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NOTE 1. PRESENTATION

For purposes of this report, "Ford," the "Company," "we," "our," "us" or similar references mean Ford Motor Company and our consolidated subsidiaries and our consolidated VIEs of which we are the primary beneficiary, unless the context requires otherwise.

We prepare our financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). We present the financial statements on a consolidated basis and on a sector basis for our Automotive and Financial Services sectors. The additional information provided in the sector statements enables the reader to better understand the operating performance, financial position, cash flows, and liquidity of our two very different businesses. We eliminate all intercompany items and transactions in the consolidated and sector balance sheets. In certain circumstances, presentation of these intercompany eliminations or consolidated adjustments differ between the consolidated and sector financial statements. These line items are reconciled below under "Reconciliations between Consolidated and Sector Financial Statements" or in related footnotes.

We reclassified certain prior year amounts in our consolidated financial statements to conform to current year presentation.

Adoption of New Accounting Standards

Fair Value Measurement. On January 1, 2012, we adopted the new accounting standard that requires us to report the level in the fair value hierarchy of assets and liabilities not measured at fair value in the balance sheet but for which the fair value is disclosed, and to expand existing disclosures. See Note 4 for further disclosure regarding our fair value measurements.

Comprehensive Income - Presentation. On January 1, 2012, we adopted the new accounting standard that modifies the options for presentation of other comprehensive income. The new accounting standard requires us to present comprehensive income either in a single continuous statement or two separate but consecutive statements. We have elected to present comprehensive income in two separate but consecutive statements.

On January 1, 2012, we also adopted the new accounting standards *Intangibles - Goodwill and Other, Transfers and Servicing - Repurchase Agreements,* and *Financial Services - Insurance.* The adoption of these new accounting standards did not impact our financial condition or results of operations.

NOTE 1. PRESENTATION *(Continued)*

Reconciliations between Consolidated and Sector Financial Statements

Sector to Consolidated Deferred Tax Assets and Liabilities. The difference between the total assets and total liabilities as presented in our sector balance sheet and consolidated balance sheet is the result of netting deferred income tax assets and liabilities. The reconciliation between the totals for the sector and consolidated balance sheets was as follows (in millions):

	December 31, 2012	December 31, 2011
Sector balance sheet presentation of deferred income tax assets		
Automotive sector current deferred income tax assets	$ 3,488	$ 1,791
Automotive sector non-current deferred income tax assets	13,325	13,932
Financial Services sector deferred income tax assets (a)	184	302
Total	16,997	16,025
Reclassification for netting of deferred income taxes	(1,812)	(900)
Consolidated balance sheet presentation of deferred income tax assets	$ 15,185	$ 15,125
Sector balance sheet presentation of deferred income tax liabilities		
Automotive sector current deferred income tax liabilities	$ 81	$ 40
Automotive sector non-current deferred income tax liabilities	514	255
Financial Services sector deferred income tax liabilities	1,687	1,301
Total	2,282	1,596
Reclassification for netting of deferred income taxes	(1,812)	(900)
Consolidated balance sheet presentation of deferred income tax liabilities	$ 470	$ 696

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(a) Financial Services deferred income tax assets are included in *Financial Services other assets* on our sector balance sheet.

NOTE 1. PRESENTATION *(Continued)*

Sector to Consolidated Cash Flow. We present certain cash flows from wholesale receivables, finance receivables and the acquisition of intersector debt differently on our sector and consolidated statements of cash flows. The reconciliation between totals for the sector and consolidated cash flows for the years ended December 31 was as follows (in millions):

