	2,944	1,466	23	10,728
Ending balance: loans acquired with deteriorated credit quality	$	$ 107	$	$	$	$ 107
Loans receivable:						
Ending balance	$ 365,767	$ 567,277	$ 306,218	$ 101,603	$	$ 1,340,865
Ending balance: individually evaluated for impairment	1,196	4,006	4,917	148		10,267
Ending balance: collectively evaluated for impairment	363,620	561,903	301,252	101,455		1,328,230
Ending balance: loans acquired with deteriorated credit quality	$ 951	$ 1,368	$ 49	$	$	$ 2,368

The Company segments loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. Loans are individually analyzed for credit risk by classifying them within the Company’s internal risk rating system. The Company’s risk rating classifications are defined as follows:

· Pass- A loan to borrowers with acceptable credit quality and risk that is not adversely classified as Substandard, Doubtful, Loss nor designated as Special Mention.

- Special Mention- A loan that has potential weaknesses that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special Mention loans are not adversely classified since they do not expose the Company to sufficient risk to warrant adverse classification.

- Substandard- A loan that is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

- Doubtful – A loan classified as Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

- Loss- A loan classified as Loss is considered uncollectible and of such little value that its continuance as bankable loan is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

Peoples Financial Services Corp.

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The following tables present the major classification of loans summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system at June 30, 2016 and December 31, 2015:

June 30, 2016	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 386,532	$ 4,960	$ 2,791	$	$ 394,283
Real estate:					
Commercial	610,356	20,454	16,248		647,058
Residential	292,293	598	6,146		299,037
Consumer	124,218		212		124,430
Total	$ 1,413,399	$ 26,012	$ 25,397	$	$ 1,464,808

December 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 357,894	$ 3,566	$ 4,307	$	$ 365,767
Real estate:					
Commercial	538,130	10,150	18,997		567,277
Residential	296,587	983	8,648		306,218
Consumer	101,486		117		101,603
Total	$ 1,294,097	$ 14,699	$ 32,069	$	$ 1,340,865

Information concerning nonaccrual loans by major loan classification at June 30, 2016 and December 31, 2015 is summarized as follows:

	June 30, 2016	December 31, 2015
Commercial	$ 1,262	$ 1,632
Real estate:		

Commercial	4,929	3,859
Residential	2,826	4,732
Consumer	228	148
Total	$ 9,245	$ 10,371

The major classifications of loans by past due status are summarized as follows:

June 30, 2016	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Commercial	$ 724	$ 234	$ 1,262	$ 2,220	$ 392,063	$ 394,283	
Real estate:							
Commercial	2,172	617	4,929	7,718	639,340	647,058	
Residential	1,673	289	4,545	6,507	292,530	299,037	$ 1,719
Consumer	955	269	580	1,804	122,626	124,430	352
Total	$ 5,524	$ 1,409	$ 11,316	$ 18,249	$ 1,446,559	$ 1,464,808	$ 2,071

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December 31, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Commercial	$ 126	$	$ 1,632	$ 1,758	$ 364,009	$ 365,767	
Real estate:							
Commercial	1,364	165	3,859	5,388	561,889	567,277	
Residential	3,891	1,067	5,257	10,215	296,003	306,218	$ 525
Consumer	705	353	386	1,444	100,159	101,603	238
Total	$ 6,086	$ 1,585	$ 11,134	$ 18,805	$ 1,322,060	$ 1,340,865	$ 763

The following tables summarize information concerning impaired loans as of and for the three and six months ended June 30, 2016 and June 30, 2015, and as of and for the year ended, December 31, 2015 by major loan classification:

				This Quarter		Year-to-Date	
June 30, 2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance:							
Commercial	$ 1,296	$ 2,378		$ 1,235	$ 14	$ 1,249	$ 30
Real estate:							
Commercial	5,517	6,181		4,340	30	3,643	61
Residential	1,941	2,124		2,079	3	2,355	11
Consumer	157	157		123		92	
Total	8,911	10,840	—	7,777	47	7,339	102
With an allowance recorded:							
Commercial	615	615	$ 615	878		923	
Real estate:							
Commercial	899	899	405	1,964		2,400	
Residential	1,279	1,279	723	1,136	2	1,295	4
Consumer	71	71	71	80		92	
Total	2,864	2,864	1,814	4,058	2	4,710	4
Commercial	1,911	2,993	615	2,113	14	2,172	30
Real estate:							
Commercial	6,416	7,080	405	6,304	30	6,043	61

Residential	3,220	3,403	723	3,215	5	3,650	15
Consumer	228	228	71	203	—	184	—
Total	$ 11,775	$ 13,704	$ 1,814	$ 11,835	$ 49	$ 12,049	$ 106

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December 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	For the Year Ended Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial	$ 1,352	$ 2,720		$ 1,848	$ 87
Real estate:					
Commercial	2,731	3,408		2,394	95
Residential	3,048	3,231		2,664	4
Consumer	31	31		17	
Total	7,162	9,390		6,923	186
With an allowance recorded:					
Commercial	795	795	$ 759	1,680	40
Real estate:					
Commercial	2,643	2,643	233	4,155	86
Residential	1,918	1,918	1,138	1,776	30
Consumer	117	117	117	126	
Total	5,473	5,473	2,247	7,737	156
Commercial	2,147	3,515	759	3,528	127
Real estate:					
Commercial	5,374	6,051	233	6,549	181
Residential	4,966	5,149	1,138	4,440	34
Consumer	148	148	117	143	
Total	$ 12,635	$ 14,863	$ 2,247	$ 14,660	$ 342

June 30, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	This Quarter Average Recorded Investment	This Quarter Interest Income Recognized	Year-to-Date Average Recorded Investment	Year-to-Date Interest Income Recognized
With no related allowance:							
Commercial	$ 1,658	$ 3,184		$ 1,989	$ 17	$ 2,168	37
Real estate:							
Commercial	2,140	2,852		2,169	28	2,366	47
Residential	2,734	2,917		2,503	1	2,488	2
Consumer				6		26	

Total	6,532	8,953		6,667	46	7,048	86
With an allowance recorded:							
Commercial	1,312	1,312	$ 1,209	1,469	$ 13	1,533	$ 27
Real estate:							
Commercial	5,316	5,316	1,445	4,628	48	4,182	65
Residential	1,706	1,706	796	1,673	7	1,593	17
Consumer	137	137	137	114		91	
Total	8,471	8,471	3,587	7,884	68	7,399	109
Commercial	2,970	4,496	1,209	3,458	30	3,701	64
Real estate:							
Commercial	7,456	8,168	1,445	6,797	76	6,548	112
Residential	4,440	4,623	796	4,176	8	4,081	19
Consumer	137	137	137	120		117	
Total	$ 15,003	$ 17,424	$ 3,587	$ 14,551	$ 114	$ 14,447	$ 195

Included in the commercial loan and commercial and residential real estate categories are troubled debt restructurings that are classified as impaired. Troubled debt restructurings totaled $2,701 at June 30, 2016, $2,861 at December 31, 2015 and $3,046 at June 30, 2015.

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Troubled debt restructured loans are loans with original terms, interest rate, or both, that have been modified as a result of a deterioration in the borrower's financial condition and a concession has been granted that the Company would not otherwise consider. Unless on nonaccrual, interest income on these loans is recognized when earned, using the interest method. The Company offers a variety of modifications to borrowers that would be considered concessions. The modification categories offered generally fall within the following categories:

- Rate Modification - A modification in which the interest rate is changed to a below market rate.
- Term Modification - A modification in which the maturity date, timing of payments or frequency of payments is changed.
- Interest Only Modification - A modification in which the loan is converted to interest only payments for a period of time.
- Payment Modification - A modification in which the dollar amount of the payment is changed, other than an interest only modification described above.
- Combination Modification - Any other type of modification, including the use of multiple categories above.

