SINOPEC SHANGHAI PETROCHEMICAL CO LTD
Form 6-K
September 10, 2018
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SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT OF 1934

For the month of September 2018

Commission File Number: 1-12158

Sinopec Shanghai Petrochemical Company Limited

(Translation of registrant s name into English)

No. 48 Jinyi Road, Jinshan District, Shanghai, 200540

The People s Republic of China

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

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EXHIBITS

Exhibit Number	
99.1	2018 Interim Report for the Six Months Ended 30 June 2018.

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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.

	SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED
Date: September 07, 2018	By: /s/ Wu Haijun
	Name: Wu Haijun
	Title: President

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IMPORTANT MESSAGE

(1) The Board, the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited (the Company or SPC) and the Directors, Supervisors and senior management warrant the truthfulness, accuracy and completeness of the information contained in this 2018 interim report, and warrant that there are no false representations or misleading statements contained in, or material omissions from, the 2018 interim report of the Company, and severally and jointly accept responsibility.

(2) The Director(s) who has/have not attended the Board meeting for approving the 2018 interim report of the Company is/are:

Name of Director	Position	Reason for Absence	Name of Proxy
Lei Dianwu	Non-executive Director	Business Engagement	Wu Haijun

(3) The interim financial report for the six months ended 30 June 2018 (the Reporting Period) is unaudited.

(4) Mr. Wu Haijun, Chairman, President and the responsible person of the Company; Mr. Zhou Meiyun, Executive Director, Vice President and Chief Financial Officer overseeing the accounting department; and Mr. Zhang Feng, person in charge of the Accounting Department (Accounting Chief) and Director of Finance Department hereby warrant the truthfulness and completeness of the financial statements contained in the 2018 interim report.

(5) The Company did not distribute the half-year profit for 2018 nor was there any capitalization of capital reserves.

(6) The statements regarding the Company s plans for future development and operation are forward-looking statements and do not constitute any commitments to investors. Investors should pay attention to the relevant investment risks.

(7) There was no incident of appropriation of funds by the controlling shareholder of the Company and its connected persons for non-operational purposes.

(8) The Company did not provide external guarantees in violation of the required decision-making procedures.

(9) Reminder of Major Risks

Potential risks are elaborated in this interim report. Please refer to Management Discussion and Analysis in section 2 of the Report of the Directors for details of the potential risks arising from the future development of the Company.

(10) The 2018 interim report is published in both Chinese and English. In the event of any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

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DEFINITIONS

In this report, unless the context otherwise specifies, the following terms shall have the following meanings:

Company or SPC	Sinopec Shanghai Petrochemical Company Limited
Board	the board of directors of the Company
Director(s)	the Director(s) of the Company
Supervisory Committee	the Supervisory Committee of the Company
Supervisor(s)	the Supervisor(s) of the Company
PRC or China	the People s Republic of China
Reporting Period	the six months ended 30 June 2018
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Shanghai Stock Exchange	The Shanghai Stock Exchange
Group	the Company and its subsidiaries
Sinopec Group	China Petrochemical Corporation
Sinopec Corp.	China Petroleum & Chemical Corporation
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
Shanghai Listing Rules	The Rules Governing the Listing of Securities on the Shanghai Stock Exchange
Model Code for Securities Transactions	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
Securities Law	the PRC Securities Law
Company Law	the PRC Company Law
CSRC	China Securities Regulatory Commission
Articles of Association	the articles of association of the Company
Hong Kong Stock Exchange website	www.hkexnews.hk
Shanghai Stock Exchange website	www.sse.com.cn
website of the Company	www.spc.com.cn
HSSE	Health, Safety, Security and Environment
COD	Chemical Oxygen Demand
VOCs	Volatile Organic Compounds
LDAR	Leak Detection and Repair
SFO	

	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
Corporate Governance Code	the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules
Share Option Incentive Scheme	the A Share Share Option Incentive Scheme of the Company

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MAJOR FINANCIAL DATA AND INDICATORS

Prepared under China Accounting Standards for Business Enterprises (CAS   )

(1) Major Accounting Data and Financial Indicators

1. Major Accounting Data

Unit: RMB 000

Major accounting data	The Reporting Period (January to June)	Corresponding period of the previous year	Increase/decrease as compared to the corresponding period of the previous year (%)
Operating income	52,187,640	43,106,950	21.07
Total profit	4,515,157	3,251,226	38.88
Net profit attributable to equity shareholders of the holding company	3,524,131	2,575,479	36.83
Net profit attributable to equity shareholders of the holding company excluding non-recurring items	3,515,331	2,571,583	36.70
Net cash generated from operating activities	4,227,404	2,358,780	79.22

	As at the end of the Reporting Period	As at the end of the previous year	Increase/decrease at the end of the Reporting Period as compared to the end of the previous year (%)
Net assets attributable to equity shareholders of the Company	28,593,789	28,256,306	1.19
Total assets	45,782,720	39,609,536	15.59

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MAJOR FINANCIAL DATA AND INDICATORS *(continued)*

Prepared under China Accounting Standards for Business Enterprises (CAS   )

2. Major Financial Indicators

Major financial indicators	The Reporting Period (January to June)	Corresponding period of the previous year	Increase/decrease as compared to the corresponding period of the previous year (%)
Basic earnings per share (RMB/Share)	0.326	0.238	36.97
Diluted earnings per share (RMB/Share)	0.326	0.238	36.97
Basic earnings per share after non-recurring items (RMB/Share)	0.325	0.238	36.55
Return on net assets (weighted average) (%)*	11.618	9.821	18.30
Return on net assets after non-recurring items (weighted average) (%)*	11.589	9.805	18.19

* The above-mentioned net assets do not include minority shareholders   interests.

(2) Differences between Financial Statements Prepared under CAS and International Financial Reporting Standards (IFRS   )

Unit: RMB   000

	Net profit attributable to equity shareholders of the holding company		Total equity attributable to equity shareholders of the holding company	
	The Reporting Period	Corresponding period of the previous year	At the end of the Reporting Period	At the beginning of the Reporting Period
Prepared under CAS	3,524,131	2,575,479	28,593,789	28,256,306
Prepared under IFRS	3,551,259	2,598,499	28,568,721	28,230,233

For a detailed description of the differences between financial statements prepared under CAS and IFRS, please refer to the Supplementary Information to the Financial Statements prepared under CAS.

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MAJOR FINANCIAL DATA AND INDICATORS *(continued)*

Prepared under China Accounting Standards for Business Enterprises (CAS)

(3) Non-recurring Profit and Loss Items

Unit: RMB 000

Non-recurring profit and loss items	Amount
Net loss from disposal of non-current assets	-2,857
Income from investment disposal included in the investment income statement	1,622
Employee reduction expenses	-13,013
Government grants recorded in profit and loss (excluding government grants closely related to corporate business pursuant to the State s unified standard on quota and amount entitlements)	45,314
Income from external entrusted loans	13
Income from changes in fair value of forward foreign exchange contracts	9,300
Investment losses recognized in forward foreign exchange contracts	-8,066
Other non-operating income and expenses other than those mentioned above	-22,611
Effect attributable to minority interests (after tax)	-698
Income tax effect	-204
Total	8,800

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REPORT OF THE DIRECTORS

Section 1: Business Overview

1. Description of the Principal Business, Operating Model and Industry in which the Company operated during the Reporting Period

Located at Jinshanwei in the southwest of Shanghai, the Company is a highly integrated petrochemical enterprise which mainly processes crude oil into a broad range of synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products. The Company sells most of its products within the PRC domestic market and derives most of its revenues from customers in Eastern China, one of the fastest growing regions in the PRC.

The Company s rapid development is supported by the ever-increasing demand in the PRC for petrochemical products. Relying on the competitive advantage of its high degree of integration, the Company is optimizing its product mix, improving the quality and variety of its existing products, upgrading technology and increasing the capacity of its key upstream plants.

In the first half of the year, the economic operation of the petroleum and chemical industry continued to improve steadily. The domestic supply and demand of oil, gas and major chemicals was basically stable, with the rise in overall price level slowing down, and foreign trade grew rapidly. The performance of the industry was good and profitability continued to increase. However, with the uncertainty and instability of the external economic environment, slowdown in market demand growth and continued investment weakness, the increased pressure on imports of some petrochemical products is worthy of attention.

According to the statistics data from the The National Development and Reform Commission, during the first half of the year, the national crude oil processing volume amounted to 29,388 tons, representing a growth of 6.7%; the production volume of refined oil amounted to 18,333 tons, representing a growth of 8.7%; and the consumption volume of refined oil amounted to 15,975 tons, representing a growth of 5.6%, of which gasoline increased 4.7% and diesel increased 5.3%. During the first half of the year, the added value of petrochemical industry recorded a year-on-year growth of 3.6% while the growth recorded a year-on-year decrease of 0.9 percentage points. Among our main products, the production volume of ethylene amounted to 9 million tons, representing a increase of 0.5%. The production volume of primary-formed plastics amounted to 41.47 million tons, representing a growth of 4.8% while the production volume of synthetic rubber amounted to 2.71 million tons, a growth of 8.2%; and that of synthetic fibre amounted to 21.92 million tons, a growth of 7.5%.

Currently, the international supply and demand of crude oil is basically balanced. In the second half of 2018, the international geopolitical situation will be the main driving force for the fluctuation in the international price of crude oil. The severe sanction imposed by the United States against Iran may further increase the international price of crude oil to as high as over USD80/barrel. The high oil price will promote the development of alternative products such as coal chemical products and electric vehicles. Moreover, starting from the fourth quarter this year, several world class private refining oil projects, which are generally major oil refinery, ethylene and aromatic hydrocarbon projects, will be put into production successively. These projects will bring a big impact to the petrochemical industry and intensify competition in the petrochemical industry. Due to completely allowing foreign investment in the oil station business, the competition in the refined oil market is intensifying. Thus, the current momentum of the petrochemical industry may gradually decline from its high point since the fourth quarter of 2018.

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REPORT OF THE DIRECTORS *(continued)*

2. Analysis of core competitiveness during the Reporting Period

As one of the largest integrated petrochemical enterprises in China with an integrated refinery and petrochemical capacity, the Company possesses competitive business scale and strength, which have made it a major manufacturer of refined oil, intermediate petrochemical products, synthetic resins and synthetic fibres. It also has self-owned utilities and environmental protection systems, as well as sea transport, inland shipping, rail transport and road transport ancillary facilities.

The Company s major competitive advantages include quality, geographical location and its vertically integrated production. The Company has over 40 years of petrochemical production and management experience, and has accumulated extensive resources in the petrochemical industry, which has garnered multiple quality product awards from the central and local governments. Located at the core region of Yangtze River Delta, the most economically active region in China with a strong demand for petrochemical products, the Company built a comprehensive logistics system and supporting facilities to tap its geographic proximity with most of its clients and the convenient coastal and inland shipping. This gave it a competitive edge in terms of transportation costs and timely delivery. The Company has leveraged its advantages in integrated refinery and petrochemical capacity to actively strengthen product structure, while continuously improving products quality and variety. It has also improved production technology and boosted capacity of key upstream equipment to maximize the use and the efficiency in the utilisation of its corporate resources, and is therefore able to achieve strong and sustainable development.

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REPORT OF THE DIRECTORS *(continued)*

Section 2: Management Discussion and Analysis

(1) Management Discussion and Analysis of the Overall Operations during the Reporting Period
(The following discussion and analysis should be read in conjunction with the unaudited financial report of the Group and the notes in this interim report. Unless otherwise specified, certain financial data involved hereinafter are extracted from the unaudited interim financial report prepared in accordance with IFRS.)

1. Review of the Company s operations during the Reporting Period
In the first half of 2018, the world economy continued its growth momentum, with that of the major developed economies relatively strong. Among them, the economic growth of the U.S. was the strongest, with growth rate outperforming that of last year. The emerging economies maintained a medium-to-high growth rate. Driven by policies such as the supply-side structural reform, China s economy continued to grow steadily, with the economic structure continued to be optimized, and its quality and efficiency continue to improve. The trade friction between China and the U.S. became a major uncertainty affecting the stability of the domestic economy. With the de-leveraging and strict supervision, the scale of domestic financing dropped significantly, and growth of domestic infrastructure investment slowed down sharply. In the first half of the year, gross domestic product (GDP) increased by 6.8% year-on-year, and economic growth continued to remain stable. The economy of China s petrochemical industry continued to improve steadily, with the supply and demand of domestic refined oil and major chemicals being basically balanced. The efficiency of the industry further improved. However, the growth of market demand for chemicals was still weak, with weak investment.

In the first half of 2018, amid the still complicated and severe domestic and international economic situation, the Group made substantial efforts in maintaining stable operations of its units, optimizing production and operations, reducing costs and expenses, environmental governance, reform and development, etc. The Company s safety and environmental protection work remained relatively good. The production operation was generally stable with good economic benefits. For the six months ended 30 June 2018, the Group s turnover reached RMB52,161.5 million with an increase of RMB9,080.1 million, representing an increase of 21.08% as compared to the same period last year. The profit before tax was RMB4,542.3 million (profit before tax for the same period last year was RMB3,274.2 million), representing an increase of RMB1,268.1 million from the same period last year. Profit after tax and non-controlling shareholder interests was RMB3,551.3 million (profit for the same period last year was RMB2,598.5 million), representing an increase of RMB952.8 million from the same period last year.

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REPORT OF THE DIRECTORS *(continued)*

In the first half of 2018, the total production volume of the Group reached 7,396,800 tons, representing a year-on-year increase of 21.35%. From January to June, the Group processed 7,343,900 tons of crude oil (including 386,900 tons of crude oil processed on a sub-contract basis), representing a year-on-year increase of 7.93%. The production volume of refined oil products in total reached 4,317,700 tons, representing a year-on-year increase of 6.23%. Among these, the output of gasoline was 1,630,900 tons, representing a year-on-year increase of 7.54%; the diesel output was 1,947,300 tons, representing a year-on- year increase of 7.82%; and the jet fuel output was 739,500 tons, representing a year-on-year decrease of 0.32%. The Group produced 402,500 tons of ethylene and 329,900 tons of paraxylene, representing a year-on-year increase of 13.25% and 15.84%, respectively. The Group also produced 484,000 tons of synthetic resins and plastic (excluding polyesters and polyvinyl alcohol), representing a year-on-year increase of 4.09%; 334,000 tons of synthetic fibre monomers, representing a year-on-year increase of 3.86%; 201,900 tons of synthetic fibre polymers, representing a year-on-year decrease of 0.25%; and 86,700 tons of synthetic fibres, representing a year-on-year decrease of 9.40%. For the first half of the year, the sales to output ratio and debt recovery ratio of the Group were 99.77% and 100%, respectively.

Good control of HSSE and keeping stable operation at its units. In the first half of the year, the Group adhered to the goals of zero accident, zero harm and zero environmental damage , assigned clear responsibilities of production safety to correspondent parties, and strengthened the identification and control of safety risks. Focusing on atmospheric management, the Group continued to push forward the full coverage work of leak, detection and repair (LDAR) and actively promoted the comprehensive environmental remediation in Jinshan District, with 13 environmental management projects launched on schedule. From January to June, the Company s comprehensive compliance rate of discharged wastewater was 100%, and the total emissions of COD, ammonia nitrogen, sulfur dioxide and nitrogen oxides decreased by 29.33%, 88.17%, 70.62% and 30.56%, respectively. In terms of production and operation, in the first half of the year, the Group started the first phase of the maintenance and repair at its units, with the focus on No. 2 ethylene units in newly developed area. It led to six times cumulatively of non-planned halts, four times more than the same period last year. The overall operation of the units remained stable. Among the 71 major technological and economic indicators monitored, 43 items were better than the annual level last year, with a year-on-year progress rate of 60.56%. There were 31 items reaching advanced level of the industry, leading to the industry s advanced rate of 43.66%. During the Reporting Period, the Company s accumulated comprehensive energy consumption was 0.746 tons of standard coal per RMB10,000, representing a decrease of 2.99% compared with the annual total of 0.769 tons of standard coal per RMB10,000 last year.

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REPORT OF THE DIRECTORS *(continued)*

Deepening the optimization of production and operation, market development and cost reduction. In the first half of the year, the Group continued to focus on efficiency and dynamically adjusting the overall production plan through the weekly rolling forecast on the prices of the next three months and the marginal contribution of units based on the actual situation of the units and the inventory of intermediate materials. By measures such as optimization and adjustment of the operation the catalytic units, external processing of low-octane component, flexible arrangement and reorganization of the quantity of oil production, structures of oil products were continuously optimized, with the cumulative diesel to gasoline ratio of 1.19, which was 0.03 lower than that of the previous year. The proportion of high-grade gasoline ratio reached 31.64%, an increase of 2.67 percentage points from 2017. Marketing was stepped up and export of products was smoothened. In the first half of the year, export of asphalt and carbon fiber products was achieved for the first time, with the whole process of export of diesel oil opened. Key cost control continued to be carried out and efficiency of input and output of costs was improved, with a decrease of RMB192 million compared with the target in the key monitoring cost.

Continuing to promote the project construction and technological innovation. In the first half of the year, the Company s 13th Five-Year Plan industrial development planning was further improved. The Company completed the project of transformation of cogeneration unit to comply with emission reduction. The oil product clean-up project also made progress. The Company started the projects such as No. 2 safe and eco-friendly closed decoking, transportation and waste gas treatment of delay coking facility, third circuit incoming power lines with a supply capacity of 220KV, second stage construction of carbon fiber, etc. The Company s research and development (R&D) focused on the development of new industries of high- performance materials, high value-added synthetic materials and new refining products, new fine chemical engineering, and applications of new technologies and materials for refining. Market development of colored high-end acrylic fiber products was stepped up and the newly developed modified PVA products and scratch-resistant pipe materials had been put into industrial production. With the focus on strengthening the research of carbon fiber technology and expansion the scope of application, the R&D of 48K was a success and passed the appraisal. Carbon fiber pultruded sheet was first used in tunnel reinforcement engineering. In the first half of the year, the Group developed and manufactured 106,800 tons of new products and 367,300 tons of new synthetic resin products and specialized polyolefin materials, with a differentiation rate for synthetic fibers at 90.77%, and submitted three patent applications.

Further strengthened corporate management and advanced the reform. In the first half of the year, the Group carried out the system and mechanism reform of fine chemical engineering business, clarified the integrated management model of Market, Production, Research and Consumer , and formulated the assessment rules for research project leaders. Smoothening of internal business duties and processes of the Petrochemical Department was carried out, which was basically completed together with the preparation of the first draft of division of duties. According to the large workshop management model of the Company, research on the current situation of grassroots units had been launched, in which management scale, production capacity and personnel of the grassroots units were analyzed, and the standards of planning the grassroots units and the initial plan for streamlining and optimizing organization will be studied.

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REPORT OF THE DIRECTORS *(continued)*

The following table sets forth the Group s sales volume and net sales after business tax and surcharges for the Reporting Period:

	For the six months ended 30 June					
	2018			2017		
	Sales volume (000 tons)	Net Sales (RMB million)	%	Sales volume (000 tons)	Net Sales (RMB million)	%
Synthetic fibres	83.5	1,123.5	2.4	90.7	1,032.0	2.8
Resins and plastics	597.8	5,129.5	11.1	591.7	4,689.2	12.7
Intermediate petrochemical products	1,110.6	6,118.6	13.3	882.6	4,722.2	12.7
Petroleum products	4,966.7	20,643.8	44.8	3,955.9	14,270.1	38.5
Trading of petrochemical products		12,644.1	27.5		11,941.7	32.2
Others		387.6	0.9		420.9	1.1
Total	6,758.5	46,047.1	100.0	5,520.9	37,076.1	100.0

In the first half of 2018, net sales of the Group amounted to RMB46,047.1 million, representing an increase of 24.20% over the same period last year. Among which, net sales of synthetic fibres, resins and plastics, intermediate petrochemical products, petroleum products and trading of petrochemical products increased by 8.87%, 9.39%, 29.57%, 44.66% and 5.88%, respectively. The increase in net sales of products was mainly due to a general increase in the unit prices of products during the Reporting Period as compared to the same period last year. The increase in the net sales from the trading of petrochemical products was mainly attributable to the increase in the business volume of Jinmao International, an indirectly owned subsidiary of the Group, during the Reporting Period. In the first half of the year, the Group s net sales of Others decreased by 7.91% compared to the same period last year, which was mainly attributable to the decrease in the Group s revenue from oil processed on a sub-contract basis, as compared to the same period last year.

Most of the Group s products are sold in Eastern China.

In the first half of 2018, the Group s cost of sales increased by 22.90% year-on-year to RMB42,112.0 million, representing 91.45% of total net sales.

The Group s main raw material is crude oil. In the first half of 2018, international crude oil prices rose amid continued production cuts in major oil-producing countries, strong global demand and escalating geopolitical factors in the Middle East. Brent crude oil futures closed at a maximum of USD79.80/barrel, with a minimum of USD62.59/barrel. Half-year average price was approximately USD71.12/barrel, representing a year-on- year increase of 34.85%. WTI crude oil futures closed at a maximum of USD74.15/barrel and minimum of USD59.19/barrel, with the half-year average price of approximately USD65.40/barrel, representing a year-on-year increase of 30.67%. Dubai crude oil futures closed at a maximum of USD77.33/barrel and minimum of USD59.77/barrel, with the half-year average price of approximately USD68.21/barrel, a year- on-year increase of 30.85%.

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REPORT OF THE DIRECTORS *(continued)*

In the first half of 2018, the average unit cost of crude oil processed by the Group (for its own account) was RMB3,067.71/ton, representing an increase of RMB413.88/ton compared to the same period last year, or an increase of 15.60%. The Group processed a total of 6,957,000 tons of crude oil (excluding crude oil processed on a sub-contract basis), representing an increase of 1,301,700 tons compared to the same period last year. Taken together, the total costs of processed crude oil increased by RMB6,334 million. Processing costs increased by RMB3,455 million due to an increase in the volume of crude oil processed. The increase in unit cost of processed crude oil brought costs up by RMB2,879 million. From January to June, the Group processed 386,900 tons of crude oil processed on a sub-contract basis, representing a year-onyear decrease of 762,000 tons compared to the same period last year. In the first half of 2018, the Group s cost of crude oil accounted for 50.68% of the total cost of sales.

In the first half of 2018, the Group s cost for other ancillary materials amounted to RMB5,151 million, which was basically the same as that of the same period last year. During the Reporting Period, the Group s depreciation and maintenance expenses increased by 1.97% year-on-year to RMB921.7 million and RMB766.4 million respectively, mainly due to the increase in depreciation expenses during the Reporting Period as an increase in the fixed assets. Maintenance expenses grew by 0.35% year-on-year, mainly due to an increase in maintenance work during the Reporting Period, which led to the rise in maintenance costs. Fuel and power expenses increased by 17.13% year-on-year to RMB1,169 million during the Reporting Period, mainly due to the increase in the unit purchase price of coal.

In the first half of 2018, sales and administrative expenses of the Group amounted to RMB282.2 million, representing an increase of 18.77% as compared to RMB237.6 million for the same period last year. This was mainly due to the increase in transportation and loading fees during the Reporting Period.

In the first half of 2018, other operating income of the Group amounted to RMB66.8 million, representing an increase of RMB13.3 million compared to the same period last year. This was mainly due to an increase in government subsidy during the Reporting Period.

In the first half of 2018, the Group s net finance income amounted to RMB209.2 million, compared to the net finance income of RMB95.9 million for the same period last year. This was mainly due to a significant increase in interest income during the Reporting Period.

In the first half of 2018, the Group s profit after tax and non-controlling shareholder interests was RMB3,551.3 million, representing an increase of RMB952.8 million as compared to the profit of RMB2,598.5 million for the same period last year.

REPORT OF THE DIRECTORS *(continued)*

Liquidity and Capital Resources

In the first half of 2018, the Group s net cash inflow generated from operating activities amounted to RMB4,213.5 million and the net cash inflow for the same period last year was RMB2,350.2 million. This was primarily due to profit before tax of RMB4,542.3 million during the Reporting Period (profit before tax for the same period last year was RMB3,274.2 million).

In the first half of 2018, the Group s net cash inflow generated from investing activities amounted to RMB48.3 million and the net cash inflow for the same period last year was RMB111.0 million. This was primarily attributable to a year-on-year decrease in the dividends received by the Group from joint ventures and associate companies during the Reporting Period, resulting in a decrease of RMB443.0 million in net cash inflow generated from investing activities.

In the first half of 2018, the Group s net cash inflow generated from financing activities amounted to RMB821.6 million and the net cash inflow for the same period last year was RMB63.4 million. This was primarily attributable to the increase of RMB1,106.5 million in cash received by the Group as loans during the Reporting Period.

