



# ***AUTO UNIVERSITY***

***Bob Shanks***

***Vice President and Controller***



**June 20, 2011**





## Purpose of Auto University

- Explain how we report our data
- Address frequently asked questions



## Agenda

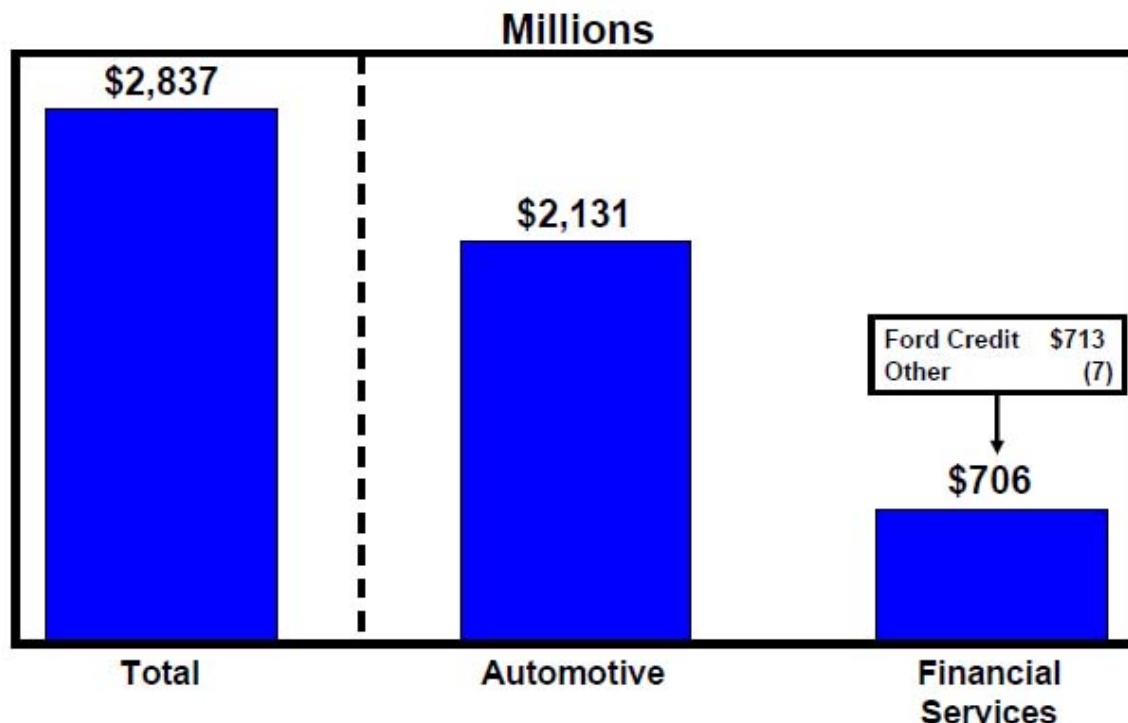
- **Business Unit Reporting**
- **Key Metrics**
- **Profit Variance Analysis**
- **Daily Rental Accounting**
- **Cost Detail**
- **EPS Calculations**
- **Tax Matters**
- **Cash and Balance Sheet**
- **Calendarization Factors**



# BUSINESS UNIT REPORTING -- SECTORS



## TOTAL COMPANY 2011 FIRST QUARTER PRE-TAX RESULTS BY SECTOR\*

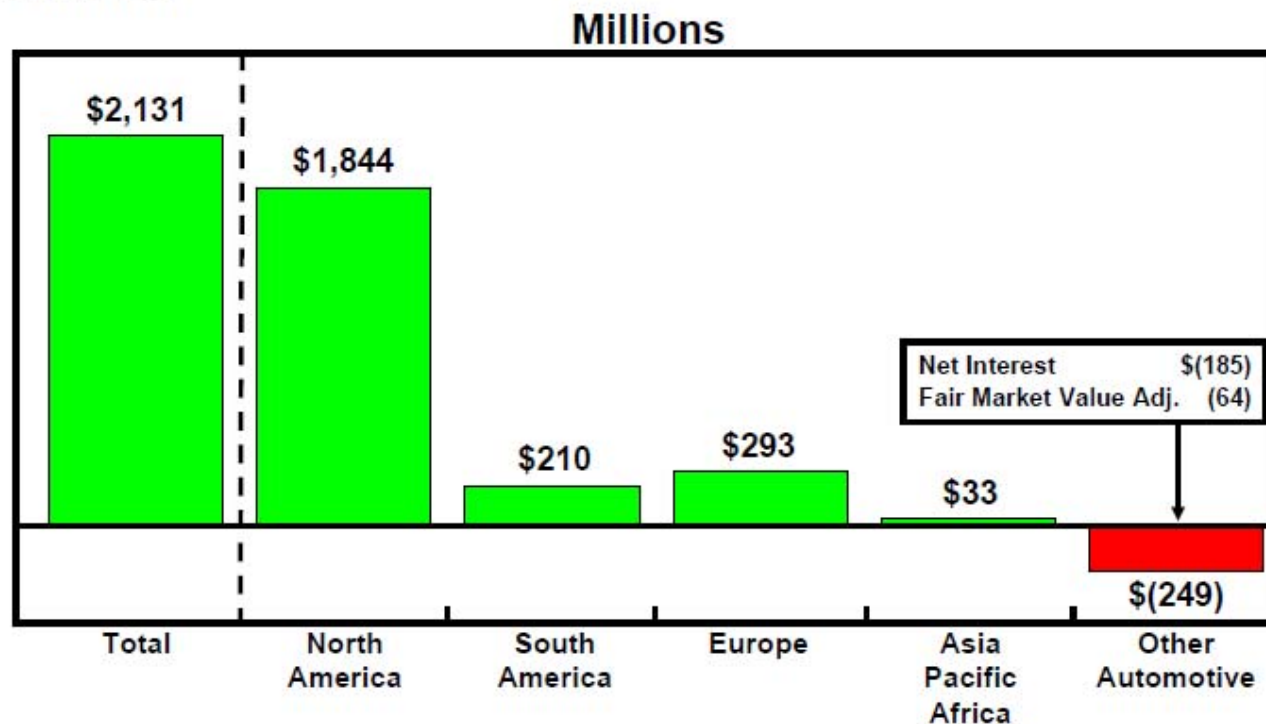


Two Operating Sectors, Automotive And Financial Services; Financial Services Includes Ford Credit And Other Businesses

# BUSINESS UNIT REPORTING -- SEGMENTS



## AUTOMOTIVE SECTOR 2011 FIRST QUARTER PRE-TAX RESULTS BY SEGMENT\*



Four Automotive Segments Reported On A Where Sold Basis. Other Automotive Primarily Is Related To Net Interest Expense

# **BUSINESS UNIT REPORTING -- OTHER AUTOMOTIVE**



	<u>2011 1Q</u> (Mils.)
Interest Income / Other	\$ 66
Interest Expense	<u>(251)</u>
Total Net Interest	\$(185)
Fair Market Value Adjustments	<u>(64) *</u>
Total First Quarter Other Automotive	<u><u>\$(249)</u></u>

\* Primarily related to our investment in Mazda (Ford owns about 3.5%)

**Other Automotive Does Not Include Any Other Central Corporate Expenses; These Are Allocated To The Segments**

# ***BUSINESS UNIT REPORTING -- WHERE SOLD BASIS***



- **Segment results are reported on a “where sold” basis**
  - **Segment results include total corporate profit on all vehicles sold in its markets no matter where the vehicle or its components are produced**
  - **For example, the revenue and profit of Edges produced in North America and sold in China would be reported in our Asia Pacific Africa Segment**

# ***BUSINESS UNIT REPORTING -- PRODUCTION VS. WHOLESALE VS. RETAIL***



## **Production**

**+ / - Net Imports / Exports**

**+ / - Changes in Company Stocks**

**= Wholesales**

**+ / - Changes in Dealer Stocks**

**- Sales to other OEMS**

**= Retails\***

\* Market shares are based on major markets as defined on Appendix 1 and pages 7-10 and 52 of our 2010 Form 10-K Report