	2012	2011	2010
Automotive net cash provided by/(used in) operating activities	$ 6,266	$ 9,368	$ 6,363
Financial Services net cash provided by/(used in) operating activities	3,957	2,405	3,798
Total sector net cash provided by/(used in) operating activities (Note 27)	10,223	11,773	10,161
Reclassifications from investing to operating cash flows			
Wholesale receivables (a)	(1,235)	(2,010)	(46)
Finance receivables (b)	57	21	62
Reclassifications from operating to financing cash flows			
Payments on notes to the UAW VEBA Trust (c)	—	—	1,300
Consolidated net cash provided by/(used in) operating activities	$ 9,045	$ 9,784	$ 11,477
Automotive net cash provided by/(used in) investing activities	$ (8,024)	$ (1,541)	$ 577
Financial Services net cash provided by/(used in) investing activities	(6,318)	(586)	9,256
Total sector net cash provided by/(used in) investing activities	(14,342)	(2,127)	9,833
Reclassifications from investing to operating cash flows			
Wholesale receivables (a)	1,235	2,010	46
Finance receivables (b)	(57)	(21)	(62)
Reclassifications from investing to financing cash flows			
Maturity of Financial Services sector debt held by Automotive sector (d)	(201)	—	(454)
Elimination of investing activity to/(from) Financial Services in consolidation	(925)	(2,903)	(2,455)
Consolidated net cash provided by/(used in) investing activities	$ (14,290)	$ (3,041)	$ 6,908
Automotive net cash provided by/(used in) financing activities	$ 40	$ (5,932)	$ (10,476)
Financial Services net cash provided by/(used in) financing activities	2,539	(1,212)	(15,554)
Total sector net cash provided by/(used in) financing activities	2,579	(7,144)	(26,030)
Reclassifications from investing to financing cash flows			
Maturity of Financial Services sector debt held by Automotive sector (d)	201	—	454
Elimination of investing activity to/(from) Financial Services in consolidation	925	2,903	2,455
Reclassifications from operating to financing cash flows			
Payments on notes to the UAW VEBA Trust (c)	—	—	(1,300)
Consolidated net cash provided by/(used in) financing activities	$ 3,705	$ (4,241)	$ (24,421)

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(a) In addition to the cash flow from vehicles sold by us, the cash flow from wholesale finance receivables (being reclassified from investing to operating) includes dealer financing by Ford Credit of used and non-Ford vehicles. One hundred percent of cash flows from these wholesale finance receivables have been reclassified for consolidated presentation as the portion of these cash flows from used and non-Ford vehicles is impracticable to separate.
(b) Includes cash flows of finance receivables purchased/collected by the Financial Services sector from certain divisions and subsidiaries of the Automotive sector.
(c) Cash outflows related to this transaction are reported as financing activities on the consolidated statement of cash flows and operating activities on the sector statement of cash flows.
(d) Cash inflows related to these transactions are reported as financing activities on the consolidated statement of cash flows and investing activities on the sector statement of cash flows.

NOTE 1. PRESENTATION *(Continued)*

Certain Transactions Between Automotive and Financial Services Sectors

Intersector transactions occur in the ordinary course of business. Additional detail regarding certain transactions and the effect on each sector's balance sheet was as follows (in billions):

	December 31, 2012		December 31, 2011	
	Automotive	Financial Services	Automotive	Financial Services
Finance receivables, net (a)		$ 4.8		$ 3.7
Unearned interest supplements and residual support (b)		(2.6)		(2.6)
Wholesale receivables/Other (c)		0.8		0.7
Net investment in operating leases (d)		0.5		0.4
Intersector receivables/(payables) (e)	$ (0.3)	0.3	$ 0.9	(0.9)

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(a) Automotive sector receivables (generated primarily from vehicle and parts sales to third parties) sold to Ford Credit. These receivables are classified as *Other receivables, net* on our consolidated balance sheet and *Finance receivables, net* on our sector balance sheet.
(b) We pay amounts to Ford Credit at the point of retail financing or lease origination that represent interest supplements and residual value support.
(c) Primarily wholesale receivables with entities that are consolidated subsidiaries of Ford.
(d) Sale-leaseback agreement between Automotive and Financial Services sectors relating to vehicles that we lease to our employees.
(e) Amounts owed to the Financial Services sector by Automotive sector, or vice versa.

Venezuelan Operations

At December 31, 2012 and 2011, we had $620 million and $301 million, respectively, in net monetary assets (primarily cash and receivables partially offset by payables and accrued liabilities) denominated in Venezuelan bolivars. These net monetary assets included $721 million and $331 million in cash and cash equivalents at December 31, 2012 and 2011, respectively. We used the official exchange rate at December 31, 2012 of 4.3 bolivars to the U.S. dollar to re-measure the assets and liabilities of our Venezuelan operations for GAAP financial statement presentation. On February 8, 2013, the Venezuelan government announced a devaluation of the bolivar to an exchange rate of 6.3 bolivars to the U.S. dollar. Had the devaluation occurred on December 31, 2012, we would have recorded a translation loss of approximately $200 million in our year-end financial statements. Our ability to obtain funds at the official exchange rate has been limited. Continuing restrictions on the foreign currency exchange market could affect our Venezuelan operations' ability to pay obligations denominated in U.S. dollars as well as our ability to benefit from those operations.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES

For each accounting topic that is addressed in its own footnote, the description of the accounting policy may be found in the related footnote. The remaining accounting policies are described below.

