GOODYEAR TIRE & RUBBER CO /OH/
Form 10-Q
October 26, 2018

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2018
Commission File Number: 1-1927
THE GOODYEAR TIRE & RUBBER COMPANY
(Exact Name of Registrant as Specified in Its Charter)

Ohio	34-0253240
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
200 Innovation Way, Akron, Ohio	44316-0001
(Address of Principal Executive Offices)	(Zip Code)

(330) 796-2121
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Number of Shares of Common Stock, Without Par Value, Outstanding at September 30, 2018:	233,010,046

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share amounts)	2018	2017	2018	2017
Net Sales (Note 2)	$3,928	$3,921	$11,599	$11,306
Cost of Goods Sold	3,028	3,054	8,953	8,599
Selling, Administrative and General Expense	553	545	1,732	1,700
Rationalizations (Note 3)	5	46	40	102
Interest Expense	82	84	236	260
Other (Income) Expense (Note 4)	(253)	30	(171)	54
Income before Income Taxes	513	162	809	591
United States and Foreign Tax Expense (Note 5)	159	30	211	136
Net Income	354	132	598	455
Less: Minority Shareholders' Net Income	3	3	15	13
Goodyear Net Income	$351	$129	$583	$442
Goodyear Net Income — Per Share of Common Stock				
Basic	$1.49	$0.52	$2.45	$1.76
Weighted Average Shares Outstanding (Note 6)	236	250	238	251
Diluted	$1.48	$0.50	$2.42	$1.73
Weighted Average Shares Outstanding (Note 6)	238	254	241	255
Cash Dividends Declared Per Common Share (Note 13)	$0.14	$0.10	$0.42	$0.30

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

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Net Income	$ 354	$ 132	$ 598	$ 455
Other Comprehensive Income (Loss):				
Foreign currency translation, net of tax of $0 and ($8) in 2018 ($25 and $44 in 2017)	(86)	35	(235)	169
Defined benefit plans:				
Amortization of prior service cost and unrecognized gains and losses included in total benefit cost, net of tax of $8 and $24 in 2018 ($10 and $31 in 2017)	26	18	79	57
(Increase)/Decrease in net actuarial losses, net of tax of ($4) and $2 in 2018 (($16) and ($15) in 2017)	(20)	(26)	(1)	(23)
Immediate recognition of prior service cost and unrecognized gains and losses due to curtailments, settlements, and divestitures, net of tax of $2 and $4 in 2018 ($9 and $9 in 2017)	9	15	13	15
Deferred derivative gains (losses), net of tax of $1 and $3 in 2018 (($2) and ($9) in 2017)	—	(5)	6	(19)
Reclassification adjustment for amounts recognized in income, net of tax of $0 and $2 in 2018 ($0 and ($1) in 2017)	1	1	6	(2)
Other Comprehensive Income (Loss)	(70)	38	(132)	197
Comprehensive Income (Loss)	284	170	466	652
Less: Comprehensive Income (Loss) Attributable to Minority Shareholders	(6)	4	(10)	27
Goodyear Comprehensive Income	$ 290	$ 166	$ 476	$ 625

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

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except share data)	September 30, 2018	December 31, 2017
Assets:		
Current Assets:		
Cash and Cash Equivalents	$ 896	$ 1,043
Accounts Receivable, less Allowance — $117 ($116 in 2017)	2,670	2,025
Inventories:		
Raw Materials	567	466
Work in Process	155	142
Finished Products	2,216	2,179
	2,938	2,787
Prepaid Expenses and Other Current Assets	249	224
Total Current Assets	6,753	6,079
Goodwill	572	595
Intangible Assets	137	139
Deferred Income Taxes (Note 5)	1,908	2,008
Other Assets	1,089	792
Property, Plant and Equipment, less Accumulated Depreciation — $10,199 ($10,078 in 2017)	7,132	7,451
Total Assets	$ 17,591	$ 17,064
Liabilities:		
Current Liabilities:		
Accounts Payable — Trade	$ 2,819	$ 2,807
Compensation and Benefits (Notes 10 and 11)	517	539
Other Current Liabilities	795	1,026
Notes Payable and Overdrafts (Note 8)	445	262
Long Term Debt and Capital Leases due Within One Year (Note 8)	471	391
Total Current Liabilities	5,047	5,025
Long Term Debt and Capital Leases (Note 8)	5,604	5,076
Compensation and Benefits (Notes 10 and 11)	1,350	1,515
Deferred Income Taxes (Note 5)	95	100
Other Long Term Liabilities	495	498
Total Liabilities	12,591	12,214
Commitments and Contingent Liabilities (Note 12)		
Shareholders' Equity:		
Goodyear Shareholders' Equity:		
Common Stock, no par value:		
Authorized, 450 million shares, Outstanding shares — 233 and 240 million in 2018 and 2017 after deducting 45 and 38 million treasury shares in 2018 and 2017	233	240
Capital Surplus	2,125	2,295
Retained Earnings	6,525	6,044
Accumulated Other Comprehensive Loss	(4,083)	(3,976)
Goodyear Shareholders' Equity	4,800	4,603
Minority Shareholders' Equity — Nonredeemable	200	247
Total Shareholders' Equity	5,000	4,850