Borrowings and Debts

The Group s long-term borrowings are mainly used in capital expansion projects. In general, the Group arranges long-term borrowings according to its capital expenditure plans. On the whole, there are no seasonal borrowings. Short-term borrowings are used to replenish the Group s working capital requirements during the normal course of production. During the first half of 2018, the Group s total borrowings increased by RMB789.4 million to RMB1,395.6 million as at the end of the Reporting Period as compared to the beginning of the Reporting Period, mainly due to the increase of short-term borrowings by RMB789.4 million. As at 30 June 2018, the total borrowings of the Group at fixed interest rates amounted to RMB1,250 million.

Capital Expenditures

In the first half of 2018, the Group s capital expenditures amounted to RMB151 million, mainly attributable to the implementation of various projects, including the completion of transformation of cogeneration unit for compliance with the emission standard, launch of light oil storage tank of storage and transportation department and Zhanqiao oil and gas recovery project ( ), high-sulfur flare system optimization and renovation of storage and transp
department project ( ), No. 2 olefin cracking burner low nitrogen combustion project
(2# 烴裂解爐低氮燃燒), No. 3 and No. 4 boilers for compliance with the emission standard of the Thermal Power Division
(熱電 3號、4號爐達標排放 工&#3124
and closed rectification project of the fuel yard of Thermal Power Division
(熱電 燃料堆場密閉整).

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REPORT OF THE DIRECTORS *(continued)*

In the second half of 2018, the Group plans to complete the transformation of No. 2 olefin cracking burner for low nitrogen combustion, No. 2 safe and eco-friendly closed decoking, transportation and waste gas treatment of delay coking facility and No. 3 and No. 4 boilers for compliance with the emission standard of the Thermal Power Division. The Group also plans to start projects such as oil clean-up project, No. 2 safe and eco-friendly closed decoking, transportation and waste gas treatment of delay coking facility, third circuit incoming power lines with a supply capacity of 220KV, second stage of PAN (Polyacrylonitrile) based carbon fibre project with annual production of 1500 tons. The Group s planned capital expenditures would be funded from the resources including cash generated from operations and from bank financing.

Gearing Ratio

As at 30 June 2018, the Group s gearing ratio was 36.75% (As at 30 June 2017: 32.91%). The ratio is calculated using the following formula: total liabilities/total assets.

The Group s Employees

As at 30 June 2018, the total number of enrolled employees of the Group was 9,939, among which the number of production staff was 6,160, the number of sales, financial and other staff was 2,691 and the number of administrative staff was 1,088. 53.22% of the Group s employees were college graduates or above.

The Group s employees and Directors are remunerated with reference to their position, performance, experience and prevailing salary trends in the market. Other benefits include the Share Option Incentive Scheme and the State-managed retirement pension scheme. The Group also provides professional and vocational training to employees.

Income Tax

The Enterprise Income Tax Law of the PRC took effect from 1 January 2008, subsequent to which the income tax rate for enterprises was uniformly adjusted to 25%. The income tax rate applicable to the Group in 2018 is 25%.

Disclosure Required by the Hong Kong Listing Rules

Save as disclosed herein, pursuant to paragraph 40 of Appendix 16 to the Hong Kong Listing Rules, the Company confirms that there were no material differences between the existing information of the Company relating to the matters as set out in paragraph 32 of Appendix 16 to the Hong Kong Listing Rules and the relevant information disclosed in the Company s 2017 annual report.

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REPORT OF THE DIRECTORS *(continued)*

2. Market Outlook and Work Plans for the Second Half of the Year

Looking forward to the second half of 2018, the risks the world economy is exposed to are rising. Many multilateral rules and institutions formed after the Second World War are facing major challenges, in particular, the intensified global trade frictions, the increased market turmoil brought about by the spillover effects of the return of normalization of monetary policies of major powers and the uncertainty of world economic development constantly increasing. There are financing difficulties in China and there are relatively more financial risks such as credit defaults. The downward pressure of the economy will increase. However, under the effect of supply-side structural reform, innovative entrepreneurship and steady growth policies, the resilience, potential and stability of China s economic growth remained relatively strong. It is expected that the domestic economy will decline only to a moderate extent in the second half of the year. The launch of a series of new environmental protection policies for China s petrochemical industry will increase the costs incurred and pressures on the development of the entire industry. Sizable private refining projects with scale and technological advantage will gradually enter the production period, and market competition will become more intense.

In the second half of 2018, global trade uncertainty will bring risks to the economic prospects, or drag down the world economic growth, which in turn will undermine demand for oil. In terms of oil supply, factors such as reducing crude oil import from Iran as urged by United States to various countries, turmoil in Libya and oil production disruption in Canada are unlikely to recover in short term, which will lend support and boost oil prices. In addition, factors such as gradual increase in oil production from major oil-producing countries of Saudi Arabia and Russia, and continued increase in US crude oil production, the risk premium on the supply side will be offset while current global oil inventories has fallen below the average level in five years, market fundamentals have improved significantly. It is expected that international crude oil prices will remain strong in the second half of the year.

In the second half of the year, the Group will further focus on improving development quality and efficiency, and solidly promote environmental protection, system optimization, reform and development, and accomplish the full-year goals and tasks.

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REPORT OF THE DIRECTORS *(continued)*

1. To put efforts in safety and environmental protection and maintain stable operation of equipment. Construction of the HSSE management system is pushed forward, comprehensive risk hazard investigation is conducted, dynamic management and control as well as rectification is implemented. Full coverage of LDAR is promoted to ensure that more than 800,000 points of testing will be completed during the year. Proper parking maintenance or catalyst replacement of equipment such as No. 2 ethylene new zone, No. 3 diesel hydrogenation, medium pressure hydrogenation, RDS equipment B series, focus on strengthening contractor management, and proper on-site overhaul of standard chemical engineering site to ensure safety and eco-friendliness of equipment. High-quality overhaul and successful establishment at one time, laying a solid foundation for the completion of various production and operation tasks throughout the year.

2. To strive proper system optimization and strived to create and increase efficiency. The Group continues to adhere to the market-oriented and efficiency-centered dynamic optimization, actively push forward crude oil processing and allocation plan for further increase of processing volume of crude oil and high-grade refined oil production. Leveraging the advantages of Chenshan Wharf (陳山碼 頭), the Group aims to expand the export of refined oil. Efforts will be stepped up in R&D of new products of chemical engineering, monitoring of product chains and profitability of equipment, and continuous optimization of materials, equipment and product structures. The Group will strengthen the market awareness to improve the three-month rolling price forecasting mechanism and to enhance the expectation management capability of production and operation. The Group will also continue to manage costs, execute on proper crude oil procurement, resource optimization, material procurement and fund management in an effort to build low-cost competitiveness of the Company.

3. To accelerate project construction and R&D of products. In accordance with the requirements of the Company s 13th Five-Year development plan, the Group will focus on promoting the implementation or preliminary work of projects such as oil product clean-up project, No. 2 safe and eco-friendly closed decoking, transportation and waste gas treatment of delay coking facility, second stage of carbon fibre project, transportation and waste gas treatment projects, carbon fiber project two-stage construction and third circuit incoming power lines with a supply capacity of 220KV, ensuring the completion of the project of comprehensive environmental remediation in Jinshan District by nodes. In terms of scientific R&D, the Group will speed up key scientific research projects and key core technologies. It will test the accelerated production of carbon fiber units, 48K large tow fibre production technology, and expand the application scope of carbon fiber. The Group will develop and apply the new materials such as high value-added synthetic resin and medical supplies polymer materials, to enhance the core competitiveness of the enterprise.

4.

To promote reform and optimize the structure of the workforce. The Group will actively promote the adjustment and optimization of the organization struction, and explore reform measures related to the employee benefits, such as the health management and operation mode adjustment. The Group will adjust and optimize the performance appraisal methods and do proper research and analysis before the appraisal to build a team of qualified talents. The Group aims to make breakthroughs on the job evaluation management in order to establish a scientific and effective job evaluation model suitable for the features of production and management of the Group. The Group will also explore and establish an open and mature in-system talent introduction mechanism to recruit appropriate talents for the understaffed posts, such as meters management and refinery aromatic hydrocarbon operators.

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REPORT OF THE DIRECTORS *(continued)*

(2) Analysis of the Company s Principal Performance during the Reporting Period (Certain of the following financial data is extracted from the unaudited interim report prepared under CAS)

(i) Analysis of Changes in the Company s Related Financial Data

Unit: RMB 000

Item (with significant changes, including but not limited to)	As at 30 June 2018	As at 31 December 2017	Change (%)	Reason for change
Cash at bank and on hand	14,612,063	9,504,266	53.74	Profit of the Reporting Period and a relatively abundant cash flow
Notes receivable and accounts receivable	3,890,578	3,426,439	13.55	Increases in the business volume of the petroleum business segment with an increase in accounts receivable
Short-term borrowings	1,395,600	606,157	130.24	Increase in loan due to an increase in capital demand
Notes payable and accounts payable	7,498,936	5,573,281	34.55	Increases in the business volume of the petroleum business segment

				with an increase in accounts payable
Dividends payable	3,270,830	23,686	13,709.13	Increase in the declared dividends during the Reporting Period

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REPORT OF THE DIRECTORS *(continued)*

Unit: RMB 000

Item (with significant changes, including but not limited to)	For the six months ended 30 June 2018	2017	Change (%)	Reason for change
Revenue	52,187,640	43,106,950	21.07	Increase in the price of petrochemical products and growth in the business of the petroleum segment
Cost of sales	40,707,831	32,841,971	23.95	Increase in the costs of crude oil and other raw materials
Finance expenses – net	-174,217	-88,839	96.10	Substantial increase in the interest income during the Reporting Period
Asset impairment losses	10,155	36,142	-71.90	The amount of the provision of fixed asset impairment for the Reporting Period was relatively small
Income tax expenses	983,672	671,073	46.58	Increase in the profit in the Reporting Period
Net profit attributable to shareholders of the Company	3,524,131	2,575,479	36.83	Increase in the profit in the Reporting Period
Net cash generated from operating activities	4,227,404	2,358,780	79.22	Increase in profit level in the Reporting Period
Net cash generated from/ (used in) investment activities	48,310	111,004	-56.48	

				Decrease in the investment returns in the Reporting Period
Net cash generated from/ (used in) financing activities	807,712	54,803	1,373.85	Increase in loan due to an increase in capital demand
Research and development costs	13,427	11,323	18.58	Increase in research and development expenses due to a new project added in the Reporting Period

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REPORT OF THE DIRECTORS *(continued)*

(3) Analysis of Business Operations by Industry, Product or Geographical Location Segment

(i) Principal Operations by Industry or Product

Unit: RMB 000

Business Segment/Product Segment	Revenue	Cost of operations	Gross profit margin (%)	Increase/ decrease in revenue compared to last year (%)	Increase/ decrease in cost of sales compared to last year (%)	Increase/decrease in gross profit margin compared to last year (percentage point)
Synthetic fibers	1,147,441	1,267,676	-10.48	8.00	12.40	Decrease 4.33 percentage points
Resins and plastics	5,227,305	4,236,819	18.95	8.65	10.84	Decrease 1.60 percentage points
Intermediate petrochemicals	6,249,148	4,550,039	27.19	28.55	39.57	Decrease 5.75 percentage points
Petroleum products	26,489,911	17,789,875	32.84[Note]	32.65	43.48	Decrease 5.07 percentage points
Trading of petrochemical products	12,651,718	12,546,663	0.83	5.88	5.73	Increase 0.14 percentage point
Others	220,703	169,816	23.06	4.78	15.83	Decrease 7.33 percentage points

Note: This gross profit margin is calculated according to the price of petroleum products which includes consumption tax. Gross profit margin of petroleum products after consumption tax was 12.86%.

(ii) Revenue by Geographical Location

Unit: RMB 000

Geographical location segment	Revenue	Increase/decrease in revenue as compared to the same period last year (%)
Eastern China	41,822,068	18.10%
Other regions in the PRC	1,916,861	26.85%
Exports	8,247,296	33.41%

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REPORT OF THE DIRECTORS *(continued)*

(4) Analysis of Assets and Liabilities

Unit: RMB 000

Item	As at 30 June 2018 Amount	As at 30 June 2018 % of total assets	As at 31 December 2017 Amount	As at 31 December 2017 % of total assets	Change of amount on 30 June 2018 compared to 31 December 2017 (%)	Major reason of the change
Inventories	7,237,029	15.81	6,597,598	16.66	9.69	Increase in the crude oil and oil product price
Short-term borrowings	1,395,600	3.05	606,157	1.53	130.24	Increase in borrowings due to the increase in capital demand
Accounts payable	7,423,611	16.21	5,573,281	14.07	33.20	Increase in the crude oil price

(5) Analysis of Investments

(i) Entrusted Wealth Managements and Entrusted Loans

(1) Entrusted Wealth Management

The Company did not engage in entrusted wealth management during the Reporting Period.

(2) Entrusted Loans

Unit: RMB 000

Borrower	Amount of entrusted loan	Loan period	Interest rate of loan %	Whether it is overdue	Whether it is a connected transaction	Whether it has been renewed	Whether it is under litigation	Source of funds and whether the funds are from fund-	Connected relationship	Expected income

								raising		
Chevron Phillips Chemicals (Shanghai) Corporation	12,000	22/01/2017-21/01/2018	1.75	No	No	No	No	No	Nil	12.8

Note: The aforementioned entrusted loans are loans provided to shareholders according to the proportion of shareholding by Shanghai Golden Phillips Petrochemical Company Limited, a subsidiary of the Company.

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REPORT OF THE DIRECTORS *(continued)*

(ii) Application of Funds Raised

During the Reporting Period, the Company did not raise funds, nor has it used the funds raised from the previous reporting periods.

(iii) Analysis of the Companies in which the Company has Controlling Interests or Investment Interests

Due to strong market demand for downstream products and rising sales of products, Shanghai SECCO Petrochemical Company Limited, an associate company of the Group, recorded a net profit of RMB2,669 million during the Reporting Period, profit attributable to the Group was RMB534 million, representing 15.15% of net profit attributable to equity shareholders of the Company during the Reporting Period.

(iv) Projects funded by Non-fund Raising Capital

Unit: RMB 000

Major Project	Estimated total project investment	Estimated total project investment in the Reporting Period	Status as at 30 June 2018
Light oil storage tank of storage and transportation department and Zhanqiao oil and gas recovery	65,257	15,316	Under construction
Oil product clean-up	794,640	10,565	Preliminary design
High-sulfur flare system optimization and renovation of storage and transportation department	44,234	7,534	Under construction
No. 2 olefin cracking burner of the Thermal Power Division	120,929	6,705	Under construction
No. 3 and No. 4 boilers for compliance with the emission standard of the Thermal Power Division	98,820	7,528	Under construction
The airtight transformation project of Thermoelectricity Department Fuel Assembly	99,800	2,859	Under construction

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REPORT OF THE DIRECTORS *(continued)*

(6) Other Disclosure Items

1. Possible Risks

(i) The cyclical characteristics of the petroleum and petrochemicals market and price volatility in crude oil and petrochemical products may have an adverse impact on the Group s operations.

A large part of the Group s operating income is derived from the sales of refined oil and petrochemical products. Historically, such products have been cyclical in nature and relatively sensitive to macroeconomic changes. Additionally, changes in regional and global economic conditions, productivity and output, prices and supply of raw materials, consumer demand and prices and supply of substitutes also have an effect. From time to time, these factors have a material impact on the prices of the Group s products in regional and global markets. Given the reduction of tariffs and other import restrictions as well as the relaxation of control by the PRC government over the distribution and pricing of products, a substantial number of the Group s products will increasingly be subject to the cyclical impact in the regional and global markets. In addition, the prices of crude oil and petrochemical products will remain volatile, and uncertain. Higher crude oil prices and lower petrochemical products prices are likely to have an adverse impact on the Group s business, operating results and financial condition.

(ii) The Group may be exposed to risks associated with the procurement of imported crude oil and may not be able to pass on all increased costs due to rising crude oil price.

At present, the Group consumes a significant amount of crude oil for the production of petrochemical products. More than 95% of the crude oil consumption is imported. In recent years, crude oil prices have been subject to significant fluctuations due to a variety of factors, and the Group cannot rule out the possibility of any major unexpected event which may cause a suspension in crude oil supply. The Group has attempted to mitigate the effects of increased costs from rising crude oil prices by passing them on to the customers, but the ability to do so is limited because of market conditions and government control over the pricing of refined oil products. Since there is a time-lag between increases in crude oil prices and increases in petrochemical product prices, higher costs cannot be totally offset by raising the selling prices. In addition, the State also imposes control over the distribution of some petroleum products within China. For instance, some of the Group s petroleum products are required to be sold to designated customers (such as subsidiaries of Sinopec Corp). Hence, when crude oil prices are high, the higher costs cannot be totally offset by raising the selling prices of the Group s petroleum products.

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REPORT OF THE DIRECTORS *(continued)*

(iii) Substantial capital expenditures and financing requirements are required for the Group s development plans, presenting a number of risks and uncertainties.

The petrochemical industry is a capital-intensive industry. The Group s ability to maintain and raise income, net income and cash flows is closely connected with ongoing capital expenditures. The Group s estimated capital expenditures is estimated to amount to approximately RMB1,100.0 million in 2018, which will be met by financing activities and by internal funding. The Group s effective capital expenditures may vary significantly due to the Group s ability to generate sufficient cash flows from operations, investments and other factors that are beyond control. Furthermore, there is no assurance as to the completion, cost or outcome of the Group s fund raising projects.

The Group s ability to secure external financing in the future is subject to a number of uncertainties which include the Company s operating results, financial conditions and cash flow in the future; China s economic conditions and the market conditions for the Group s products; financing costs and conditions of the financial market, and issuance of government approval documents, as well as other risks associated with the development of infrastructure projects in China and so forth. The Group s failure to secure sufficient financing required for its operations or development plans may have an adverse impact on the Group s business, operating results and financial condition.

(iv) The Group s business operations may be affected by existing or future environmental protection regulations.

The Group is subject to a number of environmental protection laws and regulations in China. Waste products (waste water, waste gas and waste residue) are generated during the Group s production operations. Currently the Group s operations fully comply with all applicable Chinese environmental protection laws and regulations. However, the Chinese government may further enforce stricter environmental standards, and the Group cannot assure that the central or local governments will not issue more regulations or enforce stricter regulations which may cause the Group to incur additional expenses on environmental protection measures.

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REPORT OF THE DIRECTORS *(continued)*

(v) Changes in the monetary policy and fluctuations in the value of Renminbi may have an adverse impact on the Group s business and operating results.

The exchange rate of the Renminbi against the US Dollar and other foreign currencies may fluctuate and is subject to alterations due to changes on the Chinese political and economic situations. In July 2005, the PRC government overhauled its policy of pegging the value of the Renminbi to the US dollar by permitting the Renminbi to fluctuate within a certain band against a basket of foreign currencies. Since the adoption of this new policy, the value of the Renminbi against the US dollar fluctuates daily. In addition, the Chinese government has been under international pressure to further ease its exchange rate policy, and may as a result further change its currency policy. A small portion of our cash and cash equivalents are denominated in foreign currencies, including the US dollar. Any increase in the value of Renminbi against other currencies, including the US dollar, may decrease the Renminbi value of our cash and cash equivalents that are denominated in foreign currencies. On the other hand, most of our revenue is denominated in Renminbi, but a major part of our procurement of crude oil, certain equipment and certain debt repayments are denominated in foreign currencies. Any devaluation of Renminbi in the future will increase our costs and jeopardize profitability. Any devaluation of Renminbi may also have an adverse impact on the value of dividends payable in foreign currencies by the Group for H shares and American Depository Securities.

(vi) Connected transactions may have an adverse impact on the Group s business and economic efficiency.

The Group will, from time to time, continue to conduct transactions with the Group s controlling shareholder Sinopec Corp. and Sinopec Corp. s controlling shareholder Sinopec Group as well as their connected parties (subsidiaries or associates). These connected transactions include the provision of the following services by such connected parties to the Group: raw materials purchases, agency sale of petrochemical products, construction, installation and engineering design services, petrochemicals industry insurance services and financial services, and the sale of petroleum and petrochemical products by the Group to Sinopec Corp. and its connected parties. These connected transactions and services conducted by the Group are carried out under normal commercial terms and in accordance with the relevant agreements. However, if Sinopec Corp. and Sinopec Group refuse to conduct such transactions or revise the agreements between the Group and itself in a manner unfavorable to the Group, the Group s business and business efficiency will be adversely impacted. Furthermore, Sinopec Corp. has an interest in certain sectors that are directly or indirectly competing with or which may compete with the Group s business. Since Sinopec Corp. is the controlling shareholder of the Group and its own interests may conflict with those of the Group, it may act for its own benefit regardless of the Group s interests.

(vii) Risks associated with control by the majority shareholder

Sinopec Corp., the controlling shareholder of the Company, owns 5,460,000,000 shares of the Company, which represents 50.44% of the total number of shares of the Company and gives it an absolute controlling position. Sinopec Corp. may, by using its controlling position, exercise influence over the Group s production operations, fund allocations, appointment or removal of senior staff and so forth, thereby adversely affecting the Group s production operations as well as minority shareholders interests.

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MAJOR EVENTS

(1) Annual General Meeting

Meeting session	Date	Designated websites for enquiry of publication of the resolutions	Date of publication of the resolutions
2017 Annual General Meeting	13 June 2018	Shanghai Securities News, China Securities Journal and Securities Times; the websites of the Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company	14 June 2018

(2) Plan for Ordinary Shares Profit Distribution or Capital Reserves Capitalization

1. The Formulation, Implementation or Adjustment of Cash Dividend Policy

The 2017 Profit Distribution Plan was considered and approved at the 2017 Annual General Meeting held on 13 June 2018: to distribute a dividend of RMB3.00 per 10 shares (including tax) totalling RMB3,247,144,050 based on the total issued share capital of RMB10.8238135 billion as at dividend payout date. The relevant announcement was published in Shanghai Securities News, China Securities Journal and Securities Times on 14 June 2018 and was uploaded to the websites of the Hong Kong Stock Exchange, Shanghai Stock Exchange and the Company on 13 June 2018. The record date for H shares dividend payment was 26 June 2018 and the dividend payment date for H shares was 13 July 2018. On 11 July 2018, the Company published an announcement on the implementation of profit distribution for A shares for the year 2017. The record date for A shares dividend payment was 16 July 2018 and the ex-dividend date was 17 July 2018. The dividend payment date for A shares was 17 July 2018. The Profit Distribution Plan was implemented as scheduled.

2. Plan for Profit Distribution or Capital Reserves Capitalization During the Reporting Period

Nil.

(3) Performance of Undertakings

1. Undertakings Made by De Facto Controller, Shareholders, Connected Parties, Purchaser and the Company during the Reporting Period or Continuing up to the Reporting Period

Undertakings about share reform

The Company disclosed The Explanatory Memorandum for the Share Reform Scheme of the Company (the Revised Draft) on 20 June 2013, in which the Company s controlling shareholder, Sinopec Corp., made the following major undertakings that continued up to the Reporting Period:

Sinopec Corp. shall continue to support the development of the Company upon the completion of the share reform scheme, and shall use the Company as a platform for the development of related businesses in the future.

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MAJOR EVENTS *(continued)*

For details, please refer to The Explanatory Memorandum for the Share Reform Scheme of the Company (the Revised Draft) (Full Version) published in Shanghai Securities News and China Securities Journal on 20 June 2013, as well as the relevant announcements uploaded to the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

The share reform scheme was reviewed and approved at the A shares shareholders meeting held on 8 July 2013. After the implementation of the share reform scheme on 20 August 2013, the Company s A shares resumed trading, and non-circulating shares previously held by non-circulating shares shareholders attained the right of circulation. For details of the implementation of the share reform scheme, please refer to the Implementation Report of Sinopec Shanghai Petrochemical Company Limited Share Reform Scheme published in China Securities Journal and Shanghai Securities News on 14 August 2013 and the relevant announcement uploaded to the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

With regard to the aforementioned undertakings, the Company did not notice any violation in fulfilling the above undertakings by Sinopec Corp.

(4) Appointment and Dismissal of Accounting Firm

During the Reporting Period, the Company had not changed its auditors.

(5) Material Lawsuits or Arbitration

During the Reporting Period, the Company had no material lawsuits or arbitration.

(6) Punishment and Reprimand of the Company and its Directors, Supervisors, Senior Management, Controlling Shareholders, De Facto Controller and Purchaser

During the Reporting Period, the Company and its Directors, Supervisors, senior management, controlling shareholder, de facto controller and purchasers had not been investigated, administratively punished, publicly criticized by the CSRC or publicly censured by the stock exchanges on which the Company is listed.

(7) Credit Status of the Company and its Controlling Shareholder and De Facto Controller during the Reporting Period

During the Reporting Period, the Company and its controlling shareholder and de facto controller of the Company were not involved in any events regarding failure to perform obligations under a judgement of courts, nor have they had any relatively large amount of debts which have become due and outstanding.