# ***BUSINESS UNIT REPORTING -- JOINT VENTURES***



## **Joint venture results are reported within each segment as follows:**

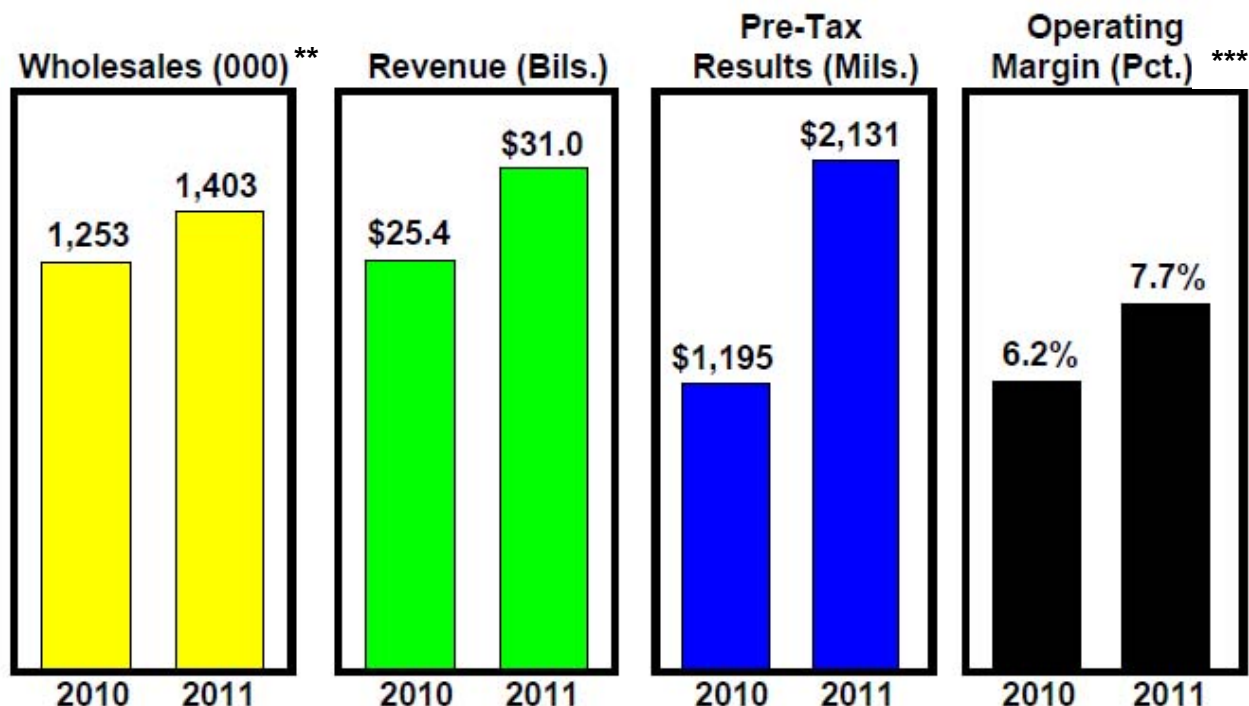
- **Unit Volumes**                      ✓ **Included**
- **Revenue**                              - **Not included**
- **Profits**                                 ✓ **Ford's share of after-tax profits included**



# KEY METRICS



## AUTOMOTIVE SECTOR -- TOTAL AUTOMOTIVE FIRST QUARTER KEY METRICS -- 2011 vs. 2010\*



\* Excludes special items; see Earnings Report Appendix for detail and reconciliation to GAAP and definition of wholesales

\*\* Normal point of revenue and profit recognition

\*\*\* Automotive operating margins defined as Automotive pre-tax results, excluding special items and Other Automotive, divided by Automotive revenue

# KEY METRICS -- SPECIAL ITEMS\*



## FY 2010 Automotive Special Items Summary

	<u>2010</u> (Mils)
<b>Personnel and Dealer Related</b>	
Mercury Discontinuation	\$ (339)
Personnel-reduction actions	(164)
Other	<u>55</u>
<b>Total Personnel and Dealer Related</b>	<b>\$ (448)</b>
<b>Other</b>	
Debt Reduction	\$ (853)
Sale of Volvo	179
Other	<u>(29)</u>
<b>Total Other</b>	<b><u>\$ (703)</u></b>
<b>Total Automotive</b>	<b><u>\$ (1,151)</u></b>

\* Explained on Appendix 2 and page 54 of 1Q 2011 Form 10-Q Report



# **KEY METRICS -- TOTAL AUTOMOTIVE AND BUSINESS UNIT OPERATING MARGINS**

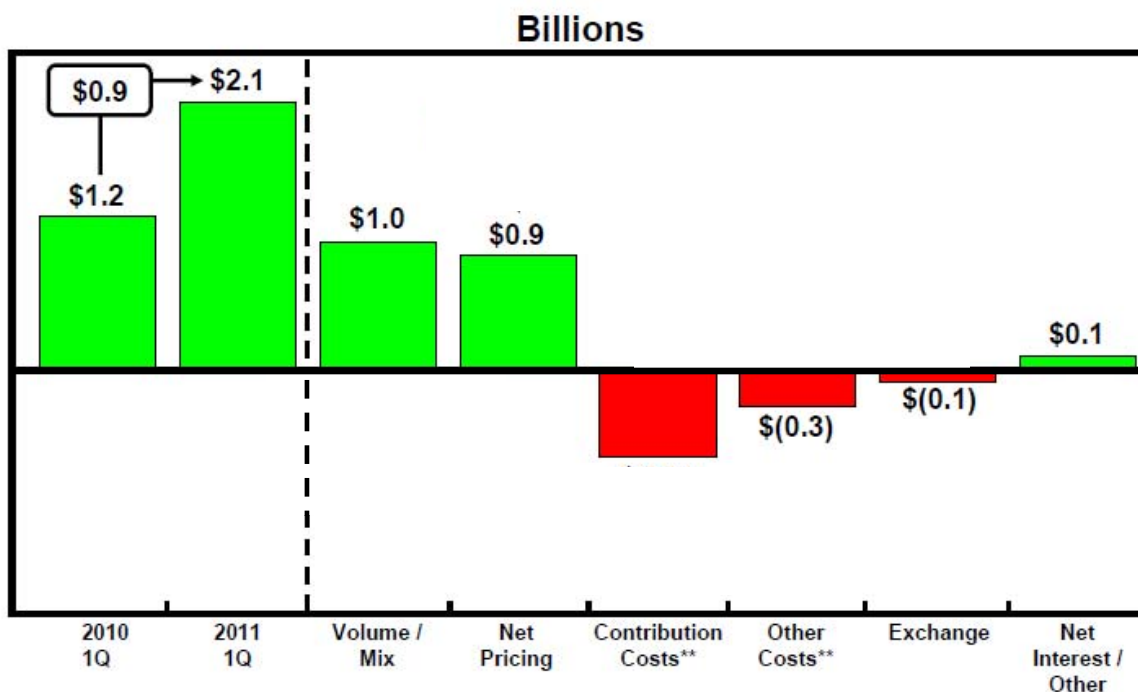
$$\frac{\text{Automotive EBIT}^*}{\text{Automotive Revenue}} = \text{Operating Margin}$$

\* Excluding Special Items and Other Automotive

# PROFIT VARIANCE ANALYSIS\*



## AUTOMOTIVE SECTOR 2011 FIRST QUARTER PRE-TAX RESULTS COMPARED WITH 2010 FIRST QUARTER\*



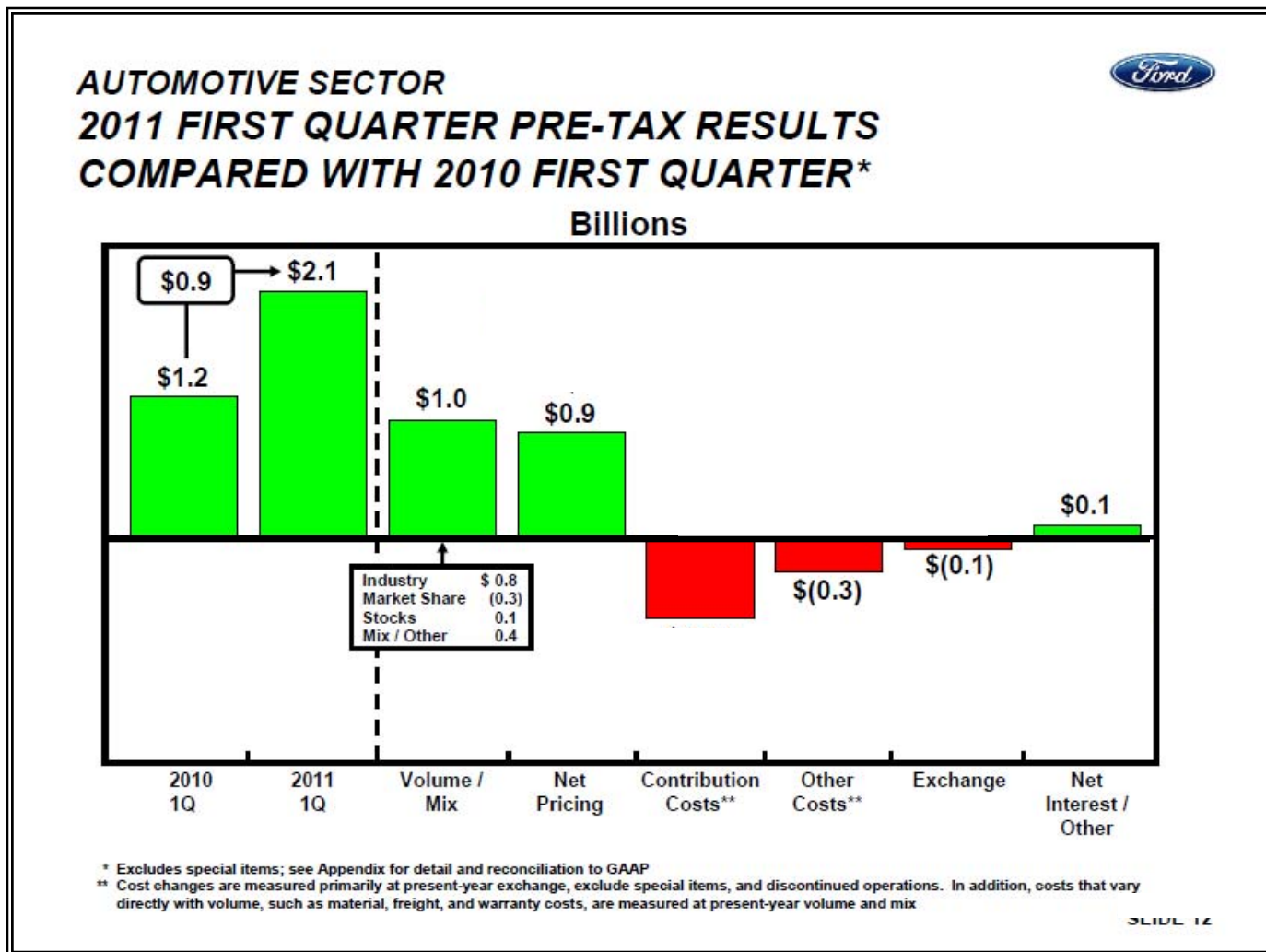
\* Excludes special items; see Appendix for detail and reconciliation to GAAP