Total Liabilities and Shareholders’ Equity	$ 17,591	$ 17,064

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

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
(In millions)	2018	2017
Cash Flows from Operating Activities:		
Net Income	$598	$455
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:		
Depreciation and Amortization	589	586
Amortization and Write-Off of Debt Issuance Costs	11	17
Provision for Deferred Income Taxes	59	33
Net Pension Curtailments and Settlements	13	13
Net Rationalization Charges (Note 3)	40	102
Rationalization Payments	(151)	(96)
Net (Gains) Losses on Asset Sales (Note 4)	(1)	(14)
Gain on TireHub Transaction, Net of Transaction Costs (Note 4)	(273)	—
Pension Contributions and Direct Payments	(56)	(67)
Changes in Operating Assets and Liabilities, Net of Asset Acquisitions and Dispositions:		
Accounts Receivable	(807)	(807)
Inventories	(254)	(254)
Accounts Payable — Trade	235	5
Compensation and Benefits	7	(27)
Other Current Liabilities	(119)	(51)
Other Assets and Liabilities	85	(49)
Total Cash Flows from Operating Activities	(24)	(154)
Cash Flows from Investing Activities:		
Capital Expenditures	(615)	(683)
Asset Dispositions (Note 4)	2	9
Short Term Securities Acquired	(61)	(51)
Short Term Securities Redeemed	61	51
Notes Receivable	(50)	—
Other Transactions	(1)	(1)
Total Cash Flows from Investing Activities	(664)	(675)
Cash Flows from Financing Activities:		
Short Term Debt and Overdrafts Incurred	1,458	544
Short Term Debt and Overdrafts Paid	(1,267)	(523)
Long Term Debt Incurred	4,704	4,972
Long Term Debt Paid	(3,992)	(4,193)
Common Stock Issued	4	12
Common Stock Repurchased (Note 13)	(200)	(205)
Common Stock Dividends Paid (Note 13)	(100)	(75)
Transactions with Minority Interests in Subsidiaries	(27)	(6)
Debt Related Costs and Other Transactions	(3)	(69)
Total Cash Flows from Financing Activities	577	457
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash	(37)	51
Net Change in Cash, Cash Equivalents and Restricted Cash	(148)	(321)
Cash, Cash Equivalents and Restricted Cash at Beginning of the Period	1,110	1,189

Cash, Cash Equivalents and Restricted Cash at End of the Period	$962	$868

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

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. ACCOUNTING POLICIES
Basis of Presentation
The accompanying unaudited consolidated financial statements have been prepared by The Goodyear Tire & Rubber Company (the “Company,” “Goodyear,” “we,” “us” or “our”) in accordance with Securities and Exchange Commission rules a regulations and generally accepted accounting principles in the United States of America ("US GAAP") and in the opinion of management contain all adjustments (including normal recurring adjustments) necessary to fairly state the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Form 10-K”).
Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results expected in subsequent quarters or for the year ending December 31, 2018.
Recently Adopted Accounting Standards
Effective January 1, 2018, we adopted an accounting standards update, and all related amendments, with new guidance on recognizing revenue from contracts with customers. The standards update outlines a single comprehensive model for entities to utilize to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that will be received in exchange for the goods or services. We applied the new guidance to all open contracts at the date of adoption using the modified retrospective method. We recognized the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.
The cumulative effect of the changes made to our January 1, 2018 balance sheet for the adoption of the standards update was as follows:

(In millions)	Balance at December 31, 2017	Adjustment for New Standard	Balance at January 1, 2018
Accounts Receivable	$ 2,025	$ 3	$ 2,028
Prepaid Expenses and Other Current Assets	224	7	231
Deferred Income Taxes — Asset	2,008	1	2,009
Accounts Payable — Trade	2,807	7	2,814
Other Current Liabilities	1,026	7	1,033
Retained Earnings	6,044	(3)	6,041

The impact of the adoption of the standards update on our Consolidated Statements of Operations for the nine month period ended September 30, 2018 was an increase of $7 million to Net Sales and an increase of $5 million to Net Income. There was no impact to Net Sales or Net Income for the three month period ended September 30, 2018.
The impact of the adoption of the standards update on our Consolidated Balance Sheet as of September 30, 2018 was as follows:

	As of September 30, 2018		
		Balances	
(In millions)	As Reported	Without Adoption	Effect of Change
Accounts Receivable	$2,670	$ 2,658	$ 12

Prepaid Expenses and Other Current Assets	249	238	11
Deferred Income Taxes — Asset	1,908	1,909	(1)
Accounts Payable — Trade	2,819	2,810	9
Other Current Liabilities	795	784	11
Retained Earnings	6,525	6,523	2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