There were no loans modified as troubled debt restructurings for the three months ended June 30, 2016. For the six months ended June 30, 2016, one loan was modified as a troubled debt restructuring in the amount of $75. There were four loans modified as troubled debt restructurings for the three months ended June 30, 2015, in the amount of $170. For the six months ended June 30, 2015, there were eight loans modified as troubled debt restructurings in the amount of $554. During the three months ended June 30, 2016, there were no payment payment defaults on loans restructured within the last twelve months. During the six months ended June 30, 2016, there were two payment defaults on restructured residential real estate loans totaling $208. During the three and six months ended June 30, 2015; there were no payment defaults on loans restructured within the last twelve months.

6. Other assets:

The components of other assets at June 30, 2016, and December 31, 2015 are summarized as follows:

	June 30, 2016	December 31, 2015
Other real estate owned	$ 1,353	$ 957
Investment in residential housing program	8,550	6,744
Mortgage servicing rights	489	465
Bank owned life insurance	32,677	30,782
Restricted equity securities	6,878	5,403
Other assets	15,306	14,136
Total	$ 65,253	$ 58,487

7. Fair value estimates:

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosure under GAAP. Fair value estimates are calculated without attempting to estimate the value of anticipated future business and the value of certain assets and liabilities that are not considered financial. Accordingly, such assets and liabilities are excluded from disclosure requirements.

In accordance with FASB ASC 820, “Fair Value Measurements and Disclosures,” fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not

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available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets. In many cases, these values cannot be realized in immediate settlement of the instrument.

Current fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction that is not a forced liquidation or distressed sale between participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with GAAP, the Company groups its assets and liabilities generally measured at fair value into three levels based on market information or other fair value estimates in which the assets and liabilities are traded or valued and the reliability of the assumptions used to determine fair value. These levels include:

- Level 1: Unadjusted quoted prices of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

An asset’s or liability’s placement in the fair value hierarchy is based on the lowest level of input that is significant to the fair value estimate.

The following methods and assumptions were used by the Company to calculate fair values and related carrying amounts of financial instruments:

Cash and cash equivalents: The carrying values of cash and cash equivalents as reported on the balance sheet approximate fair value.

Investment securities: The fair values of U.S. Treasury securities and marketable equity securities are based on quoted market prices from active exchange markets. The fair values of debt securities are based on pricing from a matrix pricing model.

Loans held for sale: The fair values of loans held for sale are based upon current delivery prices in the secondary mortgage market.

Net loans: For adjustable-rate loans that re-price frequently and with no significant credit risk, fair values are based on carrying values. The fair values of other non-impaired loans are estimated using discounted cash flow analysis, using interest rates currently offered in the market for loans with similar terms to borrowers of similar credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis determined by the loan review function or underlying collateral values, where applicable.

Mortgage servicing rights: To determine the fair value, the Company estimates the present value of future cash flows incorporating assumptions such as cost of servicing, discount rates, prepayment speeds and default rates.

Peoples Financial Services Corp.

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Accrued interest receivable: The carrying value of accrued interest receivable as reported on the balance sheet approximates fair value.

Restricted equity securities: The carrying values of restricted equity securities approximate fair value, due to the lack of marketability for these securities.

Deposits: The fair values of noninterest-bearing deposits and savings, NOW and money market accounts are the amounts payable on demand at the reporting date. The fair value estimates do not include the benefit that results from such low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market. The carrying values of adjustable-rate, fixed-term time deposits approximate their fair values at the reporting date. For fixed-rate time deposits, the present value of future cash flows is used to estimate fair values. The discount rates used are the current rates offered for time deposits with similar maturities.

Short-term borrowings: The carrying values of short-term borrowings approximate fair value.

Long-term debt: The fair value of fixed-rate long-term debt is based on the present value of future cash flows. The discount rate used is the current rate offered for long-term debt with the same maturity.

Accrued interest payable: The carrying value of accrued interest payable as reported on the balance sheet approximates fair value.

Off-balance sheet financial instruments:

The majority of commitments to extend credit, unused portions of lines of credit and standby letters of credit carry current market interest rates if converted to loans. Because such commitments are generally unassignable of either the Company or the borrower, they only have value to the Company and the borrower. None of the commitments are subject to undue credit risk. The estimated fair values of off-balance sheet financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of off-balance sheet financial instruments was not material at June 30, 2016 and December 31, 2015.

Assets and liabilities measured at fair value on a recurring basis at June 30, 2016 and December 31, 2015 are summarized as follows:

	Fair Value Measurement Using			
June 30, 2016	Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government-sponsored enterprises	$ 58,745	$	$ 58,745	$
State and Municipals:				
Taxable	15,949		15,949	
Tax-exempt	123,155		123,155	
Mortgage-backed securities:				
U.S. Government agencies	26,054		26,054	
U.S. Government-sponsored enterprises	27,479		27,479	
Total	$ 251,382	$	$ 251,382	$

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	Fair Value Measurement Using			
December 31, 2015	Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities	$ 9,999	$ 9,999		$
U.S. Government-sponsored enterprises	69,060		$ 69,060	
State and Municipals:				
Taxable	16,545		16,545	
Tax-exempt	124,924		124,924	
Mortgage-backed securities:				
U.S. Government agencies	31,568		31,568	
U.S. Government-sponsored enterprises	32,839		32,839	
Total	$ 284,935	$ 9,999	$ 274,936	$

Assets and liabilities measured at fair value on a nonrecurring basis at June 30, 2016 and December 31, 2015 are summarized as follows:

	Fair Value Measurement Using			
June 30, 2016	Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 5,801			$ 5,801
Other real estate owned	$ 1,256			$ 1,256

	Fair Value Measurement Using			
December 31, 2015	Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 4,944			$ 4,944

Other real estate owned	$ 878	$ 878

Fair values of impaired loans are based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	Quantitative Information about Level 3 Fair Value Measurements			
June 30, 2016	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 5,801	Appraisal of collateral	Appraisal adjustments	13.5% to 94.0% (62.4)%
			Liquidation expenses	3.0% to 6.0% (5.3)%
Other real estate owned	$ 1,256	Appraisal of collateral	Appraisal adjustments	20.0% to 54.1% (35.9)%
			Liquidation expenses	3.0% to 6.0% (5.0)%

	Quantitative Information about Level 3 Fair Value Measurements			
December 31, 2015	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 4,944	Appraisal of collateral	Appraisal adjustments	3.3% to 97.0% (61.7)%
			Liquidation expenses	3.0% to 6.0% (5.4)%
Other real estate owned	$ 878	Appraisal of collateral	Appraisal adjustments	20.0% to 77.3% (30.3)%
			Liquidation expenses	3.0% to 6.0% (5.0)%

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Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 Inputs which are not identifiable.

Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

The carrying and fair values of the Company's financial instruments at June 30, 2016 and December 31, 2015 and their placement within the fair value hierarchy are as follows:

			Fair Value Hierarchy		
June 30, 2016	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (level 1)	Significant Other Observable Inputs (level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 30,077	$ 30,077	$ 30,077		
Investment securities:					
Available-for-sale	251,382	251,382		$ 251,382	
Held-to-maturity	11,262	12,065		12,065	
Loans held for sale					
Net loans	1,450,009	1,465,095			$ 1,465,095
Accrued interest receivable	5,952	5,952		5,952	
Mortgage servicing rights	489	1,543		1,543	
Restricted equity securities	6,878	6,878		6,878	
Total	$ 1,756,049	$ 1,772,992			
Financial liabilities:					
Deposits	$ 1,496,863	$ 1,499,201		1,499,201	
Short-term borrowings	86,300	86,282		86,282	
Long-term debt	59,232	61,334		61,334	
Accrued interest payable	453	453		$ 453	

Total	$ 1,642,848	$ 1,647,270

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			Fair Value Hierarchy		
December 31, 2015	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (level 1)	Significant Other Observable Inputs (level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 32,917	$ 32,917	$ 32,917		
Investment securities:					
Available-for-sale	284,935	284,935	$ 9,999	$ 274,936	
Held-to-maturity	12,109	12,606		12,606	
Loans held for sale					
Net loans	1,327,890	1,330,900			$ 1,330,900
Accrued interest receivable	5,796	5,796		5,796	
Mortgage servicing rights	465	1,543		1,543	
Restricted equity securities	5,403	5,403		5,403	
Total	$ 1,669,515	$ 1,674,100			
Financial liabilities:					
Deposits	$ 1,455,810	$ 1,455,979		1,455,979	
Short-term borrowings	38,325	38,325		38,325	
Long-term debt	60,354	61,412		61,412	
Accrued interest payable	560	560		$ 560	
Total	$ 1,555,049	$ 1,556,276			

8. Employee benefit plans:

The Company provides an Employee Stock Ownership Plan ("ESOP") and a Retirement Profit Sharing Plan. The Company also maintains a Supplemental Executive Retirement Plan ("SERP"), an Employees' Pension Plan, which is currently frozen, and a Postretirement Plan Life Insurance plan which was curtailed in 2013.