\*\* Cost changes are measured primarily at present-year exchange, exclude special items, and discontinued operations. In addition, costs that vary directly with volume, such as material, freight, and warranty costs, are measured at present-year volume and mix

SLIDE 12

\* Variance methodology defined on Appendix 3 and page 56 of 1Q 2011 Form 10-Q Report

# PROFIT VARIANCE ANALYSIS\*

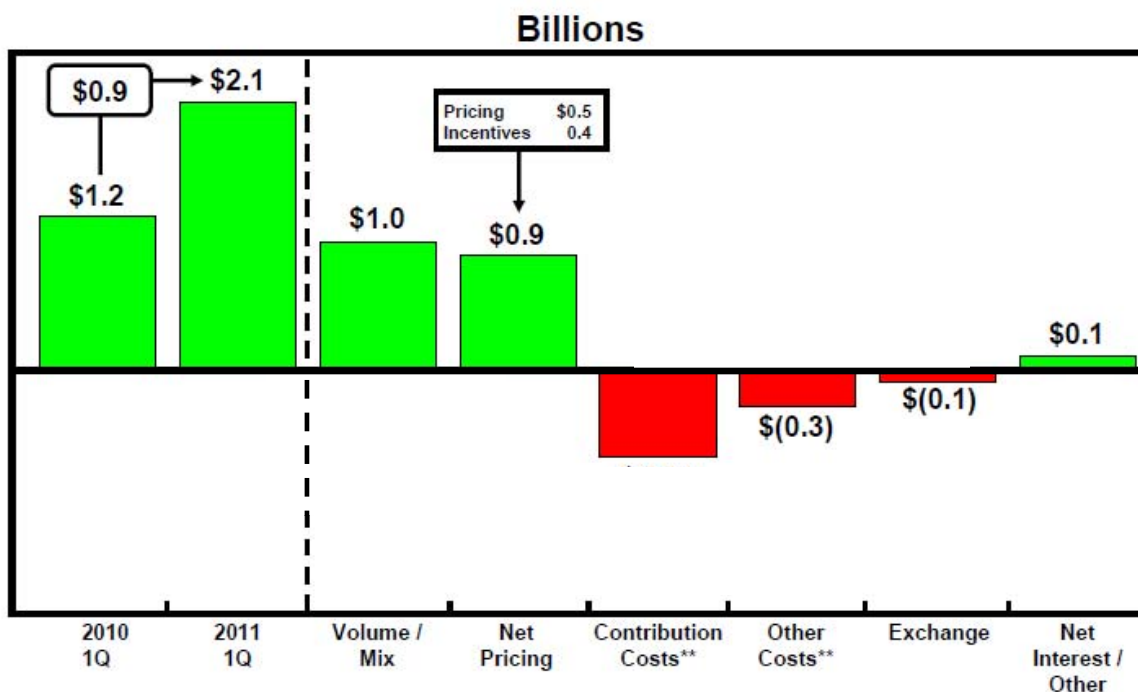


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# PROFIT VARIANCE ANALYSIS\*



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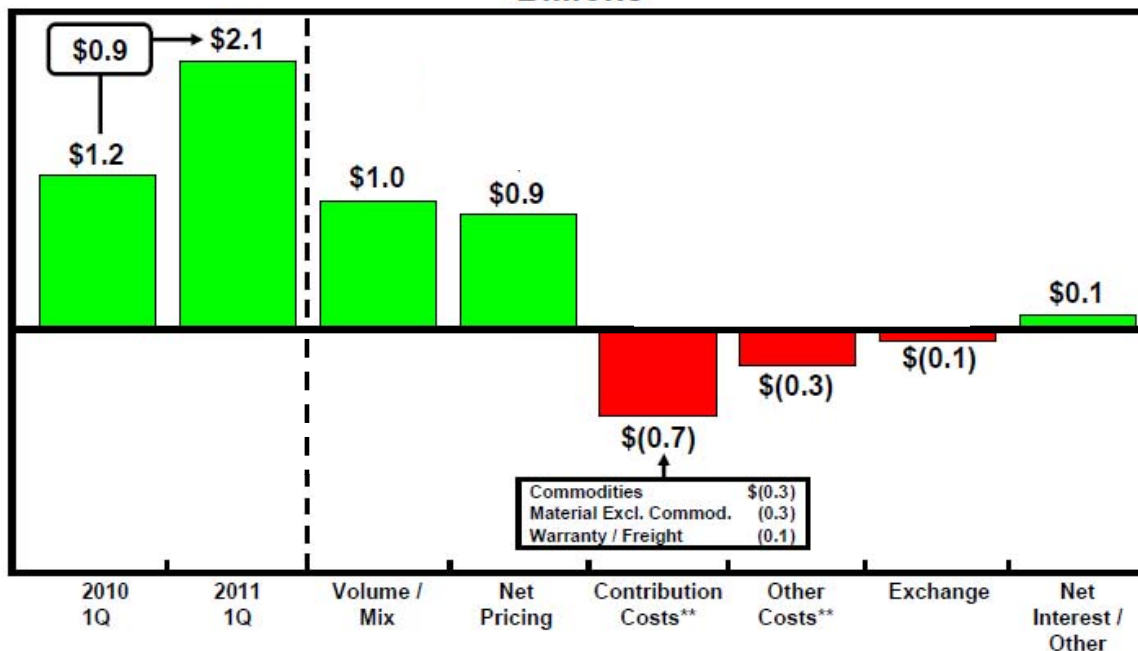
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Billions



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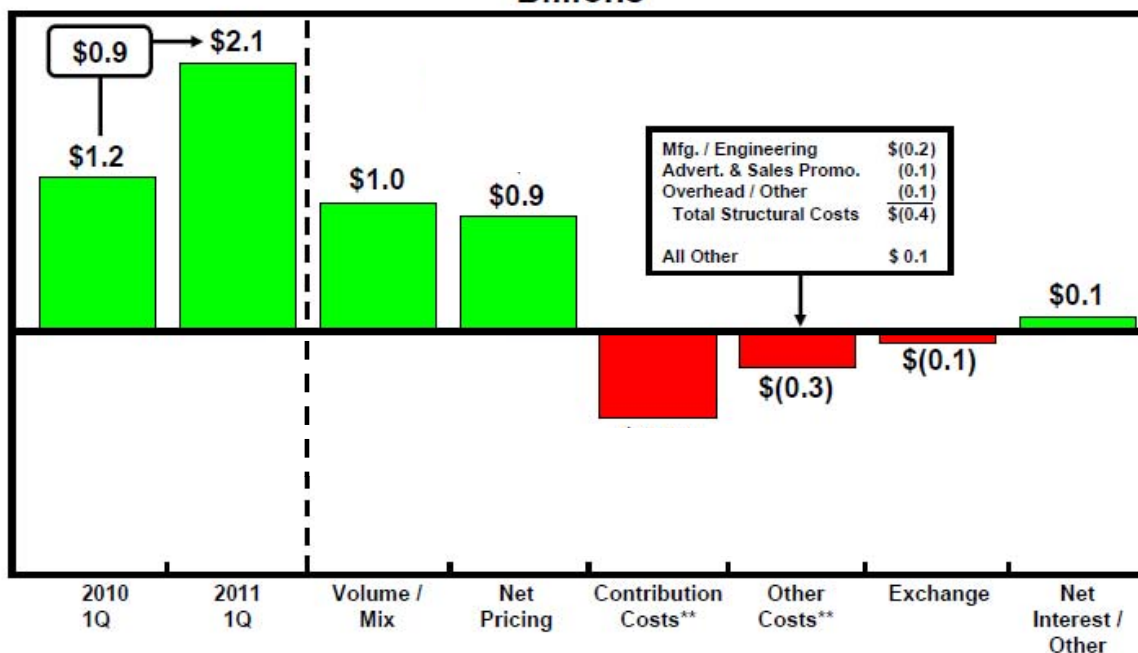
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Billions