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MAJOR EVENTS *(continued)*

(8) Share Option Incentive Scheme

1. Share Option Incentive Scheme Disclosed in Relevant Announcements

Summary	Index of enquiry
The Sixth meeting of the Ninth Session of the Board considered and passed the Resolution on the adjustment to list of grantees and amount of grant under the Share Option Incentive Scheme and the Resolution in respect of determination of the exercise date and fulfillment of exercise conditions for the second exercisable period of share options initially granted under the A Shares Share Option Incentive Scheme of Sinopec Shanghai .	Published on 9 January 2018 in China Securities Journal, Shanghai Securities News, Securities Times and uploaded to the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 8 January 2018.
Completion of the second exercisable period of the initial grant of share options.	Published on 23 February 2018 in China Securities Journal, Shanghai Securities News and Securities Times and uploaded to the websites of Shanghai Exchange and Hong Kong Stock Exchange and the Company on 22 February 2018.

2. Share Option Incentive Scheme

(i) Date and number of the initial grant

Date of grant of A shares share options: 6 January 2015

Number of A shares share options grantees: 214 persons

Number of A shares share options granted: 38,760,000

(ii) The status of the first exercise of share options under the initial grant

Exercise date: 29 August 2017

Number of exercisable share options: 14,212,500

Number of share options lapsed: 5,228,900

Number of share options exercised: 14,176,600

Date of completion of registration formalities for newly increased stocks: 27 September 2017

Number of people who exercised the share options: 199

Exercise price: RMB3.85/share

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MAJOR EVENTS *(continued)*

(iii) The status of the second exercise of share options under the initial grant

Exercise date: 12 January 2018

Number of exercisable share options: 9,636,900

Number of share options lapsed during the Reporting Period: 520,700

Number of share options exercised: 9,636,900

Date of completion of registration formalities for newly increased stocks: 14 February 2018

Number of people who exercised the share options: 185

Exercise price: RMB3.85/share

(iv) Outstanding share options of Directors, chief executive and substantial shareholder as at the end of the Reporting Period

At the beginning of the Reporting Period, the total number of outstanding A shares share options held by three directors, chief executives or substantial shareholders and Mr. Jin Wenmin, Vice President, were 966,000.

During the Reporting Period, Vice President Mr. Jin Wenmin was appointed as an Executive Director of the Company on 13 June 2018. During the Reporting Period, a total of 483,000 A shares share options were exercised by Mr. Gao Jinping, Mr. Jin Qiang, Mr. Guo Xiaojun and Mr. Jin Wenmin.

At the end of the Reporting Period, the total number of outstanding A shares share options held by Vice Chairman and Vice President Mr. Gao Jinping; Director and Vice President Mr. Jin Qiang; Director, Vice President, Secretary to the Board and Joint Company Secretary Mr. Guo Xiaojun; and Director and Vice President Mr. Jin Wenmin was 483,000.

(v) Outstanding share options granted to employees other than the persons mentioned in item (iv)

At the beginning of the Reporting Period, the total number of outstanding A shares share options held by the Company s key business personnel were 18,138,500.

During the Reporting Period, a total of 9,153,900 A shares share options were exercised by the Company s key business personnel.

During the Reporting Period, 520,700 A shares share options granted to the Company s key business personnel lapsed due to resignation of the participants and other reasons.

At the end of the Reporting Period, the total number of outstanding A shares share options held by the Company s key business personnel was 8,463,900.

(vi) Exercise price of the initial grant and adjustment of the exercise price

According to the principle disclosed by the Company on the determination of exercise price, the exercise price of the initial grant was RMB4.20 per share (in the event of dividends payment, capitalization of capital reserves, bonus issue, subdivision or reduction of shares or allotment of shares during the validity period, the exercise price shall be adjusted according to the Share Option

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MAJOR EVENTS *(continued)*

Incentive Scheme). On 15 June 2016, the 2015 Annual Profit Distribution Plan was considered and passed at the 2015 Annual General Meeting of the Company, whereby cash dividend of RMB1.00 was paid for each 10 shares. On 15 June 2017, the 2016 Annual Profit Distribution Plan was considered and passed at the 2016 Annual General Meeting of the Company, whereby cash dividend of RMB2.50 was paid for each 10 shares, and the exercise price was adjusted to RMB3.85 per share accordingly. On 13 June 2018, the 2017 Annual Profit Distribution Plan was considered and passed at the 2017 Annual General Meeting of the Company, whereby cash dividend of RMB3.00 was paid for each 10 shares, and the exercise price was adjusted to RMB3.55 per share accordingly.

(vii) Validity of and Exercise Arrangements for the Initial Grant

The share options shall be exercisable within five years from the date of the grant, subject to the exercise arrangements. The exercisable period for the share options shall be three years, commencing from the expiry of the two-year period after the date of grant. There are three exercisable periods (one year for each exercisable period, same hereinafter) under the Share Option Incentive Scheme. Upon the fulfillment of the exercise conditions, 40%, 30% and 30% of the total number of share options granted shall become exercisable within the 1st, 2nd and 3rd exercisable periods, respectively.

Stage	Arrangement	Exercise Ratio Cap
Grant Date	Determined by the Board upon fulfillment of the conditions for grant under the Share Option Incentive Scheme	
1st Exercisable Period	Commencing on the first trading day upon the expiry of the 24-month period following the date of grant and ending on the last trading day preceding the expiry of the 36-month period following the date of grant	40%
2nd Exercisable Period	Commencing on the first trading day upon the expiry of the 36-month period following the date of grant and ending on the last trading day preceding the expiry of the 48-month period following the date of grant	30%
3rd Exercisable Period	Commencing on the first trading day upon the expiry of the 48-month period following the date of grant and ending on the last trading day preceding the expiry of the 60-month period following the date of grant	30%

Save as disclosed herein, no A shares share options were granted pursuant to the Share Option Incentive Scheme or exercised by any grantees or cancelled or lapsed during the Reporting Period.

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MAJOR EVENTS *(continued)*

(9) Major Connected Transactions of the Company

1. Connected Transactions in relation to Daily Operations

During the Reporting Period, pursuant to the Mutual Product Supply and Sales Services Framework Agreement entered into with the controlling shareholder of the Company on 23 August 2016, Sinopec Corp., and the de facto controller, Sinopec Group, the Company purchased raw materials from Sinopec Group, Sinopec Corp. and their associates and sold petroleum products and petrochemicals and leased properties to Sinopec Corp. and its associates, and Sinopec Corp. and its associates provided agency sales services for petrochemical products to the Company.

Pursuant to the Comprehensive Services Framework Agreement entered into with the Company s de facto controller Sinopec Group on 23 August 2016, the Company obtained construction and installation, engineering design, petrochemical industry insurance and financial services from Sinopec Group and its associates. The transactions under the abovementioned Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement constituted continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules and constituted ongoing connected transactions under the Shanghai Listing Rules. The Company disclosed the two agreements and the respective continuing connected transactions (i.e. ongoing connected transactions, same below) under the agreements in an announcement dated 23 August 2016 and a circular dated 2 September 2016. These two agreements and the respective continuing connected transactions under the agreements together with the associated annual caps from 2017 to 2019 were considered and approved at the first extraordinary general meeting for 2016 held on 18 October 2016.

During the Reporting Period, the relevant continuing connected transactions were conducted in accordance with the terms of the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement. The transaction amounts of the relevant connected transactions did not exceed the caps in relation to the respective continuing connected transactions approved at the first extraordinary general meeting for 2016.

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MAJOR EVENTS *(continued)*

The table below sets out the amounts of the continuing connected transactions of the Company with Sinopec Corp. and Sinopec Group during the Reporting Period:

Unit: RMB 000

Type of connected transaction	Connected parties	Annual cap for 2018	Transaction amount during the Reporting Period	Percentage of the transaction amount of the same type of transaction (%)
Mutual Product Supply and Sales Services Framework Agreement				
Purchases of raw materials	Sinopec Group, Sinopec Corp. and its associates	74,689,000	25,193,219	71.27%
Sales of petroleum and petrochemical products	Sinopec Corp. and its associates	96,166,000	27,029,411	66.40%
Property leasing	Sinopec Corp. and its associates	36,000	14,576	65.25%
Agency sales of petrochemical products	Sinopec Corp. and its associates	232,000	72,648	100%
Comprehensive Services Framework Agreement				
Construction, installation and engineering design services	Sinopec Group and its associates	2,621,000	41,098	27.12%
Petrochemical industry insurance services	Sinopec Group and its associates	160,000	61,701	97.64%
Financial services	Sinopec Group and its associates	200,000	0	

On 5 December 2016, the Company signed an asset leasing agreement (the Lease Agreement) with Baishawan branch of Sinopec Petroleum Reserve Company Limited (the Baishawan Branch), a wholly- owned subsidiary of the Company s de facto controller, Sinopec Group. Pursuant to the Lease Agreement, the Company rents the oil tanks and ancillary facilities from the Baishawan Branch at an annual rent up to RMB53,960,000 (exclusive of VAT), with the leasing period from 1 January 2016 to 31 December 2018. The Lease Agreement was considered and approved at the 16th meeting of the Eighth Session of the Board on 24 November 2016. Related announcements were published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company, as well as on Shanghai Securities News, China Securities Journal and Securities Times on 25 November 2016. During the Reporting Period, the Company incurred leasing costs of RMB26,980,000.

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MAJOR EVENTS *(continued)*

2. Credits and Liabilities with Connected Parties

Unit: RMB 000

Connected party	Connected relationship	Funds provided to connected parties			Funds provided by connected parties to the listed company		
		Opening balance	Amount of transaction	Closing balance	Opening balance	Amount of transaction	Closing balance
Sinopec Corp., its subsidiaries, joint ventures and associates & Sinopec Group and its subsidiaries	Controlling shareholder, de facto controller and their related parties	179	167	346	60,455	1,629,552	1,690,007

Note 1: The period-end balance of the funds provided by the Group to the connected parties was mainly unsettled receivables arising from the provision of services and pipeline leases to Sinopec Corp., its subsidiaries and associates.

Note 2: The period-end balance of the funds provided by the connected parties to the Group was mainly unsettled payables arising from the provision of construction, installation and engineering design services by Sinopec Group and its subsidiaries.

The prices of the continuing connected transactions conducted by the Company with Sinopec Group, Sinopec Corp. and their associates were determined, upon negotiations between both parties, on the basis of (i) state tariffs, (ii) state guidance prices; or (iii) market prices. Such connected transactions were entered into in line with the Company s production and operational needs. Accordingly, the aforementioned continuing connected transactions did not have a significant adverse impact on the Company s independence.

(10) Material Contracts and their Performance

1. Entrustments, Sub-contracts and Lease Arrangements

During the Reporting Period, the Company had no entrustments, sub-contracts or lease arrangements that generated 10% or more (including 10%) of the gross profit of the Company for the said period.

2. Guarantees

The Company did not provide guarantees during the Reporting Period.

3. Other Material Contracts

There were no other material contracts during the Reporting Period.

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MAJOR EVENTS *(continued)*

(11) Environmental information

1. Environmental Protection Situation of Key Pollutant-discharging Companies and their Subsidiaries as Announced by the Ministry of Environmental Protection

The Company is one of the contaminating enterprises under Intensive Monitoring and Control by the State proclaimed by the Ministry of Environmental Protection. According to Measures for Self-Monitoring and Information Disclosure by the Enterprises subject to Intensive Monitoring and Control of the State (Trial Implementation) (國家重點監控企業自行監測 &#), the Company has disclosed to the public on the website of the Shanghai Environmental Protection Bureau the sites of the source of pollution, pollutant types and concentration of pollution which are subject to intensive monitoring and control of the State.

The Company, as a manufacturing enterprise in the petrochemical industry, consistently places environmental protection as its first priority. It continues to participate in ISO14001 Environmental Management System Certification. In January 2013, it received certifications from the Shanghai Audit Center of Quality including quality (GB/T 19001: 2008), environment (GB/T 24001: 2004) and occupational health and safety (GB/ T28001: 2011). On 3 November 2016, the continued use of the title All-China Environmentally Friendly Enterprise (中華環境好友企業) was approved.

In 2018, the company established the concept of Challenge to meet the advanced levels and align with the highest standards , promoted the green development of the industry with higher requirements, and strived to build the world s first-class refining integrated enterprise with the highest standards, the most stringent requirements and the highest levels. Comprehensive upgrades and transformation, environmental remediation and improvement of management work are carried out in an effort to meet the highest standards of environmental indicators such as boundary-layer VOCs for chemical engineering parks in Shanghai in the shortest time, so that the surrounding residents can truly feel the improvement of environmental quality, and continuously improved environmental standards.

In the first half of 2018, with the transformation of process furnace low-nitrogen combustion of refinery, olefins and aromatics department of the Company completed and projects of transformation of sulfur recovery equipment for compliance with the standard for exhaust emission of the oil refining department and ultra-low transformation of thermoelectric boiler completed, NOX emissions recorded a year-on-year decline of 30.56%, and the total amount of sulfur dioxide decreased by 70.62%. In the first half of 2018, 100% wastewater discharge compliance rate and 100% controlled waste gas discharge compliance rate and 100% hazardous waste disposal compliance rate was achieved.

LDAR work was fully promoted and continuous emission reduction of VOCs (Volatile Organic Compounds) was achieved. In 2018, the Company implemented and promoted LDAR in various aspects such as management system and organization systems. In the first half of the year, a total of 774,009 sealing points in refinery and chemical engineering equipment were examined, and the number of leaking points detected is 1,876, of which 1,834 points were repaired, achieving a repair rate of 97.76%. Through the implementation of the VOC governance project and various management measures, odor at the border of the Company was effectively controlled.

In the first half of 2018, the Company did not have any administrative penalties regarding environmental protection.

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MAJOR EVENTS *(continued)*

2. Construction and operation of pollution prevention facilities

The Company has 137 sets of environmental protection devices (facilities), including 114 sets of waste gas treatment devices and 23 sets of wastewater treatment devices. Job responsibilities and corresponding operation records of each unit was improved, number of inspection of records of environmental protection data and daily data analysis was increased. The Company required taking environmental licensing into consideration when formulated production plans.

3. Environmental Impact Assessment and Other Environmental Protection Administrative

According to relevant requirements of national and local governments such as the Environmental Impact Assessment Law and Classification Management List for Construction Project Environmental Impact Assessment , the Company actively promoted the environmental impact assessment of projects such as petrol quality upgrading and environmental protection projects in Jinshan District, and the risk rectification projects of waste catalyst warehouses. At the same time, in accordance with the latest requirements of relevant laws and regulations of the PRC and Shanghai, the environmental protection acceptance technical specifications for construction projects, construction project environmental impact reports (forms) and approval decisions, the Company adjusted the acceptance process of construction projects in a timely manner. The Company initiated and completed the acceptance for several projects, such as stench treatment of oil storage tank area of Storage and Transportation Department, expansion of shipping facility of refined oil of Storage and Transportation Department and 1#-4#slag transformation project.

The Company obtained the sewage discharge licenses issued by the Shanghai Municipal Environmental Protection Bureau on 29 June 2017 and 31 December 2017 respectively. Licenses (thermal power industry, petrochemical industry) are valid from 1 January 2018 to 31 December 2020. In 2018, the Company report implementation of sewage discharge license according to the requirements of Sewage Discharge Licenses Application and Technical Specification Of Issuance For The Petrochemical Industry .

4. Emergency response plan for emergent environmental incidents

According to the Administrative Measures for Emergency Preparedness for Environmental Incidents of Enterprises and Institutions (Trial) of the Ministry of Environmental Protection and the requirements for the filing of environmental emergency response plans by the Shanghai Municipal Environmental Protection Bureau, the Company launched the surveys for its risk information and environmental emergency resources and assessed the risk of environmental incidents. The Company completed the preparation and expert review of the Comprehensive Emergency Response Plan for Environmental Emergencies , and filed a report to the Shanghai Municipal Environmental Protection Bureau on 29 December 2016. The Company s overall plan includes 11 areas, such as Corporate Profile , Emergency Organization System And Responsibility , Environmental Risk Analysis , Internal Alar Mechanism And Emergency Response , etc. The special emergency plan includes 6 preplans, including Special Emergency Plan for Water Environment Risk , Special Emergency Plan for Long-Distance Pipeline Leakage , and Special Emergency Response Plan For Chemicals (Including Hazardous Waste) Leakage Incident . The Company also prepared 11 on-site precaution plans, including the contingency plan for on-site disposal of 1# and 2# polyethylene joint installations, polyolefin joint installation and ethylene glycol plants.

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MAJOR EVENTS *(continued)*

5. Environmental self-monitoring programme

According to the requirements of emission permit of Sinopec Shanghai and relevant laws and regulations of environmental protection, the Company formulated the 2018 Environmental Monitoring Plan, which includes various categories such as atmospheric environment, clear water, noise and fixed source of exhaust gas. Of which monitoring points of water quality totaled 60. Test projects involves pH, COD, ammonia nitrogen, petroleum, total cyanide, volatile phenol, acrylonitrile, total phosphorus, total nitrogen, various heavy metals while monitoring projects of environmental monitoring points of factories involve VOC, PM10, benzene, hydrogen sulfide, ammonia, non-methane hydrocarbons, hydrogen cyanide, acrylonitrile, odor concentration. There are 38 monitoring points of factory noise. Monitoring projects of 151 monitoring points of fixed pollution source of exhaust gas involves VOC, benzene, hydrogen sulfide, ammonia, non-methane hydrocarbons, hydrogen cyanide, acrylonitrile, sulfur dioxide, nitrogen oxides, soot, blackness, asphalt smoke, dioxins, etc., with monitoring frequency according to the requirement of sewage discharge licenses.

(12) Corporate Governance

The Company acted in strict compliance with regulatory legislations such as the Company Law, the Securities Law, the Corporate Governance Principles for Listed Companies and the Guidelines for Establishing the Independent Directors System for Listed Companies issued by the CSRC, as well as the relevant requirements of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the New York Stock Exchange to push forward the innovation of the Company s system and management, to improve the corporate governance structure, and to strengthen the establishment of the Company s system in order to enhance the overall image of the Company.

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CHANGE IN SHARE CAPITAL OF ORDINARY SHARES AND SHAREHOLDERS

(1) Changes in Share Capital of Ordinary Shares during the Reporting Period

1. Changes in Share Capital of Ordinary Shares during the Reporting Period

Unit: Shares

	Beginning of the Reporting Period		Increase/decrease (+, -) during the Reporting Period					End of the Reporting Period	
Type of shares	Number of shares	Percentage (%)	Number of new shares issued	Number of bonus shares	Number of shares capitalised from reserves	Others	Subtotal	Number of shares	Percentage (%)
1. Unlisted circulating shares	0	0	0	0	0	0	0	0	0
(1) Shares of Promoters Including:	0	0	0	0	0	0	0	0	0
Shares held by the State	0	0	0	0	0	0	0	0	0
(2) Shares of fund-raising legal person	0	0	0	0	0	0	0	0	0
2. Shares with trading restrictions	0	0	0	0	0	0	0	0	0
(1) Shares held by state-owned legal person	0	0	0	0	0	0	0	0	0
(2) Shares held by other domestic investors	0	0	0	0	0	0	0	0	0
3. Listed circulating shares	10,814,176,600 A shares or H shares	100	0	0	0	+9,636,900 A shares	+9,636,900 A shares	10,823,813,500 A shares or H shares	100
(1) RMB-denominated ordinary shares	7,319,176,600 A shares	67.68	0	0	0	+9,636,900 A shares	+9,636,900 A shares	7,328,813,500 A shares	67.71
(2) Overseas listed foreign shares	3,495,000,000 H shares	32.32	0	0	0	0	0	3,495,000,000 H shares	32.29

Total	10,814,176,600 A shares or H shares	100	0	0	0	0	0	10,823,813,500 A shares or H shares	100

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CHANGE IN SHARE CAPITAL OF ORDINARY SHARES AND SHAREHOLDERS *(continued)*

(2) Issue of shares

1. Issue of Shares during the Reporting Period

Unit: shares, RMB

Class of shares and its securities	Date of issue	Issue price	Issue volume	Listing date	Permitted trading volume	Transaction termination date
Ordinary shares						
RMB-denominated ordinary A shares	14 February 2018	3.85	9,636,900*	28 February 2018	9,636,900	

* According to the second exercise of equity incentive plan

2. Changes in the Company s Total Number of Ordinary Shares, Shareholding Structure and the Company s Assets and Liabilities

The Company s total number of ordinary shares rose from 10,814,176,600 to 10,823,813,500 during the Reporting Period.

3. Employees Shares

The Company had no employees shares as at the end of the Reporting Period.

(3) Shareholders

1. Total Number of Shareholders

Number of shareholders of ordinary shares as at the end of the Reporting Period	96,676

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CHANGE IN SHARE CAPITAL OF ORDINARY SHARES AND SHAREHOLDERS *(continued)*

2. Shareholding of the Top Ten Shareholders as at the End of the Reporting Period

Unit: Shares

Shareholding of the top ten shareholders

Name of shareholders (Full name)	Class of shares	Increase/ decrease of shareholding during the Reporting Period (shares)	Number of shares held at the end of the Reporting Period (shares)	Percentage of shareholding (%)	Number of shares held with selling restrictions (shares)	Pledged/Frozen Status of shares	Pledged/Frozen Number of shares	Nature of shareholders
China Petroleum & Chemical Corporation	A shares	0	5,460,000,000	50.44	0	None	0	State-owned legal person
HKSCC (Nominees) Limited	H shares	1,592,500	3,458,224,821	31.95	0	Unknown		Overseas legal person
China Securities Finance Corporation Limited	A shares	83,539,441	523,228,686	4.83	0	None	0	Others
Central Huijin Investment Ltd.	A shares	0	67,655,800	0.63	0	None	0	Others
Guotai Junan Securities Co., Ltd.	A shares	0	27,405,089	0.25	0	None	0	Others
GF Fund – Agricultural Bank of China – GF CSI Financial Asset Management Plan	A shares	0	22,751,900	0.21	0	None	0	Others
Shanghai Kangli Industry and Trade Co., Ltd.	A shares	0	22,375,300	0.21	0	None	0	Others
Dacheng Fund – Agricultural Bank of China – Dacheng CSI Financial Asset Management Plan	A shares	0	21,061,069	0.19	0	None	0	Others
China Asset Fund – Agricultural Bank of China – China Asset CSI Financial Asset Management Plan	A shares	0	20,613,350	0.19	0	None	0	Others
Bosera Fund – Agricultural Bank of China – Bosera CSI Financial Asset Management Plan	A shares	0	20,613,300	0.19	0	None	0	Others
Note on connected relations or acting in concert of the above shareholders	Among the above-mentioned shareholders, China Petroleum & Chemical Corporation (Sinopec Corp.), a State-owned legal person, does not have any connected relationship with the other shareholders, and does not constitute an act-in-concert party under the Administrative							

Measures on Acquisition of Listed Companies. Among the above-mentioned shareholders, HKSCC (Nominees) Limited is a nominee. Apart from the above, the Company is not aware of any connected relations among the other shareholders, or whether any other shareholder constitutes an act-in-concert party under the Administrative Measures on Acquisition of Listed Companies.

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CHANGE IN SHARE CAPITAL OF ORDINARY SHARES AND SHAREHOLDERS *(continued)*

(4) Change in Controlling Shareholder or De Facto Controller

During the Reporting Period, there was no change in the controlling shareholder or the de facto controller of the Company.

(5) Interests and Short Positions of the Substantial Shareholders of the Company in Shares and Underlying Shares of the Company

As at 30 June 2018, so far as was known to the Directors and chief executive of the Company, the interests and short positions of the Company s substantial shareholders (being those who are entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company but excluding the Directors, chief executive and Supervisors) who are required to disclose their interests pursuant to Divisions 2 and 3 of Part XV of the SFO in the shares and underlying shares of the Company or as recorded in the register of interests required to be kept under Section 336 of the SFO are as set out below:

Interests in ordinary shares of the Company

Name of shareholder	Interests held or deemed as held (shares)	*Note*	Percentage of total issued shares of the Company (%)	Percentage of total issued shares of the relevant class (%)	Capacity
China Petroleum & Chemical Corporation	5,460,000,000 A shares (L)				
	Shares of legal person	*(1)*	50.44	74.50	Beneficial owner
BlackRock, Inc.	289,136,771 H shares (L)	*(2)*	2.67	8.27	Interests of controlled corporation
	5,118,000 H shares (S)		0.05	0.15	Interests of controlled corporation
Corn Capital Company Limited	211,008,000 H shares (L)	*(3)*	1.95	6.04	Beneficial owner
	200,020,000 H shares (S)		1.85	5.72	Beneficial owner
Lam Yan Yan	211,008,000 H shares (L)	*(3)*	1.95	6.04	Interests of controlled corporation
	200,020,000 H shares (S)		1.85	5.72	Interests of controlled corporation
Yardley Finance Limited	200,020,000 H shares (L)	*(4)*	1.85	5.72	Having a security interest in shares
Chan Kin Sun	200,020,000 H shares (L)	*(4)*	1.85	5.72	Interests of controlled corporation

(L): Long position; (S): Short position

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CHANGE IN SHARE CAPITAL OF ORDINARY SHARES AND SHAREHOLDERS *(continued)*

Notes:

(1) Based on the information obtained by the Directors from the website of the Hong Kong Stock Exchange and as far as the Directors are aware, Sinopec Group directly and indirectly owned 71.32% of the issued share capital of Sinopec Corp. as at 30 June 2018. By virtue of such relationship, Sinopec Group was deemed to have an interest in the 5,460,000,000 A shares of the Company directly owned by Sinopec Corp.