For the three and six months ended June 30, salaries and employee benefits expense includes approximately $329 and $603 in 2016 and $173 and $452 in 2015 relating to the employee benefit plans.

Components of net periodic benefit cost are as follows:

	Pension Benefits	
Three Months Ended June 30,	2016	2015
Components of net periodic pension cost:		
Service cost	$ 166	$ 174
Interest cost	(223)	(233)
Amortization of unrecognized net gain	52	50
Net periodic other benefit cost	$ (5)	$ (9)

	Pension Benefits	
Six Months Ended June 30,	2016	2015
Components of net periodic pension cost:		
Service cost	$ 333	$ 348
Interest cost	(447)	(466)
Amortization of unrecognized net gain	104	100
Net periodic other benefit cost	$ (10)	$ (18)

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

The following discussion and analysis should be read in conjunction with the unaudited consolidated interim financial statements contained in Part I, Item 1 of this report, and with our audited consolidated financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” presented in our Annual Report on Form 10-K for the year ended December 31, 2015.

Cautionary Note Regarding Forward-Looking Statements:

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to risks and uncertainties. These statements are based on assumptions and may describe future plans, strategies and expectations of Peoples Financial Services Corp. and its direct and indirect subsidiaries. These forward-looking statements are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions. All statements in this report, other than statements of historical facts, are forward-looking statements.

Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Important factors that could cause our actual results to differ materially from those in the forward-looking statements include, but are not limited to: changes in interest rates; economic conditions, particularly in our market area; legislative and regulatory changes and the ability to comply with the significant laws and regulations governing the banking and financial services business; monetary and fiscal policies of the U.S. government, including policies of the U.S. Department of Treasury and the Federal Reserve System; credit risk associated with lending activities and changes in the quality and composition of our loan and investment portfolios; demand for loan and other products; deposit flows; competition; changes in the values of real estate and other collateral securing the loan portfolio, particularly in our market area; our ability to achieve the intended benefits of, or other risks associated with, business combinations; changes in relevant accounting principles and guidelines; inability of third party service providers to perform; and our ability to prevent, detect and respond to cyberattacks. Additional factors that may affect our results are discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, and in reports we file with the Securities and Exchange Commission from time to time.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, we do not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Notes to the Consolidated Financial Statements referred to in the Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) are incorporated by reference into the MD&A. Certain prior period amounts may have been reclassified to conform with the current year’s presentation. Any reclassifications did not have any effect on the operating results or financial position of the Company.

Critical Accounting Policies:

Disclosure of our significant accounting policies are included in Note 1 to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2015. Some of these policies are particularly sensitive requiring significant judgments, estimates and assumptions. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that the most critical accounting policies upon which our financial condition and results of operation depend, and which involve the most complex subjective decisions or assessments, are included in Note 1 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, and all amendments thereto, as filed with the Securities and Exchange Commission.

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Operating Environment:

The Federal Open Market Committee ("FOMC") has held rates steady during the first half of 2016 citing global conditions, soft business investment, and weak exports as areas of concern. The FOMC noted improvement in labor markets for the month of June and further noted that near-term economic risks have diminished. However, the first estimate of gross domestic product ("GDP"), the value of all goods and services produced in the Nation, came in at an annualized rate of 1.2% for the second quarter of 2016, compared to the consensus forecast of 2.6%, indicating continued sluggishness in our economy. Additionally, first quarter GDP was revised down to 0.8% compared to 1.1% as initially reported. The consumer price index ("CPI"), excluding food and energy, increased slightly for the 12 months ended June 30, 2016 at 2.3% from 2.2% for the 12 months ended March 31, 2016.

Review of Financial Position:

Total assets increased $92,552, or 10.3% annualized, to $1,911,610 at June 30, 2016, from $1,819,058 at December 31, 2015. Loans, net increased to $1,464,808 at June 30, 2016, compared to $1,340,865 at December 31, 2015, an increase of $123,943 or 18.6% annualized. The increase in loans, net during 2016 has been funded through a decrease of investment securities available-for-sale and increases in deposits and short-term borrowings. Investment securities decreased $34,400 or 11.6% in 2016. Interest-bearing deposits increased $38,246; noninterest-bearing deposits increased $2,807. Total stockholders' equity increased $5,557 or at an annual rate of 4.5%, from $248,768 at year-end 2015 to $254,325 at June 30, 2016. Compared to March 31, 2016, total assets increased $49,240 or 2.6% while loans, net increased $55,117 or 3.9% and deposits increased $21,404 or 1.5%. For the six months ended June 30, 2016, total assets averaged $1,876,831, an increase of $157,981 from $1,718,850 for the same period of 2015.

Investment Portfolio:

The majority of the investment portfolio is held as available-for-sale, which allows for greater flexibility in using the investment portfolio for liquidity purposes by allowing securities to be sold when market opportunities occur. Investment securities available-for-sale totaled $251,382 at June 30, 2016, a decrease of $33,553, or 11.8% from $284,935 at December 31, 2015. The decrease primarily resulted from the sale of U.S. Treasury securities and U.S. Government sponsored agency securities in response to changes in the slope of the yield curve as well as maturing and called bonds and payments from mortgage backed holdings. The proceeds were utilized to fund loan demand. Investment securities held-to-maturity totaled $11,262 at June 30, 2016, a decrease of $847 or 7.0% from $12,109 at December 31, 2015 due to payments received from mortgage backed holdings.

For the six months ended June 30, 2016, the investment portfolio averaged $278,980, a decrease of $31,501 or 10.1% compared to $310,481 for the same period last year. The tax-equivalent yield on the investment portfolio increased 14 basis points to 2.90% for the six months ended June 30, 2016, from 2.76% for the comparable period of 2015. The yield increase is the result of selling lower yielding U.S. Treasury and agency securities. The tax-equivalent yield on the investment portfolio increased 4 basis points to 2.90% in the second quarter of 2016 compared to 2.86% in the first quarter of 2016.

Securities available-for-sale are carried at fair value, with unrealized gains or losses net of deferred income taxes reported in the accumulated other comprehensive income (loss) component of stockholders' equity. We reported net unrealized gains, included as a separate component of stockholders' equity of $3,961, net of deferred income taxes of $2,132, at June 30, 2016, and $2,986, net of deferred income taxes of $1,607, at December 31, 2015.

Our Asset/Liability Committee ("ALCO") reviews the performance and risk elements of the investment portfolio quarterly. Through active balance sheet management and analysis of the securities portfolio, we endeavor to maintain sufficient liquidity to satisfy depositor requirements and meet the credit needs of our customers.

Loan Portfolio:

Loan growth was strong for the six months ended June 30, 2016. Loans, net increased to $1,464,808 at June 30, 2016 from $1,340,865 at December 31, 2015, an increase of $123,943 or 18.6% annualized. The growth reflected increases in commercial loans, commercial real estate loans and consumer loans, partially offset by a decrease in residential real estate loans. Commercial loans increased $28,516, or 15.7% annualized, to $394,283 at June 30, 2016 compared to

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$365,767 at December 31, 2015. Commercial real estate loans increased $79,781 or 28.3% annualized, to $647,058 at June 30, 2016 compared to $567,277 at December 31, 2015. Consumer loans increased $22,827, or 45.2% on an annualized basis, to $124,430 at June 30, 2016 compared to $101,603 at December 31, 2015. The primary contributor to the growth in consumer loans was our indirect loan portfolio which increased $25,044, due to increased consumer demand for automobiles and additional dealerships in the program in 2016.