We do not expect the impact of the adoption of this new standards update to be material to our consolidated financial statements on an ongoing basis.
Effective January 1, 2018, we adopted an accounting standards update intended to improve the financial statement presentation of pension and postretirement benefits cost. The new guidance requires employers that offer defined benefit pension or other postretirement benefit plans to report service cost in the same income statement line as compensation costs and to report non-service related costs separately from service cost outside a sub-total of income from operations, if one is presented. In addition, the new guidance allows only service cost to be capitalized. We applied the new guidance using the retrospective method. In alignment with the new standards update, we reclassified $15 million and $27 million of expense from Cost of Goods Sold ("CGS") and $11 million and $18 million of expense from Selling, Administrative and General Expense (“SAG”), including corporate related costs of $16 million and $22 million, to Other (Income) Expense for the three and nine months ended September 30, 2017, respectively. The provision of the new standards update that allows only service cost to be capitalized resulted in an additional one-time charge of $9 million which was recorded in Other (Income) Expense for the nine months ended September 30, 2018. We expect service related costs of approximately $35 million per year, including approximately $5 million per year of corporate related costs, will remain in CGS and SAG. Further, we expect approximately $90 million of non-service related costs, including approximately $15 million of corporate related costs and excluding settlement/curtailment charges, to be classified in Other (Income) Expense during 2018.
Effective January 1, 2018, we adopted an accounting standards update with new guidance on the accounting for the income tax consequences of intra-entity transfers of assets other than inventory, including the elimination of the prohibition on recognition of current and deferred income taxes on such transfers. As a result of using the modified retrospective adoption approach, $2 million was recorded as a cumulative effect adjustment to increase Retained Earnings, with Deferred Income Taxes increasing by $7 million and Other Assets decreasing by $5 million. We do not expect the impact of the adoption of this new standards update to be material to our consolidated financial statements on an ongoing basis.
Effective January 1, 2018, we adopted an accounting standards update with new guidance to clarify when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires the application of modification accounting if the value, vesting conditions or classification of the award changes. The adoption of this standards update did not impact our consolidated financial statements.
Recently Issued Accounting Standards
In August 2018, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update with new guidance requiring a customer in a cloud computing arrangement that is a service contract to follow existing internal-use software guidance to determine which implementation costs to capitalize as an asset. The standards update is effective for fiscal years and interim periods beginning after December 15, 2019, with early adoption permitted, and may be applied retrospectively or as of the beginning of the period of adoption. The adoption of this accounting standards update is not expected to have a material impact on our consolidated financial statements.
In February 2018, the FASB issued an accounting standards update that allows an optional one-time reclassification from Accumulated Other Comprehensive Income (Loss) to Retained Earnings for the stranded tax effects resulting from the new corporate tax rate under the Tax Cuts and Jobs Act. The new guidance requires additional disclosures, regardless of whether the optional reclassification is elected. The standards update is effective for fiscal years and interim periods beginning after December 15, 2018, with early adoption permitted, and may be applied retrospectively or as of the beginning of the period of adoption. Goodyear has elected not to adopt this optional reclassification.
In August 2017, the FASB issued an accounting standards update with new guidance intended to reduce complexity in hedge accounting and make hedge results easier to understand. This includes simplifying how hedge results are presented and disclosed in the financial statements, expanding the types of hedge strategies allowed and providing relief around the documentation and assessment requirements. The standards update is effective using a modified retrospective approach, with the presentation and disclosure guidance required prospectively, for fiscal years and interim periods beginning after December 15, 2018, with early adoption permitted. The adoption of this accounting

standards update is not expected to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued an accounting standards update with new guidance intended to simplify the subsequent measurement of goodwill. The standards update eliminates the requirement for an entity to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, an entity will perform its annual, or interim, goodwill impairment testing by comparing the fair value of a reporting unit with its carrying amount and recording an impairment charge for the amount by which the carrying amount exceeds the fair value. The standards update is effective prospectively for annual and interim

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

goodwill impairment testing performed in fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of this standards update is not expected to impact our consolidated financial statements.
In February 2016, the FASB issued an accounting standards update with new guidance intended to increase transparency and comparability among organizations relating to leases. Lessees will be required to recognize a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. The FASB retained a dual model for lease classification, requiring leases to be classified as finance or operating leases to determine recognition in the statements of operations and cash flows; however, substantially all leases will be required to be recognized on the balance sheet. The standards update will also require quantitative and qualitative disclosures regarding key information about leasing arrangements. The standards update is effective using a modified retrospective approach for fiscal years and interim periods beginning after December 15, 2018, with early adoption permitted. As originally issued, the standards update requires application at the beginning of the earliest comparative period presented at the time of adoption. In July 2018, the FASB issued new guidance allowing entities the option to instead apply the provisions of the new leases guidance at the effective date, without adjusting the comparative periods presented. We plan to elect this optional transition method. The standard also provides for certain practical expedients. We have completed aggregating our worldwide lease contracts, are currently in the process of evaluating those lease contracts and are implementing a new lease accounting system to support the accounting and disclosure requirements of this standards update. The adoption of this standards update will have a material impact on our financial statements as we have significant operating lease commitments that are off-balance sheet in accordance with current US GAAP.

Principles of Consolidation

The consolidated financial statements include the accounts of all legal entities in which we hold a controlling financial interest. A controlling financial interest generally arises from our ownership of a majority of the voting shares of our subsidiaries. We would also hold a controlling financial interest in variable interest entities if we are considered to be the primary beneficiary. Investments in companies in which we do not own a majority interest and we have the ability to exercise significant influence over operating and financial policies are accounted for using the equity method. Investments in other companies are carried at cost. All intercompany balances and transactions have been eliminated in consolidation.

Restricted Cash

The following table provides a reconciliation of Cash, Cash Equivalents and Restricted Cash as reported within the Consolidated Statements of Cash Flows:

	September 30,	
(In millions)	2018	2017
Cash and Cash Equivalents	$ 896	$ 822
Restricted Cash	66	46
Total Cash, Cash Equivalents and Restricted Cash	$ 962	$ 868

Restricted Cash, which is included in Prepaid Expenses and Other Current Assets in the Consolidated Balance Sheets, primarily represents amounts required to be set aside in connection with accounts receivable factoring programs. The restrictions lapse when cash from factored accounts receivable is remitted to the purchaser of those receivables.