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SLIDE 12

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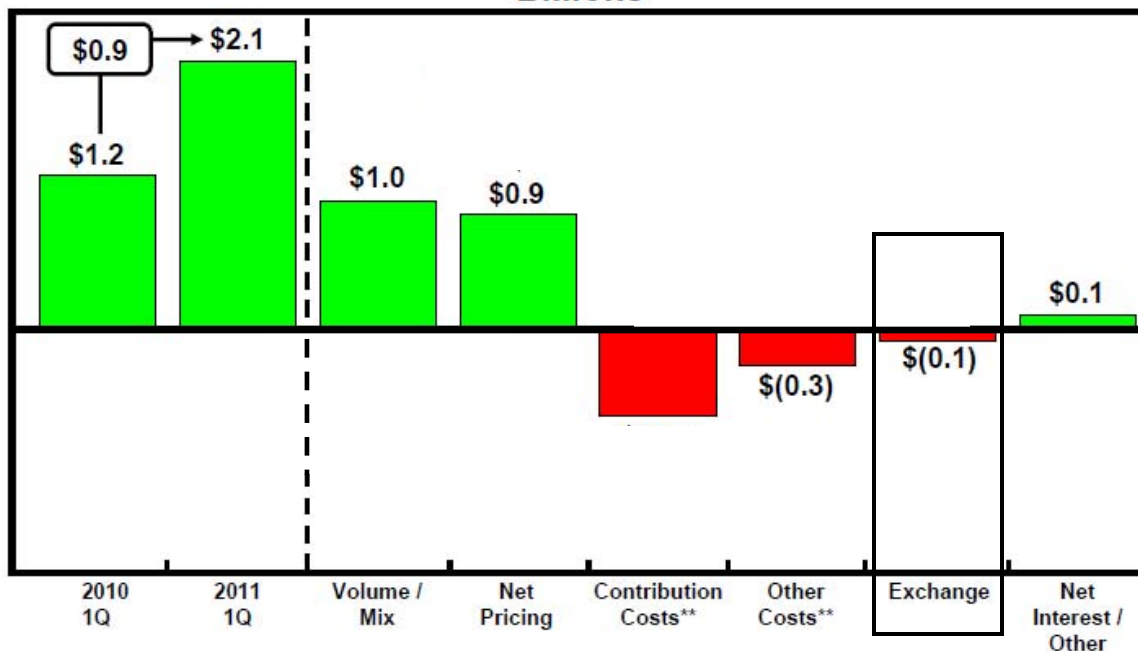
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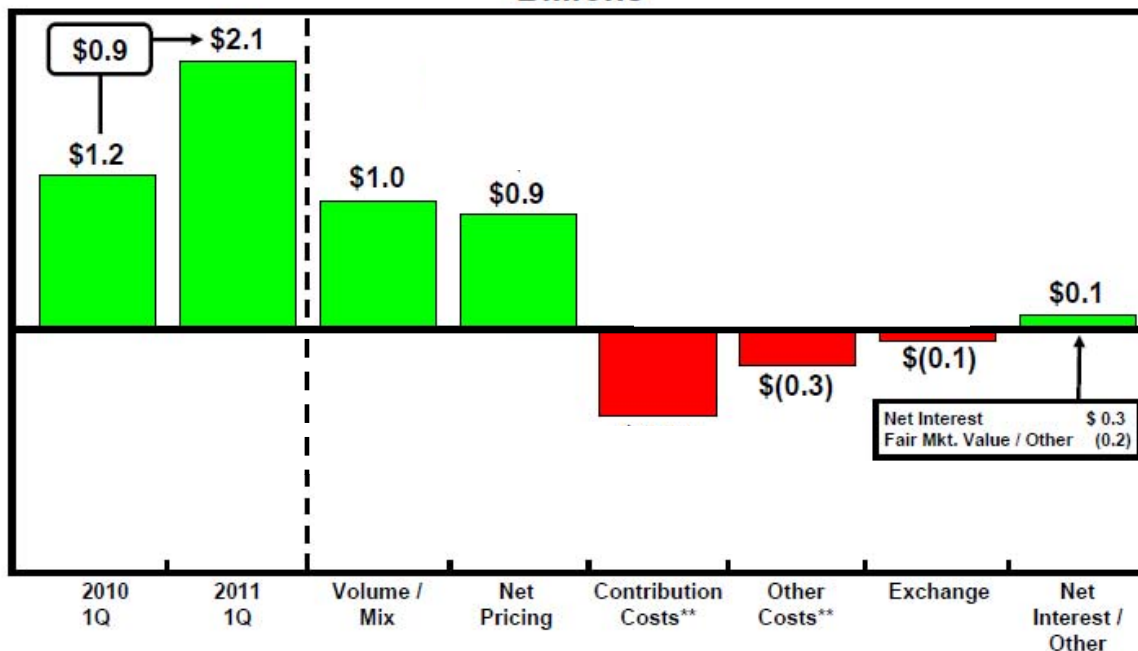
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SLIDE 12

\* Variance methodology defined on Appendix 3 and page 56 of 1Q 2011 Form 10-Q Report



# PROFIT VARIANCE ANALYSIS -- SAAR AND ABSOLUTE INDUSTRY VOLUMES

	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>FY</u>
<b><u>SAAR's (Mils.)</u></b>					
2010	11.3	11.5	11.7	12.7	11.8
2009	9.8	9.8	11.8	11.0	10.6
Year-to-Year Change	15 %	17 %	(1) %	15 %	11 %
Quarter-to-Quarter Change	3	2	2	9	
<b><u>Industry Volumes (000)</u></b>					
2010	2,590	3,116	3,052	3,017	11,775
2009	2,246	2,647	3,048	2,666	10,607
Year-to-Year Change	15 %	18 %	0 %	13 %	11 %
Quarter-to-Quarter Change	(3)	20	(2)	(1)	

**Profit Variances Are Based On Changes In Absolute Industry Volumes,  
Not SAARs**

# PROFIT VARIANCE ANALYSIS -- IMPACT OF DEALER STOCK CHANGES



## SELECTED MARKETS 2011 FIRST QUARTER DEALER STOCKS



	2010* (000)	2011 (000)
<b>U.S. Dealer Stocks</b>		
March 31	405	407
December 31 -- Prior Year	382	394
1Q Stock Change H / (L)	23	13
	(10)	
<b>South America Dealer Stocks**</b>		
March 31	28	42
December 31 -- Prior Year	53	52
1Q Stock Change H / (L)	(25)	(10)
	15	
<b>Europe Dealer Stocks***</b>		
March 31	187	226
December 31 -- Prior Year	202	213
1Q Stock Change H / (L)	(15)	13
	28	
<b>Asia Pacific Africa Dealer Stocks****</b>		
March 31	59	94
December 31 -- Prior Year	40	75
1Q Stock Change H / (L)	19	19
	-	
<b>Total</b>		
March 31	679	769
December 31 -- Prior Year	677	734
1Q Stock Change H / (L)	2	35
	33	

1Q North American profit decline due to dealer stocks is 10,000 units times contribution margin

\* Excludes Volvo

\*\* South America dealer stocks are based, in part, on estimated vehicle sales for the six major markets in that region

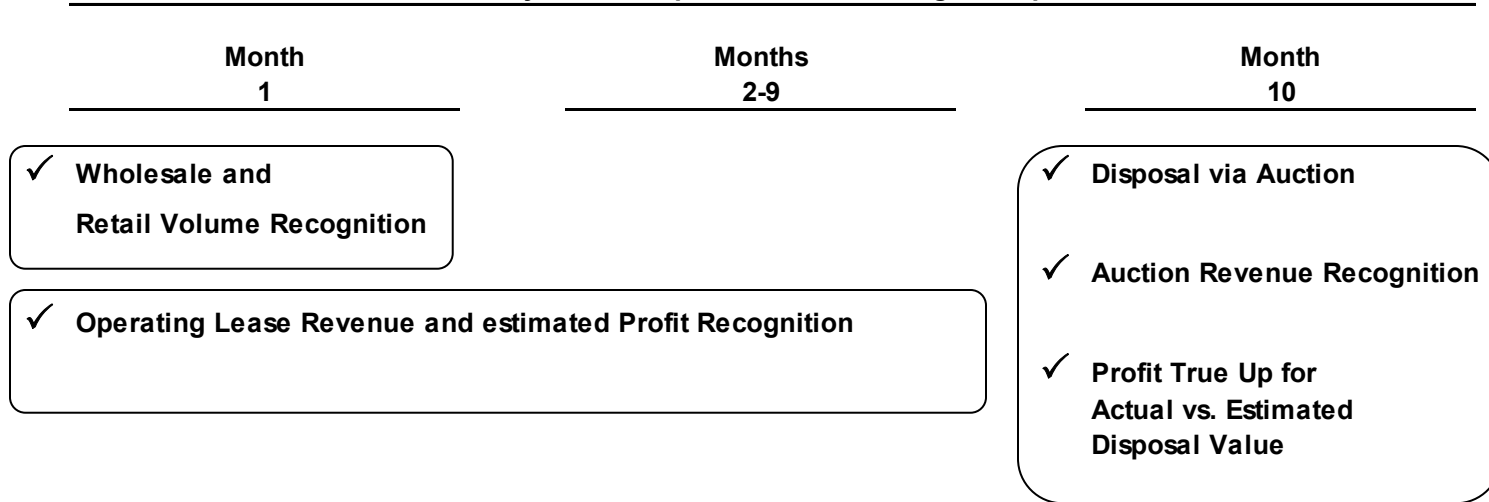
\*\*\* Europe dealer stocks are based, in part, on estimated vehicle sales for the 19 major markets in that region

\*\*\*\* Asia Pacific Africa dealer stocks are based, in part, on estimated vehicle sales for our 12 major markets in that region

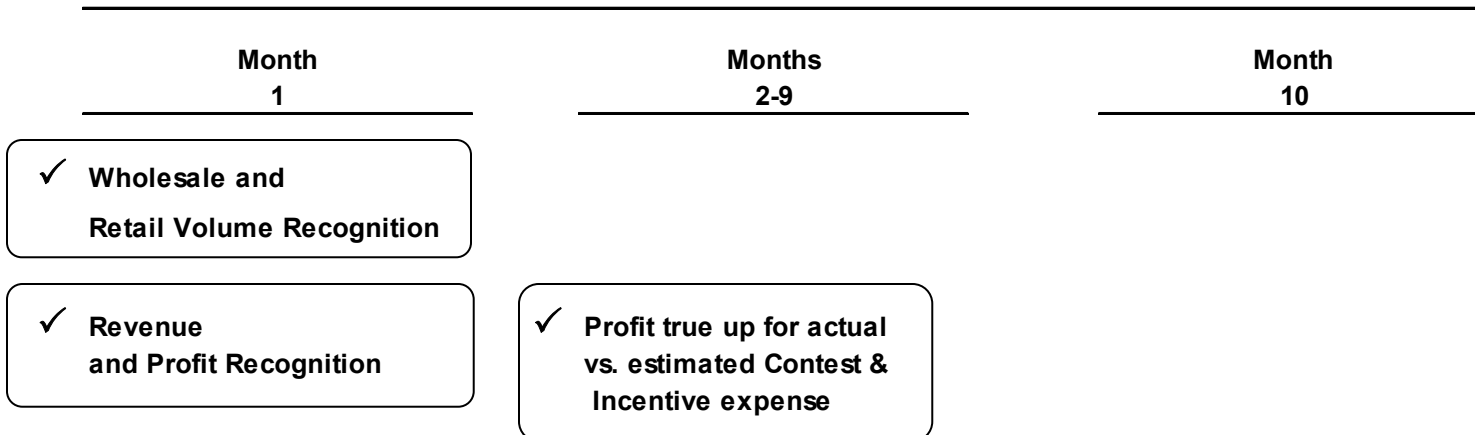


# DAILY RENTAL ACCOUNTING -- VOLUME, REVENUE AND PROFIT RECOGNITION

## Daily Rental Repurchase Accounting Example



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Memo: "Normal" Sale Accounting Example