(2) Of the H Shares (long position) held by BlackRock, Inc., 1,690,300 H Shares (long position) were held through cash settled unlisted derivatives. Of the H Shares (short position) held by BlackRock, Inc., 606,000 H Shares (short position) were held through cash settled unlisted derivatives.

(3) The shares were held by Corn Capital Company Limited. Lam Yan Yan held 90% interests in Corn Capital Company Limited. Pursuant to the SFO, Lam Yan Yan was deemed to be interested in the Shares held by Corn Capital Company Limited.

(4) These shares were held by Yardley Finance Limited. Chan Kin Sun held 100% interests in Yardley Finance Limited. Pursuant to the SFO, Chan Kin Sun was deemed to be interested in the shares held by Yardley Finance Limited.

Save as disclosed above, as at 30 June 2018, the Directors have not been notified by any person (other than the Directors, chief executive and Supervisors) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS

(1) Changes in Shareholdings

1. Changes in Shareholdings of the Current Directors, Supervisors and Senior Management and those Resigned during the Reporting Period

Unit: Shares

Name	Position	Number of shares held at the beginning of the Reporting Period	Number of shares held at the end of the Reporting Period	Change in number of shares during the Reporting Period
Wu Haijun	Executive Director and Chairman, President	Nil	Nil	No change
Gao Jinping	, we had unrecognized tax benefits of $63 million that if recognized, would have a favorable impact on our tax expense of $47 million. We had accrued interest of $4 million as of January 1, 2017. If not favorably settled, $12 million of the			

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

unrecognized tax benefits and all of the accrued interest would require the use of our cash. We do not expect any changes to our unrecognized tax benefits during 2017 to have a significant impact on our financial position or results of operations.

We are open to examination in the United States for 2016 and in Germany from 2013 onward. Generally, for our remaining tax jurisdictions, years from 2012 onward are still open to examination.

NOTE 5. EARNINGS PER SHARE

Basic earnings per share are computed based on the weighted average number of common shares outstanding. Diluted earnings per share are calculated to reflect the potential dilution that could occur if securities or other contracts were exercised or converted into common stock.

Basic and diluted earnings per common share are calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share amounts)	2017	2016	2017	2016
Earnings per share — basic:				
Goodyear net income	$147	$202	$313	$386
Weighted average shares outstanding	252	264	252	266
Earnings per common share — basic	$0.58	$0.76	$1.24	$1.45
Earnings per share — diluted:				
Goodyear net income	$147	$202	$313	$386
Weighted average shares outstanding	252	264	252	266
Dilutive effect of stock options and other dilutive securities	4	4	4	3
Weighted average shares outstanding — diluted	256	268	256	269
Earnings per common share — diluted	$0.58	$0.75	$1.23	$1.43

Weighted average shares outstanding - diluted for the three and six months ended June 30, 2017 and 2016 exclude approximately 1 million equivalent shares related to options with exercise prices greater than the average market price of our common shares (i.e., "underwater" options).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 6. BUSINESS SEGMENTS

(In millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Sales:				
Americas	$2,029	$2,090	$3,987	$4,041
Europe, Middle East and Africa	1,114	1,261	2,353	2,512
Asia Pacific	543	528	1,045	1,017
Net Sales	$3,686	$3,879	$7,385	$7,570
Segment Operating Income:				
Americas	$213	$291	$427	$551
Europe, Middle East and Africa	77	148	175	228
Asia Pacific	71	92	144	171
Total Segment Operating Income	$361	$531	$746	$950
Less:				
Rationalizations	$27	$48	$56	$59
Interest expense	89	104	176	195
Other (income) expense (Note 3)	5	20	5	26
Asset write-offs and accelerated depreciation	21	5	29	7
Corporate incentive compensation plans	12	14	27	40
Pension curtailments/settlements	—	14	—	14
Intercompany profit elimination	(2)	3	(5)	5
Retained expenses of divested operations	3	5	6	10
Other	16	17	23	26
Income before Income Taxes	$190	$301	$429	$568

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Rationalizations, as described in Note to the Consolidated Financial Statements No. 2, Costs Associated with Rationalization Programs, Net (gains) losses on asset sales and Asset write-offs and accelerated depreciation were not charged (credited) to the SBUs for performance evaluation purposes but were attributable to the SBUs as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2017	2016	2017	2016
Rationalizations:				
Americas	$1	$1	$2	$4
Europe, Middle East and Africa	26	45	53	53
Asia Pacific	—	1	1	1
Total Segment Rationalizations	$27	$47	$56	$58
Corporate	—	1	—	1
	$27	$48	$56	$59
Net (Gains) Losses on Asset Sales:				
Americas	$(2)	$—	$(3)	$—
Europe, Middle East and Africa	(10)	—	(10)	—
Asia Pacific	—	—	—	(1)
Total Segment Asset Sales	$(12)	$—	$(13)	$(1)

Asset Write-offs and Accelerated Depreciation:				
Europe, Middle East and Africa	$21	$5	$29	$7
Total Segment Asset Write-offs and Accelerated Depreciation	$21	$5	$29	$7

NOTE 7. FINANCING ARRANGEMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

At June 30, 2017, we had total credit arrangements of $8,559 million, of which $2,440 million were unused. At that date, 38% of our debt was at variable interest rates averaging 4.78%.

Notes Payable and Overdrafts, Long Term Debt and Capital Leases due Within One Year and Short Term Financing Arrangements

At June 30, 2017, we had short term committed and uncommitted credit arrangements totaling $591 million, of which $353 million were unused. These arrangements are available primarily to certain of our foreign subsidiaries through various banks at quoted market interest rates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents amounts due within one year:

(In millions)	June 30, 2017	December 31, 2016
Notes payable and overdrafts	$ 238	$ 245
Weighted average interest rate	5.19 %	6.18 %
Chinese credit facilities	$ 141	$ 146
Other domestic and foreign debt (including capital leases)	294	290
Long term debt and capital leases due within one year	$ 435	$ 436
Weighted average interest rate	8.46 %	9.39 %
Total obligations due within one year	$ 673	$ 681

Long Term Debt and Capital Leases and Financing Arrangements

At June 30, 2017, we had long term credit arrangements totaling $7,968 million, of which $2,087 million were unused.

The following table presents long term debt and capital leases, net of unamortized discounts, and interest rates:

	June 30, 2017		December 31, 2016	
(In millions)	Amount	Interest Rate	Amount	Interest Rate
Notes:				
8.75% due 2020	$ 274		$ 273	
7% due 2022	—		700	
5.125% due 2023	1,000		1,000	
3.75% Euro Notes due 2023	285		264	
5% due 2026	900		900	
4.875% due 2027	700		—	
7% due 2028	150		150	
Credit Facilities:				
$2.0 billion first lien revolving credit facility due 2021	420	2.44 %	85	1.98 %
Second lien term loan facility due 2019	399	3.12 %	399	3.75 %
€550 million revolving credit facility due 2020	245	1.75 %	—	—
Pan-European accounts receivable facility	160	0.96 %	198	0.98 %
Chinese credit facilities	276	4.77 %	315	4.68 %
Other foreign and domestic debt(1)	1,035	7.58 %	951	9.14 %
	5,844		5,235	
Unamortized deferred financing fees	(45)		(42)	
	5,799		5,193	
Capital lease obligations	39		41	
	5,838		5,234	
Less portion due within one year	(435)		(436)	
	$ 5,403		$ 4,798	

(1) Interest rates are weighted average interest rates related to various foreign credit facilities with customary terms and conditions and domestic debt related to our Global and Americas Headquarters.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTES

$700 million 4.875% Senior Notes due 2027

In March 2017, we issued $700 million in aggregate principal amount of 4.875% senior notes due 2027. These notes were sold at 100% of the principal amount and will mature on March 15, 2027. These notes are unsecured senior obligations and are guaranteed by our U.S. and Canadian subsidiaries that also guarantee our obligations under our U.S. senior secured credit facilities described below.

We have the option to redeem these notes, in whole or in part, at any time prior to their maturity. If we elect to redeem the notes prior to December 15, 2026, we will pay a redemption price equal to the greater of 100% of the principal amount of the notes redeemed or the sum of the present values of the remaining scheduled payments on the notes redeemed, discounted using a defined treasury rate plus 50 basis points, plus in either case accrued and unpaid interest to the redemption date. If we elect to redeem the notes on or after December 15, 2026, we will pay a redemption price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest to the redemption date.

The terms of the indenture for these notes, among other things, limit our ability and the ability of certain of our subsidiaries to (i) incur certain liens, (ii) engage in sale and leaseback transactions, and (iii) consolidate, merge, sell or otherwise dispose of all or substantially all of our assets. These covenants are subject to significant exceptions and qualifications.

$700 million 7% Senior Notes due 2022

In May 2017, we used the proceeds from the $700 million 4.875% senior notes due 2027, together with cash and cash equivalents, to redeem in full our $700 million 7% senior notes due 2022, which included the payment of a $25 million redemption premium plus accrued and unpaid interest to the redemption date. We also recorded $6 million of expense for the write-off of deferred financing fees as a result of the redemption.

CREDIT FACILITIES

$2.0 billion Amended and Restated First Lien Revolving Credit Facility due 2021

Our amended and restated first lien revolving credit facility is available in the form of loans or letters of credit, with letter of credit availability limited to $800 million. Subject to the consent of the lenders whose commitments are to be increased, we may request that the facility be increased by up to $250 million. Our obligations under the facility are guaranteed by most of our wholly-owned U.S. and Canadian subsidiaries. Our obligations under the facility and our subsidiaries' obligations under the related guarantees are secured by first priority security interests in a variety of collateral. Based on our current liquidity, amounts drawn under this facility bear interest at LIBOR plus 125 basis points, and undrawn amounts under the facility will be subject to an annual commitment fee of 30 basis points.

Availability under the facility is subject to a borrowing base, which is based primarily on (i) eligible accounts receivable and inventory of The Goodyear Tire & Rubber Company and certain of its U.S. and Canadian subsidiaries, (ii) the value of our principal trademarks, and (iii) certain cash in an amount not to exceed $200 million. To the extent that our eligible accounts receivable and inventory and other components of the borrowing base decline in value, our borrowing base will decrease and the availability under the facility may decrease below $2.0 billion. As of June 30, 2017, our borrowing base, and therefore our availability, under this facility was $348 million below the facility's stated amount of $2.0 billion.

The facility has customary representations and warranties including, as a condition to borrowing, that all such representations and warranties are true and correct, in all material respects, on the date of the borrowing, including representations as to no material adverse change in our business or financial condition since December 31, 2015. The facility also has customary defaults, including a cross-default to material indebtedness of Goodyear and our subsidiaries.

At June 30, 2017, we had $420 million of borrowings and $37 million of letters of credit issued under the revolving credit facility. At December 31, 2016, we had $85 million of borrowings and $40 million of letters of credit issued under the revolving credit facility.

Amended and Restated Second Lien Term Loan Facility due 2019

In March 2017, we amended our second lien term loan facility. As a result of the amendment, the term loan now bears interest, at our option, at (i) 200 basis points over LIBOR or (ii) 100 basis points over an alternative base rate (the higher of (a) the prime rate, (b) the federal funds effective rate or the overnight bank funding rate plus 50 basis points or (c) LIBOR plus 100 basis points). After March 7, 2017 and prior to September 3, 2017, (i) loans under the facility may not be prepaid or repaid with the proceeds of term loan indebtedness, or converted into or replaced by new term loans, bearing interest at an effective interest rate that is less than the effective interest rate then applicable to such loans and (ii) no amendment of the facility may be made that, directly or

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indirectly, reduces the effective interest rate applicable to the loans under the facility, in each case unless we pay a fee equal to 1.0% of the principal amount of the loans so affected. In addition, if the Total Leverage Ratio is equal to or less than 1.25 to 1.00, we have the option to further reduce the spreads described above by 25 basis points. "Total Leverage Ratio" has the meaning given it in the facility.

Our obligations under our second lien term loan facility are guaranteed by most of our wholly-owned U.S. and Canadian subsidiaries and are secured by second priority security interests in the same collateral securing the $2.0 billion first lien revolving credit facility.

At June 30, 2017 and December 31, 2016, the amounts outstanding under this facility were $399 million.

€550 million Amended and Restated Senior Secured European Revolving Credit Facility due 2020

Our amended and restated €550 million European revolving credit facility consists of (i) a €125 million German tranche that is available only to Goodyear Dunlop Tires Germany GmbH (“GDTG”) and (ii) a €425 million all-borrower tranche that is available to Goodyear Dunlop Tires Europe B.V. ("GDTE"), GDTG and Goodyear Dunlop Tires Operations S.A. Up to €150 million of swingline loans and €50 million in letters of credit are available for issuance under the all-borrower tranche. Amounts drawn under this facility will bear interest at LIBOR plus 175 basis points for loans denominated in U.S. dollars or pounds sterling and EURIBOR plus 175 basis points for loans denominated in euros, and undrawn amounts under the facility will be subject to an annual commitment fee of 30 basis points.

GDTE and certain of its subsidiaries in the United Kingdom, Luxembourg, France and Germany provide guarantees to support the facility. The German guarantors secure the German tranche on a first-lien basis and the all-borrower tranche on a second-lien basis. GDTE and its other subsidiaries that provide guarantees secure the all-borrower tranche on a first-lien basis and generally do not provide collateral support for the German tranche. The Company and its U.S. subsidiaries and primary Canadian subsidiary that guarantee our U.S. senior secured credit facilities described above also provide unsecured guarantees in support of the facility.

The facility has customary representations and warranties including, as a condition to borrowing, that all such representations and warranties are true and correct, in all material respects, on the date of the borrowing, including representations as to no material adverse change in our business or financial condition since December 31, 2014. The facility also has customary defaults, including a cross-default to material indebtedness of Goodyear and our subsidiaries.

At June 30, 2017, there were $142 million (€125 million) of borrowings outstanding under the German tranche and there were $103 million (€90 million) of borrowings outstanding under the all-borrower tranche. At December 31, 2016, there were no borrowings outstanding under the European revolving credit facility. There were no letters of credit issued at June 30, 2017 and December 31, 2016.

Accounts Receivable Securitization Facilities (On-Balance Sheet)

GDTE and certain other of our European subsidiaries are parties to a pan-European accounts receivable securitization facility that expires in 2019. The terms of the facility provide the flexibility to designate annually the maximum amount of funding available under the facility in an amount of not less than €45 million and not more than €450 million. For the period beginning October 16, 2016 to October 15, 2017, the designated maximum amount of the facility is €320 million.

The facility involves an ongoing daily sale of substantially all of the trade accounts receivable of certain GDTE subsidiaries to a bankruptcy-remote French company controlled by one of the liquidity banks in the facility. These subsidiaries retain servicing responsibilities. Utilization under this facility is based on eligible receivable balances.

The funding commitments under the facility will expire upon the earliest to occur of: (a) September 25, 2019, (b) the non-renewal and expiration (without substitution) of all of the back-up liquidity commitments, (c) the early termination of the facility according to its terms (generally upon an Early Amortisation Event (as defined in the facility), which includes, among other things, events similar to the events of default under our senior secured credit facilities; certain tax law changes; or certain changes to law, regulation or accounting standards), or (d) our request for early termination of the facility. The facility’s current back-up liquidity commitments will expire on October 15, 2017.

At June 30, 2017, the amounts available and utilized under this program totaled $160 million (€140 million). At December 31, 2016, the amounts available and utilized under this program totaled $198 million (€188 million). The program does not qualify for sale accounting, and accordingly, these amounts are included in Long Term Debt and Capital Leases.

In addition to the pan-European accounts receivable securitization facility discussed above, subsidiaries in Australia have an accounts receivable securitization program that provides flexibility to designate semi-annually the maximum amount of funding available under the facility in an amount of not less than 60 million Australian dollars and not more than 85 million Australian dollars. From July 1, 2016 to December 31, 2017, the designated maximum amount of the facility is 60 million Australian dollars. At June 30, 2017, the amounts available and utilized under this program were $28 million (AUD 37 million) and $13 million

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(AUD 17 million), respectively. At December 31, 2016, the amounts available and utilized under this program were $28 million (AUD 39 million) and $12 million (AUD 16 million), respectively. The receivables sold under this program also serve as collateral for the related facility. We retain the risk of loss related to these receivables in the event of non-payment. These amounts are included in Long Term Debt and Capital Leases due Within One Year.
For a description of the collateral securing the credit facilities described above as well as the covenants applicable to them, refer to Note to the Consolidated Financial Statements No. 15, Financing Arrangements and Derivative Financial Instruments, in our 2016 Form 10-K.

Accounts Receivable Factoring Facilities (Off-Balance Sheet)

We have sold certain of our trade receivables under off-balance sheet programs. For these programs, we have concluded that there is generally no risk of loss to us from non-payment of the sold receivables. At June 30, 2017, the gross amount of receivables sold was $467 million, compared to $502 million at December 31, 2016.

Other Foreign Credit Facilities

A Chinese subsidiary has several financing arrangements in China. At June 30, 2017, these non-revolving credit facilities had total unused availability of $224 million and can only be used to finance the expansion of our manufacturing facility in China. At June 30, 2017 and December 31, 2016, the amounts outstanding under these facilities were $276 million and $315 million, respectively. The facilities ultimately mature in 2025 and principal amortization began in 2015. The facilities contain covenants relating to the Chinese subsidiary and have customary representations and warranties and defaults relating to the Chinese subsidiary’s ability to perform its obligations under the facilities. At June 30, 2017 and December 31, 2016, restricted cash related to funds obtained under these credit facilities was $18 million and $8 million, respectively.

DERIVATIVE FINANCIAL INSTRUMENTS

We utilize derivative financial instrument contracts and nonderivative instruments to manage interest rate, foreign exchange and commodity price risks. We have established a control environment that includes policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. We do not hold or issue derivative financial instruments for trading purposes.

Foreign Currency Contracts

We enter into foreign currency contracts in order to manage the impact of changes in foreign exchange rates on our consolidated results of operations and future foreign currency-denominated cash flows. These contracts may be used to reduce exposure to currency movements affecting existing foreign currency-denominated assets, liabilities, firm commitments and forecasted transactions resulting primarily from trade purchases and sales, equipment acquisitions, intercompany loans and royalty agreements. Contracts hedging short term trade receivables and payables normally have no hedging designation.

The following table presents the fair values for foreign currency contracts not designated as hedging instruments:

(In millions)	June 30, 2017	December 31, 2016
Fair Values — Current asset (liability):		
Accounts receivable	$ 4	$ 30
Other current liabilities	(39)	(18)

At June 30, 2017 and December 31, 2016, these outstanding foreign currency derivatives had notional amounts of $1,236 million and $1,812 million, respectively, and were primarily related to intercompany loans. Other (Income) Expense included net transaction losses on derivatives of $41 million and $45 million for the three and six months ended June 30, 2017, respectively, and net transaction gains on derivatives of $5 million and net transaction losses on derivatives of $18 million for the three and six months ended June 30, 2016, respectively. These amounts were substantially offset in Other (Income) Expense by the effect of changing exchange rates on the underlying currency exposures.

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The following table presents fair values for foreign currency contracts designated as cash flow hedging instruments:

(In millions)	June 30, 2017	December 31, 2016
Fair Values — Current asset (liability):		
Accounts receivable	$ —	$ 9
Other current liabilities	(7)	—
Fair Values — Long term asset (liability):		
Other assets	$ —	$ 2
Other long term liabilities	(1)	—

At June 30, 2017 and December 31, 2016, these outstanding foreign currency derivatives had notional amounts of $215 million and $293 million, respectively, and primarily related to U.S. dollar denominated intercompany transactions.

We enter into master netting agreements with counterparties. The amounts eligible for offset under the master netting agreements are not material and we have elected a gross presentation of foreign currency contracts in the Consolidated Balance Sheets.

The following table presents information related to foreign currency contracts designated as cash flow hedging instruments (before tax and minority):

(In millions) (Income) Expense	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Amounts deferred to Accumulated Other Comprehensive Loss ("AOCL")	$13	$ (6)	$21	$ 1
Amount of deferred (gain) loss reclassified from AOCL into CGS	(2)	(1)	(4)	(6)
Amounts excluded from effectiveness testing	—	(1)	(1)	(1)

The estimated net amount of deferred gains at June 30, 2017 that are expected to be reclassified to earnings within the next twelve months is $8 million.

The counterparties to our foreign currency contracts were considered by us to be substantial and creditworthy financial institutions that are recognized market makers at the time we entered into those contracts. We seek to control our credit exposure to these counterparties by diversifying across multiple counterparties, by setting counterparty credit limits based on long term credit ratings and other indicators of counterparty credit risk such as credit default swap spreads, and by monitoring the financial strength of these counterparties on a regular basis. We also enter into master netting agreements with counterparties when possible. By controlling and monitoring exposure to counterparties in this manner, we believe that we effectively manage the risk of loss due to nonperformance by a counterparty. However, the inability of a counterparty to fulfill its contractual obligations to us could have a material adverse effect on our liquidity, financial position or results of operations in the period in which it occurs.

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NOTE 8. FAIR VALUE MEASUREMENTS

The following table presents information about assets and liabilities recorded at fair value on the Consolidated Balance Sheets at June 30, 2017 and December 31, 2016:

	Total Carrying Value in the Consolidated Balance Sheet		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	
(In millions)	2017	2016	2017	2016	2017	2016	2017	2016
Assets:								
Investments	$ 10	$ 9	$10	$9	$—	$—	$—	$—
Foreign Exchange Contracts	4	41	—	—	4	41	—	—
Total Assets at Fair Value	$ 14	$ 50	$10	$9	$4	$41	$—	$—
Liabilities:								
Foreign Exchange Contracts	$ 47	$ 18	$—	$—	$47	$18	$—	$—
Total Liabilities at Fair Value	$ 47	$ 18	$—	$—	$47	$18	$—	$—

The following table presents supplemental fair value information about long term fixed rate and variable rate debt, excluding capital leases, at June 30, 2017 and December 31, 2016.

(In millions)	June 30, 2017	December 31, 2016
Fixed Rate Debt:		
Carrying amount — liability	$ 3,586	$ 3,514
Fair value — liability	3,773	3,669
Variable Rate Debt:		
Carrying amount — liability	$ 2,213	$ 1,679
Fair value — liability	2,198	1,678

Long term debt with a fair value of $3,856 million and $3,804 million at June 30, 2017 and December 31, 2016, respectively, was estimated using quoted Level 1 market prices. The carrying value of the remaining long term debt is categorized within the Level 2 hierarchy and approximates fair value since the terms of the financing arrangements are similar to terms that could be obtained under current lending market conditions.

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NOTE 9. PENSION, SAVINGS AND OTHER POSTRETIREMENT BENEFIT PLANS

We provide employees with defined benefit pension or defined contribution savings plans.

Defined benefit pension cost follows:

	U.S. Three Months Ended June 30,		U.S. Six Months Ended June 30,	
(In millions)	2017	2016	2017	2016
Service cost	$1	$ 1	$2	$ 2
Interest cost	41	40	81	82
Expected return on plan assets	(61)	(63)	(121)	(127)
Amortization of net losses	28	27	56	54
Net periodic pension cost	9	5	18	11
Net curtailments/settlements/termination benefits	1	—	1	—
Total defined benefit pension cost	$10	$ 5	$19	$ 11

	Non-U.S. Three Months Ended June 30,		Non-U.S. Six Months Ended June 30,	
(In millions)	2017	2016	2017	2016
Service cost	$8	$8	$15	$15
Interest cost	18	21	35	41
Expected return on plan assets	(20)	(24)	(39)	(46)
Amortization of net losses	8	7	16	14
Net periodic pension cost	14	12	27	24
Net curtailments/settlements/termination benefits	—	13	—	13
Total defined benefit pension cost	$14	$25	$27	$37

During the second quarter of 2016, annuities were purchased from existing plan assets to settle $41 million in obligations of one of our U.K. pension plans which resulted in a settlement charge of $14 million.