Reclassifications and Adjustments

Certain items previously reported in specific financial statement captions have been reclassified to conform to the current presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2. NET SALES
The following table shows disaggregated net sales from contracts with customers by major source:

	Three Months Ended September 30, 2018			
(In millions)	Americas	Europe, Middle East and Africa	Asia Pacific	Total
Tire unit sales	$1,647	$1,184	$ 479	$3,310
Other tire and related sales	166	100	32	298
Retail services and service related sales	145	5	19	169
Chemical	146	—	—	146
Other	3	1	1	5
Net Sales by reportable segment	$2,107	$1,290	$ 531	$3,928

	Nine Months Ended September 30, 2018			
(In millions)	Americas	Europe, Middle East and Africa	Asia Pacific	Total
Tire unit sales	$4,721	$3,545	$1,508	$9,774
Other tire and related sales	460	303	94	857
Retail services and service related sales	426	29	60	515
Chemical	437	—	—	437
Other	10	3	3	16
Net Sales by reportable segment	$6,054	$3,880	$1,665	$11,599

Tire unit sales consist of consumer, commercial, farm and off-the-road tire sales, including the sale of new Company-branded tires through Company-owned retail channels. Other tire and related sales consist of aviation, race, motorcycle and all-terrain vehicle tire sales, retread sales and other tire related sales. Sales of tires in this category are not included in reported tire unit information. Retail services and service related sales consist of automotive services performed for customers through our Company-owned retail channels, and includes service related products. Chemical sales relate to the sale of synthetic rubber and other chemicals to third-parties, and excludes intercompany sales. Other sales include items such as franchise fees and ancillary tire parts, such as tire rims, tire valves and valve stems.

Sales are recognized when obligations under the terms of a contract are satisfied and control is transferred. This generally occurs with shipment or delivery, depending on the terms of the underlying contract, or when services have been rendered. Sales are measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The amount of consideration we receive and sales we recognize can vary due to changes in sales incentives, rebates, rights of return or other items we offer our customers, for which we estimate the expected amounts based on an analysis of historical experience, or as the most likely amount in a range of possible outcomes. Payment terms with customers vary by region and customer, but are generally 30-90 days or at the point of sale for our consumer retail locations. Net sales exclude sales, value added and other taxes. Costs to obtain contracts are generally expensed as incurred due to the short term nature of individual contracts. Incidental items that are immaterial in the context of the contract are recognized as expense as incurred. We have elected to recognize the costs incurred for transportation of products to customers as a component of CGS.

When we receive consideration from a customer prior to transferring goods or services under the terms of a sales contract, we record deferred revenue, which represents a contract liability. Deferred revenue included in Other Current Liabilities and Other Long Term Liabilities in the Consolidated Balance Sheet totaled $49 million and $43 million, respectively, at September 30, 2018. We recognize deferred revenue after we have transferred control of the goods or services to the customer and all revenue recognition criteria are met.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents the balance of deferred revenue related to contracts with customers, and changes during the nine months ended September 30, 2018:

(In millions)	
Balance at December 31, 2017	$121
Revenue deferred during period	88
Revenue recognized during period	(117)
Impact of foreign currency translation	—
Balance at September 30, 2018	$92

NOTE 3. COSTS ASSOCIATED WITH RATIONALIZATION PROGRAMS

In order to maintain our global competitiveness, we have implemented rationalization actions over the past several years to reduce high-cost and excess manufacturing capacity and associate headcount.

The following table shows the roll-forward of our liability between periods:

(In millions)	Associate-Related Costs	Other Exit and Non-cancelable Lease Costs	Total
Balance at December 31, 2017	$ 210	$ 3	$213
2018 Charges	39	14	53
Incurred, including net Foreign Currency Translation of $2 million and $0 million, respectively	(137)	(16)	(153)
Reversed to the Statements of Operations	(13)	—	(13)
Balance at September 30, 2018	$ 99	$ 1	$100

The accrual balance of $100 million at September 30, 2018 is expected to be substantially utilized in the next 12 months and includes $47 million related to plans to reduce manufacturing headcount and improve operating efficiency in Europe, Middle East and Africa ("EMEA"), $38 million related to global plans to reduce SAG headcount as well as a separate SAG headcount reduction plan in EMEA, and $4 million related to the closure of our tire manufacturing facility in Philippsburg, Germany.

The following table shows net rationalization charges included in Income before Income Taxes:

(In millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Current Year Plans				
Associate Severance and Other Related Costs	$ —	$ 26	$ 32	$ 51
Other Exit and Non-Cancelable Lease Costs	1	—	1	1
Current Year Plans - Net Charges	$ 1	$ 26	$ 33	$ 52
Prior Year Plans				
Associate Severance and Other Related Costs	$ 1	$ (5)	$ (6)	$ 12
Benefit Plan Curtailments and Settlements	—	13	—	14
Other Exit and Non-Cancelable Lease Costs	3	12	13	24
Prior Year Plans - Net Charges	4	20	7	50
Total Net Charges	$ 5	$ 46	$ 40	$ 102
Asset Write-off and Accelerated Depreciation Charges	$ —	$ 10	$ 2	$ 39

Substantially all of the new charges for the three and nine months ended September 30, 2018 and 2017 related to future cash outflows. Net current year plan charges for the three and nine months ended September 30, 2018 include charges of $1 million and $27 million, respectively, related to a global plan to reduce SAG headcount. Net current year plan charges for the nine months

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

ended September 30, 2018 also include charges of $6 million related to a plan to improve operating efficiency in EMEA. Net current year plan charges for the three and nine months ended September 30, 2017 include charges of $25 million related to a global plan to reduce SAG headcount. Net current year plan charges for the nine months ended September 30, 2017 also include charges of $20 million related to SAG headcount reductions in EMEA and $7 million related to a plan to improve operating efficiency in EMEA.