# ***AUTOMOTIVE COST DETAILS -- FINANCIAL STATEMENTS***

**Ford's financial statements break costs into two categories:**

- **Cost of Sales -- costs related to the development, manufacture and distribution of our vehicles, parts, and accessories.**
  - **Material (including commodities)**
  - **Freight**
  - **Warranty and related costs**
  - **Labor and other costs directly related to the development and manufacture of our products**
  - **Depreciation and amortization**
  - **Other associated costs**
- **Selling, administrative and other**
  - **Labor and other costs not directly related to the development and manufacture of our products**
  - **Advertising and Sales Promotions**
  - **Other associated costs**



# **AUTOMOTIVE COST DETAILS -- VARIANCE ANALYSIS\***

**Our variance analysis breaks costs into two major buckets:**

- **Contribution costs (variances reflect changes in cost per unit)**
  - **Material**
    - » **Commodities**
    - » **Material excluding commodities (includes design changes and cost reductions)**
  - **Freight**
  - **Warranty and related costs (includes base coverage, recalls, etc)**
  
- **Other Costs (variances reflect absolute changes)**
  - **Structural**
    - » **Labor, including pension and health care**
    - » **Other costs related to the development and manufacture of our vehicles**
    - » **Depreciation and amortization**
    - » **Advertising and sales promotions**
    - » **Other selling and administrative costs**
  - **Other -- such as legal costs**

\* All cost changes are measured primarily at present year exchange and exclude special items. Contribution costs also are measured at present year volume and mix



# ***AUTOMOTIVE COST DETAILS -- MAJOR TYPES OF COSTS AND HOW THEY VARY WITH PRODUCTION***

**Material (including commodity)  
Freight  
Warranty**

**Manufacturing labor and overhead  
(adding overtime or a shift to support  
volume increases)**

**Advertising**

**Engineering \***

**Depreciation and amortization**

**Costs largely varies with  
production volume**



**Costs do not largely vary with  
production volume**



**\* Note Engineering cost is generally expensed in the period it is incurred**



## ***AUTOMOTIVE COST DETAILS -- WARRANTY REPORTING***

- **Estimated lifetime warranty costs are accrued for when the vehicle is wholesaled.**
  - **Includes costs for basic warranty coverage, product recalls, and other customer service actions**
- **Reserve adjustments are recorded as appropriate**
  - **Based on a defined set of rules of the road, accruals are compared with actual experience**
- **Extended service plan profits are recognized over the contract period in proportion to expected costs**

# AUTOMOTIVE COST DETAILS -- WHERE TO FIND THEM



	Income Statement	Published	Statement
<b>Contribution Costs</b>			
Commodity and Other Material	Cost of Sales	2010 10-K P.40	Commodity/Material are about 2/3 of Total Automotive Costs
Freight	Cost of Sales		Ford does not disclose this separately
Warranty (costs for basic warranty coverage on products sold)	Cost of Sales	2010 10-K P. FS-105	2010 cost \$1.7 Bils
Product Recall and Customer Satisfaction	Cost of Sales	--	Ford does not disclose this separately
<b>Structural</b>			
Depreciation/Amortization	Cost of Sales	2010 10-K P. FS-98	2010 cost \$3.9 Bils
Labor	Cost of Sales/S&A	2010 10-K P.22	Total number of employees was approximately 164,000
Engineering/R&D	Cost of Sales	2010 10-K P.23 and P. FS-16	2010 cost \$5 Bils.
Advertising	S&A	2010 10-K P. FS-16	2010 cost \$3.9 Bils.
Other	Cost of Sales/S&A	--	Ford does not disclose this separately
<b>Other</b>			
Legal	Cost of Sales		Ford does not disclose this separately
<b>Special Items</b>			
Mercury discontinuation/Other dealer actions	Cost of Sales	2010 10-K P. 48	\$(339) Mills in 2010
Personnel-reduction actions	Mixed	2010 10-K P. 48	\$(164) Mills in 2010. Reduction actions attributable to hourly labor fall primarily into COS, salary-related reductions primarily fall into S&A.
Debt reduction actions	Other Income/Loss	2010 10-K P. 48	\$(853) Mills in 2010
Sale of Volvo	Cost of Sales/S&A	2010 10-K P. 48 & FS-88	\$179 Mills net profit impact in 2010
Total Automotive Cost of Sales		2010 10-K P. FS-2	2010 cost \$104 Bils.
S&A		2010 10-K P. FS-2	2010 cost \$9 Bils.
Total Automotive Cost and Expense (including about \$8 Bils related to Volvo)		2010 10-K P. 40 & FS-2	2010 cost \$113 Bils.

# EARNINGS PER SHARE



## TOTAL COMPANY CALCULATION OF EARNINGS PER SHARE



	First Quarter 2011	
	Net Income Attributable to Ford	After-Tax Oper. Excl. Special Items
<u>After-Tax Results (Mils.)</u>		
After-tax results*	\$ 2,551	\$ 2,612
Effect of dilutive 2016 Convertible Notes**	14	14
Effect of dilutive 2036 Convertible Notes**	-	-
Effect of dilutive convertible Trust Preferred Securities**/****	36	36
Diluted after-tax results	<u>\$ 2,601</u>	<u>\$ 2,662</u>
<u>Basic and Diluted Shares (Mils.)</u>		
Basic shares (Average shares outstanding)	3,771	3,771
Net dilutive options and warrants****	264	264
Dilutive 2016 Convertible Notes	95	95
Dilutive 2036 Convertible Notes	3	3
Dilutive convertible Trust Preferred Securities***	133	133
Diluted shares	<u>4,266</u>	<u>4,266</u>
EPS (Diluted)	\$ 0.61	\$ 0.62

Our current low effective tax rate is primarily the result of our valuation allowance against deferred tax assets. Sustained levels of profitability are expected to lead to reversal of the majority of our valuation allowance, which could occur as early as the Second Half of 2011. This would lead to a more normalized annual effective tax rate for Full Year 2011 (approaching the U.S. statutory tax rate of 35% for the year) for the purpose of determining operating earnings per share. Reversal of the valuation allowance will not affect our cash tax payments, which should remain low for a number of years.

\* Excludes Income / (Loss) attributable to non-controlling interests and the effect of discontinued operations; special items detailed on Appendix 3

\*\* As applicable, includes interest expense, amortization of discount, amortization of fees, and other changes in income or loss that result from the application of the if-converted method for convertible securities

\*\*\* On March 15, 2011, the Trust Preferred Securities were fully redeemed and, as a result, for purposes of dilution effect, the year-to-date average share will reflect the Trust Preferred Securities owned through March 15. However, the quarterly dilution calculation for the remaining quarters of 2011 will not include the Trust Preferred Securities

\*\*\*\* Net dilutive effect includes approximately 155 million dilutive shares representing the net share settlement methodology for the 362 million warrants outstanding as of March 31, 2011

# EARNINGS PER SHARE -- TRUST PREFERRED SECURITIES



## TOTAL COMPANY CALCULATION OF EARNINGS PER SHARE



	First Quarter 2011	
	Net Income Attributable to Ford	After-Tax Oper. Excl. Special Items
<b>After-Tax Results (Mils.)</b>		
After-tax results*	\$ 2,551	\$ 2,612
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# EARNINGS PER SHARE -- WARRANTS



## TOTAL COMPANY CALCULATION OF EARNINGS PER SHARE



	First Quarter 2011	
	Net Income Attributable to Ford	After-Tax Oper. Excl. Special Items
<u>After-Tax Results (Mils.)</u>		
After-tax results*	\$ 2,551	\$ 2,612
Effect of dilutive 2016 Convertible Notes**	14	14
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\*\*\*\* Net dilutive effect includes approximately 155 million dilutive shares representing the net share settlement methodology for the 362 million warrants outstanding as of March 31, 2011

# **EARNINGS PER SHARE -- 2011 FIRST QTR. DILUTION EFFECT OF WARRANTS**



<b>Warrants outstanding at the end of reporting period</b>	<b>362 million *</b>
<b>Average prices of common stock during First Quarter 2011</b>	<b>\$16.05</b>
<b>Strike Price</b>	<b>\$9.20</b>
<b>Average price of common stock over strike price (\$16.05 - \$9.20)</b>	<b>\$6.85</b>
<b>Percentage of in-the-money shares (\$6.85/\$16.05)</b>	<b>43%</b>

**43% of 362 million warrants = 155 million dilutive impact of warrants**

\* Warrants are fully exercisable and expire on January 1, 2013

**Dilution Impact Of Warrants Changes With Stock Price**

- **Valuation Allowance**
- **Cash Taxes**
- **Effective Tax Rate**





- **Valuation Allowance**
  - **\$15.7 billion as of December 31, 2010**
  - **Consumption can result in unusual and volatile tax rates**
  - **Release will be recorded as a tax benefit in income statement**
  