Use of Estimates

The preparation of financial statements requires us to make estimates and assumptions that affect our results during the periods reported. Estimates are used to account for certain items such as marketing accruals, warranty costs, employee benefit programs, etc. Estimates are based on assumptions that we believe are reasonable under the circumstances. Due to the inherent uncertainty involved with estimates, actual results may differ.

Foreign Currency Translation

The assets and liabilities of foreign subsidiaries using the local currency as their functional currency are translated to U.S. dollars using end-of-period exchange rates and any resulting translation adjustments are reported in *Other comprehensive income/(loss).* Upon sale or upon complete or substantially complete liquidation of an investment in a foreign subsidiary, the accumulated amount of translation adjustments related to that entity is reclassified to net income as part of the recognized gain or loss on the investment.

Gains or losses arising from transactions denominated in currencies other than the affiliate's functional currency, the effect of remeasuring assets and liabilities of foreign subsidiaries using U.S. dollars as their functional currency, and the results of our foreign currency hedging activities are reported in *Automotive cost of sales* and *Selling, administrative, and other expenses.* The pre-tax gain/(loss) of this activity for 2012, 2011, and 2010 was $(426) million, $4 million, and $56 million, respectively.

Trade Receivables

Trade receivables, recorded on our consolidated balance sheet in *Other receivables, net*, consist primarily of Automotive sector receivables for vehicles, parts, and accessories. Trade receivables initially are recorded at the transaction amount. We record an allowance for doubtful accounts representing our estimate of the probable losses inherent in trade receivables. At every reporting period, we assess the adequacy of our allowance for doubtful accounts taking into consideration recoveries received during that period. Additions to the allowance for doubtful accounts are made by recording charges to bad debt expense reported in *Automotive cost of sales*. Receivables are charged to the allowance for doubtful accounts when an account is deemed to be uncollectible.

Revenue Recognition — Automotive Sector

Automotive revenue is generated primarily by sales of vehicles, parts and accessories. Revenue is recorded when all risks and rewards of ownership are transferred to our customers (generally dealers and distributors). For the majority of our sales, this occurs when products are shipped from our manufacturing facilities. When vehicles are shipped to customers or vehicle modifiers on consignment, revenue is recognized when the vehicle is sold to the ultimate customer. When we give our dealers the right to return eligible parts for credit, we reduce the related revenue for expected returns.

We sell vehicles to daily rental car companies subject to guaranteed repurchase options. These vehicles are accounted for as operating leases. At the time of sale, the proceeds are recorded as deferred revenue in *Accrued liabilities and deferred revenue*. The difference between the proceeds and the guaranteed repurchase amount is recognized in *Automotive revenues* over an average term of eight months, using a straight-line method. The cost of the vehicles is recorded in *Net investment in operating leases* and the difference between the cost of the vehicle and the estimated auction value is depreciated in *Automotive cost of sales* over the term of the lease. Proceeds from the sale of the vehicle at auction are recognized in *Automotive revenues* at the time of sale. At December 31, 2012 and 2011, we recorded $1.5 billion and $1.5 billion as deferred revenue, respectively.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES *(Continued)*

Revenue Recognition — Financial Services Sector

Financial Services revenue is generated primarily from interest on finance receivables (including direct financing leases) and is recognized using the interest method. Certain origination costs on receivables are deferred and amortized over the term of the related receivable as a reduction to revenue. Revenue from rental payments received on operating leases is recognized on a straight-line basis over the term of the lease. Initial direct costs related to leases are deferred and amortized over the term of the lease as a reduction to revenue. The accrual of interest on finance receivables and revenue on operating leases is discontinued at the earlier of the time a receivable or account is determined to be uncollectible, at bankruptcy status notification, or greater than 120 days past due.

Retail and Lease Incentives

We offer special retail financing and lease incentives to dealers' customers who choose to finance or lease Ford-brand vehicles from Ford Credit. Generally, the estimated cost for these incentives is recorded as a revenue reduction to *Automotive revenues* when the vehicle is sold to the dealer. In order to compensate Ford Credit for the lower interest or lease rates offered to the retail customer, we pay the discounted value of the incentive directly to Ford Credit when it originates the retail finance or lease contract with the dealer's customer. The Financial Services sector recognized revenue of $2.4 billion, $2.8 billion, and $3.2 billion in 2012, 2011, and 2010, respectively, for the special financing and leasing programs consistent with the earnings process of the underlying receivable or operating lease.