Net prior year plan charges for the three and nine months ended September 30, 2018 include charges of $2 million and $11 million, respectively, related to the closure of our tire manufacturing facility in Philippsburg, Germany and $2 million and $4 million, respectively, related to a plan to reduce manufacturing headcount in EMEA. Net prior year plan charges for the nine months ended September 30, 2018 also include charges of $3 million related to a global plan to reduce SAG headcount. Net prior year plan charges for the three and nine months ended September 30, 2018 include reversals of $1 million and $13 million, respectively, for actions no longer needed for their originally intended purposes. Net prior year plan charges for the three months ended September 30, 2017 include $9 million related to the closure of our tire manufacturing facility in Philippsburg, Germany, $9 million related to a global plan to reduce SAG headcount and $7 million related to manufacturing headcount reductions in EMEA. Net prior year plan charges for the nine months ended September 30, 2017 include $29 million related to the closure of our tire manufacturing facility in Philippsburg, Germany, $13 million related to a global plan to reduce SAG headcount and $11 million related to manufacturing headcount reductions in EMEA. Net charges for the three and nine months ended September 30, 2017 include reversals of $5 million and $7 million, respectively, for actions no longer needed for their originally intended purposes.

Ongoing rationalization plans had approximately $730 million in charges incurred prior to 2018 and approximately $12 million is expected to be incurred in future periods.

Approximately 300 associates will be released under new plans initiated in 2018, of which approximately 200 were released through September 30, 2018. In the first nine months of 2018, approximately 500 associates were released under plans initiated in prior years. Approximately 300 associates remain to be released under all ongoing rationalization plans.

Approximately 850 former associates of the closed Amiens, France manufacturing facility have asserted wrongful termination or other claims against us. Refer to Note to the Consolidated Financial Statements No. 12, Commitments and Contingent Liabilities, in this Form 10-Q.

Asset write-off and accelerated depreciation charges for the three and nine months ended September 30, 2018 and 2017 primarily related to the closure of our tire manufacturing facility in Philippsburg, Germany and were recorded in CGS.

NOTE 4. OTHER (INCOME) EXPENSE

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Gain on TireHub transaction, net of transaction costs	$ (287)	$ —	$ (273)	$ —
Non-service related pension and other postretirement benefits cost	33	26	92	45
Financing fees and financial instruments	9	8	27	48
Royalty income	(5)	(10)	(15)	(26)
Interest income	(6)	(3)	(12)	(10)
Net foreign currency exchange (gains) losses	(2)	(1)	(7)	(4)
General and product liability expense (income) - discontinued products	5	(3)	3	—
Net (gains) losses on asset sales	(1)	(1)	(1)	(14)
Miscellaneous expense	1	14	15	15
	$ (253)	$ 30	$ (171)	$ 54

On April 16, 2018, we announced an agreement to form a 50/50 joint venture with Bridgestone Americas, Inc. ("Bridgestone") that would combine our Company-Owned Wholesale Distribution (“COWD”) business and Bridgestone’s tire wholesale warehouse business to create TireHub, LLC ("TireHub"), a national tire distributor in the United States. On July 1, 2018, the transaction closed and TireHub commenced operations. Upon closing, we transferred certain assets and liabilities of the COWD business, with a net book value of $6 million, to TireHub. With the assistance of a third party valuation specialist, we determined the fair value of our equity interest in TireHub to be $292 million as of July 1, 2018, using a discounted cash flow method. As a result,

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we recognized a gain of $286 million, which represents the difference between the fair value of the equity interest received and the net book value of the assets and liabilities contributed. For the three and nine months ended September 30, 2018, we incurred transaction costs of $(1) million and $13 million in connection with the formation of the joint venture.

Non-service related pension and other postretirement benefits cost consists primarily of the interest cost, expected return on plan assets and amortization components of net periodic cost, as well as curtailments and settlements which are not related to rationalization plans. Non-service related pension and other postretirement benefits cost for the nine months ended September 30, 2018 includes expense of $9 million related to the adoption of the new accounting standards update which no longer allows non-service related pension and other postretirement benefits cost to be capitalized in inventory. For further information, refer to Note to the Consolidated Financial Statements No. 10, Pension, Savings and Other Postretirement Benefit Plans, in this Form 10-Q.

Financing fees and financial instruments consist of commitment fees and charges incurred in connection with financing transactions. Financing fees and financial instruments for the nine months ended September 30, 2017 include a redemption premium of $25 million related to the redemption of our $700 million 7% senior notes due 2022 in May 2017.

Miscellaneous expense for the three and nine months ended September 30, 2018 includes continuing repair expenses of $2 million and $12 million, respectively, incurred by the Company as a direct result of hurricanes Harvey and Irma during the third quarter of 2017. Miscellaneous expense for the three and nine months ended September 30, 2017 includes $12 million related to expenses incurred by the Company as a direct result of the hurricanes.

Other (Income) Expense also includes royalty income which is derived primarily from licensing arrangements related to divested businesses as well as other licensing arrangements, interest income, which primarily consists of amounts earned on cash deposits, net foreign currency exchange (gains) and losses, general and product liability expense (income) - discontinued products, which consists of charges for claims against us related primarily to asbestos personal injury claims, net of probable insurance recoveries, and net (gains) losses on asset sales.

NOTE 5. INCOME TAXES

For the third quarter of 2018, we recorded tax expense of $159 million on income before income taxes of $513 million. For the first nine months of 2018, we recorded tax expense of $211 million on income before income taxes of $809 million. Income tax expense for the three and nine months ended September 30, 2018 includes net discrete charges of $31 million and $10 million, respectively.