- **Cash Taxes**
  
- **Effective Tax Rate**



# TAX MATTERS -- VALUATION ALLOWANCE; EXAMPLE OF REVISED OPERATING EPS

Hypothetical:

- Valuation allowance is reversed in 4Q
- Tax rate is 10% for reporting periods 1Q – 3Q
- Tax rate is 35% for reporting period 4Q
- 100 Shares outstanding

	Q1 - Q3 Reported at 10% Tax Rate				
	Q1	Q2	Q3	Q4	FY
PBT	\$ 100	\$ 100	\$ 100	\$ 100	\$ 400
Operating tax	(10)	(10)	(10)	(35)	(65)
Tax Special item	-	-	-	200	200
Net	<u>\$ 90</u>	<u>\$ 90</u>	<u>\$ 90</u>	<u>\$ 265</u>	<u>\$ 535</u>
Operating EPS	\$ 0.90	\$ 0.90	\$ 0.90	\$ 0.65	\$ 3.35

	Q1 - Q3 Revised to 35% Tax Rate				
	Q1	Q2	Q3	Q4	FY
PBT	\$ 100	\$ 100	\$ 100	\$ 100	\$ 400
Operating tax	(35)	(35)	(35)	(35)	(140)
Tax Special item	25	25	25	200	275
Net	<u>\$ 90</u>	<u>\$ 90</u>	<u>\$ 90</u>	<u>\$ 265</u>	<u>\$ 535</u>
Operating EPS	\$ 0.65	\$ 0.65	\$ 0.65	\$ 0.65	\$ 2.60

Ford expects to report its full year results consistent with this approach



- **Valuation Allowance**
- **Cash Taxes**
  - **Release of valuation allowance has no impact on underlying tax attributes**
  - **Ford's cash taxes are expected to remain low for a number of years**
- **Effective Tax Rate**

# **TAX MATTERS -- EFFECTIVE TAX RATE**



- **Valuation Allowance**
- **Cash Taxes**
- **Effective Tax Rate**
  - **Statutory tax rates vary by country**
  - **Ford expects its global ongoing effective tax rate to approach 35%**

# CASH AND BALANCE SHEET -- GROSS CASH



	<b>Mar. 31</b> <b>2011</b>
	<u>(Bils.)</u>
<b>Cash and cash equivalents</b>	<b>\$12.6 *</b>
<b>Marketable securities</b>	<u><b>8.8</b></u>
<b>Total cash and marketable securities</b>	<b>\$21.4</b>
<b>Securities in Transit</b>	<u><b>(0.1)</b></u>
<b>Gross cash</b>	<u><u><b>\$21.3</b></u></u>

\* Excludes restricted cash, which is reflected in Other Assets on the Balance Sheet  
(includes cash used as collateral)

# CASH AND BALANCE SHEET -- CASH FLOW\*



## AUTOMOTIVE SECTOR 2011 CASH\*

	First Quarter (Bils.)	
<b>Gross Cash</b>		
March 31, 2011	\$ 21.3	
December 31, 2010	<u>20.5</u>	
Change in gross cash	<u>\$ 0.8</u>	See slides 39 and 44 for further detail
<b>Automotive pre-tax profits**</b>	\$ 2.1	Includes differences due to compensation, warranty and pension payments, and inter sector transactions
Capital spending	(0.9)	
Depreciation and amortization	0.9	
Changes in working capital	1.5	
Other / timing differences	(1.3)	Includes dividends and tax payments
Up-front subvention payments to Ford Credit	(0.1)	
Automotive operating-related cash flow	<u>\$ 2.2</u>	
Separation payments	-	See slides 40 and 41 for further detail
Receipts from Ford Credit	1.3	
Other	0.1	
Cash flow before other actions	<u>\$ 3.6</u>	
Changes in debt	(2.5)	
Pension contributions	(0.3)	
Change in gross cash	<u>\$ 0.8</u>	

\* See Appendix for reconciliation to GAAP

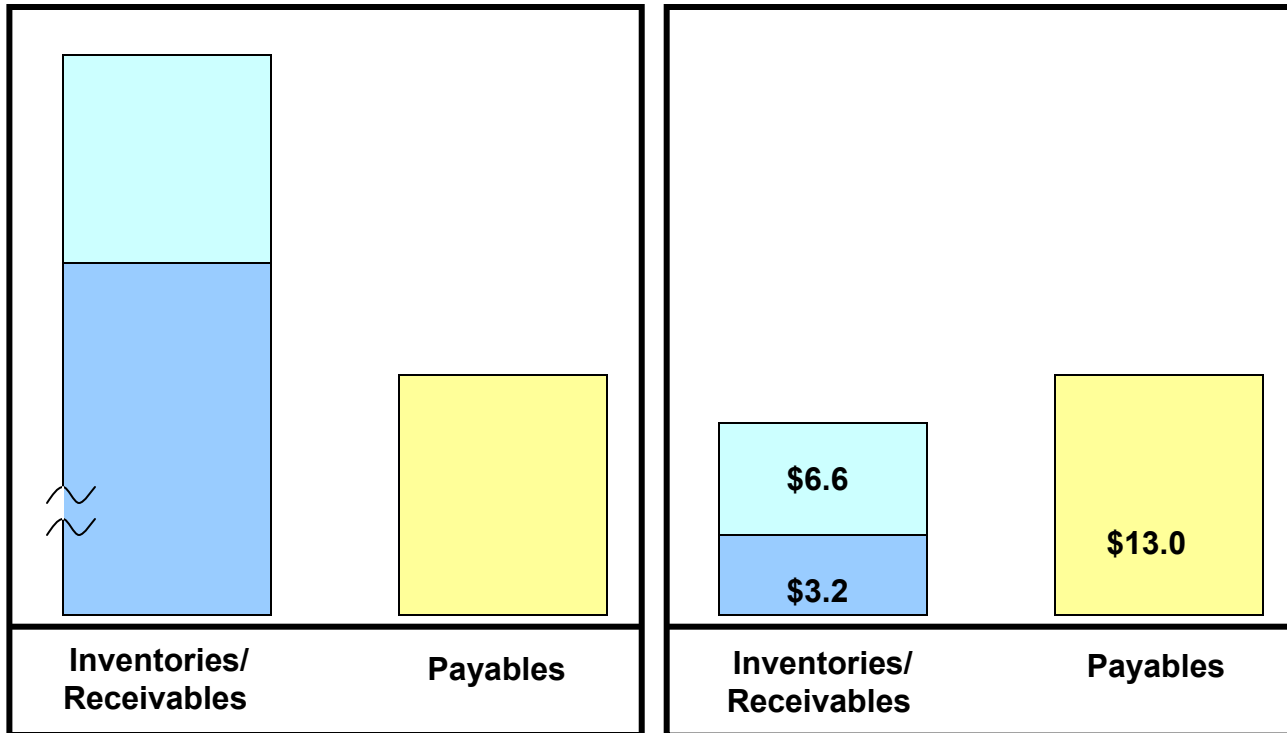
\*\* Excludes special items; see Appendix for detail and reconciliation to GAAP

\* Defined on Appendix 6 and page 65 of 1Q 2011 Form 10-Q Report

# CASH AND BALANCE SHEET -- WORKING CAPITAL\*

Other Mfg. Companies\*

Ford



\* Data are based on average 2010 balances; other manufacturing company data from Capital IQ; drawn to relative scale

**Working Capital Changes At Ford Tends To Improve Cash Flow As Volumes Improve**



# CASH AND BALANCE SHEET -- PENSION AND OPEB ACCOUNTING AND REPORTING\*

	Year-End/Full Year 2010			
	Pension			OPEB
	US	Non-US	Total	
(Bils)	(Bils)	(Bils)	(Bils)	
<b>Balance Sheet</b> (Provided Annually)				
<u>Asset/(Liability)</u>				
Benefit Obligation	\$ (46.6)	\$ (23.4)	\$ (70.0)	\$ (6.4)
Fair Value of Plan Assets	39.9	18.6	58.5	-
Funded Status	<u>\$ (6.7)</u>	<u>\$ (4.8)</u>	<u>\$ (11.5)</u>	<u>\$ (6.4)</u>
<u>Amounts Recognized on the Balance Sheet</u>				
Prepaid Assets	\$ -	\$ 0.6	\$ 0.6	\$ -
Accrued Liabilities	(6.7)	(5.4)	(12.1)	(6.4)
Total	<u>\$ (6.7)</u>	<u>\$ (4.8)</u>	<u>\$ (11.5)</u>	<u>\$ (6.4)</u>
Accumulated				
<u>Other Comprehensive (Income)/Loss</u>				
Unamortized prior service costs/(credits)	\$ 1.5	\$ 0.4	\$ 1.9	\$ (2.2)
Unamortized net (gains)/losses and other	6.6	5.7	12.3	2.1
Total	<u>\$ 8.1</u>	<u>\$ 6.1</u>	<u>\$ 14.2</u>	<u>\$ (0.1)</u>
<b>Cash</b> (Pension data provided Quarterly)				
<u>Plan Contributions / Benefit Payments</u>				
Funded (included in cash flow of a financing nature)			\$ 1.0	\$ -
Non-Funded (included in operating-related cash flow)			0.4	0.4