Residential real estate loans decreased $7,181, or 4.7% on an annualized basis, to $299,037 at June 30, 2016 compared to $306,218 at December 31, 2015. The majority of residential real estate loans originated were sold into the secondary market in lieu of being retained in our loan portfolio to mitigate interest rate risk in the current low rate environment.

For the six months ended June 30, 2016, loans, net averaged $1,408,950, an increase of $178,327 or 14.5% compared to $1,230,623 for the same period of 2015. The tax-equivalent yield on the loan portfolio was 4.49% for the six months ended June 30, 2016, a 17 basis point decrease from the comparable period last year. Loan accretion income in the first six months of 2016 and 2015, which we recognized as a result of the 2013 Penseco merger, was $372 and $347 resulting in a 5 basis point increase in tax-equivalent yield on the loan portfolio in both periods. The tax-equivalent yield on the loan portfolio decreased to 4.47% for the second quarter of 2016 as compared to 4.52% for the first quarter of 2016 and fourth quarter of 2015.

In addition to the risks inherent in our loan portfolio, in the normal course of business, we are also a party to financial instruments with off-balance sheet risk to meet the financing needs of our customers. These instruments include legally binding commitments to extend credit, unused portions of lines of credit and commercial letters of credit made under the same underwriting standards as on-balance sheet instruments, and may involve, to varying degrees, elements of credit risk and interest rate risk ("IRR") in excess of the amount recognized in the financial statements.

Unused commitments at June 30, 2016, totaled $397,200, consisting of $371,455 in unfunded commitments of existing loan facilities and $25,745 in standby letters of credit. Due to fixed maturity dates, specified conditions within these instruments, and the ultimate needs of our customers, many will expire without being drawn upon. We believe that amounts actually drawn upon can be funded in the normal course of operations and therefore, do not represent a significant liquidity risk to us. In comparison, unused commitments at December 31, 2015 totaled $329,822, consisting of $309,805 in unfunded commitments of existing loans and $20,017 in standby letters of credit.

Asset Quality:

National, Pennsylvania, New York and market area unemployment rates at June 30, 2016 and 2015, are summarized as follows:

	June 30, 2016		June 30, 2015	
United States	4.9	%	5.5	%
New York (statewide)	4.9		5.7	
Pennsylvania (statewide)	5.4		5.5	
Broome County	5.6		6.6	
Bucks County	4.5		4.9	
Lackawanna County	5.7		6.2	
Lehigh County	5.3		5.7	
Luzerne County	6.4		6.9	
Monroe County	6.2		6.8	
Montgomery County	4.0		4.3	
Susquehanna County	6.1		6.0	
Wayne County	6.3		6.5	
Wyoming County	6.7	%	6.4	%

The employment conditions improved for the Nation, Pennsylvania, and New York and in all but two of the ten counties representing our market areas in Pennsylvania and New York from one year ago. Unemployment rates remained elevated relative to historical levels within many of our market areas.

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Nonperforming assets increased in the first half of 2016 by $738 or 5.9% to $13,202 at June 30, 2016, from $12,464 at December 31, 2015. We experienced a decrease in nonaccrual and restructured loans and foreclosed assets, which was more than offset by an increase in accruing loans past due 90 days or more. As a percentage of loans, net and foreclosed assets, nonperforming assets equaled 0.90% at June 30, 2016 compared to 0.93% at December 31, 2015.

Loans on nonaccrual status decreased $1,126 to $9,245 at June 30, 2016 from $10,371 at December 31, 2015. The majority of the decrease from year end was due to a decrease of $1,906 in residential real estate loans. The reduction in residential non-accrual loans was due to loans transferred to other real estate owned, loans returned to accral status and loans charged-off. Nonaccrual commercial loans decreased $370, while nonaccrual commercial real estate loans increased $1,070, and nonaccrual consumer loans increased $80. Other real estate owned increased $396 to $1,353 at June 30, 2016 from $957 at December 31, 2015, as loans were transferred from non-accrual status.

Generally, maintaining a high loan to deposit ratio is our primary goal in order to maximize profitability. However, this objective is superseded by our attempts to assure that asset quality remains strong. We continued our efforts to maintain sound underwriting standards for both commercial and consumer credit. Most commercial lending is done primarily with locally owned small businesses.

We maintain the allowance for loan losses at a level we believe adequate to absorb probable credit losses related to specifically identified loans, as well as probable incurred loan losses inherent in the remainder of the loan portfolio as of the balance sheet date. The allowance for loan losses is based on past events and current economic conditions. We employ the Federal Financial Institutions Examination Council Interagency Policy Statement, as amended December 13, 2006, and GAAP in assessing the adequacy of the allowance account. Under GAAP, the adequacy of the allowance account is determined based on the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 310, "Receivables," for loans specifically identified to be individually evaluated for impairment and the requirements of FASB ASC 450, "Contingencies," for large groups of smaller-balance homogeneous loans to be collectively evaluated for impairment.

We follow our systematic methodology in accordance with procedural discipline by applying it in the same manner regardless of whether the allowance is being determined at a high point or a low point in the economic cycle. Each quarter, loan review identifies those loans to be individually evaluated for impairment and those loans collectively evaluated for impairment utilizing a standard criteria. Internal loan review grades are assigned quarterly to loans identified to be individually evaluated. A loan's grade may differ from period to period based on current conditions and events, however, we consistently utilize the same grading system each quarter. We consistently use loss experience from the latest twelve quarters in determining the historical loss factor for each pool collectively evaluated for impairment. Qualitative factors are evaluated in the same manner each quarter and are adjusted within a relevant range of values based on current conditions. For additional disclosure related to the allowance for loan losses refer to the note entitled, “Loans, net and Allowance for Loan Losses,” in the Notes to Consolidated Financial Statements to this Quarterly Report.

The allowance for loan losses increased $1,824 to $14,799 at June 30, 2016, from $12,975 at the end of 2015. For the six months ended June 30, 2016, net charge-offs were $576 or 0.08% of average loans outstanding, a $166 increase compared to $410 or 0.07% of average loans outstanding in the same period of 2015.

Deposits:

We attract the majority of our deposits from within our ten county market area that stretches from Lehigh County in Pennsylvania to Broome County in the Southern Tier of New York State through the offering of various deposit instruments including demand deposit accounts, NOW accounts, money market deposit accounts, savings accounts, and time deposits, including certificates of deposit and IRA’s. For the six months ended June 30, 2016, total deposits increased to $1,496,863 from $1,455,810 at December 31, 2015. Interest-bearing deposits increased $38,246 and noninterest-bearing deposits increased $2,807. Interest-bearing transaction accounts, including NOW and money market accounts, increased $27,862, or 11.8% annualized, to $504,124 at June 30, 2016, from $476,262 at December 31, 2015. Time deposits less than $100 decreased $1,424, or 1.6% annualized, to $182,470 at June 30, 2016, from $183,894 at December 31, 2015. Increases in savings accounts of $3,051 and time deposits $100 or more of $8,757 were recorded in the six months ended June 30, 2016.

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For the six months ended June 30, 2016 interest-bearing deposits averaged $1,166,966 in 2016 compared to $1,116,900 in 2015. The cost of interest-bearing deposits was 0.45% in 2016 compared to 0.44% for the same period last year. For the first six months, the overall cost of interest-bearing liabilities including the cost of borrowed funds, was 0.55% in 2016 compared to 0.52% in 2015. The cost of interest-bearing liabilities increased 1 basis point when comparing the first and second quarters of 2016.

Borrowings:

The Bank utilizes borrowings as a secondary source of liquidity for its asset/liability management. Advances are available from the Federal Home Loan Bank of Pittsburgh (“FHLB) provided certain standards related to credit worthiness have been met. Repurchase and term agreements are also available from the FHLB.

Total short-term borrowings at June 30, 2016, totaled $86,300 compared to $38,325 at December 31, 2015, an increase of $47,975. Long-term debt was $59,232 at June 30, 2016, compared to $60,354 at year end 2015. The increase in short-term borrowing was a function of continued strong loan demand whereas the decline in long-term debt was a product of monthly contractual amortized payments made during the six months ended June 30, 2016.