The Tax Cuts and Jobs Act (the "Tax Act") enacted on December 22, 2017 in the United States included a one-time tax on certain previously untaxed accumulated earnings and profits of foreign subsidiaries (the "transition tax"). During the second quarter of 2018, we received dividends, primarily from subsidiaries in Japan and Singapore, and recorded a $25 million discrete tax benefit to claim foreign tax credits for taxes that were not creditable for purposes of the transition tax obligation. On August 1, 2018, the Department of Treasury and the Internal Revenue Service released a proposed regulation regarding the transition tax. The proposed regulation provides that income taxes on income subject to the transition tax that are not creditable for purposes of the transition tax obligation, will not be a creditable foreign tax. As a result, we have recorded a third quarter discrete charge of $25 million primarily to reverse the tax benefit recorded in the second quarter. The proposed regulation also would require accumulated deficits of foreign subsidiaries to be excluded for purposes of calculating taxes creditable against the transition tax. As such, we recorded a third quarter charge of $11 million to adjust our transition tax obligation based upon that proposed regulation. For the nine months ended September 30, 2018, we have recorded a discrete net tax charge of $14 million related to the transition tax. Discrete tax charges for the three and nine months ended September 30, 2018 also include net benefits of $5 million and $4 million, respectively, for various other tax adjustments.

We were able to reasonably estimate the transition tax and record an initial provisional tax obligation of $77 million at December 31, 2017. Adjusted for guidance provided through September 30, 2018, we have now recorded a provisional transition tax obligation totaling $91 million. At December 31, 2017, we established a provisional reserve of $19 million related to foreign withholding taxes that we would incur should we repatriate certain earnings. During

the nine months ending September 30, 2018, our reserve decreased to $10 million to reflect payments of withholding tax on dividends from foreign subsidiaries. In the fourth quarter of 2018, we will further adjust our provisional amounts to reflect the impact of changes to earnings and profits of our subsidiaries resulting from our 2017 corporate income tax return. We also will continue to consider new guidance related to our provisional amounts and will complete our accounting during the fourth quarter of 2018.

In the third quarter of 2017, we recorded tax expense of $30 million on income before income taxes of $162 million. For the first nine months of 2017, we recorded tax expense of $136 million on income before income taxes of $591 million. Income tax expense for the three and nine months ended September 30, 2017 was favorably impacted by $12 million and $23 million, respectively, of various discrete tax adjustments.

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We record taxes based on overall estimated annual effective tax rates. The difference between our effective tax rate for the three and nine months ended September 30, 2018 and the U.S. statutory rate of 21% primarily relates to the discrete items noted above and an overall higher effective tax rate in the foreign jurisdictions in which we operate, partially offset by a benefit from our foreign derived intangible income deduction provided for in the Tax Act. The difference between our effective tax rate for the three and nine months ended September 30, 2017 and the then applicable U.S. statutory rate of 35% was primarily attributable to the discrete items noted above and an overall lower effective tax rate in the foreign jurisdictions in which we operate.

The Tax Act subjects a U.S. parent to the base erosion minimum tax ("BEAT") and a current tax on its global intangible low-taxed income ("GILTI"). We have elected to recognize the resulting tax on GILTI as a period expense in the period the tax is incurred. We estimate that the impact from the BEAT and GILTI taxes will not be material to our income tax provision.

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 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. If recent positive evidence provided by the profitability of our Brazilian subsidiary continues, it will provide us the opportunity to apply greater significance to our forecasts in assessing the need for a valuation allowance. We believe it is reasonably possible that sufficient positive evidence required to release all, or a portion, of its valuation allowance will exist within the next twelve months. This may result in a reduction of the valuation allowance and a one-time tax benefit of up to $25 million.

Based on positive evidence and future sources of income in the U.S., it is more likely than not that our foreign tax credits of approximately $750 million as of December 31, 2017, will be fully utilized.

We are open to examination in the United States for 2017 and in Germany from 2013 onward. Generally, for our remaining tax jurisdictions, years from 2012 onward are still open to examination.

NOTE 6. 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 September 30,		Nine Months Ended September 30,	
(In millions, except per share amounts)	2018	2017	2018	2017
Earnings per share — basic:				
Goodyear net income	$ 351	$ 129	$ 583	$ 442
Weighted average shares outstanding	236	250	238	251
Earnings per common share — basic	$ 1.49	$ 0.52	$ 2.45	$ 1.76
Earnings per share — diluted:				
Goodyear net income	$ 351	$ 129	$ 583	$ 442
Weighted average shares outstanding	236	250	238	251
Dilutive effect of stock options and other dilutive securities	2	4	3	4
Weighted average shares outstanding — diluted	238	254	241	255
Earnings per common share — diluted	$ 1.48	$ 0.50	$ 2.42	$ 1.73

Weighted average shares outstanding - diluted for the three and nine months ended September 30, 2018 exclude approximately 2 million equivalent shares related to options with exercise prices greater than the average market price of our common shares (i.e., "underwater" options). There were approximately 1 million equivalent shares related to options with exercise prices greater than the average market price of our common shares for the three and nine months

ended September 30, 2017.