Sales and Marketing Incentives

Sales and marketing incentives generally are recognized by the Automotive sector as revenue reductions in *Automotive revenues*. The incentives take the form of cash payments to dealers and dealers' customers. The reduction to revenue is accrued at the later of the date the related vehicle is sold or the date the incentive program is both approved and communicated. We generally estimate these accruals using incentive programs that are approved as of the balance sheet date and are expected to be effective at the beginning of the subsequent period.

Supplier Price Adjustments

We frequently negotiate price adjustments with our suppliers throughout a production cycle, even after receiving production material. These price adjustments relate to changes in design specifications or other commercial terms such as economics, productivity, and competitive pricing. We recognize price adjustments when we reach final agreement with our suppliers. In general, we avoid direct price changes in consideration of future business; however, when these occur, our policy is to defer the financial statement impact of any such price change given explicitly in consideration of future business where guaranteed volumes are specified.

Raw Material Arrangements

We may, at times, negotiate prices for and facilitate the purchase of raw materials on behalf of our suppliers. These raw material arrangements, which take place independently of any purchase orders being issued to our suppliers, are negotiated at arms' length and do not involve volume guarantees. When we pass the risks and rewards of ownership to our suppliers, including inventory risk, market price risk, and credit risk for the raw material, we record both the cost of the raw material and the income from the subsequent sale to the supplier in *Automotive cost of sales*.

Government Grants and Loan Incentives

We receive incentives from U.S. and non-U.S. governments in the form of tax rebates or credits, loans, and grants. Incentives are recorded in the financial statements in accordance with their purpose, either as a reduction of expense or a reduction of the cost of the capital investment. A premium or a discount is calculated on low-interest or interest-free loans if the stated rate differs from the market rate, unless the governmental authority imposes specific restrictions on the use of the loan proceeds. The benefit of these incentives generally is recorded when performance is complete and all conditions as specified in the agreement are fulfilled.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES *(Continued)*

Bonus and Profit Sharing

We offer various types of bonus and profit sharing benefits to our employees. The timing for expense recognition depends on the purpose of the bonus and whether the bonus is contingent on the employees' future service. Our more common bonus payments include:

- Ratification bonuses expensed in the period a labor agreement is ratified
- Operational performance bonuses and protection payments expensed equally over the period to payment
- Profit sharing payments accrued throughout the year in which the payment is earned. Each quarter, we evaluate and adjust the year-to-date accrual to ensure it is consistent with the bonus formula

We record bonus and profit sharing expenses in *Automotive cost of sales* or *Selling, administrative, and other expenses*.

Selected Other Costs

Freight, engineering, and research and development costs are included in *Automotive cost of sales*; advertising costs are included in *Selling, administrative, and other expenses*. Freight costs on goods shipped are expensed at the earlier of revenue recognition or as incurred. Advertising costs are expensed as incurred. Engineering, research, and development costs are expensed as incurred when performed internally or when performed by a supplier if we guarantee reimbursement. Engineering, research, development, and advertising expenses for the years ended December 31 were as follows (in billions):

	2012	2011	2010
Engineering, research, and development	$ 5.5	$ 5.3	$ 5.0
Advertising	4.0	4.1	3.9

Presentation of Sales and Sales-Related Taxes

We collect and remit taxes assessed by different governmental authorities that are both imposed on and concurrent with a revenue-producing transaction between us and our customers. These taxes may include, but are not limited to, sales, use, value-added, and some excise taxes. We report the collection of these taxes on a net basis (excluded from revenues).

NOTE 3. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

Balance Sheet - Offsetting. In December 2011, the Financial Accounting Standards Board ("FASB") issued a new accounting standard that requires disclosures about offsetting and related arrangements for recognized financial instruments and derivative instruments. The new accounting standard is effective for us as of January 1, 2013.

Intangibles - Goodwill and Other. In July 2012, the FASB issued a new accounting standard that provides the option to evaluate qualitative factors to determine whether a calculated impairment test for indefinite-lived intangible assets is necessary. The new accounting standard is effective for us as of January 1, 2013.

NOTE 4. FAIR VALUE MEASUREMENTS

Cash equivalents, marketable securities, and derivative financial instruments are presented in our financial statements on a recurring basis at fair value, while other assets and liabilities are measured at fair value on a nonrecurring basis, such as when we have an asset impairment.

Fair Value Measurements

In measuring fair value, we use various valuation methodologies and prioritize the use of observable inputs. The use of observable and unobservable inputs and their significance in measuring fair value are reflected in our fair value hierarchy assessment.