Market Risk Sensitivity:

Market risk is the risk to our earnings or financial position resulting from adverse changes in market rates or prices, such as interest rates, foreign exchange rates or equity prices. Our exposure to market risk is primarily “IRR” associated with our lending, investing and deposit-gathering activities. During the normal course of business, we are not exposed to foreign exchange risk or commodity price risk. Our exposure to IRR can be explained as the potential for change in our reported earnings and/or the market value of our net worth. Variations in interest rates affect earnings by changing net interest income and the level of other interest-sensitive income and operating expenses. Interest rate changes also affect the underlying economic value of our assets, liabilities and off-balance sheet items. These changes arise because the present value of future cash flows, and often the cash flows themselves, change with interest rates. The effects of the changes in these present values reflect the change in our underlying economic value and provide a basis for the expected change in future earnings related to interest rates. IRR is inherent in the role of banks as financial intermediaries. However, a bank with a high degree of IRR may experience lower earnings, impaired liquidity and capital positions, and most likely, a greater risk of insolvency. Therefore, banks must carefully evaluate IRR to promote safety and soundness in their activities.

As a result of economic uncertainty and a prolonged era of historically low market rates, it has become challenging to manage IRR. Due to these factors, IRR and effectively managing it are very important to both bank management and regulators. Bank regulations require us to develop and maintain an IRR management program, overseen by the Board of Directors and senior management, that involves a comprehensive risk management process in order to effectively identify, measure, monitor and control risk. Should bank regulatory agencies identify a material weakness in our risk management process or high exposure relative to our capital, bank regulatory agencies may take action to remedy these shortcomings. Moreover, the level of IRR exposure and the quality of our risk management process is a determining factor when evaluating capital adequacy.

The ALCO, comprised of members of our Board of Directors, senior management and other appropriate officers, oversees our IRR management program. Specifically, ALCO analyzes economic data and market interest rate trends, as well as competitive pressures, and utilizes computerized modeling techniques to reveal potential exposure to IRR. This allows us to monitor and attempt to control the influence these factors may have on our rate-sensitive assets ("RSA") and rate-sensitive liabilities ("RSL"), and overall operating results and financial position. One such technique utilizes a static gap model that considers repricing frequencies of RSA and RSL in order to monitor IRR. Gap analysis attempts to measure our interest rate exposure by calculating the net amount of RSA and RSL that reprice within specific time intervals. A positive gap occurs when the amount of RSA repricing in a specific period is greater than the amount of RSL repricing within that same time frame and is indicated by a RSA/RSL ratio greater than 1.0. A negative gap occurs when the amount of RSL repricing is greater than the amount of RSA and is indicated by a RSA/RSL ratio of less than 1.0. A positive gap implies that earnings will be impacted favorably if interest rates rise and adversely if interest rates fall during the period. A negative gap tends to indicate that earnings will be affected inversely to interest rate changes.

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Our cumulative one-year RSA/RSL ratio equaled 1.73% at June 30, 2016. Given the length of time that market rates have been at historical lows and the potential for rates to increase in the future, the focus of ALCO has been to create a positive static gap position. With regard to RSA, we predominantly offer medium- term, fixed-rate loans as well as adjustable rate loans. With respect to RSL, we offer longer term promotional certificates of deposit in an attempt to increase duration. The current position at June 30, 2016, indicates that the amount of RSA repricing within one year would exceed that of RSL, thereby causing net interest income to increase as market rates increase. However, these forward-looking statements are qualified in the aforementioned section entitled "Forward-Looking Discussion" in this Management's Discussion and Analysis.

Static gap analysis, although a standard measuring tool, does not fully illustrate the impact of interest rate changes on future earnings. First, market rate changes normally do not equally or simultaneously affect all categories of assets and liabilities. Second, assets and liabilities that can contractually reprice within the same period may not do so at the same time or to the same magnitude. Third, the interest rate sensitivity table presents a one-day position. Variations occur daily as we adjust our rate sensitivity throughout the year. Finally, assumptions must be made in constructing such a table.

As the static gap report fails to address the dynamic changes in the balance sheet composition or prevailing interest rates, we utilize a simulation model to enhance our asset/liability management. This model is used to create pro forma net interest income scenarios under various interest rate shocks. Model results at June 30, 2016, produced results similar to those indicated by the one-year static gap position. In addition, parallel and instantaneous shifts in interest rates under various interest rate shocks resulted in changes in net interest income that were well within ALCO policy limits. We will continue to monitor our IRR throughout 2016 and endeavor to employ deposit and loan pricing strategies and direct the reinvestment of loan and investment repayments in order to manage our IRR position.

Financial institutions are affected differently by inflation than commercial and industrial companies that have significant investments in fixed assets and inventories. Most of our assets are monetary in nature and change correspondingly with variations in the inflation rate. It is difficult to precisely measure the impact inflation has on us, however we believe that our exposure to inflation can be mitigated through asset/liability management.

Liquidity:

Liquidity management is essential to our continuing operations and enables us to meet financial obligations as they come due, as well as to take advantage of new business opportunities as they arise. Financial obligations include, but are not limited to, the following:

· Funding new and existing loan commitments;

· Payment of deposits on demand or at their contractual maturity;

· Repayment of borrowings as they mature;

· Payment of lease obligations; and

· Payment of operating expenses.

These obligations are managed daily, thus enabling us to effectively monitor fluctuations in our liquidity position and to adapt that position according to market influences and balance sheet trends. Future liquidity needs are forecasted and strategies are developed to ensure adequate liquidity at all times.

Historically, core deposits have been the primary source of liquidity because of their stability and lower cost, in general, than other types of funding. Providing additional sources of funds are loan and investment payments and prepayments and the ability to sell both available for sale securities and mortgage loans held for sale. We believe liquidity is adequate to meet both present and future financial obligations and commitments on a timely basis.

We employ a number of analytical techniques in assessing the adequacy of our liquidity position. One such technique is the use of ratio analysis to determine the extent of our reliance on noncore funds to fund our investments and loans

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maturing after June 30, 2016. Our noncore funds at June 30, 2016, were comprised of time deposits in denominations of $100 or more and other borrowings. These funds are not considered to be a strong source of liquidity because they are very interest rate sensitive and are considered to be highly volatile. At June 30, 2016, our net noncore funding dependence ratio, the difference between noncore funds and short-term investments to long-term assets, was 14.9%, while our net short-term noncore funding dependence ratio, noncore funds maturing within one-year, less short-term investments to long-term assets equaled 8.4%. Comparatively, our overall noncore dependence ratio at year-end 2015 was 11.3% and our net short-term noncore funding dependence ratio was 4.1%, indicating that our reliance on noncore funds has increased.

The Consolidated Statements of Cash Flows present the changes in cash and cash equivalents from operating, investing and financing activities. Cash and cash equivalents, consisting of cash on hand, cash items in the process of collection, deposit balances with other banks and federal funds sold, decreased $2,840 during the six months ended June 30, 2016. Cash and cash equivalents increased $4,131 for the same period last year. For the six months ended June 30, 2016, net cash inflows of $12,417 from operating activities and $82,716 from financing activities were more than offset by net cash outflows of $97,973 from investing activities. For the same period of 2015, net cash inflows of $9,368 from operating activities were partially offset by net cash outflows of $4,593 from investing activities and $644 from financing activities.

Operating activities provided net cash of $12,417 for the six months ended June 30, 2016, and $9,368 for the corresponding six months of 2015. Net income, adjusted for the effects of gains and losses along with noncash transactions such as depreciation and the provision for loan losses, is the primary source of funds from operations.

Investing activities primarily include transactions related to our lending activities and investment portfolio. Investing activities used net cash of $97,973 for the six months ended June 30, 2016, compared to using $4,593 for the same period of 2015. In 2016, an increase in lending activities was the primary factor causing the net cash outflow from investing activities. Investment portfolio activities was the predominant factor causing the net cash inflow from investing activities in 2015.