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NOTE 7. BUSINESS SEGMENTS

(In millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Sales:				
Americas	$2,107	$2,041	$6,054	$6,028
Europe, Middle East and Africa	1,290	1,311	3,880	3,664
Asia Pacific	531	569	1,665	1,614
Net Sales	$3,928	$3,921	$11,599	$11,306
Segment Operating Income:				
Americas	$194	$196	$475	$630
Europe, Middle East and Africa	111	90	289	271
Asia Pacific	57	81	203	225
Total Segment Operating Income	$362	$367	$967	$1,126
Less:				
Rationalizations	$5	$46	$40	$102
Interest expense	82	84	236	260
Other (income) expense (Note 4)	(253)	30	(171)	54
Asset write-offs and accelerated depreciation	—	10	2	39
Corporate incentive compensation plans	(1)	—	6	27
Intercompany profit elimination	2	21	(2)	16
Retained expenses of divested operations	2	3	7	9
Other	12	11	40	28
Income before Income Taxes	$513	$162	$809	$591

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Rationalizations, as described in Note to the Consolidated Financial Statements No. 3, Costs Associated with Rationalization Programs, Net (gains) losses on asset sales and Asset write-offs and accelerated depreciation were not charged (credited) to the strategic business units ("SBUs") for performance evaluation purposes but were attributable to the SBUs as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Rationalizations:				
Americas	$—	$4	$3	$6
Europe, Middle East and Africa	5	25	31	78
Asia Pacific	—	1	3	2
Total Segment Rationalizations	$5	$30	$37	$86
Corporate	—	16	3	16
Total Rationalizations	$5	$46	$40	$102
Net (Gains) Losses on Asset Sales:				
Americas[1]	$(288)	$(1)	$(276)	$(4)
Europe, Middle East and Africa	—	—	2	(10)
Total Net (Gains) Losses on Asset Sales	$(288)	$(1)	$(274)	$(14)

(1) Americas Net (Gains) Losses on Asset Sales for the three and nine months ended September 30, 2018 includes gains of $287 million and $273 million, respectively, related to the TireHub transaction, net of transaction costs.

Asset Write-offs and Accelerated Depreciation:				
Europe, Middle East and Africa	$—	$10	$2	$39
Total Asset Write-offs and Accelerated Depreciation	$—	$10	$2	$39

NOTE 8. FINANCING ARRANGEMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

At September 30, 2018, we had total credit arrangements of $8,689 million, of which $2,132 million were unused. At that date, 40% of our debt was at variable interest rates averaging 4.42%.

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

At September 30, 2018, we had short term committed and uncommitted credit arrangements totaling $681 million, of which $236 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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The following table presents amounts due within one year:

(In millions)	September 30, 2018	December 31, 2017
Notes payable and overdrafts	$ 445	$ 262
Weighted average interest rate	6.63 %	5.00 %
Chinese credit facilities	$ 43	$ 113
Mexican credit facilities	90	—
Other foreign and domestic debt (including capital leases)	338	278
Long term debt and capital leases due within one year	$ 471	$ 391
Weighted average interest rate	3.49 %	6.86 %
Total obligations due within one year	$ 916	$ 653

Long Term Debt and Capital Leases and Financing Arrangements

At September 30, 2018, we had long term credit arrangements totaling $8,008 million, of which $1,896 million were unused.

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

	September 30, 2018		December 31, 2017	
(In millions)	Amount	Interest Rate	Amount	Interest Rate
Notes:				
8.75% due 2020	$277		$275	
5.125% due 2023	1,000		1,000	
3.75% Euro Notes due 2023	290		300	
5% due 2026	900		900	
4.875% due 2027	700		700	
7% due 2028	150		150	
Credit Facilities:				
$2.0 billion first lien revolving credit facility due 2021	325	3.41 %	—	—
Second lien term loan facility due 2025	400	4.15 %	400	3.50 %
€550 million revolving credit facility due 2020	360	3.90 %	—	—
Pan-European accounts receivable facility	221	0.89 %	224	0.90 %
Mexican credit facilities	340	3.90 %	340	3.14 %
Chinese credit facilities	157	4.98 %	212	4.87 %
Other foreign and domestic debt[(1)]	955	5.28 %	967	6.02 %
	6,075		5,468	
Unamortized deferred financing fees	(37)		(41)	
	6,038		5,427	
Capital lease obligations	37		40	
	6,075		5,467	
Less portion due within one year	(471)		(391)	
	$5,604		$5,076	

(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.

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NOTES
At September 30, 2018, we had $3,317 million of outstanding notes, compared to $3,325 million at December 31, 2017.
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 September 30, 2018, our borrowing base, and therefore our availability, under this facility was $302 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 September 30, 2018, we had $325 million of borrowings and $37 million of letters of credit issued under the revolving credit facility. At December 31, 2017, we had no borrowings and $37 million of letters of credit issued under the revolving credit facility.
$400 million Amended and Restated Second Lien Term Loan Facility due 2025
In March 2018, we amended and restated our second lien term loan facility. As a result of the amendment, the term loan, which previously matured on April 30, 2019, now matures on March 7, 2025. The term loan 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). 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 September 30, 2018 and December 31, 2017, the amounts outstanding under this facility were $400 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. and Canadian subsidiaries 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