\* Shown on pages FS-53 & 54 of 2010 Form 10-K Report





# CASH AND BALANCE SHEET RELATED -- PENSION AND OPEB ACCOUNTING AND REPORTING\*

	First Quarter 2011	
	Pension	OPEB
<b>Expense / (Income) (Mils.)</b> (Provided Quarterly)		
Service cost	\$ 197	\$ 15
Interest cost	897	82
Expected return on assets	(1,105)	-
Amortization of:		
Prior service costs / (credits)	104	(152)
(Gains) / losses and other	129	29
Subtotal Operating Expense	\$ 222	\$ (26)
Separation programs	-	-
Settlements	6	-
Total Expense / (Income)	<u>\$ 228</u>	<u>\$ (26)</u>

**Cash (Bils.)** (Pension data provided Quarterly)

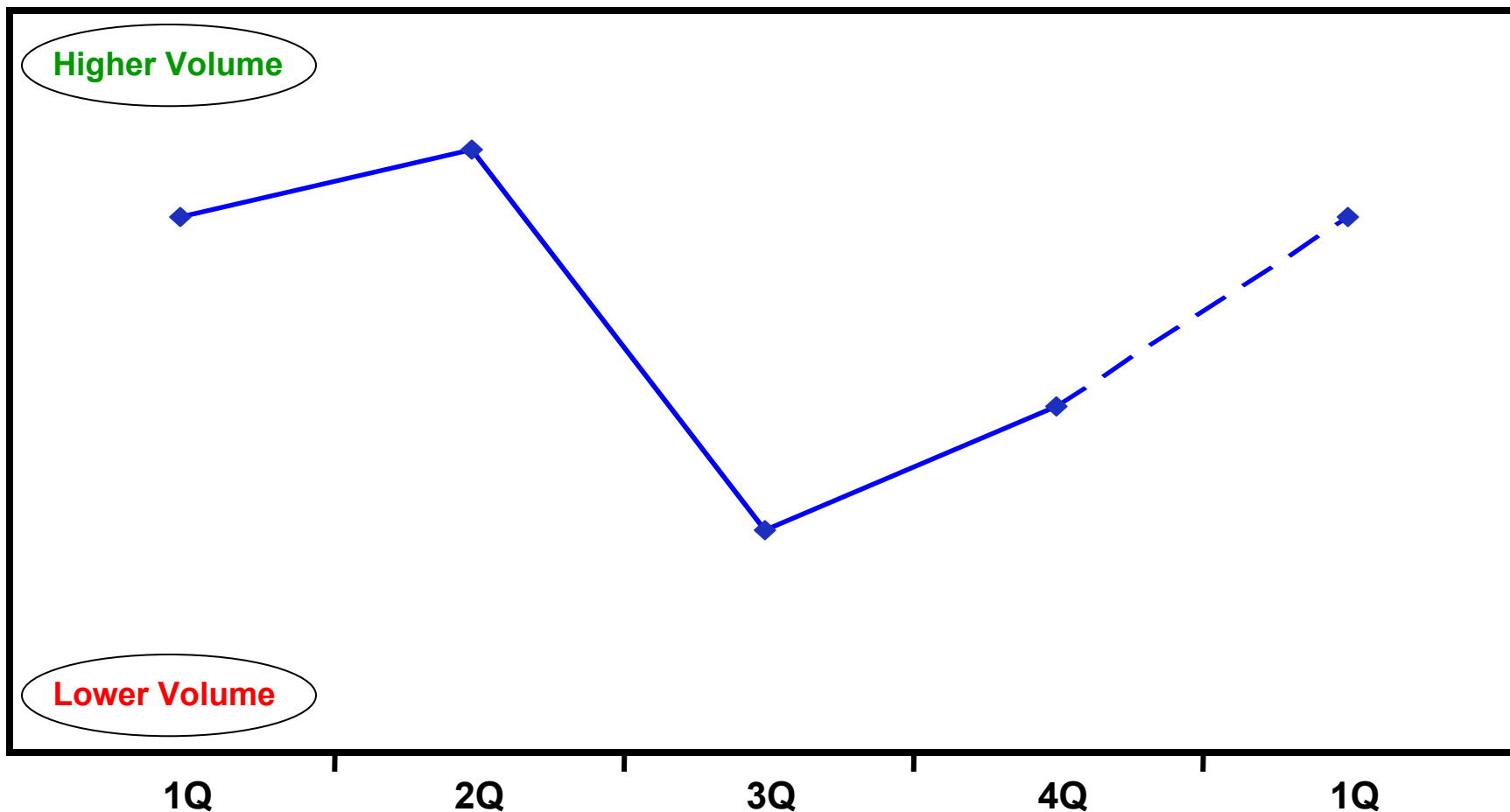
## Plan Contributions / Benefit Payments

Funded (included in cash flow of a financing nature)	\$ 0.3	\$ -
Non-Funded (included in operating-related cash flow)	0.1	**

\* Defined on pages 35 of 1Q 2011 Form 10-Q Report

\*\* Not provided

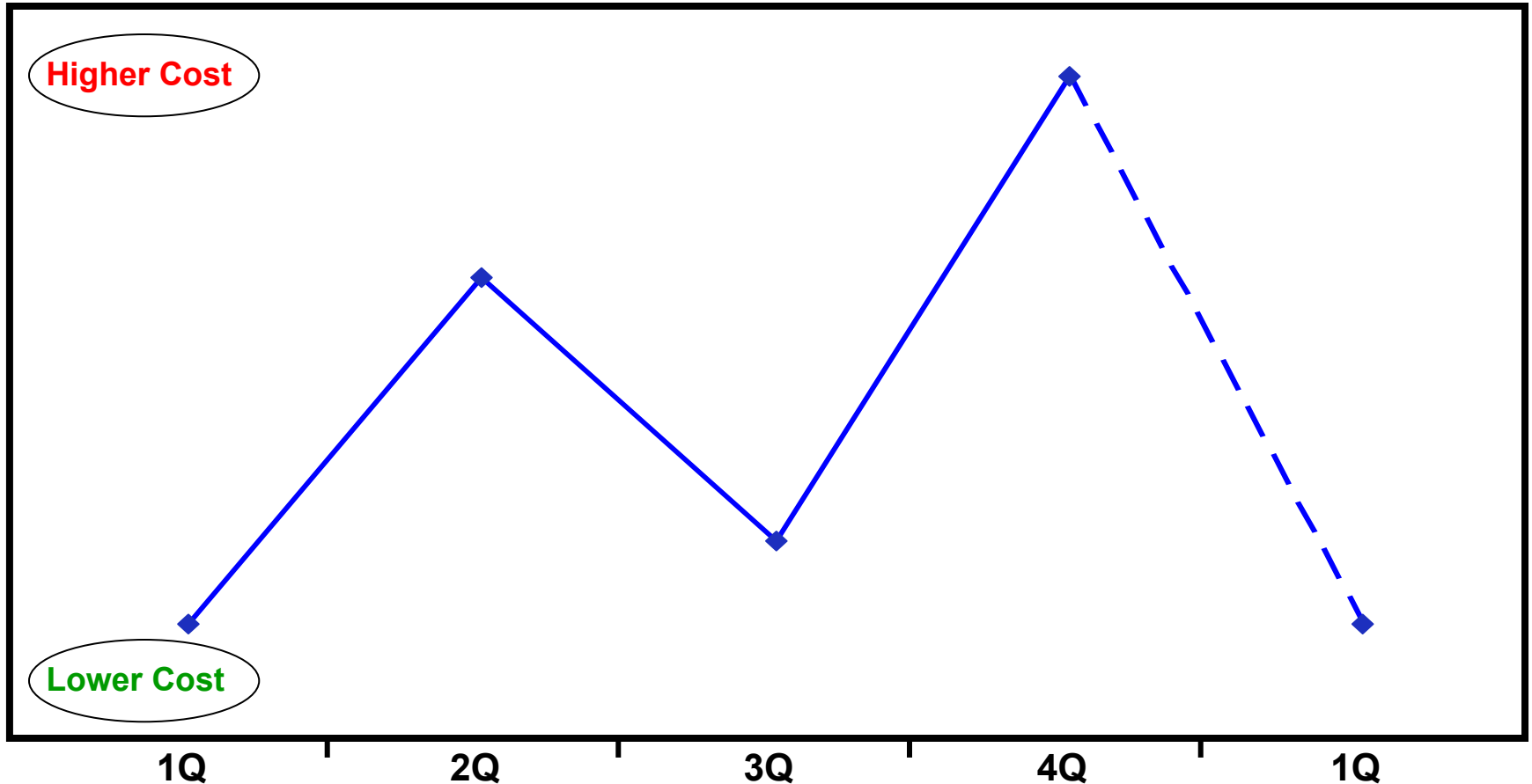
# CALENDARIZATION FACTORS – PRODUCTION SEASONALITY\*