Financing activities provided net cash of $82,716 for the six months ended June 30, 2016, and used net cash of $644 for the corresponding six months of 2015. Deposit gathering is our predominant financing activity. Deposits increased for the six months ended June 30, 2016 and decreased during the six months ended June 30, 2015. The net increase in deposits totaled $41,053 in the six months ended June 30, 2016. Comparatively, deposit runoff used net cash of $791 for the same period of 2015. We continued to attract deposits from new markets and customers as well as existing customers, including municipalities and school districts, and deposits gathered in relation to natural gas activity within existing markets in Susquehanna and Wyoming Counties of Pennsylvania. Another source of financing is our short term borrowings which increased $47,975 in the six months ended June 30, 2016 compared to a net increase of $6,303 in the first six months of 2015.

We believe that our future liquidity needs will be satisfied through maintaining an adequate level of cash and cash equivalents, by maintaining readily available access to traditional funding sources, and through proceeds received from the investment and loan portfolios. The current sources of funds will enable us to meet all cash obligations as they come due.

Capital:

Stockholders' equity totaled $254,325 or $34.40 per share at June 30, 2016, compared to $248,768 or $32.57 per share at December 31, 2015. Net income of $9,737 for the six months ended June 30, 2016 was the primary factor leading to the improved capital position. Stockholders' equity was also affected by cash dividends declared of $4,586, shares retired of $604, stock based compensation of $35, and other comprehensive income resulting from market value fluctuations in the investment portfolio of $975.

Dividends declared equaled $0.62 per share for the first six months of 2016 and 2015. The dividend payout ratio was 47.0% for the six months ended June 30, 2016 and 49.2% for the same period of 2015. The merger agreement pursuant to which we merged with Penseco in 2013 contemplates that, unless 80 percent of our board of directors determines otherwise, we will pay a quarterly cash dividend in an amount no less than $0.31 per share through 2018, provided that

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sufficient funds are legally available, and that we remain “well-capitalized” in accordance with applicable regulatory guidelines. It is the intention of our board of directors to continue to pay cash dividends in the future. However, these decisions are affected by operating results, financial and economic decisions, capital and growth objectives, appropriate dividend restrictions and other relevant factors.

In July 2013, the Board of Governors of the FRB approved the Basel III interim final rule (“Basel III”) which is intended to strengthen the quality and increase the required level of regulatory capital for a more stable and resilient banking system. The changes include: (i) a new regulatory capital measure, Common Equity Tier 1 (“CET1”), which is limited to capital elements of the highest quality; (ii) a new definition and increase of tier 1 capital which is now comprised of CET1 and Additional Tier 1; (iii) changes in calculation of some risk-weighted assets and off-balance sheet exposure; and (iv) a capital conservation buffer that will limit capital distributions, stock redemptions, and certain discretionary bonus payments if the institution does not maintain capital in excess of the minimum capital requirements. These new capital rules took effect for our Bank on January 1, 2015 and reporting began with the quarter ended June 30, 2015. Under the final capital rules that became effective on January 1, 2015, there was a requirement for a CET1 capital conservation buffer of 2.5% of risk-weighted assets which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain this required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement is being phased in over three years beginning in 2016.

The adequacy of capital is reviewed on an ongoing basis with reference to the size, composition and quality of resources and regulatory guidelines. We seek to maintain a level of capital sufficient to support existing assets and anticipated asset growth, maintain favorable access to capital markets, and preserve high quality credit ratings. At June 30, 2016, the Bank’s Tier 1 capital to total average assets was 10.10% as compared to 10.48% at December 31, 2015. The Bank’s Tier 1 capital to risk weighted asset ratio was 12.24% and the total capital to risk weighted asset ratio was 13.23% at June 30, 2016. These ratios were 13.11% and 14.05% at December 31, 2015. The Bank’s common equity Tier 1 to risk weighted asset ratio was 12.24% at June 30, 2016 compared to 13.11% at December 31, 2015. The Bank was deemed to be well-capitalized under regulatory standards at June 30, 2016. Additionally, as of June 30, 2016, the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if all such requirements were currently in effect.

Review of Financial Performance:

Net income for the second quarter of 2016 equaled $4,855 or $0.66 per share compared to $4,431 or $0.59 per share for the second quarter of 2015. Return on average assets ("ROA") measures our net income in relation to total assets. Our ROA was 1.03% for both the second quarter of 2016 and 2015. Return on average equity ("ROE") indicates how effectively we can generate net income on the capital invested by stockholders. Our ROE was 7.72% for the second quarter of 2016 compared to 7.14% for the second quarter of 2015. Net income for the first half of 2016 equaled $9,737 or $1.32 per share compared to $9,475 or $1.26 per share for the first six months of 2015. Our ROA was 1.04% through the first six months of 2016 compared to 1.11% for the same period of 2015. Our ROE was 7.70% for the first half of 2016 compared to 7.71% for the comparable period in 2015. Gains on sale of investment securities were $623 for the six months ended June 30, 2016 and $832 for the same period in 2015.

Net Interest Income:

Net interest income is the fundamental source of earnings for commercial banks. Fluctuations in the level of net interest income can have the greatest impact on net profits. Net interest income is defined as the difference between interest revenue, interest and fees earned on interest-earning assets, and interest expense, the cost of interest-bearing liabilities supporting those assets. The primary sources of earning assets are loans and investment securities, while interest-bearing deposits, short-term and long-term borrowings comprise interest-bearing liabilities. Net interest income is impacted by:

· Variations in the volume, rate and composition of earning assets and interest-bearing liabilities;

· Changes in general market rates; and

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· The level of nonperforming assets.

Changes in net interest income are measured by the net interest spread and net interest margin. Net interest spread, the difference between the average yield earned on earning assets and the average rate incurred on interest-bearing liabilities, illustrates the effects changing interest rates have on profitability. Net interest margin, net interest income as a percentage of earning assets, is a more comprehensive ratio, as it reflects not only the spread, but also the change in the composition of interest-earning assets and interest-bearing liabilities. Tax-exempt loans and investments carry pre-tax yields lower than their taxable counterparts. Therefore, in order to make the analysis of net interest income more comparable, tax-exempt income and yields are reported herein on a tax-equivalent basis using the prevailing federal statutory tax rate of 35.0% in 2016 and 2015.

For the three months ended June 30, tax-equivalent net interest income increased $1,237 to $16,184 in 2016 from $14,947 in 2015. The net interest spread decreased to 3.68% for the three months ended June 30, 2016 from 3.72% for the three months ended June 30, 2015. The tax-equivalent net interest margin decreased to 3.81% for the second quarter of 2016 from 3.84% for the comparable period of 2015. The tax-equivalent net interest margin for the first quarter of 2016 was also 3.81%. Loan accretion in the second quarter of 2016 related to loans acquired in the 2013 Penseco merger was $157, resulting in an increase in the tax-equivalent net interest margin of 4 basis points. Comparatively, loan accretion recognized on these loans in the second quarter of 2015 was $122 resulting in an increase in the tax-equivalent net interest margin of 3 basis points. Without such interest income, the tax equivalent net interest margin for the three months ended March 31 would have been 3.77% in 2016 and 3.81% in 2015.

For the three months ended June 30, tax-equivalent interest income on earning assets increased $1,554, to $17,949 in 2016 as compared to $16,395 in 2015. The overall yield on earning assets, on a fully tax-equivalent basis, increased 1 basis point for the three months ended June 30, 2016 to 4.23% as compared to 4.22% for the three months ended June 30, 2015. The increase in the yield on earning assets resulted from the sale of lower yielding investment securities available-for-sale in the second quarter of 2016. The overall yield earned on investments increased 21 basis points for the second quarter of 2016 to 2.95% from 2.74% for the second quarter of 2015. Average investments decreased to $270,843 for the quarter ended June 30, 2016 compared to $307,916 for the same period in 2015.

Total interest expense increased $317, to $1,765 for the three months ended June 30, 2016 from $1,448 for the three months ended June 30, 2015. An unfavorable volume variance caused the increase. An increase in the average volume of interest bearing liabilities of $163,900 coupled with the increased cost of funds comparing the three months ended June 30, 2016 and 2015 caused the increase.