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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 September 30, 2018, there were $140 million (€121 million) of borrowings outstanding under the German tranche, $220 million (€190 million) of borrowings outstanding under the all-borrower tranche and no letters of credit outstanding under the European revolving credit facility. At December 31, 2017, there were no borrowings and no letters of credit outstanding under the European revolving credit facility.
Accounts Receivable Securitization Facilities (On-Balance Sheet)
On September 28, 2018, GDTE and certain other of our European subsidiaries amended and restated the definitive agreements for our pan-European accounts receivable securitization facility, extending the term through 2023. 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 €30 million and not more than €450 million. For the period from October 16, 2017 to October 17, 2018, the designated maximum amount of the facility was €275 million. Effective October 18, 2018, the designated maximum amount of the facility was increased to €320 million.
The facility involves the ongoing daily sale of substantially all of the trade accounts receivable of certain GDTE subsidiaries. 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 26, 2023, (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 17, 2019.
At September 30, 2018, the amounts available and utilized under this program totaled $221 million (€191 million). At December 31, 2017, the amounts available and utilized under this program totaled $224 million (€187 million). The program does not qualify for sale accounting, and accordingly, these amounts are included in Long Term Debt and Capital Leases.
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 2017 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 September 30, 2018, the gross amount of receivables sold was $540 million, compared to $572 million at December 31, 2017.
Other Foreign Credit Facilities
A Mexican subsidiary and a U.S. subsidiary have several financing arrangements in Mexico. At September 30, 2018, the amounts available and utilized under these facilities were $340 million, of which $90 million is due within a year. At December 31, 2017, the amounts available and utilized under these facilities were $340 million. The facilities ultimately mature in 2020. The facilities contain covenants relating to the Mexican and U.S. subsidiary and have customary representations and warranties and defaults relating to the Mexican and U.S. subsidiary's ability to perform its respective obligations under the applicable facilities.
A Chinese subsidiary has several financing arrangements in China. At September 30, 2018, these non-revolving credit facilities had total unused availability of $116 million and can only be used to finance the expansion of our manufacturing facility in China. At September 30, 2018 and December 31, 2017, the amounts outstanding under these facilities were $157 million and $212 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 September 30, 2018 and December 31, 2017, restricted cash related to funds obtained under these

credit facilities was $5 million and $7 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.

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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)	September 30, 2018	December 31, 2017
Fair Values — Current asset (liability):		
Accounts receivable	$ 22	$ 3
Other current liabilities	(3)	(9)

At September 30, 2018 and December 31, 2017, these outstanding foreign currency derivatives had notional amounts of $2,576 million and $1,409 million, respectively, and were primarily related to intercompany loans. Other (Income) Expense included net transaction gains on derivatives of $7 million and $52 million for the three and nine months ended September 30, 2018, respectively, and net transaction losses on derivatives of $10 million and $55 million for the three and nine months ended September 30, 2017, respectively. These amounts were substantially offset in Other (Income) Expense by the effect of changing exchange rates on the underlying currency exposures.
The following table presents fair values for foreign currency contracts designated as cash flow hedging instruments:

(In millions)	September 30, 2018	December 31, 2017
Fair Values — Current asset (liability):		
Accounts receivable	$ 6	$ 1
Other current liabilities	(2)	(8)
Fair Values — Long term asset (liability):		
Other assets	$ 2	$ —
Other long term liabilities	—	(2)

At September 30, 2018 and December 31, 2017, these outstanding foreign currency derivatives had notional amounts of $273 million and $250 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions) (Income) Expense	2018	2017	2018	2017
Amounts deferred to Accumulated Other Comprehensive Loss ("AOCL")	$ (1)	$ 7	$ (9)	$ 28
Amount of deferred (gain) loss reclassified from AOCL into CGS	1	1	8	(3)
Amounts excluded from effectiveness testing	—	(1)	(1)	(2)

The estimated net amount of deferred gains at September 30, 2018 that are expected to be reclassified to earnings within the next twelve months is $2 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

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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.

NOTE 9. FAIR VALUE MEASUREMENTS

The following table presents information about assets and liabilities recorded at fair value on the Consolidated Balance Sheets at September 30, 2018 and December 31, 2017:

	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)	2018	2017	2018	2017	2018	2017	2018	2017
Assets:								
Investments	$ 11	$ 11	$ 11	$ 11	$ —	$ —	$ —	$ —
Foreign Exchange Contracts	30	4	—	—	30	4	—	—
Total Assets at Fair Value	$ 41	$ 15	$ 11	$ 11	$ 30	$ 4	$ —	$ —
Liabilities:								
Foreign Exchange Contracts	$ 5	$ 19	$ —	$ —	$ 5	$ 19	$ —	$ —
Total Liabilities at Fair Value	$ 5	$ 19	$ —	$ —	$ 5	$ 19	$ —	$ —

The following table presents supplemental fair value information about long term fixed rate and variable rate debt, excluding capital leases, at September 30, 2018 and December 31, 2017:

(In millions)	September 30, 2018	December 31, 2017
Fixed Rate Debt(1):		
Carrying amount — liability	$ 3,601	$ 3,616
Fair value — liability	3,551	3,786
Variable Rate Debt(1):		
Carrying amount — liability	$ 2,437	$ 1,811
Fair value — liability	2,421	1,811

(1) Excludes Notes Payable and Overdrafts of $445 million and $262 million at September 30, 2018 and December 31, 2017, respectively, of which $245 million and $110 million, respectively, are at fixed rates and $200 million and $152 million, respectively, are at variable rates. The carrying value of Notes Payable and Overdrafts approximates fair value due to the short term nature of the facilities.

Long term debt with fair values of $3,632 million and $3,857 million at September 30, 2018 and December 31, 2017, respectively, were estimated using quoted Level 1 market prices. The carrying value of the remaining long term debt approximates fair value since the terms of the financing arrangements are similar to terms that could be obtained under current lending market conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 10. 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 September 30,		U.S. Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Service cost	$ 1	$ 1	$ 3	$ 3
Interest cost	39	39	118	120
Expected return on plan assets	(55)	(60)	(164)	(181)
Amortization of net losses	28	27	84	83
Net periodic pension cost	$ 13	$ 7	$ 41	$ 25
Net curtailments/settlements/termination benefits	—	24	3	25
Total defined benefit pension cost	$ 13	$ 31	$ 44	$ 50

	Non-U.S. Three Months Ended September 30,		Non-U.S. Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Service cost	$ 7	$ 8	$ 21	$