We expect to contribute approximately $50 million to $75 million to our funded non-U.S. pension plans in 2017. For the three and six months ended June 30, 2017, we contributed $13 million and $27 million, respectively, to our non-U.S. plans.

The expense recognized for our contributions to defined contribution savings plans for the three months ended June 30, 2017 and 2016 was $28 million and $29 million, respectively, and for the six months ended June 30, 2017 and 2016 was $58 million and $63 million, respectively.

We also provide certain U.S. employees and employees at certain non-U.S. subsidiaries with health care benefits or life insurance benefits upon retirement. Other postretirement benefits credit for the three months ended June 30, 2017 and 2016 was $1 million and $7 million, respectively, and for the six months ended June 30, 2017 and 2016 was $3 million and $13 million, respectively.

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NOTE 10. STOCK COMPENSATION PLANS

Our Board of Directors granted 0.7 million stock options, 0.1 million restricted stock units and 0.2 million performance share units during the six months ended June 30, 2017 under our stock compensation plans. The weighted average exercise price per share and weighted average fair value per share of the stock option grants during the six months ended June 30, 2017 were $35.26 and $12.08, respectively. We estimated the fair value of the stock options using the following assumptions in our Black-Scholes model:

Expected term: 7.2 years
Interest rate: 2.13%
Volatility: 33.63%
Dividend yield: 1.13%

We measure the fair value of grants of restricted stock units and performance share units based primarily on the closing market price of a share of our common stock on the date of the grant, modified as appropriate to take into account the features of such grants. The weighted average fair value per share was $35.25 for restricted stock units and $36.78 for performance share units granted during the six months ended June 30, 2017.

We recognized stock-based compensation expense of $6 million and $12 million during the three and six months ended June 30, 2017, respectively. At June 30, 2017, unearned compensation cost related to the unvested portion of all stock-based awards was approximately $36 million and is expected to be recognized over the remaining vesting period of the respective grants, through the first quarter of 2022. We recognized stock-based compensation expense of $4 million and $11 million during the three and six months ended June 30, 2016, respectively.

Stock based awards are made pursuant to stock compensation plans that are approved by our shareholders. The 2017 Performance Plan was adopted by our shareholders on April 10, 2017 and will expire on April 9, 2027 unless earlier terminated. The 2017 Performance Plan replaced the 2013 Performance Plan, which was terminated on April 10, 2017, except with respect to outstanding awards.

NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES

Environmental Matters

We have recorded liabilities totaling $52 million and $55 million at June 30, 2017 and December 31, 2016, respectively, for anticipated costs related to various environmental matters, primarily the remediation of numerous waste disposal sites and certain properties sold by us. Of these amounts, $19 million and $21 million was included in Other Current Liabilities at June 30, 2017 and December 31, 2016, respectively. The costs include legal and consulting fees, site studies, the design and implementation of remediation plans, post-remediation monitoring and related activities, and will be paid over several years. The amount of our ultimate liability in respect of these matters may be affected by several uncertainties, primarily the ultimate cost of required remediation and the extent to which other responsible parties contribute. We have limited potential insurance coverage for future environmental claims. Since many of the remediation activities related to environmental matters vary substantially in duration and cost from site to site and the associated costs for each vary depending on the mix of unique site characteristics, in some cases we cannot reasonably estimate a range of possible losses. Although it is not possible to estimate with certainty the outcome of all of our environmental matters, management believes that potential losses in excess of current reserves for environmental matters, individually and in the aggregate, will not have a material adverse effect on our financial position, cash flows or results of operations.

Workers’ Compensation

We have recorded liabilities, on a discounted basis, totaling $249 million and $248 million for anticipated costs related to workers’ compensation at June 30, 2017 and December 31, 2016, respectively. Of these amounts, $44 million and $48 million was included in Current Liabilities as part of Compensation and Benefits at June 30, 2017 and December 31, 2016, respectively. The costs include an estimate of expected settlements on pending claims, defense costs and a provision for claims incurred but not reported. These estimates are based on our assessment of potential liability using an analysis of available information with respect to pending claims, historical experience, and current cost trends. The amount of our ultimate liability in respect of these matters may differ from these estimates. We periodically, and at least annually, update our loss development factors based on actuarial analyses. At June 30, 2017 and December 31, 2016, the liability was discounted using a risk-free rate of return. At June 30, 2017, we estimate that it is reasonably possible that the liability could exceed our recorded amounts by approximately $30 million.

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General and Product Liability and Other Litigation

We have recorded liabilities totaling $329 million and $316 million, including related legal fees expected to be incurred, for potential product liability and other tort claims, including asbestos claims, at June 30, 2017 and December 31, 2016, respectively. Of these amounts, $54 million and $49 million was included in Other Current Liabilities at June 30, 2017 and December 31, 2016, respectively. The amounts recorded were estimated based on an assessment of potential liability using an analysis of available information with respect to pending claims, historical experience and, where available, recent and current trends. Based upon that assessment, at June 30, 2017, we do not believe that estimated reasonably possible losses associated with general and product liability claims in excess of the amounts recorded will have a material adverse effect on our financial position, cash flows or results of operations. However, the amount of our ultimate liability in respect of these matters may differ from these estimates.

We have recorded an indemnification asset within Accounts Receivable of $5 million and within Other Assets of $28 million for Sumitomo Rubber Industries, Ltd.'s ("SRI") obligation to indemnify us for certain product liability claims related to products manufactured by a formerly consolidated joint venture entity, subject to certain caps and restrictions.

Asbestos. We are a defendant in numerous lawsuits alleging various asbestos-related personal injuries purported to result from alleged exposure to asbestos in certain products manufactured by us or present in certain of our facilities. Typically, these lawsuits have been brought against multiple defendants in state and federal courts. To date, we have disposed of approximately 126,700 claims by defending, obtaining the dismissal thereof, or entering into a settlement. The sum of our accrued asbestos-related liability and gross payments to date, including legal costs, by us and our insurers totaled approximately $525 million through June 30, 2017 and $517 million through December 31, 2016.

A summary of recent approximate asbestos claims activity follows. Because claims are often filed and disposed of by dismissal or settlement in large numbers, the amount and timing of settlements and the number of open claims during a particular period can fluctuate significantly.

(Dollars in millions)	Six Months Ended June 30, 2017	Year Ended December 31, 2016
Pending claims, beginning of period	64,400	67,400
New claims filed	1,000	1,900
Claims settled/dismissed	(4,000)	(4,900)
Pending claims, end of period	61,400	64,400
Payments [1]	$ 4	$ 20

(1) Represents cash payments made during the period by us and our insurers on asbestos litigation defense and claim resolution.

We periodically, and at least annually, review our existing reserves for pending claims, including a reasonable estimate of the liability associated with unasserted asbestos claims, and estimate our receivables from probable insurance recoveries. We recorded gross liabilities for both asserted and unasserted claims, inclusive of defense costs, totaling $175 million and $171 million at June 30, 2017 and December 31, 2016, respectively. In determining the estimate of our asbestos liability, we evaluated claims over the next ten-year period. Due to the difficulties in making these estimates, analysis based on new data and/or a change in circumstances arising in the future may result in an increase in the recorded obligation, and that increase could be significant.

We maintain certain primary and excess insurance coverage under coverage-in-place agreements, and also have additional excess liability insurance with respect to asbestos liabilities. After consultation with our outside legal counsel and giving consideration to agreements with certain of our insurance carriers, the financial viability and legal obligations of our insurance carriers and other relevant factors, we determine an amount we expect is probable of recovery from such carriers. We record a receivable with respect to such policies when we determine that recovery is probable and we can reasonably estimate the amount of a particular recovery.

We recorded a receivable related to asbestos claims of $126 million and $123 million at June 30, 2017 and December 31, 2016, respectively. We expect that approximately 70% of asbestos claim related losses would be recoverable through insurance during the ten-year period covered by the estimated liability. Of these amounts, $12 million was included in Current Assets as part of Accounts Receivable at June 30, 2017 and December 31, 2016. The recorded receivable consists of an amount we expect to collect under coverage-in-place agreements with certain primary and excess insurance carriers as well as an amount we believe is probable of recovery from certain of our other excess insurance carriers.

We believe that, at December 31, 2016, we had approximately $430 million in excess level policy limits applicable to indemnity and defense costs for asbestos products claims under coverage-in-place agreements. We also had additional unsettled excess level

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policy limits potentially applicable to such costs. We had coverage under certain primary policies for indemnity and defense costs for asbestos products claims under remaining aggregate limits pursuant to a coverage-in-place agreement, as well as coverage for indemnity and defense costs for asbestos premises claims pursuant to coverage-in-place agreements.

With respect to both asserted and unasserted claims, it is reasonably possible that we may incur a material amount of cost in excess of the current reserve; however, such amounts cannot be reasonably estimated. Coverage under insurance policies is subject to varying characteristics of asbestos claims including, but not limited to, the type of claim (premise vs. product exposure), alleged date of first exposure to our products or premises and disease alleged. Depending upon the nature of these characteristics, as well as the resolution of certain legal issues, some portion of the insurance may not be accessible by us.

Amiens Labor Claims

Approximately 850 former employees of the closed Amiens, France manufacturing facility have asserted wrongful termination or other claims totaling €118 million ($135 million) against Goodyear Dunlop Tires France. We intend to vigorously defend ourselves against these claims, and any additional claims that may be asserted against us, and cannot estimate the amounts, if any, that we may ultimately pay in respect of such claims.

Other Actions

We are currently a party to various claims, indirect tax assessments and legal proceedings in addition to those noted above. If management believes that a loss arising from these matters is probable and can reasonably be estimated, we record the amount of the loss, or the minimum estimated liability when the loss is estimated using a range, and no point within the range is more probable than another. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Based on currently available information, management believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on our financial position or overall trends in results of operations.

Our recorded liabilities and estimates of reasonably possible losses for the contingent liabilities described above are based on our assessment of potential liability using the information available to us at the time and, where applicable, any past experience and recent and current trends with respect to similar matters. Our contingent liabilities are subject to inherent uncertainties, and unfavorable judicial or administrative decisions could occur which we did not anticipate. Such an unfavorable decision could include monetary damages, fines or other penalties or an injunction prohibiting us from taking certain actions or selling certain products. If such an unfavorable decision were to occur, it could result in a material adverse impact on our financial position and results of operations in the period in which the decision occurs, or in future periods.

Income Tax Matters

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We also recognize income tax benefits to the extent that it is more likely than not that our positions will be sustained when challenged by the taxing authorities. We derecognize income tax benefits when based on new information we determine that it is no longer more likely than not that our position will be sustained. To the extent we prevail in matters for which liabilities have been established, or determine we need to derecognize tax benefits recorded in prior periods, our results of operations and effective tax rate in a given period could be materially affected. An unfavorable tax settlement would require use of our cash, and lead to recognition of expense to the extent the settlement amount exceeds recorded liabilities and, in the case of an income tax settlement, result in an increase in our effective tax rate in the period of resolution. A favorable tax settlement would be recognized as a reduction of expense to the extent the settlement amount is lower than recorded liabilities and, in the case of an income tax settlement, would result in a reduction in our effective tax rate in the period of resolution.

While the Company applies consistent transfer pricing policies and practices globally, supports transfer prices through economic studies, seeks advance pricing agreements and joint audits to the extent possible and believes its transfer prices to be appropriate, such transfer prices, and related interpretations of tax laws, are occasionally challenged by various taxing authorities globally. We have received various tax assessments challenging our interpretations of applicable tax laws in various jurisdictions. Although we believe we have complied with applicable tax laws, have strong positions and defenses and have historically been successful in defending such claims, our results of operations could be materially adversely affected in the case we are unsuccessful in the defense of existing or future claims.

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Guarantees

We have off-balance sheet financial guarantees and other commitments totaling approximately $39 million and $40 million at June 30, 2017 and December 31, 2016, respectively. We issue guarantees to financial institutions or other entities on behalf of certain of our affiliates, lessors or customers. We also generally do not require collateral in connection with the issuance of these guarantees. In 2015, as a result of the dissolution of the global alliance with SRI, we issued a guarantee of approximately $46 million to an insurance company related to SRI's obligation to pay certain outstanding workers' compensation claims of a formerly consolidated joint venture entity. As of June 30, 2017, this guarantee amount has been reduced to $38 million. We have concluded the probability of our performance to be remote and, therefore, have not recorded a liability for this guarantee. While there is no fixed duration of this guarantee, we expect the amount of this guarantee to continue to decrease over time as the formerly consolidated joint venture entity pays its outstanding claims. If our performance under these guarantees is triggered by non-payment or another specified event, we would be obligated to make payment to the financial institution or the other entity, and would typically have recourse to the affiliate, lessor, customer, or SRI. Except for the workers' compensation guarantee described above, the guarantees expire at various times through 2020. We are unable to estimate the extent to which our affiliates’, lessors’, customers’, or SRI's assets would be adequate to recover any payments made by us under the related guarantees.

NOTE 12. CAPITAL STOCK

Dividends

In the first six months of 2017, we paid cash dividends of $50 million on our common stock. On July 12, 2017, the Board of Directors (or a duly authorized committee thereof) declared cash dividends of $0.10 per share of common stock, or approximately $25 million in the aggregate. The dividend will be paid on September 1, 2017 to stockholders of record as of the close of business on August 1, 2017. Future quarterly dividends are subject to Board approval.

Common Stock Repurchases

On September 18, 2013, the Board of Directors approved our common stock repurchase program. From time to time, the Board of Directors has approved increases in the amount authorized to be purchased under that program. On February 2, 2017, the Board of Directors approved a further increase in that authorization to an aggregate of $2.1 billion. This program expires on December 31, 2019. We intend to repurchase shares of common stock in open market transactions in order to offset new shares issued under equity compensation programs and to provide for additional shareholder returns. During the second quarter of 2017, we repurchased 146,626 shares at an average price, including commissions, of $35.17 per share, or $5 million in the aggregate. During the first six months of 2017, we repurchased 843,120 shares at an average price, including commissions, of $35.77 per share, or $30 million in the aggregate. Since 2013, we repurchased 32,057,230 shares at an average price, including commissions, of $29.43 per share, or $943 million in the aggregate.

In addition, we may repurchase shares delivered to us by employees as payment for the exercise price of stock options and the withholding taxes due upon the exercise of the stock options or the vesting or payment of stock awards. During the first six months of 2017, we did not repurchase any shares from employees.

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NOTE 13. CHANGES IN SHAREHOLDERS’ EQUITY

The following tables present the changes in shareholders’ equity for the six months ended June 30, 2017 and 2016:

(In millions)	June 30, 2017 Goodyear Shareholders’ Equity	Minority Shareholders’ Equity – Nonredeemable	Total Shareholders’ Equity	June 30, 2016 Goodyear Shareholders’ Equity	Minority Shareholders’ Equity – Nonredeemable	Total Shareholders’ Equity
Balance at beginning of period	$4,507	$ 218	$ 4,725	$3,920	$ 222	$ 4,142
Comprehensive income (loss):						
Net income	313	10	323	386	11	397
Foreign currency translation, net of tax of $19 in 2017 ($14 in 2016)	121	13	134	5	2	7
Amortization of prior service cost and unrecognized gains (losses) included in total benefit cost, net of tax of $21 in 2017 ($16 in 2016)	39	—	39	32	—	32
Decrease in net actuarial losses, net of tax of $1 in 2017 ($0 in 2016)	3	—	3	1	—	1
Immediate recognition of prior service cost and unrecognized gains (losses) due to curtailments, settlements, and divestitures, net of tax of $0 in 2017 and 2016	—	—	—	15	—	15
Deferred derivative gains (losses), net of tax of ($7) in 2017 ($0 in 2016)	(14)	—	(14)	3	—	3
Reclassification adjustment for amounts recognized in income, net of tax of ($1) in 2017 (($2) in 2016)	(3)	—	(3)	(8)	—	(8)
Other comprehensive income	146	13	159	48	2	50
Total comprehensive income	459	23	482	434	13	447
Dividends declared to minority shareholders	—	(5)	(5)	—	(9)	(9)
Stock-based compensation plans (Note 10)	12	—	12	13	—	13
Repurchase of common stock (Note 12)	(30)	—	(30)	(150)	—	(150)
Dividends declared (Note 12)	(50)	—	(50)	(38)	—	(38)
Common stock issued from treasury	11	—	11	3	—	3
Balance at end of period	$4,909	$ 236	$ 5,145	$4,182	$ 226	$ 4,408

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14. RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents changes in Accumulated Other Comprehensive Loss (AOCL), by component, for the six months ended June 30, 2017 and 2016:

(In millions) Income (Loss)	Foreign Currency Translation Adjustment	Unrecognized Net Actuarial Losses and Prior Service Costs	Deferred Derivative Gains (Losses)	Total
Balance at December 31, 2016	$ (1,155)	$ (3,053)	$ 10	$(4,198)
Other comprehensive income (loss) before reclassifications	121	3	(14)	110
Amounts reclassified from accumulated other comprehensive loss	—	39	(3)	36
Balance at June 30, 2017	$ (1,034)	$ (3,011)	$ (7)	$(4,052)

	Foreign Currency Translation Adjustment	Unrecognized Net Actuarial Losses and Prior Service Costs	Deferred Derivative Gains (Losses)	Total
Balance at December 31, 2015	$ (946)	$ (3,071)	$ 7	$(4,010)
Other comprehensive income (loss) before reclassifications	5	1	3	9
Amounts reclassified from accumulated other comprehensive loss	—	47	(8)	39
Balance at June 30, 2016	$ (941)	$ (3,023)	$ 2	$(3,962)

The following table presents reclassifications out of Accumulated Other Comprehensive Loss:

(In millions) (Income) Expense	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016	
Component of AOCL	Amount Reclassified from AOCL		Amount Reclassified from AOCL		Affected Line Item in the Consolidated Statements of Operations
Amortization of prior service cost and unrecognized gains and losses	$ 30	$ 24	$ 60	$ 48	Total Benefit Cost
Immediate recognition of prior service cost and unrecognized gains and losses due to curtailments, settlements, and divestitures	—	15	—	15	Total Benefit Cost
Unrecognized Net Actuarial Losses and Prior Service Costs, before tax	$ 30	$ 39	$ 60	$ 63	
Tax effect	(11)	(8)	(21)	(16)	United States and Foreign Taxes
Net of tax	$ 19	$ 31	$ 39	$ 47	Goodyear Net Income
Deferred Derivative (Gains) Losses, before tax	$ (2)	$ (6)	$ (4)	$ (10)	Cost of Goods Sold
Tax effect	—	1	1	2	United States and Foreign Taxes
Net of tax	$ (2)	$ (5)	$ (3)	$ (8)	Goodyear Net Income

Total reclassifications	$ 17	$ 26	$ 36	$ 39	Goodyear Net Income

Amortization of prior service cost and unrecognized gains and losses are included in the computation of total benefit cost. For further information, refer to Note to the Consolidated Financial Statements No. 9, Pension, Savings and Other Postretirement Benefit Plans, in this Form 10-Q and No. 17, Pension, Other Postretirement Benefits and Savings Plans, in our 2016 Form 10-K.

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(Unaudited)

NOTE 15. CONSOLIDATING FINANCIAL INFORMATION

Certain of our subsidiaries have guaranteed our obligations under the $282 million outstanding principal amount of 8.75% notes due 2020, the $1.0 billion outstanding principal amount of 5.125% senior notes due 2023, the $900 million outstanding principal amount of 5% senior notes due 2026 and the $700 million outstanding principal amount of 4.875% senior notes due 2027 (collectively, the “notes”). The following presents the condensed consolidating financial information separately for:

(i) The Goodyear Tire & Rubber Company (the “Parent Company”), the issuer of the guaranteed obligations;

(ii) Guarantor Subsidiaries, on a combined basis, as specified in the indentures related to Goodyear’s obligations under the notes;

(iii) Non-Guarantor Subsidiaries, on a combined basis;

(iv) Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries, (b) eliminate the investments in our subsidiaries, and (c) record consolidating entries; and

(v) The Goodyear Tire & Rubber Company and Subsidiaries on a consolidated basis.

Each guarantor subsidiary is 100% owned by the Parent Company at the date of each balance sheet presented. The notes are fully and unconditionally guaranteed on a joint and several basis by each guarantor subsidiary. The guarantees of the guarantor subsidiaries are subject to release in limited circumstances only upon the occurrence of certain customary conditions. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use by the Parent Company and guarantor subsidiaries of the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated upon consolidation. Changes in intercompany receivables and payables related to operations, such as intercompany sales or service charges, are included in cash flows from operating activities. Intercompany transactions reported as investing or financing activities include the sale of capital stock, loans and other capital transactions between members of the consolidated group.

During the first quarter of 2017, one of our guarantor subsidiaries merged with the Parent Company. We have changed the prior year consolidating financial statements to conform to the current structure. As a result, Parent Company Total Assets decreased $113 million and Guarantor Subsidiaries Total Assets decreased $358 million, with corresponding offsetting adjustments presented on the same line items in the Consolidating Entries and Eliminations column, as of December 31, 2016. In addition, Parent Company Total Liabilities decreased $113 million, Guarantor Subsidiaries Total Liabilities decreased $46 million and Guarantor Subsidiaries Total Shareholders' Equity decreased $312 million, with corresponding offsetting adjustments presented on the same line items in the Consolidating Entries and Eliminations column, as of December 31, 2016. Furthermore, Net Income increased $2 million and $8 million for Guarantor Subsidiaries, with corresponding offsetting adjustments presented on the same line items in the Consolidating Entries and Eliminations column, for the three and six month periods ended June 30, 2016, respectively. The change did not impact the Non-Guarantor Subsidiaries presentation in the previously issued consolidating financial statements.

We revised the presentation of eliminations of certain intercompany transactions solely between Non-Guarantor Subsidiaries within the consolidating statement of operations for the three and six months ended June 30, 2016. The revision did not impact the presentation of amounts in previously issued consolidating financial statements for the Parent Company or Guarantor Subsidiaries columns, nor did it impact amounts previously reported in the Company's Consolidated Statements of Operations. Certain eliminations solely between Non-Guarantor Subsidiaries that were previously presented within the Consolidating Entries and Eliminations column are now presented within the Non-Guarantor Subsidiaries column. Under the prior presentation, the Non-Guarantor Subsidiaries column in the consolidating statement of operations was $322 million and $614 million lower for both Net Sales and Cost of Goods Sold for the three and six month periods ended June 30, 2016, respectively, with corresponding offsetting adjustments presented on the same line items in the Consolidating Entries and Eliminations column. We do not consider these changes in presentation to be material to any previously issued financial statements as the primary purpose of this disclosure is to provide our noteholders with visibility into the entities that provide guarantees in support of the notes, which is disclosed in the Parent Company and Guarantor Subsidiaries columns which are not affected by the revisions described above.