For the six months ended June 30, tax-equivalent net interest income increased $2,252 to $32,026 in 2016 from $29,774 in 2015. The net interest spread decreased to 3.68% for the six months ended June 30, 2015 from 3.73% for the six months ended June 30, 2015. The tax-equivalent net interest margin for the six months ended June 30 was 3.81% in 2016 compared to 3.86% in 2015. Loan interest income in the six months ended June 30, 2016 related to loans acquired in the fourth quarter of 2013 was $372, resulting in an increase in the tax-equivalent net interest margin of 4 basis points. Comparatively, loan interest income on these loans recognized in the first six months of 2015 was $347, again resulting in an increase in the tax-equivalent net interest margin of 4 basis points. Without such interest income, the tax equivalent net interest margin for the six months ended June 30 would have been 3.77% in 2016 and 3.82% in 2015.

For the six months ended June 30, 2016, tax-equivalent interest income increased $2,753, to $35,510 as compared to $32,757 for the six months ended June 30, 2015. A volume variance in interest income of $6,246 attributable to an increase in the average balance of earning assets was partially offset by a $3,493 unfavorable rate variance due to a reduction in the yield on earning assets. Specifically, the increase was primarily due to a $178,327 increase in average loans for the first six months of 2016 from the same period in 2015. The overall yield on earning assets, on a fully tax-equivalent basis, decreased for the six months ended June 30, 2016 to 4.22% as compared to 4.25% for the six months ended June 30, 2015. This was a result of the continuation of the low interest rate environment along with increased market competition.

Total interest expense increased $502 to $3,485 for the six months ended June 30, 2016 from $2,983 for the six months ended June 30, 2015. A volume variance caused interest expenses to increase $810. The average volume of interest

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bearing liabilities increased to $1,284,821 for the six months ended June 30, 2016, as compared to $1,156,541 for the six months ended June 30, 2015. Offsetting the volume variance, a rate variance of $309 resulted in the increased interest expense through six months in 2016. The cost of funds increased to 0.55% for the six months ended June 30, 2016 as compared to 0.52% for the same period in 2015.

The average balances of assets and liabilities, corresponding interest income and expense and resulting average yields or rates paid are summarized as follows. Averages for earning assets include nonaccrual loans. Investment averages include available-for-sale securities at amortized cost. Income on investment securities and loans is adjusted to a tax equivalent basis using the prevailing federal statutory tax rate of 35%.

	Six months ended June 2016 Average Balance	Interest Income/ Interest	Yield/ Rate	June 2015 Average Balance	Interest Income/ Interest	Yield/ Rate
Assets:						
Earning assets:						
Loans:						
Taxable	$ 1,301,887	$ 29,106	4.50 %	$ 1,159,462	$ 26,731	4.65 %
Tax-exempt	107,063	2,355	4.42	71,161	1,737	4.92
Investments:						
Taxable	151,861	1,338	1.77	212,617	1,731	1.64
Tax-exempt	127,119	2,692	4.26	97,864	2,523	5.20
Interest-bearing deposits	2,517	19	1.52	6,672	26	0.79
Federal funds sold				7,190	9	0.25
Total earning assets	1,690,447	35,510	4.22 %	1,554,966	32,757	4.25 %
Less: allowance for loan losses	13,983			10,746		
Other assets	200,367			174,630		
Total assets	$ 1,876,831	35,510		$ 1,718,850	32,757	
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Money market accounts	$ 210,935	380	0.36 %	$ 197,354	340	0.35 %
NOW accounts	292,795	544	0.37	260,267	468	0.36
Savings accounts	390,453	348	0.18	401,521	443	0.22

Time deposits less than $100	164,678	874	1.07	169,378	892	1.06
Time deposits $100 or more	108,105	459	0.85	88,380	317	0.72
Short-term borrowings	58,073	166	0.57	7,286	12	0.33
Long-term debt	59,782	714	2.40	32,355	511	3.18
Total interest-bearing liabilities	1,284,821	3,485	0.55	1,156,541	2,983	0.52
Noninterest-bearing deposits	320,923			299,518		
Other liabilities	15,455			14,848		
Stockholders’ equity	255,632			247,943		
Total liabilities and stockholders’ equity	$ 1,876,831	3,485		$ 1,718,850	2,983	
Net interest income/spread		$ 32,025	3.68 %		$ 29,774	3.73 %
Net interest margin			3.81 %			3.86 %
Tax-equivalent adjustments:						
Loans		$ 824			$ 608	
Investments		942			883	
Total adjustments		$ 1,766			$ 1,491	

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Provision for Loan Losses:

We evaluate the adequacy of the allowance for loan losses account on a quarterly basis utilizing our systematic analysis in accordance with procedural discipline. We take into consideration certain factors such as composition of the loan portfolio, volumes of nonperforming loans, volumes of net charge-offs, prevailing economic conditions and other relevant factors when determining the adequacy of the allowance for loan losses account. We make monthly provisions to the allowance for loan losses account in order to maintain the allowance at the appropriate level indicated by our evaluations. Based on our most current evaluation, we believe that the allowance is adequate to absorb any known and inherent losses in the portfolio as of June 30, 2016.

For the three and six months ended June 30, 2016, the provision for loan losses totaled $1,200 and $2,400, compared to $750 and $1,500 for the same periods in 2015. The increase in the provision for the quarter and year-to-date periods ended June 30, 2016 were primarily a result of greater loan growth as compared to the corresponding periods of the prior year.

Noninterest Income:

Noninterest income for the second quarter increased $487 or 13.4% to $4,113 in 2016 from $3,626 in 2015. For the six months ended June 30, 2016, noninterest income totaled $8,004, an increase of $69 or 0.9% from $7,935 for the comparable period of 2015. Service charges, fees and commissions decreased $183, or 5.8% to $2,971 through six months in 2016 from $3,154 for the same period in 2015. Merchant services income increased $199 to $1,952 for the six months ended June 30, 2016 from $1,753 for the same period last year as a result of an increase in the number of merchant accounts serviced. Income generated from commissions and fees on fiduciary activities increased $10 to $956 for the six months ended June 30, 2016 in comparison to $946 for the same period in 2015 due to additional executor fees generated in 2016. Income generated from our wealth management division increased $305 to $708 through the first six months of 2016 in comparison to $403 over that same period in 2015 due to the addition of retirement plan servicing to the wealth management platform in 2016. Mortgage banking income decreased $71 to $399 for the first six months of 2016 compared to $470 for the comparable period in 2015 as the volume of loans originated for sale declined. Life insurance investment income increased $18 to $395 for the six months ended June 30, 2016 from $377 for the same period in 2015. We purchased an additional $1,500 of bank owned life insurance in February 2016 thus generating additional income. Gains from the sale of investment securities available-for-sale decreased to $623 for the six months ended June 30, 2016 compared to $832 for the same period in 2015.

For the three months ended June 30, noninterest income increased to $4,113 in 2016 from $3,626 in 2015. Increases in income from merchant services, wealth management and life insurance income were partially offset by declines in service charges, fees and commissions, commissions and fees on fiduciary activities, and mortgage banking income. Net gains on sale of investment securities available-for-sale were $381 for the quarter ended June 30, 2016. There were no gains on sale of investment securities available-for-sale during the corresponding quarter of 2015.

Noninterest Expenses:

In general, noninterest expense is categorized into three main groups: employee-related expenses, occupancy and equipment expenses and other expenses. Employee-related expenses are costs associated with providing salaries, including payroll taxes and benefits, to our employees. Occupancy and equipment expenses, the costs related to the maintenance of facilities and equipment, include depreciation, general maintenance and repairs, real estate taxes, rental expense offset by any rental income, and utility costs. Other expenses include general operating expenses such as advertising, contractual services, insurance, including FDIC assessment, other taxes and supplies. Several of these costs and expenses are variable while the remainder are fixed. We utilize budgets and other related strategies in an effort to control the variable expenses.

For the second quarter, noninterest expense increased $602 or 5.2% to $12,113 in 2016 from $11,511 in 2015. For the six months ended June 30, noninterest expense increased $1,126 or 5.0% to $23,731 in 2016 from $22,605 in 2015.

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Personnel costs increased 3.6%, net occupancy and equipment costs increased 1.4%, merchant services expense increased 16.7% and other expenses increased by 8.8% comparing year-to-date 2016 and 2015.