\* Based on average data from the past seven years

**Generally, Profits And Cash Flow Are Aligned With Production Volumes**

# CALENDARIZATION FACTORS -- STRUCTURAL COST SEASONALITY\*



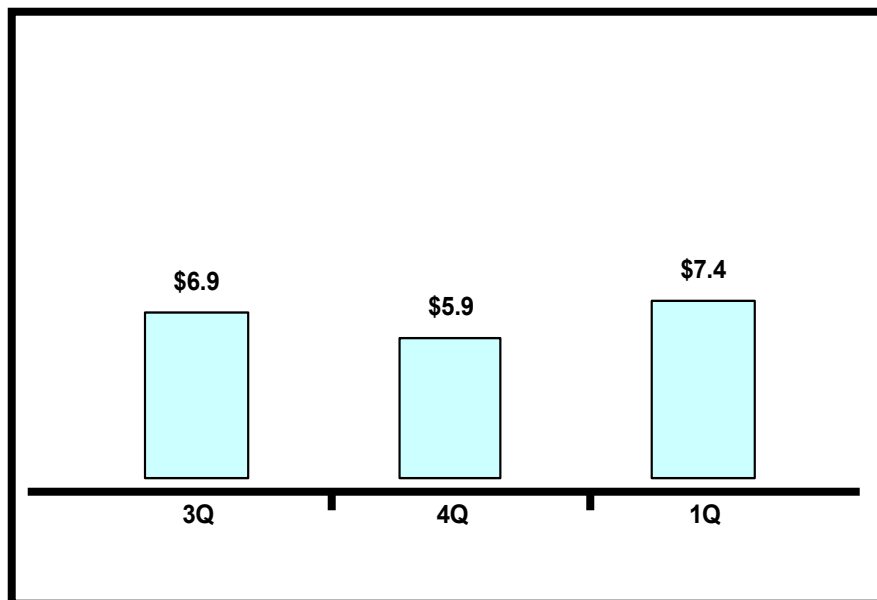
\* Based on average data from the past eight years

**Due To A Number Of Factors, Structural Costs Tend To Be Lowest In First Quarter And Highest In Fourth Quarter**

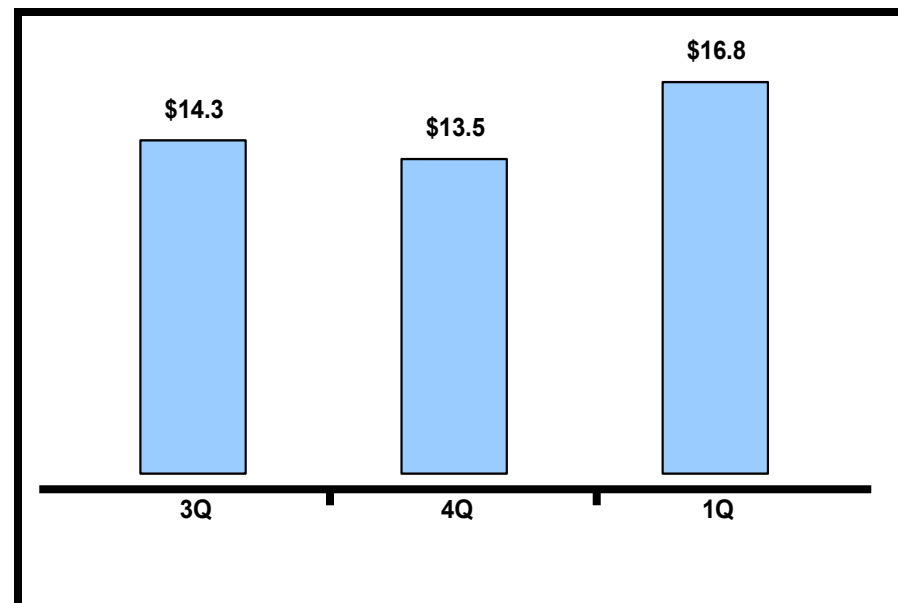
# CALENDARIZATION FACTORS -- CASH FLOW SEASONALITY



## 2010 – 2011 Inventory Movements



## 2010 – 2011 Trade Payable Movements



**Working Capital Also Is Subject To Seasonal Timing Differences  
Primarily Associated With Our End Of Year Production Shutdown**

# **CALENDARIZATION FACTORS -- ADDITIONAL FACTORS THAT CAN VARY QUARTER BY QUARTER**



- **Product launches**
- **Reserve Adjustments**
  - **Warranty**
  - **Marketing**
- **“One-time” gains or losses**
  - **Distress supplier Payments / Recoveries**
  - **Insurance Settlements**
- **Fair Market Value / Balance Sheet revaluations**

# ***APPENDIX***

# **MAJOR MARKETS DEFINED**



- **North America -- U.S.**
- **FSAO -- Argentina, Brazil, Chile, Colombia, Ecuador and Venezuela (6)**
- **FoE -- Britain, Germany, France, Italy, Spain, Austria, Belgium, Ireland, Netherlands, Portugal, Switzerland, Finland, Sweden, Denmark, Norway, Czech Republic, Greece, Hungary, and Poland (19)**
- **FAPA -- Australia, China, Japan, India, Indonesia, Malaysia, New Zealand, Philippines, South Africa, Taiwan, Thailand and Vietnam (12)**

# **SPECIAL ITEMS EXPLAINED**



- **Special items are reported as a separate reconciling item as opposed to being allocated back to the operating segments. This approach is consistent with how management reviews the operating segments internally.**
- **There are two groupings for Special Items**
  - ***Personnel and Dealer-related* -- these are items that reflect Ford's efforts to match production capacity and cost structure to market demand and changing model mix, therefore helping investors track amounts related to those activities.**
  - **2010 examples include costs associated with the discontinuation of Mercury and personnel reduction actions.**
  - ***Other* -- includes infrequent significant items generally not considered to be indicative of ongoing operating activities, therefore, investors may wish to exclude when considering the trend of ongoing operating results.**
  - **2010 examples include one time gains or losses from debt reduction actions, and the sale of Volvo.**



# PROFIT VARIANCE METHODOLOGY



- In general, we measure year-over-year and sequential quarter-over-quarter changes in Automotive pre-tax operating profit for our total Automotive sector (excluding special items) and segments using the causal factors listed below, with revenue and cost variances calculated at present-year volume, mix and exchange:
  - *Volume and mix*: Profit impact of wholesale volumes (at prior-year average margin per unit) driven by changes in industry volume, market share, and dealer stocks, as well as the profit variance resulting from changes in product mix, including mix among vehicle lines and mix of trim levels and options within a vehicle line. Appendix 4 of this presentation includes additional details on these variances.
  - *Net pricing*: Primarily measures the profit variance driven by changes in wholesale prices to dealers and marketing incentive programs such as rebate programs, low-rate financing offers, and special lease offers.
  - *Contribution costs*: Primarily measures the profit variance driven by per unit changes in cost categories that typically vary with volume, such as material costs, warranty expense, and freight and duty costs.
  - *Other costs*: Primarily measures the profit variance driven by the absolute change in cost categories that typically do not have a directly proportionate relationship to production volume – mainly structural costs, such as labor costs including pension and health care ("manufacturing and engineering" and "pension/OPEB"), other costs related to the development and manufacture of our vehicles ("overhead"), amortization and depreciation ("spending-related"), and advertising and sales promotions.
  - *Exchange*: Primarily measures the profit variance driven by one or more of the following: (i) the impact of gains or losses arising from transactions denominated in currencies other than the functional currency of the locations, (ii) the effect of remeasuring income, assets and liabilities of foreign subsidiaries using U.S. dollars as the functional currency, or (iii) the results of our foreign currency hedging activities.
  - *Net interest and other*: Primarily measures the profit variance driven by changes in our Automotive sector's centrally-managed net interest expense and related fair value market adjustments in our investment portfolio and marketable securities as well as other factors not included above.



# ***CALCULATING VOLUME AND MIX EFFECT ON PROFITS***

- **Industry volume variance is calculated first and isolates the impact of the change in industry volumes, holding all other variables constant**
- **Market share variance isolates the impact of the change in market share, at present year industry volume, holding contribution margin constant**
- **Dealer stock variance isolates the impact of the change in dealer stocks in the present period compared with the change in the prior period, holding contribution margin constant**
- **Mix among vehicles variance isolates the impact of changes in the mix of vehicles sold, holding all other factors constant**
- **Series and option mix variance isolates the impact of changes to series mix and option take rates, holding all other factors constant. This calculation is done on a vehicle line basis**
- **All of the above variances are calculated for each of our major markets**
- **The volume effect of other markets, and sales of vehicles and components to other manufacturers are included in other volume variance**
- **The profit impact of vehicles that enter a new segment of a market (e.g., the Fiesta in the U.S.) is entirely picked up in volume**

# ***PRICING AND MARKETING INCENTIVE REPORTING***



- **“Net Pricing” includes the impact of changes in both wholesale pricing and marketing incentives**
- **Wholesale price changes include both pricing for new design features added to a vehicle (e.g. a more powerful engine) and “pure” pricing (actions taken to better align a vehicle competitively or recover higher commodity costs)**
- **Estimated marketing incentive costs are accrued for at the time the vehicle is sold to a dealer. Following a defined set of rules of the road, these accruals are compared with actual experience and, as appropriate, reserve adjustments are recorded**

# CASH AND CASH FLOW



- **We classify changes in Automotive gross cash into three categories – Automotive Operating-related cash flows; other cash flows; and cash flows of a financing nature:**
  - **Operating-related cash flows best represent the ability of the Automotive business to generate cash. This is comprised of:**
    - **Automotive pre-tax profits;**
    - **Capital spending net of depreciation and amortization, note for GAAP purposes capital spending is reported as an investing cash flow**
    - **Changes in our working capital balances, i.e. trade receivables, payables and inventories, and**
    - **Timing differences take into consideration the recognition of revenues and expenses on an accrual basis in pre-tax profits and the actual cash movements of these items. For example, we accrue for bonuses throughout the year but generally make the payments during the First Quarter. Other examples include warranty cash payments vs. accruals, pension benefit payments for non-funded plans vs. total pension accruals, and transactions between Automotive and Financial Services**
  - **The second category, other cash flows, includes such items as non-recurring separation payments and Ford Credit dividend and tax payments to Automotive. Additionally this is where we report the currency impact on our cash balances**
  - **The third category, cash flow of a financing nature includes such as debt actions and contributions to our funded pension plans. Additionally, if we were to issue new equity or pay dividends, the cash flows from these items would be reported in this category as would proceeds from the divestiture of a subsidiary**