Certain Non-Guarantor Subsidiaries of the Parent Company are limited in their ability to remit funds to it by means of dividends, advances or loans due to required foreign government and/or currency exchange board approvals or limitations in credit agreements or other debt instruments of those subsidiaries.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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	Condensed Consolidating Balance Sheet June 30, 2017				
(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Assets:					
Current Assets:					
Cash and Cash Equivalents	$84	$ 55	$ 764	$ —	$ 903
Accounts Receivable, net	678	136	1,495	—	2,309
Accounts Receivable From Affiliates	—	166	261	(427)	—
Inventories	1,613	50	1,542	(21)	3,184
Prepaid Expenses and Other Current Assets	74	2	157	3	236
Total Current Assets	2,449	409	4,219	(445)	6,632
Goodwill	24	1	421	125	571
Intangible Assets	118	—	19	—	137
Deferred Income Taxes	1,930	32	399	—	2,361
Other Assets	223	51	423	3	700
Investments in Subsidiaries	4,645	590	—	(5,235)	—
Property, Plant and Equipment, net	2,481	378	4,414	(28)	7,245
Total Assets	$11,870	$ 1,461	$ 9,895	$ (5,580)	$ 17,646
Liabilities:					
Current Liabilities:					
Accounts Payable-Trade	$851	$ 106	$ 1,817	$ —	$ 2,774
Accounts Payable to Affiliates	427	—	—	(427)	—
Compensation and Benefits	311	15	241	—	567
Other Current Liabilities	350	1	706	(2)	1,055
Notes Payable and Overdrafts	—	—	238	—	238
Long Term Debt and Capital Leases Due Within One Year	5	—	430	—	435
Total Current Liabilities	1,944	122	3,432	(429)	5,069
Long Term Debt and Capital Leases	4,017	52	1,334	—	5,403
Compensation and Benefits	598	100	710	—	1,408
Deferred Income Taxes	—	1	85	—	86
Other Long Term Liabilities	402	11	122	—	535
Total Liabilities	6,961	286	5,683	(429)	12,501
Commitments and Contingent Liabilities					
Shareholders’ Equity:					
Goodyear Shareholders’ Equity:					
Common Stock	252	—	—	—	252
Other Equity	4,657	1,175	3,976	(5,151)	4,657
Goodyear Shareholders’ Equity	4,909	1,175	3,976	(5,151)	4,909
Minority Shareholders’ Equity — Nonredeemable	—	—	236	—	236
Total Shareholders’ Equity	4,909	1,175	4,212	(5,151)	5,145
Total Liabilities and Shareholders’ Equity	$11,870	$ 1,461	$ 9,895	$ (5,580)	$ 17,646

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Condensed Consolidating Balance Sheet
December 31, 2016

(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Assets:					
Current Assets:					
Cash and Cash Equivalents	$188	$ 55	$ 889	$ —	$ 1,132
Accounts Receivable, net	589	106	1,074	—	1,769
Accounts Receivable From Affiliates	—	277	270	(547)	—
Inventories	1,443	25	1,178	(19)	2,627
Prepaid Expenses and Other Current Assets	57	3	130	—	190
Total Current Assets	2,277	466	3,541	(566)	5,718
Goodwill	24	—	391	120	535
Intangible Assets	118	—	18	—	136
Deferred Income Taxes	2,010	31	373	—	2,414
Other Assets	223	53	387	5	668
Investments in Subsidiaries	4,344	541	—	(4,885)	—
Property, Plant and Equipment, net	2,481	308	4,279	(28)	7,040
Total Assets	$11,477	$ 1,399	$ 8,989	$ (5,354)	$ 16,511
Liabilities:					
Current Liabilities:					
Accounts Payable-Trade	$905	$ 142	$ 1,542	$ —	$ 2,589
Accounts Payable to Affiliates	547	—	—	(547)	—
Compensation and Benefits	365	15	204	—	584
Other Current Liabilities	355	—	611	(3)	963
Notes Payable and Overdrafts	—	—	245	—	245
Long Term Debt and Capital Leases Due Within One Year	6	—	430	—	436
Total Current Liabilities	2,178	157	3,032	(550)	4,817
Long Term Debt and Capital Leases	3,685	—	1,113	—	4,798
Compensation and Benefits	682	98	680	—	1,460
Deferred Income Taxes	—	1	84	—	85
Other Long Term Liabilities	425	12	188	1	626
Total Liabilities	6,970	268	5,097	(549)	11,786
Commitments and Contingent Liabilities					
Shareholders’ Equity:					
Goodyear Shareholders’ Equity:					
Common Stock	252	—	—	—	252
Other Equity	4,255	1,131	3,674	(4,805)	4,255
Goodyear Shareholders’ Equity	4,507	1,131	3,674	(4,805)	4,507
Minority Shareholders’ Equity — Nonredeemable	—	—	218	—	218
Total Shareholders’ Equity	4,507	1,131	3,892	(4,805)	4,725
Total Liabilities and Shareholders’ Equity	$11,477	$ 1,399	$ 8,989	$ (5,354)	$ 16,511

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Consolidating Statements of Operations
Three Months Ended June 30, 2017

(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net Sales	$1,863	$ 290	$ 2,316	$ (783)	$ 3,686
Cost of Goods Sold	1,462	286	1,842	(798)	2,792
Selling, Administrative and General Expense	248	10	324	1	583
Rationalizations	1	—	26	—	27
Interest Expense	69	2	31	(13)	89
Other (Income) Expense	—	(1)	(19)	25	5
Income (Loss) before Income Taxes and Equity in Earnings of Subsidiaries	83	(7)	112	2	190
United States and Foreign Taxes	17	(3)	20	2	36
Equity in Earnings of Subsidiaries	81	16	—	(97)	—
Net Income (Loss)	147	12	92	(97)	154
Less: Minority Shareholders’ Net Income	—	—	7	—	7
Goodyear Net Income (Loss)	$147	$ 12	$ 85	$ (97)	$ 147
Comprehensive Income (Loss)	$198	$ 13	$ 146	$ (145)	$ 212
Less: Comprehensive Income (Loss) Attributable to Minority Shareholders	—	—	14	—	14
Goodyear Comprehensive Income (Loss)	$198	$ 13	$ 132	$ (145)	$ 198

Consolidating Statements of Operations
Three Months Ended June 30, 2016

(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net Sales	$1,889	$ 351	$ 2,347	$ (708)	$ 3,879
Cost of Goods Sold	1,407	329	1,797	(720)	2,813
Selling, Administrative and General Expense	261	11	321	—	593
Rationalizations	3	—	45	—	48
Interest Expense	78	4	22	—	104
Other (Income) Expense	(1)	—	7	14	20
Income (Loss) before Income Taxes and Equity in Earnings of Subsidiaries	141	7	155	(2)	301
United States and Foreign Taxes	49	2	37	5	93
Equity in Earnings of Subsidiaries	110	1	—	(111)	—
Net Income (Loss)	202	6	118	(118)	208
Less: Minority Shareholders’ Net Income	—	—	6	—	6
Goodyear Net Income (Loss)	$202	$ 6	$ 112	$ (118)	$ 202
Comprehensive Income (Loss)	$190	$ 1	$ 86	$ (86)	$ 191
Less: Comprehensive Income (Loss) Attributable to Minority Shareholders	—	—	1	—	1
Goodyear Comprehensive Income (Loss)	$190	$ 1	$ 85	$ (86)	$ 190

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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	Consolidating Statements of Operations Six Months Ended June 30, 2017				
(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net Sales	$3,630	$ 589	$ 4,618	$ (1,452)	$ 7,385
Cost of Goods Sold	2,842	560	3,638	(1,483)	5,557
Selling, Administrative and General Expense	507	19	636	—	1,162
Rationalizations	2	—	54	—	56
Interest Expense	134	4	62	(24)	176
Other (Income) Expense	(19)	1	(23)	46	5
Income (Loss) before Income Taxes and Equity in Earnings of Subsidiaries	164	5	251	9	429
United States and Foreign Taxes	60	—	49	(3)	106
Equity in Earnings of Subsidiaries	209	31	—	(240)	—
Net Income (Loss)	313	36	202	(228)	323
Less: Minority Shareholders’ Net Income	—	—	10	—	10
Goodyear Net Income (Loss)	$313	$ 36	$ 192	$ (228)	$ 313
Comprehensive Income (Loss)	$459	$ 41	$ 340	$ (358)	$ 482
Less: Comprehensive Income (Loss) Attributable to Minority Shareholders	—	—	23	—	23
Goodyear Comprehensive Income (Loss)	$459	$ 41	$ 317	$ (358)	$ 459

	Consolidating Statements of Operations Six Months Ended June 30, 2016				
(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net Sales	$3,676	$ 665	$ 4,603	$ (1,374)	$ 7,570
Cost of Goods Sold	2,737	624	3,574	(1,421)	5,514
Selling, Administrative and General Expense	531	21	657	(1)	1,208
Rationalizations	5	—	54	—	59
Interest Expense	146	7	53	(11)	195
Other (Income) Expense	(5)	1	(10)	40	26
Income (Loss) before Income Taxes and Equity in Earnings of Subsidiaries	262	12	275	19	568
United States and Foreign Taxes	105	(1)	63	4	171
Equity in Earnings of Subsidiaries	229	21	—	(250)	—
Net Income (Loss)	386	34	212	(235)	397
Less: Minority Shareholders’ Net Income	—	—	11	—	11
Goodyear Net Income (Loss)	$386	$ 34	$ 201	$ (235)	$ 386
Comprehensive Income (Loss)	$434	$ 14	$ 241	$ (242)	$ 447
Less: Comprehensive Income (Loss) Attributable to Minority Shareholders	—	—	13	—	13
Goodyear Comprehensive Income (Loss)	$434	$ 14	$ 228	$ (242)	$ 434

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(In millions)	Condensed Consolidating Statement of Cash Flows Six Months Ended June 30, 2017				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Cash Flows from Operating Activities:					
Total Cash Flows from Operating Activities	$(49)	$ (30)	$ (90)	$(16)	$ (185)
Cash Flows from Investing Activities:					
Capital Expenditures	(190)	(86)	(224)	3	(497)
Asset Dispositions	1	—	1	—	2
Short Term Securities Acquired	—	—	(43)	—	(43)
Short Term Securities Redeemed	—	—	43	—	43
Capital Contributions and Loans Incurred	(62)	—	(30)	92	—
Capital Redemptions and Loans Paid	—	—	61	(61)	—
Other Transactions	—	—	(3)	—	(3)
Total Cash Flows from Investing Activities	(251)	(86)	(195)	34	(498)
Cash Flows from Financing Activities:					
Short Term Debt and Overdrafts Incurred	40	—	250	—	290
Short Term Debt and Overdrafts Paid	(40)	—	(263)	—	(303)
Long Term Debt Incurred	2,090	52	1,314	—	3,456
Long Term Debt Paid	(1,759)	—	(1,146)	—	(2,905)
Common Stock Issued	11	—	—	—	11
Common Stock Repurchased	(30)	—	—	—	(30)
Common Stock Dividends Paid	(50)	—	—	—	(50)
Capital Contributions and Loans Incurred	30	62	—	(92)	—
Capital Redemptions and Loans Paid	(61)	—	—	61	—
Intercompany Dividends Paid	—	—	(13)	13	—
Transactions with Minority Interests in Subsidiaries	—	—	(5)	—	(5)
Debt Related Costs and Other Transactions	(26)	—	(12)	—	(38)
Total Cash Flows from Financing Activities	205	114	125	(18)	426
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash	—	2	35	—	37
Net Change in Cash, Cash Equivalents and Restricted Cash	(95)	—	(125)	—	(220)
Cash, Cash Equivalents and Restricted Cash at Beginning of the Period	210	55	924	—	1,189
Cash, Cash Equivalents and Restricted Cash at End of the Period	$115	$ 55	$ 799	$ —	$ 969

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(In millions)	Condensed Consolidating Statement of Cash Flows Six Months Ended June 30, 2016				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Cash Flows from Operating Activities:					
Total Cash Flows from Operating Activities	$(199)	$ (11)	$ 160	$(17)	$ (67)
Cash Flows from Investing Activities:					
Capital Expenditures	(189)	(40)	(239)	2	(466)
Asset Dispositions	—	—	1	—	1
Short Term Securities Acquired	—	—	(34)	—	(34)
Short Term Securities Redeemed	—	—	23	—	23
Capital Contributions and Loans Incurred	(93)	—	(243)	336	—
Capital Redemptions and Loans Paid	25	—	143	(168)	—
Total Cash Flows from Investing Activities	(257)	(40)	(349)	170	(476)
Cash Flows from Financing Activities:					
Short Term Debt and Overdrafts Incurred	—	—	124	—	124
Short Term Debt and Overdrafts Paid	—	—	(36)	—	(36)
Long Term Debt Incurred	2,051	—	1,232	—	3,283
Long Term Debt Paid	(1,523)	—	(1,408)	—	(2,931)
Common Stock Issued	3	—	—	—	3
Common Stock Repurchased	(150)	—	—	—	(150)
Common Stock Dividends Paid	(38)	—	—	—	(38)
Capital Contributions and Loans Incurred	243	59	34	(336)	—
Capital Redemptions and Loans Paid	(143)	(25)	—	168	—
Intercompany Dividends Paid	—	—	(15)	15	—
Transactions with Minority Interests in Subsidiaries	—	—	(7)	—	(7)
Debt Related Costs and Other Transactions	(66)	—	(10)	—	(76)
Total Cash Flows from Financing Activities	377	34	(86)	(153)	172
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash	—	2	20	—	22
Net Change in Cash, Cash Equivalents and Restricted Cash	(79)	(15)	(255)	—	(349)
Cash, Cash Equivalents and Restricted Cash at Beginning of the Period	361	67	1,074	—	1,502
Cash, Cash Equivalents and Restricted Cash at End of the Period	$282	$ 52	$ 819	$ —	$ 1,153

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

All per share amounts are diluted and refer to Goodyear net income (loss).

OVERVIEW

The Goodyear Tire & Rubber Company is one of the world’s leading manufacturers of tires, with one of the most recognizable brand names in the world and operations in most regions of the world. We have a broad global footprint with 47 manufacturing facilities in 21 countries, including the United States. We operate our business through three operating segments representing our regional tire businesses: Americas; Europe, Middle East and Africa (“EMEA”); and Asia Pacific.

Results of Operations

In the second quarter of 2017, we continued to experience challenging global industry conditions, including volatile raw material costs, increased price competition and weaker demand in many of our key markets. We experienced weakening demand for original equipment (“OE”) and consumer replacement tires in the United States and Europe despite favorable trends in miles driven, gasoline prices and unemployment. In EMEA, we continued to pursue our strategy of focusing on more profitable segments of the market, such as larger rim diameter tires, and closed our manufacturing facility in Philippsburg, Germany in July 2017.

Our second quarter of 2017 results reflect a 10.2% decrease in tire unit shipments compared to the second quarter of 2016. In the second quarter of 2017, we realized approximately $59 million of cost savings, including raw material cost saving measures of approximately $23 million, which exceeded the impact of general inflation.

Net sales in the second quarter of 2017 were $3,686 million, compared to $3,879 million in the second quarter of 2016. Net sales decreased in the second quarter of 2017 due primarily to lower tire unit volumes, primarily in EMEA and Americas. This decrease was partially offset by increases in price and product mix and higher sales in other tire-related businesses, primarily related to higher prices for third-party chemical sales in Americas.

In the second quarter of 2017, Goodyear net income was $147 million, or $0.58 per share, compared to $202 million, or $0.75 per share, in the second quarter of 2016. The decrease in Goodyear net income in the second quarter of 2017 compared to the second quarter of 2016 was primarily driven by lower segment operating income. This decrease was partially offset by lower income tax expense, lower rationalization charges and lower interest expense.

Our total segment operating income for the second quarter of 2017 was $361 million, compared to $531 million in the second quarter of 2016. The $170 million decrease in segment operating income was due to higher raw material costs of $166 million, which more than offset increases in price and product mix of $127 million, lower volume of $98 million, primarily in EMEA and Americas, and higher conversion costs of $39 million, primarily due to higher under-absorbed overhead as a result of lower production volume in Americas. Refer to "Results of Operations — Segment Information” for additional information.

Net sales in the first six months of 2017 were $7,385 million, compared to $7,570 million in the first six months of 2016. Net sales decreased in the first six months of 2017 due to lower tire unit volumes, primarily in EMEA and Americas. This decrease was partially offset by increases in price and product mix and higher sales in other tire-related businesses, primarily related to higher prices for third-party chemical sales in Americas.

In the first six months of 2017, Goodyear net income was $313 million, or $1.23 per share, compared to $386 million, or $1.43 per share, in the first six months of 2016. The decrease in Goodyear net income in the first six months of 2017 compared to the first six months of 2016 was driven by lower segment operating income. This decrease was partially offset by lower income tax expense, lower corporate selling, administrative and general expense ("SAG"), primarily related to lower incentive compensation, and lower interest expense.

Our total segment operating income for the first six months of 2017 was $746 million, compared to $950 million in the first six months of 2016. The $204 million decrease in segment operating income was due primarily to an increase in raw material costs of $178 million, which more than offset increases in price and product mix of $174 million, lower volume of $132 million, and higher conversion costs of $70 million, primarily due to higher under-absorbed overhead as a result of lower production volume in Americas and EMEA. Refer to "Results of Operations — Segment Information” for additional information.

At June 30, 2017, we had $903 million of Cash and cash equivalents as well as $2,440 million of unused availability under our various credit agreements, compared to $1,132 million and $2,970 million, respectively, at December 31, 2016. Cash and cash equivalents decreased by $229 million from December 31, 2016 due primarily to cash used for working capital of $762 million, capital expenditures of $497 million, $80 million in common stock repurchases and dividends, and redemption premiums paid of $25 million. These uses of cash were partially offset by net income of $323 million, which included non-cash depreciation and amortization charges of $387 million, and net borrowings of $538 million. Refer to "Liquidity and Capital Resources" for additional information.

Outlook

We now expect that our full-year tire unit volume for 2017 will be down approximately 3.5% compared to 2016, and for under-absorbed fixed overhead costs to be approximately $155 million higher in 2017 compared to 2016. We continue to expect cost savings to more than offset general inflation in 2017. Based on current spot rates, we now expect foreign currency translation to be essentially neutral in 2017 compared to 2016.

Based on current raw material spot prices, for the full year of 2017, we continue to expect our raw material costs will be approximately 20% higher than 2016, excluding raw material cost saving measures. However, given the industry environment, we now expect those higher raw material costs to exceed improvements in price and product mix by approximately $175 million. Natural and synthetic rubber prices and other commodity prices historically have experienced significant volatility, and this estimate could change significantly based on fluctuations in the cost of these and other key raw materials. We are continuing to focus on price and product mix, to substitute lower cost materials where possible, to work to identify additional substitution opportunities, to reduce the amount of material required in each tire, and to pursue alternative raw materials.

Refer to “Forward-Looking Information — Safe Harbor Statement” for a discussion of our use of forward-looking statements in this Form 10-Q.

RESULTS OF OPERATIONS

CONSOLIDATED

Three Months Ended June 30, 2017 and 2016

Net sales in the second quarter of 2017 were $3,686 million, decreasing $193 million, or 5.0%, from $3,879 million in the second quarter of 2016. Goodyear net income was $147 million, or $0.58 per share, in the second quarter of 2017, compared to $202 million, or $0.75 per share, in the second quarter of 2016.

Net sales decreased in the second quarter of 2017, due primarily to lower tire unit volume of $343 million, primarily in EMEA and Americas. This decrease was partially offset by increases in price and product mix of $121 million and higher sales in other tire-related businesses of $38 million, driven by higher prices for third-party chemical sales in Americas.

Worldwide tire unit sales in the second quarter of 2017 were 37.4 million units, decreasing 4.1 million units, or 10.2%, from 41.5 million units in the second quarter of 2016. Replacement tire volume decreased 3.1 million units, or 10.9%, primarily in EMEA and Americas. OE tire volume decreased 1.0 million units, or 8.3%, primarily in Americas and EMEA.

Cost of goods sold (“CGS”) in the second quarter of 2017 was $2,792 million, decreasing $21 million, or 0.7%, from $2,813 million in the second quarter of 2016. CGS decreased due to lower tire volume of $245 million, primarily in EMEA and Americas. This decrease was partially offset by higher raw material costs of $166 million and higher costs in other tire-related businesses of $53 million, primarily related to third-party chemical sales in Americas.

CGS in the second quarter of 2017 included pension expense of $12 million, compared to $11 million in 2016, excluding a pension settlement charge of $14 million in 2016. CGS in the second quarter of 2017 included accelerated depreciation of $21 million ($16 million after-tax and minority) primarily related to the closure of our manufacturing facility in Philippsburg, Germany compared to $5 million ($5 million after-tax and minority) in the second quarter of 2016 primarily related to the closure of our Wolverhampton, U.K. facility. CGS in the second quarter of 2017 and 2016 also included incremental savings from rationalization plans of $9 million and $2 million, respectively. CGS was 75.7% of sales in the second quarter of 2017 compared to 72.5% in the second quarter of 2016.

SAG in the second quarter of 2017 was $583 million, decreasing $10 million, or 1.7%, from $593 million in the second quarter of 2016. SAG decreased primarily due to lower advertising costs of $10 million and lower incentive compensation of $5 million. These decreases were partially offset by higher bad debt expense of $6 million.

SAG in the second quarter of 2017 included pension expense of $9 million, compared to $8 million in 2016. SAG in the second quarter of 2017 and 2016 also included incremental savings from rationalization plans of $9 million and $6 million, respectively. SAG was 15.8% of sales in the second quarter of 2017, compared to 15.3% in the second quarter of 2016.

We recorded net rationalization charges of $27 million ($20 million after-tax and minority) in the second quarter of 2017 and $48 million ($44 million after-tax and minority) in the second quarter of 2016. In the second quarter of

2017, we recorded charges of $3 million for rationalization actions initiated during 2017, which primarily related to SAG headcount reductions and a plan to improve operating efficiency in EMEA. We also recorded charges of $24 million related to prior year plans, primarily related to the closure our tire manufacturing facility in Philippsburg, Germany and to the closure of our Wolverhampton, U.K. mixing and retreading facility and the plan to transfer consumer tire production from our manufacturing facility in Wittlich, Germany to other manufacturing facilities in EMEA. In the second quarter of 2016, we recorded charges of $43 million for rationalization actions initiated during the quarter, which primarily related to manufacturing headcount reductions in EMEA to improve operating efficiency. In addition, we initiated a plan to reduce SAG headcount globally. We also recorded charges of $5 million related to prior year plans, including additional associate-related and dismantling costs related to the closure of one of our manufacturing facilities in Amiens, France.

Interest expense in the second quarter of 2017 was $89 million, decreasing $15 million, or 14.4%, from $104 million in the second quarter of 2016. The decrease was due to a lower average interest rate of 5.93% in the second quarter of 2017 compared to 6.76% in the second quarter of 2016, and a lower average debt balance of $6,005 million in the second quarter of 2017 compared to $6,156 million in the second quarter of 2016. In addition, interest expense included charges of $6 million ($4 million after-tax and minority) and $9 million ($6 million after-tax and minority) for the three months ended June 30, 2017 and 2016, respectively, related to the write-off of deferred financing fees.

Other (Income) Expense in the second quarter of 2017 was $5 million of expense, compared to $20 million of expense in the second quarter of 2016. Other (Income) Expense included financing fees and financial instruments expense of $32 million, compared to $52 million in the second quarter of 2016. The decrease primarily relates to lower redemption premiums paid during the second quarter of 2017 of $25 million ($15 million after-tax and minority interest) as compared to $44 million ($28 million after-tax and minority) in the second quarter of 2016, related to the redemption of certain notes.

Other (Income) Expense in the second quarter of 2017 also included expense of $1 million in general and product liability expense (income) - discontinued products, compared to income of $14 million in the second quarter of 2016. The difference primarily relates to a benefit of $4 million ($3 million after-tax and minority) for the recovery of past costs from one of our asbestos insurers and a benefit of $10 million related to changes in assumptions for probable insurance recoveries for asbestos claims in future periods, both of which were recognized in the second quarter of 2016. Additionally, Other (Income) Expense in the second quarter of 2017 included net gains on asset sales of $12 million ($12 million after-tax and minority), primarily related to the sale of a former wire plant site in Luxembourg.

In the second quarter of 2017, we recorded income tax expense of $36 million on income before income taxes of $190 million. Income tax expense in the second quarter of 2017 was favorably impacted by $9 million ($9 million after minority interest) of various discrete tax adjustments. In the second quarter of 2016, we recorded income tax expense of $93 million on income before income taxes of $301 million. Income tax expense in the second quarter of 2016 was unfavorably impacted by $3 million ($3 million after minority interest) of various discrete tax adjustments.

We record taxes based on overall estimated annual effective tax rates. The difference between our effective tax rate and the U.S. statutory rate was primarily attributable to the discrete items noted above and an overall lower effective tax rate in the foreign jurisdictions in which we operate.

Our losses in various foreign taxing jurisdictions in recent periods represented sufficient negative evidence to require us to maintain a full valuation allowance against certain of our net foreign deferred tax assets. Each reporting period we assess available positive and negative evidence and estimate if sufficient future taxable income will be generated to utilize these existing deferred tax assets. We do not believe that sufficient positive evidence required to release all or a significant portion of these valuation allowances will exist within the next twelve months.

Minority shareholders’ net income in the second quarter of 2017 was $7 million, compared to $6 million in 2016.

Six Months Ended June 30, 2017 and 2016

Net sales in the first six months of 2017 were $7,385 million, decreasing $185 million, or 2.4%, from $7,570 million in the first six months of 2016. Goodyear net income was $313 million, or $1.23 per share, in the first six months of 2017, compared to $386 million, or $1.43 per share, in the first six months of 2016.

Net sales decreased in the first six months of 2017, due primarily to lower tire unit volume of $461 million, primarily in EMEA and Americas. This decrease was partially offset by increases in price and product mix of $202 million and higher sales in other tire-related businesses of $84 million, primarily related to higher prices for third-party chemical sales in Americas.

Worldwide tire unit sales in the first six months of 2017 were 77.4 million units, decreasing 5.6 million units, or 6.8%, from 83.0 million units in the first six months of 2016. Replacement tire volume decreased 3.6 million units, or 6.3%, primarily in EMEA and Americas. OE tire volume decreased 2.0 million units, or 8.0%, primarily in Americas and

EMEA.