Salaries and employee benefits expense, which comprise the majority of noninterest expense, totaled $5,904 for the second quarter of 2016, an increase of $291 or 5.2% when compared to the second quarter of 2015. Salaries and employee benefits expense totaled $11,236 for the first six months of 2016, an increase of $390 or 3.6% when compared to the same period of 2015. Costs related to our build out of our expansion plan and wealth management group, as well as severance costs contributed to the increase. Additional resources have been put in place in support of our expansion into the Lehigh Valley market. The increase in the wealth management group was due to our acquisition of a retirement planning services group in the second half of 2015. Severances totaled $412 during the six moths ended June 30, 2016.

We experienced a $96 or 4.5% increase in net occupancy and equipment expense comparing the second quarters of 2016 at $2,245 and 2015 at $2,149. We experienced a $65 or 1.4% increase in net occupancy and equipment expense comparing $4,682 for the first six months of 2016 and $4,617 for the same period in 2015. Unusually mild winter conditions led to a decrease in heating costs as well as a decrease in costs associated with snow removal during the first quarter of 2016 when compared to the first three months of 2015. Expenditures for occupancy and equipment related projects picked up during the second quarter of 2016 when compared to the second quarter of 2015.

Merchant services expense increased $98 or 15.1% to $748 for the three months ended June 30, 2016 from $650 for the same period in 2015. Merchant services expense increased $197 or 16.7% to $1,380 for the three months ended June 30, 2016 from $1,183 for the same period in 2015. The increase due to higher volumes correlates directly to the increase in merchant services income for the six months ended June 30, 2016.

For the second quarter, other expenses increased $115 or 4.1% to $2,919 from $2,804 comparing 2016 to 2015. For the six months ended June 30, other expenses increased $472 or 8.8% to $5,831 from $5,359 comparing 2016 to 2015. Higher contributions to the earned income tax credit (EITC) program of $408, in the current period, along with higher recruiting costs, coupled with gains on other real estate owned in the prior period were the primary reason for the increase.

Income Taxes:

We recorded income tax expense of $1,238 or 20.3% of pre-tax income, and $1,124 or 20.2% of pre-tax income for the three months ended June 30, 2016 and 2015. We recorded income tax expense of $2,395 or 19.7% of pre-tax income, and $2,638 or 21.8% of pre-tax income for the six months ended June 30, 2016 and 2015. The three months ended June 30, 2016 includes before tax investment tax credits of $619 compared to $567 for that same period last year. Additionally, a higher proportion of tax-exempt interest income to before tax income was recognized during the first half of 2016 compared to the same period in 2015.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Market risk is the risk to our earnings and/or financial position resulting from adverse changes in market rates or prices, such as interest rates, foreign exchange rates or equity prices. Our exposure to market risk is primarily interest rate risk ("IRR"), which arises from our lending, investing and deposit gathering activities. Our market risk sensitive instruments consist of non-derivative financial instruments, none of which are entered into for trading purposes. During the normal course of business, we are not exposed to foreign exchange risk or commodity price risk. Our exposure to IRR can be explained as the potential for change in reported earnings and/or the market value of net worth. Variations in interest rates affect the underlying economic value of assets, liabilities and off-balance sheet items. These changes arise because the present value of future cash flows, and often the cash flows themselves, change with interest rates. The effects of the changes in these present values reflect the change in our underlying economic value, and provide a basis for the expected change in future earnings related to interest rates. Interest rate changes affect earnings by changing net interest income and the level of other interest-sensitive income and operating expenses. IRR is inherent in the role of banks as financial intermediaries.

A bank with a high degree of IRR may experience lower earnings, impaired liquidity and capital positions, and most likely, a greater risk of insolvency. Therefore, banks must carefully evaluate IRR to promote safety and soundness in their activities.

The projected impacts of instantaneous changes in interest rates on our net interest income and economic value of equity at June 30, 2016, based on our simulation model, as compared to our ALCO policy limits are summarized as follows:

	June 30, 2016			
	% Change in			
Changes in Interest Rates (basis points)	Net Interest Income		Economic Value of Equity	
	Metric	Policy	Metric	Policy
+400	3.2	(20.0)	10.4	(45.0)
+300	2.8	(20.0)	9.4	(35.0)
+200	2.0	(10.0)	7.4	(25.0)
+100	1.2	(10.0)	5.0	(15.0)
Static				
(100)	(3.0)	(10.0)	(15.1)	(15.0)

Our simulation model creates pro forma net interest income scenarios under various interest rate shocks. Given instantaneous and parallel shifts in general market rates of plus 100 basis points, our projected net interest income for the 12 months ending June 30, 2016, would increase slightly at 1.2 percent from model results using current interest rates. Additional disclosures about market risk are included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015, under the heading "Market Risk Sensitivity," and are incorporated into this Item 3 by reference. There were no material changes in our market risk from December 31, 2015.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

At June 30, 2016, the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer ("PEO") and principal financial officer ("PFO") evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Based upon that evaluation, the PEO and PFO concluded that the disclosure controls and procedures, at June 30, 2016, were effective to provide reasonable assurance that information required to be disclosed in the Company's reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable

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assurance that information required to be disclosed in such reports is accumulated and communicated to the PEO and PFO to allow timely decisions regarding required disclosure.

(b) Changes in internal control.

There were no changes made in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

The nature of the Company's business generates a certain amount of litigation involving matters arising out of the ordinary course of business. In the opinion of management, there were no legal proceedings that had or might have a material effect on the consolidated results of operations, liquidity, or the financial position of the Company during the period ended June 30, 2016 and through the date of this quarterly report on Form 10-Q and no such legal proceedings known to be contemplated by governmental authorities.

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On February 2, 2016, we announced a stock repurchase program providing for the purchase of up to 225,000 shares of our outstanding common stock. The timing, price and volume of repurchases under both programs were, and under the 2016 program will be, based on market conditions, relevant securities laws and other factors.

The following purchases were made by or on behalf of the Company or any "affiliated purchaser," as defined in the Exchange Act Rule 10b-18(a)(3), of the Company's common stock during each of the months for the quarter ended June 30, 2016.

Month Ending	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that may yet be Purchased Under the Programs
April 30, 2016	2,894	$ 36.37	2,894	216,798
May 31, 2016	2,261	$ 35.82	2,261	214,537
June 30, 2016				214,537

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

10.1	Supplemental Executive Retirement Plan Agreement, effective February 1, 2016, by and among Peoples Security Bank and Trust Company, Peoples Financial Serices Corp. and Michael L. Jake.
31.1	Principal Executive Officer certification pursuant to Rule 13a-14(a)/15d-14(a).
31.2	Principal Financial Officer certification pursuant to Rule 13a-14(a)/15d-14(a).
32	Principal Executive Officer and Principal Financial Officer certifications pursuant to Section 1350.
101+	Interactive Data File

+ As provided in Rule 406T of Regulation S-T, this information is filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto, duly authorized.

	Peoples Financial Services Corp. (Registrant)
Date: August 5, 2016	/s/ Craig W. Best Craig W. Best President and Chief Executive Officer (Principal Executive Officer)
Date: August 5, 2016	/s/ John R. Anderson, III John R. Anderson, III Interim Principal Financial and Accounting Officer (Principal Financial Officer and Principal Accounting Officer)

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EXHIBIT INDEX

Item Number	Description	Page
10.1	Supplemental Executive Retirement Plan Agreement, effective February 1, 2016, by and among Peoples Security Bank and Trust Company, Peoples Financial Services Corp. and Michael L. Jake.	
31.1	Principal Executive Officer Certification Pursuant to Rule 13a-14 (a) /15d-14 (a).	43
31.2	Principal Financial Officer Certification Pursuant to Rule 13a-14 (a) /15d-14 (a).	44
32	Principal Executive Officer and Principal Financial Officer Certifications Pursuant to Section 1350.	45
101	The following materials from Peoples Financial Services Corp. Quarterly Report on Form 10-Q for the period ended June 30, 2016, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income and Comprehensive Income, (iii) the Consolidated Statements of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the unaudited Consolidated Financial Statements.	