CGS in the first six months of 2017 was $5,557 million, increasing $43 million, or 0.8%, from $5,514 million in the first six months of 2016. CGS increased due to higher raw material costs of $178 million, higher costs in other tire-related businesses of $108 million, driven by third-party chemical sales in Americas, higher conversion costs of $70 million, primarily due to increased under-absorbed overhead resulting from lower production volumes, and incremental start-up costs of $13 million associated with our new plant in San Luis Potosi, Mexico. These increases were partially offset by lower tire volume of $329 million, primarily in EMEA and Americas.

CGS in the first six months of 2017 included pension expense of $24 million, which was unchanged from 2016, excluding a pension settlement charge of $14 million in 2016. CGS in the first six months of 2017 also included accelerated depreciation of $29 million ($21 million after-tax and minority) primarily related to the closure of our manufacturing facility in Philippsburg, Germany compared to $7 million ($7 million after-tax and minority) in the first six months of 2016 primarily related to the closure of our Wolverhampton, U.K. mixing and retreading facility. CGS in the first six months of 2017 and 2016 also included incremental savings from rationalization plans of $13 million and $3 million, respectively. CGS was 75.2% of sales in the first six months of 2017 compared to 72.8% in the first six months of 2016.

SAG in the first six months of 2017 was $1,162 million, decreasing $46 million, or 3.8%, from $1,208 million in the first six months of 2016. SAG decreased primarily due to lower incentive compensation of $27 million and lower advertising costs of $23 million.

SAG in the first six months of 2017 included pension expense of $18 million, which increased from $15 million in the first six months of 2016. SAG in the first six months of 2017 and 2016 also included incremental savings from rationalization plans of $18 million and $14 million, respectively. SAG was 15.7% of sales in the first six months of 2017, compared to 16.0% in the first six months of 2016.

We recorded net rationalization charges of $56 million ($40 million after-tax and minority) in the first six months of 2017 and $59 million ($54 million after-tax and minority) in the first six months of 2016. In the first six months of 2017, we recorded charges of $26 million for rationalization actions initiated during 2017, which primarily related to SAG headcount reductions and a plan to improve operating efficiency in EMEA. We also recorded charges of $30 million related to prior year plans, primarily related to the closure our tire manufacturing facility in Philippsburg, Germany and to the closure of our Wolverhampton, U.K. mixing and retreading facility and the plan to transfer consumer tire production from our manufacturing facility in Wittlich, Germany to other manufacturing facilities in EMEA. In the first six months of 2016, we recorded charges of $43 million for rationalization actions initiated during 2016, which primarily related to manufacturing headcount reductions in EMEA to improve operating efficiency. In addition, we initiated a plan to reduce SAG headcount globally. We also recorded charges of $16 million related to prior year plans, including additional associate-related and dismantling costs related to the closure of one of our manufacturing facilities in Amiens, France.

Interest expense in the first six months of 2017 was $176 million, decreasing $19 million, or 9.7%, from $195 million in the first six months of 2016. The decrease was due to a lower average interest rate of 6.01% in the first six months of 2017 compared to 6.49% in the first six months of 2016, and a lower average debt balance of $5,855 million in the first six months of 2017 compared to $6,012 million in the first six months of 2016. In addition, interest expense included charges of $6 million ($4 million after-tax and minority) and $11 million ($8 million after-tax and minority) for the six months ended June 30, 2017 and 2016, respectively, related to the write-off of deferred financing fees.

Other (Income) Expense in the first six months of 2017 was $5 million of expense, compared to $26 million of expense in the first six months of 2016. Other (Income) Expense included financing fees and financial instruments expense of $40 million, compared to $68 million in the first six months of 2016. The decrease primarily relates to lower redemption premiums paid during 2017 of $25 million ($15 million after-tax and minority interest) as compared to $53 million ($37 million after-tax and minority) in the first six months of 2016, related to the redemption of certain notes.

Other (Income) Expense in the first six months of 2017 also included expense of $3 million in general and product liability expense (income) - discontinued products, compared to income of $16 million in the first six months of 2016. The difference primarily relates to a benefit of $4 million ($3 million after-tax and minority) for the recovery of past costs from one of our asbestos insurers and a benefit of $10 million related to changes in assumptions for probable insurance recoveries for asbestos claims in future periods, both of which were recognized in the second quarter of 2016. Additionally, Other (Income) Expense in the second quarter of 2017 included net gains on asset sales of $13 million ($12 million after-tax and minority), primarily related to the sale of a former wire plant site in Luxembourg.

In the first six months of 2017, we recorded income tax expense of $106 million on income before income taxes of $429 million. Income tax expense in the first six months of 2017 was favorably impacted by $11 million ($11 million after minority interest) of various discrete tax adjustments. In the first six months of 2016, we recorded income tax expense of $171 million on income before income taxes of $568 million. Income tax expense in the first six months of 2016 was favorably impacted by $9 million ($8 million after minority interest) of various discrete tax adjustments. We record taxes based on overall estimated annual effective tax rates. The difference between our effective tax rate and the U.S. statutory rate was primarily attributable to the discrete items noted above and an overall lower effective tax rate in the foreign jurisdictions in which we operate.

Minority shareholders’ net income in the first six months of 2017 was $10 million, compared to $11 million in 2016.

SEGMENT INFORMATION

Segment information reflects our strategic business units (“SBUs”), which are organized to meet customer requirements and global competition and are segmented on a regional basis.

Results of operations are measured based on net sales to unaffiliated customers and segment operating income. Each segment exports tires to other segments. The financial results of each segment exclude sales of tires exported to other segments, but include operating income derived from such transactions. Segment operating income is computed as follows: Net Sales less CGS (excluding asset write-off and accelerated depreciation charges) and SAG (including certain allocated corporate administrative expenses). Segment operating income also includes certain royalties and equity in earnings of most affiliates. Segment operating income does not include net rationalization charges (credits), asset sales and certain other items including pension curtailments and settlements.

Management believes that total segment operating income is useful because it represents the aggregate value of income created by our SBUs and excludes items not directly related to the SBUs for performance evaluation purposes. Total segment operating income is the sum of the individual SBUs’ segment operating income. Refer to Note to the Consolidated Financial Statements No. 6, Business Segments, in this Form 10-Q for further information and for a reconciliation of total segment operating income to Income before Income Taxes.

Total segment operating income in the second quarter of 2017 was $361 million, decreasing $170 million, or 32.0%, from $531 million in the second quarter of 2016. Total segment operating margin (segment operating income divided by segment sales) in the second quarter of 2017 was 9.8%, compared to 13.7% in the second quarter of 2016. Total segment operating income in the first six months of 2017 was $746 million, decreasing $204 million, or 21.5%, from $950 million in the first six months of 2016. Total segment operating margin in the first six months of 2017 was 10.1%, compared to 12.5% in the first six months of 2016.

Americas

	Three Months Ended June 30,				Six Months Ended June 30,			
(In millions)	2017	2016	Change	Percent Change	2017	2016	Change	Percent Change
Tire Units	17.1	18.8	(1.7)	(9.2)%	34.3	36.8	(2.5)	(6.9)%
Net Sales	$2,029	$2,090	$ (61)	(2.9)%	$3,987	$4,041	$ (54)	(1.3)%
Operating Income	213	291	(78)	(26.8)%	427	551	(124)	(22.5)%
Operating Margin	10.5 %	13.9 %			10.7 %	13.6 %		

Three Months Ended June 30, 2017 and 2016

Americas unit sales in the second quarter of 2017 decreased 1.7 million units, or 9.2%, to 17.1 million units. Replacement tire volume decreased 1.1 million units, or 8.4%, primarily in consumer replacement in the United States, Canada and Mexico. Declines in consumer replacement volumes in the United States were primarily driven by lower volumes in 16 inch and below rim size tires that reflected increased competition. OE tire volume decreased 0.6 million units, or 11.5%, primarily in consumer OE in the United States, driven by reduced OEM production.

Net sales in the second quarter of 2017 were $2,029 million, decreasing $61 million, or 2.9%, from $2,090 million in the second quarter of 2016. The decrease in net sales was primarily driven by lower tire volume of $152 million. This decrease was partially offset by improved price and product mix of $46 million, driven by the impact of higher raw material costs on pricing, and higher sales in other tire-related businesses of $44 million, primarily driven by an increase in price for third-party sales of chemical products.

Operating income in the second quarter of 2017 was $213 million, decreasing $78 million, or 26.8%, from $291 million in the second quarter of 2016. The decrease in operating income was due to increased raw material costs of $74 million, which more than offset improved price and product mix of $63 million, lower tire volume of $40 million, unfavorable conversion costs of $37 million, primarily due to increased under-absorbed overhead resulting from lower production volumes, lower income in our other tire-related businesses of $15 million, primarily in third-party chemical sales, and incremental start-up costs of $8 million associated with our new plant in San Luis Potosi, Mexico. These decreases in operating income were partially offset by an out of period adjustment of $24 million of expense in 2016 related to the elimination of intracompany profit, primarily related to the years 2012 to 2015, with the majority attributable to 2012. SAG included incremental savings from rationalization plans of $6 million.

Operating income in the second quarter of 2017 excluded rationalization charges of $1 million and net gains on asset sales of $2 million. Operating income in the second quarter of 2016 excluded rationalization charges of $1 million.

Six Months Ended June 30, 2017 and 2016

Americas unit sales in the first six months of 2017 decreased 2.5 million units, or 6.9%, to 34.3 million units. Replacement tire volume decreased 1.3 million units, or 5.1%, primarily in consumer replacement in the United States and Mexico. Declines in consumer replacement volumes in the United States were primarily driven by lower volumes in 16 inch and below rim size tires that reflected increased competition. OE tire volume decreased 1.2 million units, or 11.9%, primarily in consumer OE in the United States, driven by reduced OEM production.

Net sales in the first six months of 2017 were $3,987 million, decreasing $54 million, or 1.3%, from $4,041 million in the first six months of 2016. The decrease in net sales was primarily driven by lower tire volume of $223 million. This decrease was partially offset by higher sales in our other tire-related businesses of $91 million, primarily due to an increase in price for third-party sales of chemical products, improved price and product mix of $42 million, driven by the impact of higher raw material costs on pricing, and favorable foreign currency translation of $36 million, primarily in Brazil.

Operating income in the first six months of 2017 was $427 million, decreasing $124 million, or 22.5%, from $551 million in the first six months of 2016. The decrease in operating income was due to increased raw material costs of $71 million, which more than offset improved price and product mix of $67 million, lower tire unit volume of $60 million, unfavorable conversion costs of $60 million, primarily due to increased under-absorbed overhead resulting from lower production volumes, lower income in our other tire-related businesses of $21 million, and incremental start-up costs of $13 million associated with our new plant in San Luis Potosi, Mexico. These decreases in operating income were partially offset by an out of period adjustment of $24 million of expense in 2016 related to the elimination of intracompany profit, primarily related to the years 2012 to 2015, with the majority attributable to 2012. SAG included incremental savings from rationalization plans of $13 million.

Operating income in the first six months of 2017 excluded rationalization charges of $2 million and net gains on asset sales of $3 million. Operating income in the first six months of 2016 excluded rationalization charges of $4 million.

Europe, Middle East and Africa

	Three Months Ended June 30,				Six Months Ended June 30,			
(In millions)	2017	2016	Change	Percent Change	2017	2016	Change	Percent Change
Tire Units	13.0	15.4	(2.4)	(15.8)%	28.5	31.6	(3.1)	(9.7)%
Net Sales	$1,114	$1,261	$(147)	(11.7)%	$2,353	$2,512	$(159)	(6.3)%
Operating Income	77	148	(71)	(48.0)%	175	228	(53)	(23.2)%
Operating Margin	6.9%	11.7%			7.4%	9.1%		

Three Months Ended June 30, 2017 and 2016

Europe, Middle East and Africa unit sales in the second quarter of 2017 decreased 2.4 million units, or 15.8%, to 13.0 million units. Replacement tire volume decreased 1.9 million units, or 17.9%, primarily due to lower consumer replacement volumes driven by increased competition and lower summer tire industry demand, slightly offset by increased winter tire volumes. OE tire volume decreased 0.5 million units, or 11.2%, primarily in our consumer business driven by decreased industry demand.

Net sales in the second quarter of 2017 were $1,114 million, decreasing $147 million, or 11.7%, from $1,261 million in the second quarter of 2016. Net sales decreased primarily due to lower tire unit volume of $188 million. This decrease was partially offset by improvements in price and product mix of $53 million, primarily driven by the impact of higher raw material costs on pricing.

Operating income in the second quarter of 2017 was $77 million, decreasing $71 million, or 48.0%, from $148 million in the second quarter of 2016. Operating income decreased primarily due to lower volume of $57 million, higher raw material costs of $47 million, which more than offset improvements in price and product mix of $26 million, and increased conversion costs of $4 million. These decreases were partially offset by lower SAG of $13 million, primarily related to lower advertising costs and wages and benefits. SAG and conversion costs included incremental savings from rationalization plans of $3 million and $9 million, respectively.

Operating income in the second quarter of 2017 excluded net rationalization charges of $26 million, primarily related to plans initiated to streamline operations and reduce complexity across EMEA, accelerated depreciation of $21 million, primarily related to the closure of our tire manufacturing facility in Philippsburg, Germany, and gains on asset sales of $10 million, primarily related to the sale of a former wire plant site in Luxembourg.

Operating income in the second quarter of 2016 excluded net rationalization charges of $45 million, primarily related to plans initiated to streamline operations and reduce complexity across EMEA, and accelerated depreciation of $5 million, primarily related to the closure of our Wolverhampton, U.K. mixing and retreading facility.

Six Months Ended June 30, 2017 and 2016

Europe, Middle East and Africa unit sales in the first six months of 2017 decreased 3.1 million units, or 9.7%, to 28.5 million units. Replacement tire volume decreased 2.5 million units, or 11.1%, primarily due to increased competition. OE tire volume decreased 0.6 million units, or 6.3%, primarily in our consumer business driven by decreased industry demand.

Net sales in the first six months of 2017 were $2,353 million, decreasing $159 million, or 6.3%, from $2,512 million in the first six months of 2016. Net sales decreased due to lower tire unit volume of $235 million and unfavorable foreign currency translation of $41 million, primarily due to the devaluation of the Turkish lira. These impacts were partially offset by improvements in price and product mix of $121 million.

Operating income in the first six months of 2017 was $175 million, decreasing $53 million, or 23.2% from $228 million in the first six months of 2016. Operating income decreased due to lower volumes of $70 million, increased conversion costs of $13 million, primarily due to increased under-absorbed overhead resulting from lower production volumes, and unfavorable foreign currency translation of $6 million. These decreases were partially offset by improvements in price and product mix of $53 million, which more than offset increased raw material costs of $51 million, and lower SAG of $34 million, driven by lower advertising costs and incentive compensation. SAG and conversion costs included incremental savings from rationalization plans of $5 million and $13 million, respectively.

Operating income in the first six months of 2017 excluded net rationalization charges of $53 million, primarily related to plans initiated to streamline operations and reduce complexity across EMEA, accelerated depreciation of $29 million, primarily related to the closure of our tire manufacturing facility in Philippsburg, Germany, and gains on asset sales of $10 million, primarily related to the sale of a former wire plant site in Luxembourg.

Operating income in the first six months of 2016 excluded net rationalization charges of $53 million, primarily related to plans initiated to streamline operations and reduce complexity across EMEA, and accelerated depreciation of $7 million, primarily related to the closure of our Wolverhampton, U.K. mixing and retreading facility.

Asia Pacific

	Three Months Ended June 30,				Six Months Ended June 30,			
(In millions)	2017	2016	Change	Percent Change	2017	2016	Change	Percent Change
Tire Units	7.3	7.3	—	(0.7)%	14.6	14.6	—	(0.4)%
Net Sales	$543	$528	$ 15	2.8 %	$1,045	$1,017	$ 28	2.8 %
Operating Income	71	92	(21)	(22.8)%	144	171	(27)	(15.8)%
Operating Margin	13.1 %	17.4 %			13.8 %	16.8 %		

Three Months Ended June 30, 2017 and 2016

Asia Pacific unit sales in the second quarter of 2017 were consistent with the second quarter of 2016 at 7.3 million units. OE tire volume increased 0.1 million units, or 2.2%. Replacement tire volume decreased 0.1 million units, or 2.5%.

Net sales in the second quarter of 2017 were $543 million, increasing $15 million, or 2.8%, from $528 million in the second quarter of 2016. Net sales increased by $22 million due to higher price and product mix, driven by the impact of higher raw material costs on pricing. This increase was partially offset by unfavorable foreign currency translation of $4 million and lower volume of $3 million.

Operating income in the second quarter of 2017 was $71 million, decreasing $21 million, or 22.8%, from $92 million in the second quarter of 2016. Operating income decreased due to higher raw material costs of $45 million, which more than offset the effect of higher price and product mix of $38 million, higher SAG of $7 million, primarily due to higher wages and benefits and higher advertising costs, lower income in other tire-related businesses of $3 million, and unfavorable foreign currency translation of $3 million.

Operating income in the second quarter of 2016 excluded net rationalization charges of $1 million.

Six Months Ended June 30, 2017 and 2016

Asia Pacific unit sales in the first six months of 2017 were consistent with the first six months of 2016 at 14.6 million units. Replacement tire volume increased 0.2 million units, or 1.9%, primarily in our consumer business. OE tire volume decreased 0.2 million units, or 3.9%, primarily in our consumer business in China.

Net sales in the first six months of 2017 were $1,045 million, increasing $28 million, or 2.8%, from $1,017 million in the first six months of 2016. Net sales increased by $39 million due to higher price and product mix, driven by the impact of higher raw material costs on pricing. This increase was partially offset by unfavorable foreign currency translation of $6 million, primarily related to the strengthening of the U.S. dollar against the Chinese yuan, lower volume of $3 million, and lower sales in other tire-related businesses of $3 million.

Operating income in the first six months of 2017 was $144 million, decreasing $27 million, or 15.8%, from $171 million in the first six months of 2016. Operating income decreased due to higher raw material costs of $56 million, which more than offset the effect of higher price and product mix of $54 million, higher SAG of $8 million, primarily due to higher wages and benefits, lower income in other tire-related businesses of $7 million, unfavorable foreign currency translation of $4 million, and a decrease of $3 million in incentives recognized for the expansion of our factory in China.

Operating income in the first six months of 2017 excluded net rationalization charges of $1 million. Operating income in the first six months of 2016 excluded net gains on asset sales of $1 million and net rationalization charges of $1 million.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are cash generated from our operating and financing activities. Our cash flows from operating activities are driven primarily by our operating results and changes in our working capital requirements and our cash flows from financing activities are dependent upon our ability to access credit or other capital.

At June 30, 2017, we had $903 million in Cash and cash equivalents, compared to $1,132 million at December 31, 2016. For the six months ended June 30, 2017, net cash used by operating activities was $185 million, primarily driven by cash used for working capital of $762 million, that was partially offset by net income of $323 million, which included non-cash charges for depreciation and amortization of $387 million. Net cash used in investing activities was $498 million, primarily reflecting capital expenditures of $497 million. Net cash provided by financing activities was $426 million, primarily due to net borrowings of $538 million, partially offset by cash used for common stock repurchases and dividends of $80 million.

At June 30, 2017, we had $2,440 million of unused availability under our various credit agreements, compared to $2,970 million at December 31, 2016. The table below presents unused availability under our credit facilities at those dates:

(In millions)	June 30, 2017	December 31, 2016
First lien revolving credit facility	$1,195	$ 1,506
European revolving credit facility	382	579
Chinese credit facilities	224	252
Other foreign and domestic debt	286	319
Notes payable and overdrafts	353	314
	$2,440	$ 2,970

We have deposited our cash and cash equivalents and entered into various credit agreements and derivative contracts with financial institutions that we considered to be substantial and creditworthy at the time of such transactions. We seek to control our exposure to these financial institutions by diversifying our deposits, credit agreements and derivative contracts across multiple financial institutions, by setting deposit and counterparty credit limits based on long term credit ratings and other indicators of credit risk such as credit default swap spreads, and by monitoring the financial strength of these financial institutions on a regular basis. We also enter into master netting agreements with counterparties when possible. By controlling and monitoring exposure to financial institutions in this manner, we believe that we effectively manage the risk of loss due to nonperformance by a financial institution. However, we cannot provide assurance that we will not experience losses or delays in accessing our deposits or lines of credit due to the nonperformance of a financial institution. Our inability to access our cash deposits or make draws on our lines of credit, or the inability of a counterparty to fulfill its contractual obligations to us, could have a material adverse effect on our liquidity, financial position or results of operations in the period in which it occurs.

We expect our 2017 cash flow needs to include capital expenditures of approximately $800 million to $900 million. We also expect interest expense to range between $340 million and $365 million, restructuring payments to be approximately $225 million, dividends on our common stock to be approximately $100 million, and contributions to our funded non-U.S. pension plans to be approximately $50 million to $75 million. We expect working capital to be a use of cash of approximately $150 million in 2017. We intend to operate the business in a way that allows us to address these needs with our existing cash and available credit if they cannot be funded by cash generated from operations.

We believe that our liquidity position is adequate to fund our operating and investing needs and debt maturities in 2017 and to provide us with flexibility to respond to further changes in the business environment.

Our ability to service debt and operational requirements is also dependent, in part, on the ability of our subsidiaries to make distributions of cash to various other entities in our consolidated group, whether in the form of dividends, loans or otherwise. In certain countries where we operate, such as China and South Africa, transfers of funds into or out of such countries by way of dividends, loans, advances or payments to third-party or affiliated suppliers are generally or periodically subject to certain requirements, such as obtaining approval from the foreign government and/or currency exchange board before net assets can be transferred out of the country. In addition, certain of our credit agreements and other debt instruments limit the ability of foreign subsidiaries to make distributions of cash. Thus, we would have to repay and/or amend these credit agreements and other debt instruments in order to use this cash to service our consolidated debt. Because of the inherent uncertainty of satisfactorily meeting these requirements or limitations, we do not consider the net assets of our subsidiaries, including our Chinese and South African subsidiaries, that are subject to such requirements or limitations to be integral to our liquidity or our ability to service our debt and operational requirements. At June 30, 2017, approximately $808 million of net assets, including $174 million of cash and cash equivalents, were subject to such requirements. The requirements we must comply with to transfer funds out of China and South Africa have not adversely impacted our ability to make transfers out of those countries.

Operating Activities

Net cash used by operating activities was $185 million in the first six months of 2017, compared to $67 million in the first six months of 2016. Net cash used by operating activities in the first six months of 2017 increased compared to 2016 primarily due to a $76 million increase in cash used for working capital and a $74 million decrease in net income, partially offset by a $37 million decrease in cash used for compensation and benefits, driven by lower incentive compensation.

The increased use of cash for working capital in 2017 was primarily due to an increase in cash used for inventories and accounts receivable of $306 million and $53 million, respectively, reflecting the impact of higher raw material prices on our costs and pricing, and the impact of lower sales volumes. Cash used for accounts payable decreased $283 million primarily due to the timing of current year payments, with recent raw material price increases being included in Accounts Payable - Trade on the balance sheet at June 30, 2017.

Investing Activities

Net cash used in investing activities was $498 million in the first six months of 2017, compared to $476 million in the first six months of 2016. Capital expenditures were $497 million in the first six months of 2017, compared to $466 million in the first six months of 2016. Beyond expenditures required to sustain our facilities, capital expenditures in 2017 and 2016 primarily related to the construction of a new manufacturing facility in Mexico and investments in additional capacity around the world.

Financing Activities

Net cash provided by financing activities was $426 million in the first six months of 2017, compared to $172 million in the first six months of 2016. Financing activities in 2017 included net borrowings of $538 million, which were partially offset by dividends on our common stock of $50 million, debt related costs and other transactions of $38 million, primarily due to debt refinancing activities, and common stock repurchases of $30 million. Financing activities in 2016 included net borrowings of $440 million, which were partially offset by common stock repurchases of $150 million, debt related costs and other transactions of $76 million, primarily due to debt refinancing activities, and dividends on our common stock of $38 million.

Credit Sources

In aggregate, we had total credit arrangements of $8,559 million available at June 30, 2017, of which $2,440 million were unused, compared to $8,491 million available at December 31, 2016, of which $2,970 million were unused. At June 30, 2017, we had long term credit arrangements totaling $7,968 million, of which $2,087 million were unused, compared to $7,932 million and $2,656 million, respectively, at December 31, 2016. At June 30, 2017, we had short term committed and uncommitted credit arrangements totaling $591 million, of which $353 million were unused, compared to $559 million and $314 million, respectively, at December 31, 2016. The continued availability of the short term uncommitted arrangements is at the discretion of the relevant lender and may be terminated at any time.

Outstanding Notes

At June 30, 2017, we had $3,309 million of outstanding notes, compared to $3,287 million at December 31, 2016.

$700 million 4.875% Senior Notes due 2027

In March 2017, we issued $700 million in aggregate principal amount of 4.875% senior notes due 2027. In May 2017, we used the proceeds of this offering, together with cash and cash equivalents, to redeem in full our $700 million 7% senior notes due 2022.

$2.0 Billion Amended and Restated First Lien Revolving Credit Facility due 2021

Our amended and restated first lien revolving credit facility is available in the form of loans or letters of credit, with letter of credit availability limited to $800 million. Availability under the facility is subject to a borrowing base, which is based primarily on (i) eligible accounts receivable and inventory of The Goodyear Tire & Rubber Company and certain of its U.S. and Canadian subsidiaries, (ii) the value of our principal trademarks, and (iii) certain cash in an amount not to exceed $200 million. To the extent that our eligible accounts receivable and inventory and other components of the borrowing base decline in value, our borrowing base will decrease and the availability under the facility may decrease below $2.0 billion. In addition, if the amount of outstanding borrowings and letters of credit under the facility exceeds the borrowing base, we are required to prepay borrowings and/or cash collateralize letters of credit sufficient to eliminate the excess. As of June 30, 2017, our borrowing base, and therefore our availability, under the facility was $348 million below the facility's stated amount of $2.0 billion. Based on our current liquidity, amounts drawn under this facility bear interest at LIBOR plus 125 basis points, and undrawn amounts under the facility will be subject to an annual commitment fee of 30 basis points.

At June 30, 2017, we had $420 million of borrowings and $37 million of letters of credit issued under the revolving credit facility. At December 31, 2016, we had $85 million of borrowings and $40 million of letters of credit issued under the revolving credit facility.

During 2016, we began entering into bilateral letter of credit agreements. At June 30, 2017, we had $255 million in letters of credit issued under these agreements.

Amended and Restated Second Lien Term Loan Facility due 2019

In March 2017, we amended our second lien term loan facility. As a result of the amendment, the term loan now bears interest, at our option, at (i) 200 basis points over LIBOR or (ii) 100 basis points over an alternative base rate (the higher of (a) the prime rate, (b) the federal funds effective rate or the overnight bank funding rate plus 50 basis points or (c) LIBOR plus 100 basis points). After March 7, 2017 and prior to September 3, 2017, (i) loans under the facility may not be prepaid or repaid with the proceeds of term loan indebtedness, or converted into or replaced by new term loans, bearing interest at an effective interest rate that is less than the effective interest rate then applicable to such loans and (ii) no amendment of the facility may be made that, directly or indirectly, reduces the effective interest rate applicable to the loans under the facility, in each case unless we pay a fee equal to 1.0% of the principal amount of the loans so affected. In addition, if the Total Leverage Ratio is equal to or less than 1.25 to 1.00, we have the option to further reduce the spreads described above by 25 basis points. "Total Leverage Ratio" has the meaning given it in the facility.

At June 30, 2017 and December 31, 2016, the amounts outstanding under this facility were $399 million.

€550 Million Amended and Restated Senior Secured European Revolving Credit Facility due 2020

Our amended and restated €550 million European revolving credit facility consists of (i) a €125 million German tranche that is available only to Goodyear Dunlop Tires Germany GmbH (“GDTG”) and (ii) a €425 million all-borrower tranche that is available to Goodyear Dunlop Tires Europe B.V. ("GDTE"), GDTG and Goodyear Dunlop Tires Operations S.A. Up to €150 million of swingline loans and €50 million in letters of credit are available for issuance under the all-borrower tranche. Amounts drawn under the facility will bear interest at LIBOR plus 175 basis points for loans denominated in U.S. dollars or pounds sterling and EURIBOR plus 175 basis points for loans denominated in euros, and undrawn amounts under the facility will be subject to an annual commitment fee of 30 basis points.

At June 30, 2017, there were $142 million (€125 million) of borrowings outstanding under the German tranche and there were $103 million (€90 million) of borrowings outstanding under the all-borrower tranche. At December 31, 2016, there were no borrowings outstanding under the European revolving credit facility. There were no letters of credit issued at June 30, 2017 and December 31, 2016.

Each of our first lien revolving credit facility and our European revolving credit facility have customary representations and warranties including, as a condition to borrowing, that all such representations and warranties are true and correct, in all material respects, on the date of the borrowing, including representations as to no material adverse change in our business or financial condition since December 31, 2015 under the first lien facility and December 31, 2014 under the European facility.

Accounts Receivable Securitization Facilities (On-Balance Sheet)

GDTE and certain other of our European subsidiaries are parties to a pan-European accounts receivable securitization facility that provides the flexibility to designate annually the maximum amount of funding available under the facility in an amount of not less than €45 million and not more than €450 million. For the period beginning October 16, 2016 to October 15, 2017, the designated maximum amount of the facility is €320 million. The facility involves an ongoing daily sale of substantially all of the trade accounts receivable of certain GDTE subsidiaries. Utilization under the facility is based on eligible receivable balances.

The funding commitments under the facility will expire upon the earliest to occur of: (a) September 25, 2019, (b) the non-renewal and expiration (without substitution) of all of the back-up liquidity commitments, (c) the early termination of the facility according to its terms (generally upon an Early Amortisation Event (as defined in the facility), which includes, among other things, events similar to the events of default under our senior secured credit facilities; certain tax law changes; or certain changes to law, regulation or accounting standards), or (d) our request for early termination of the facility. The facility’s current back-up liquidity commitments will expire on October 15, 2017.

At June 30, 2017, the amounts available and utilized under this program totaled $160 million (€140 million). At December 31, 2016, the amounts available and utilized under this program totaled $198 million (€188 million). The program does not qualify for sale accounting, and accordingly, these amounts are included in Long Term Debt and Capital Leases.

In addition to the pan-European accounts receivable securitization facility discussed above, subsidiaries in Australia have an accounts receivable securitization program that provides flexibility to designate semi-annually the maximum amount of funding available under the facility in an amount of not less than 60 million Australian dollars and not more than 85 million Australian dollars. From July 1, 2016 to December 31, 2017, the designated maximum amount of the facility is 60 million Australian dollars. Availability under this program is based on eligible receivable balances. At June 30, 2017, the amounts available and utilized under this program were $28 million (AUD 37 million) and $13 million (AUD 17 million), respectively. At December 31, 2016, the amounts available and utilized under this program were $28 million (AUD 39 million) and $12 million (AUD 16 million), respectively. The receivables sold under this program also serve as collateral for the related facility. We retain the risk of loss related to these receivables in the event of non-payment. These amounts are included in Long Term Debt and Capital Leases due Within One Year.

Accounts Receivable Factoring Facilities (Off-Balance Sheet)

We have sold certain of our trade receivables under off-balance sheet programs during the first six months of 2017. For these programs, we have concluded that there is generally no risk of loss to us from non-payment of the sold receivables. At June 30, 2017, the gross amount of receivables sold was $467 million, compared to $502 million at December 31, 2016.

Supplier Financing

We have entered into payment processing agreements with several financial institutions. Under these agreements, the financial institution acts as our paying agent with respect to accounts payable due to our suppliers. These agreements also allow our suppliers to sell their receivables to the financial institutions at the sole discretion of both the supplier and the financial institution on terms that are negotiated between them. We are not always notified when our suppliers sell receivables under these programs. Our obligations to our suppliers, including the amounts due and scheduled payment dates, are not impacted by our suppliers' decisions to sell their receivables under the programs. Agreements for such financing programs totaled up to $500 million at June 30, 2017 and December 31, 2016.

Further Information

For a further description of the terms of our outstanding notes, first lien revolving credit facility, second lien term loan facility, European revolving credit facility and pan-European accounts receivable securitization facility, please refer to Note to the Consolidated Financial Statements No. 15, Financing Arrangements and Derivative Financial Instruments, in our 2016 Form 10-K and Note to the Consolidated Financial Statements No. 7, Financing Arrangements and Derivative Financial Instruments, in this Form 10-Q.

Covenant Compliance

Our first and second lien credit facilities and some of the indentures governing our notes contain certain covenants that, among other things, limit our ability to incur additional debt or issue redeemable preferred stock, pay dividends, repurchase shares or make certain other restricted payments or investments, incur liens, sell assets, incur restrictions on the ability of our subsidiaries to pay dividends or to make other payments to us, enter into affiliate transactions, engage in sale and leaseback transactions, and consolidate, merge, sell or otherwise dispose of all or substantially all of our assets. These covenants are subject to significant exceptions and qualifications. Our first and second lien credit facilities and the indentures governing our notes also have customary defaults, including cross-defaults to material indebtedness of Goodyear and its subsidiaries.

We have additional financial covenants in our first and second lien credit facilities that are currently not applicable. We only become subject to these financial covenants when certain events occur. These financial covenants and related events are as follows:

• We become subject to the financial covenant contained in our first lien revolving credit facility when the aggregate amount of our Parent Company (The Goodyear Tire & Rubber Company) and guarantor subsidiaries cash and cash equivalents (“Available Cash”) plus our availability under our first lien revolving credit facility is less than $200 million. If this were to occur, our ratio of EBITDA to Consolidated Interest Expense may not be less than 2.0 to 1.0 for the most recent period of four consecutive fiscal quarters. As of June 30, 2017, our availability under this facility of $1,195 million, plus our Available Cash of $139 million, totaled $1,334 million, which is in excess of $200 million.

• We become subject to a covenant contained in our second lien credit facility upon certain asset sales. The covenant provides that, before we use cash proceeds from certain asset sales to repay any junior lien, senior unsecured or subordinated indebtedness, we must first offer to use such cash proceeds to prepay borrowings under the second lien credit facility unless our ratio of Consolidated Net Secured Indebtedness to EBITDA (Pro Forma Senior Secured Leverage Ratio) for any period of four consecutive fiscal quarters is equal to or less than 3.0 to 1.0.

In addition, our European revolving credit facility contains non-financial covenants similar to the non-financial covenants in our first and second lien credit facilities that are described above and a financial covenant applicable only to GDTE and its subsidiaries. This financial covenant provides that we are not permitted to allow GDTE’s ratio of Consolidated Net J.V. Indebtedness to Consolidated European J.V. EBITDA for a period of four consecutive fiscal quarters to be greater than 3.0 to 1.0 at the end of any fiscal quarter. Consolidated Net J.V. Indebtedness is determined net of the sum of cash and cash equivalents in excess of $100 million held by GDTE and its subsidiaries, cash and cash equivalents in excess of $150 million held by the Parent Company and its U.S. subsidiaries, and availability under our first lien revolving credit facility if the ratio of EBITDA to Consolidated Interest Expense described above is not applicable and the conditions to borrowing under the first lien revolving credit facility are met. Consolidated Net J.V. Indebtedness also excludes loans from other consolidated Goodyear entities. This financial covenant is also included in our pan-European accounts receivable securitization facility. At June 30, 2017, we were in compliance with this financial covenant.

Our credit facilities also state that we may only incur additional debt or make restricted payments that are not otherwise expressly permitted if, after giving effect to the debt incurrence or the restricted payment, our ratio of EBITDA to Consolidated Interest Expense for the prior four fiscal quarters would exceed 2.0 to 1.0. Certain of our senior note indentures have substantially similar limitations on incurring debt and making restricted payments. Our credit facilities and indentures also permit the incurrence of additional debt through other provisions in those agreements without regard to our ability to satisfy the ratio-based incurrence test described above. We believe that these other provisions provide us with sufficient flexibility to incur additional debt necessary to meet our operating, investing and financing needs without regard to our ability to satisfy the ratio-based incurrence test.

Covenants could change based upon a refinancing or amendment of an existing facility, or additional covenants may be added in connection with the incurrence of new debt.

At June 30, 2017, we were in compliance with the currently applicable material covenants imposed by our principal credit facilities and indentures.

The terms “Available Cash,” “EBITDA,” “Consolidated Interest Expense,” “Consolidated Net Secured Indebtedness,” “Pro Forma Senior Secured Leverage Ratio,” “Consolidated Net J.V. Indebtedness” and “Consolidated European J.V. EBITDA” have the meanings given them in the respective credit facilities.

Potential Future Financings

In addition to our previous financing activities, we may seek to undertake additional financing actions which could include restructuring bank debt or capital markets transactions, possibly including the issuance of additional debt or equity. Given the challenges that we face and the uncertainties of the market conditions, access to the capital markets cannot be assured.

Our future liquidity requirements may make it necessary for us to incur additional debt. However, a substantial portion of our assets are already subject to liens securing our indebtedness. As a result, we are limited in our ability to pledge our remaining assets as security for additional secured indebtedness. In addition, no assurance can be given as to our ability to raise additional unsecured debt.

Dividends and Common Stock Repurchase Program

Under our primary credit facilities and some of our note indentures, we are permitted to pay dividends on and repurchase our capital stock (which constitute restricted payments) as long as no default will have occurred and be continuing, additional indebtedness can be incurred under the credit facilities or indentures following the payment, and certain financial tests are satisfied.

In the first six months of 2017, we paid cash dividends of $50 million on our common stock. On July 12, 2017, the Board of Directors (or a duly authorized committee thereof) declared cash dividends of $0.10 per share of common stock, or approximately $25 million in the aggregate. The dividend will be paid on September 1, 2017 to stockholders of record as of the close of business on August 1, 2017. Future quarterly dividends are subject to Board approval.

On September 18, 2013, the Board of Directors approved our common stock repurchase program. From time to time, the Board of Directors has approved increases in the amount authorized to be purchased under that program. On February 2, 2017, the Board of Directors approved a further increase in that authorization to an aggregate of $2.1 billion. This program expires on December 31, 2019. We intend to repurchase shares of common stock in open market transactions in order to offset new shares issued under equity compensation programs and to provide for additional shareholder returns. During the second quarter of 2017, we repurchased 146,626 shares at an average price, including commissions, of $35.17 per share, or $5 million in the aggregate. During the first six months of 2017, we repurchased 843,120 shares at an average price, including commissions, of $35.77 per share, or $30 million in the aggregate. Since 2013, we repurchased 32,057,230 shares at an average price, including commissions, of $29.43 per share, or $943 million in the aggregate.

The restrictions imposed by our credit facilities and indentures did not affect our ability to pay the dividends on or repurchase our capital stock as described above, and are not expected to affect our ability to pay similar dividends or make similar repurchases in the future.

Asset Dispositions

The restrictions on asset sales imposed by our material indebtedness have not affected our strategy of divesting non-core businesses, and those divestitures have not affected our ability to comply with those restrictions.

FORWARD-LOOKING INFORMATION — SAFE HARBOR STATEMENT

Certain information in this Form 10-Q (other than historical data and information) may constitute forward-looking statements regarding events and trends that may affect our future operating results and financial position. The words “estimate,” “expect,” “intend” and “project,” as well as other words or expressions of similar meaning, are intended to identify forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Such statements are based on current expectations and assumptions, are inherently uncertain, are subject to risks and should be viewed with caution. Actual results and experience may differ materially from the forward-looking statements as a result of many factors, including:

• if we do not successfully implement our strategic initiatives, our operating results, financial condition and liquidity may be materially adversely affected;

• we face significant global competition and our market share could decline;

• deteriorating economic conditions in any of our major markets, or an inability to access capital markets or third-party financing when necessary, may materially adversely affect our operating results, financial condition and liquidity;

• raw material and energy costs may materially adversely affect our operating results and financial condition;

• if we experience a labor strike, work stoppage or other similar event our business, results of operations, financial condition and liquidity could be materially adversely affected;

• our international operations have certain risks that may materially adversely affect our operating results, financial condition and liquidity;

• we have foreign currency translation and transaction risks that may materially adversely affect our operating results, financial condition and liquidity;

• our long term ability to meet our obligations, to repay maturing indebtedness or to implement strategic initiatives may be dependent on our ability to access capital markets in the future and to improve our operating results;

• financial difficulties, work stoppages, supply disruptions or economic conditions affecting our major OE customers, dealers or suppliers could harm our business;

• our capital expenditures may not be adequate to maintain our competitive position and may not be implemented in a timely or cost-effective manner;

• we have a substantial amount of debt, which could restrict our growth, place us at a competitive disadvantage or otherwise materially adversely affect our financial health;

• any failure to be in compliance with any material provision or covenant of our debt instruments, or a material reduction in the borrowing base under our revolving credit facility, could have a material adverse effect on our liquidity and operations;

• our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly;

• we have substantial fixed costs and, as a result, our operating income fluctuates disproportionately with changes in our net sales;

• we may incur significant costs in connection with our contingent liabilities and tax matters;

• our reserves for contingent liabilities and our recorded insurance assets are subject to various uncertainties, the outcome of which may result in our actual costs being significantly higher than the amounts recorded;

• we are subject to extensive government regulations that may materially adversely affect our operating results;

• we may be adversely affected by any disruption in, or failure of, our information technology systems due to computer viruses, unauthorized access, cyber-attack, natural disasters or other similar disruptions;

• if we are unable to attract and retain key personnel, our business could be materially adversely affected; and

• we may be impacted by economic and supply disruptions associated with events beyond our control, such as war, acts of terror, political unrest, public health concerns, labor disputes or natural disasters.

It is not possible to foresee or identify all such factors. We will not revise or update any forward-looking statement or disclose any facts, events or circumstances that occur after the date hereof that may affect the accuracy of any forward-looking statement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We utilize derivative financial instrument contracts and nonderivative instruments to manage interest rate, foreign exchange and commodity price risks. We have established a control environment that includes policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. We do not hold or issue derivative financial instruments for trading purposes.

Commodity Price Risk

The raw material costs to which our operations are principally exposed include the cost of natural rubber, synthetic rubber, carbon black, fabrics, steel cord and other petrochemical-based commodities. Approximately two-thirds of our raw materials are oil-based derivatives, the cost of which may be affected by fluctuations in the price of oil. We currently do not hedge commodity prices. We do, however, use various strategies to partially offset cost increases for raw materials, including centralizing purchases of raw materials through our global procurement organization in an effort to leverage our purchasing power, expanding our capabilities to substitute lower cost raw materials, and reducing the amount of material required in each tire.

Interest Rate Risk

We continuously monitor our fixed and floating rate debt mix. Within defined limitations, we manage the mix using refinancing. At June 30, 2017, 38% of our debt was at variable interest rates averaging 4.78%.

The following table presents information about long term fixed rate debt, excluding capital leases, at June 30, 2017:

(In millions)	
Carrying amount — liability	$3,586
Fair value — liability	3,773
Pro forma fair value — liability	3,906

The pro forma information assumes a 100 basis point decrease in market interest rates at June 30, 2017, and reflects the estimated fair value of fixed rate debt outstanding at that date under that assumption. The sensitivity of our fixed rate debt to changes in interest rates was determined using current market pricing models.

Foreign Currency Exchange Risk

We enter into foreign currency contracts in order to reduce the impact of changes in foreign exchange rates on our consolidated results of operations and future foreign currency-denominated cash flows. These contracts reduce exposure to currency movements affecting existing foreign currency-denominated assets, liabilities, firm commitments and forecasted transactions resulting primarily from trade purchases and sales, equipment acquisitions, intercompany loans and royalty agreements. Contracts hedging short term trade receivables and payables normally have no hedging designation.

The following table presents foreign currency contract information at June 30, 2017:

(In millions)	
Fair value — asset (liability)	$(43)
Pro forma decrease in fair value	(132)
Contract maturities	7/17 - 6/19

The pro forma decrease in fair value assumes a 10% adverse change in underlying foreign exchange rates at June 30, 2017, and reflects the estimated change in the fair value of contracts outstanding at that date under that assumption. The sensitivity of our foreign currency positions to changes in exchange rates was determined using current market pricing models.

Fair values are recognized on the Consolidated Balance Sheet at June 30, 2017 as follows:

(In millions)	
Current asset (liability):	
Accounts receivable	$4
Other current liabilities	(46)
Long term asset (liability):	

Other assets	$ —
Other long term liabilities	(1)

For further information on foreign currency contracts, refer to Notes to the Consolidated Financial Statements No. 7, Financing Arrangements and Derivative Financial Instruments, in this Form 10-Q. Refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” for a discussion of our management of counterparty risk.

ITEM 4. CONTROLS AND PROCEDURES.

Management’s Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures” which, consistent with Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, we define to mean controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and to ensure that such information is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of June 30, 2017 (the end of the period covered by this Quarterly Report on Form 10-Q).

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Asbestos Litigation

As reported in our Form 10-Q for the period ended March 31, 2017, we were one of numerous defendants in legal proceedings in certain state and federal courts involving approximately 61,700 claimants relating to their alleged exposure to materials containing asbestos in products allegedly manufactured by us or asbestos materials present in our facilities. During the second quarter of 2017, approximately 400 new claims were filed against us and approximately 700 were settled or dismissed. The amount expended on asbestos defense and claim resolution by Goodyear and its insurance carriers during the second quarter of 2017 was $2 million. At June 30, 2017, there were approximately 61,400 asbestos claims pending against us. The plaintiffs are seeking unspecified actual and punitive damages and other relief. Refer to Note to the Consolidated Financial Statements No. 11, Commitments and Contingent Liabilities, in this Form 10-Q for additional information on asbestos litigation.

Reference is made to Item 3 of Part I of our 2016 Form 10-K and to Item 1 of Part II of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 for additional discussion of legal proceedings.

ITEM 1A. RISK FACTORS

Refer to "Item 1A. Risk Factors" in our 2016 Form 10-K for a discussion of our risk factors.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents information with respect to repurchases of common stock made by us during the three months ended June 30, 2017.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
4/1/17-4/30/17	—	$—	—	$1,161,647,202
5/1/17-5/31/17	146,626	35.17	146,626	1,156,490,275
6/1/17-6/30/17	—	—	—	1,156,490,275
Total	146,626	—	146,626	$1,156,490,275

(1) Total number of shares purchased as part of our common stock repurchase program and delivered to us by employees as payment for the exercise price of stock options and the withholding taxes due upon the exercise of stock options or the vesting or payment of stock awards.

(2) On September 18, 2013, the Board of Directors authorized $100 million for use in our common stock repurchase program. From time to time, the Board of Directors has approved increases in the amount authorized to be purchased under that program. On February 2, 2017, the Board of Directors approved a further increase in that authorization to an aggregate of $2.1 billion. This program expires on December 31, 2019. We intend to repurchase shares of common stock in open market transactions in order to offset new shares issued under equity compensation programs and to provide for additional shareholder returns. During the three month period ended June 30, 2017, we repurchased 146,626 shares at an average price, including commissions, of $35.17 per share, or $5 million in the aggregate.

ITEM 6. EXHIBITS.

Refer to the Index of Exhibits at page 51, which is by specific reference incorporated into and made a part of this Quarterly Report on Form 10-Q.

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.

		THE GOODYEAR TIRE & RUBBER COMPANY (Registrant)	
Date:	July 28, 2017	By	/s/ EVAN M. SCOCOS
		Evan M. Scocos, Vice President and Controller (Signing on behalf of the Registrant as a duly authorized officer of the Registrant and signing as the principal accounting officer of the Registrant.)	

THE GOODYEAR TIRE & RUBBER COMPANY
Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2017
INDEX OF EXHIBITS

Exhibit Table Item No.	Description of Exhibit	Exhibit Number
10	Material Contracts	
(a)	2017 Performance Plan of the Company (incorporated by reference, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed April 13, 2017, File No. 1-1927).	
(b)	Form of Non-Qualified Stock Option Grant Agreement (incorporated by reference, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed June 8, 2017, File No. 1-1927).	
(c)	Form of Non-Qualified Stock Option with tandem Stock Appreciation Right Grant Agreement (incorporated by reference, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed June 8, 2017, File No. 1-1927).	
(d)	Form of Incentive Stock Option Grant Agreement (incorporated by reference, filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed June 8, 2017, File No. 1-1927).	
(e)	Form of Performance Share Grant Agreement (incorporated by reference, filed as Exhibit 10.4 to the Company's Current Report on Form 8-K, filed June 8, 2017, File No. 1-1927).	
(f)	Form of Executive Performance Unit Grant Agreement (incorporated by reference, filed as Exhibit 10.5 to the Company's Current Report on Form 8-K, filed June 8, 2017, File No. 1-1927).	
(g)	Form of Restricted Stock Unit Retention Grant Agreement (incorporated by reference, filed as Exhibit 10.6 to the Company's Current Report on Form 8-K, filed June 8, 2017, File No. 1-1927).	
(h)	Form of Restricted Stock Unit Annual Grant Agreement (incorporated by reference, filed as Exhibit 10.7 to the Company's Current Report on Form 8-K, filed June 8, 2017, File No. 1-1927).	
(i)	Deferred Compensation Plan for Executives (As Amended and Restated Effective September 1, 2016), dated April 19, 2017.	10.1
12	Statement re Computation of Ratios	
(a)	Statement setting forth the Computation of Ratio of Earnings to Fixed Charges.	12.1
31	302 Certifications	
(a)	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	31.1
(b)	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	31.2

32	906 Certifications	
(a)	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	32.1
101	Interactive Data File	
(a)	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements.	101