- Level 1 - inputs include quoted prices for identical instruments and are the most observable
- Level 2 - inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates, and yield curves
- Level 3 - inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments

We review the inputs to the fair value measurements to ensure they are appropriately categorized within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

Valuation Methodologies

Cash and Cash Equivalents. Included in *Cash and cash equivalents* are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has a remaining time to maturity of 90 days or less from the date of acquisition. Amounts on deposit and available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as *Cash and cash equivalents*. Time deposits, certificates of deposit, and money market accounts that meet the above criteria are reported at par value on our balance sheet and are excluded from the tables below.

Marketable Securities. Investments in securities with a maturity date greater than 90 days at the date of purchase and other securities for which there is more than an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal are classified as *Marketable securities*. We generally measure fair value using prices obtained from pricing services. Pricing methodologies and inputs to valuation models used by the pricing services depend on the security type (i.e., asset class). Where possible, fair values are generated using market inputs including quoted prices (the closing price in an exchange market), bid prices (the price at which a buyer stands ready to purchase), and other market information. For fixed income securities that are not actively traded, the pricing services use alternative methods to determine fair value for the securities, including: quotes for similar fixed-income securities, matrix pricing, discounted cash flow using benchmark curves, or other factors to determine fair value. In certain cases, when market data are not available, we may use broker quotes to determine fair value.

A review is performed on the security prices received from our pricing services, which includes discussion and analysis of the inputs used by the pricing services to value our securities. We also compare the price of certain securities sold close to the quarter-end to the price of the same security at the balance sheet date to ensure the reported fair value is reasonable.

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

Derivative Financial Instruments. Our derivatives are over-the-counter customized derivative transactions and are not exchange traded. We estimate the fair value of these instruments using industry-standard valuation models such as a discounted cash flow. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates, foreign exchange rates, commodity prices, and the contractual terms of the derivative instruments. The discount rate used is the relevant interbank deposit rate (e.g., LIBOR) plus an adjustment for non-performance risk. The adjustment reflects the full credit default swap ("CDS") spread applied to a net exposure, by counterparty, considering the master netting agreements and posted collateral. We use our counterparty's CDS spread when we are in a net asset position and our own CDS spread when we are in a net liability position. In certain cases, market data are not available and we use broker quotes and models (e.g., Black Scholes) to determine fair value. This includes situations where there is illiquidity for a particular currency or commodity or for longer-dated instruments.

Ford Credit's two Ford Upgrade Exchange Linked securitization transactions ("FUEL Notes") had derivative features that included a mandatory exchange to Ford Credit unsecured notes when Ford Credit's senior unsecured debt received two investment grade credit ratings among Fitch, Moody's, and S&P, and a make-whole provision. Ford Credit estimated the fair value of these features by comparing the fair value of the FUEL Notes to the value of a hypothetical debt instrument without these features. In the second quarter of 2012, Ford Credit received two investment grade credit ratings, thereby triggering the mandatory exchange feature and the FUEL Notes derivatives were extinguished.

Finance Receivables. We measure finance receivables at fair value for purposes of disclosure (see Note 7) using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest). The projected cash flows are discounted to present value based on assumptions regarding credit losses, pre-payment speed, and applicable spreads to approximate current rates. Our assumptions regarding pre-payment speed and credit losses are based on historical performance. The fair value of finance receivables is categorized within Level 3 of the hierarchy.

On a nonrecurring basis, when retail contracts are greater than 120 days past due or deemed to be uncollectible, or if individual dealer loans are probable of foreclosure, we use the fair value of collateral, adjusted for estimated costs to sell, to determine the fair value adjustment to our receivables. The collateral for retail receivables is the vehicle financed, and for dealer loans is real estate or other property.

The fair value measurements for retail receivables are based on the number of contracts multiplied by the loss severity and the probability of default ("POD") percentage, or the outstanding receivable balances multiplied by the average recovery value ("ARV") percentage to determine the fair value adjustment.

The fair value measurements for dealer loans are based on an assessment of the estimated fair value of collateral. The assessment is performed by reviewing various appraisals, which include total adjusted appraised value of land and improvements, alternate use appraised value, broker's opinion of value, and purchase offers. The fair value adjustment is determined by comparing the net carrying value of the dealer loan and the estimated fair value of collateral.

Debt. We measure debt at fair value for purposes of disclosure (see Note 17) using quoted prices for our own debt with approximately the same remaining maturities, where possible. Where quoted prices are not available, we estimate fair value using discounted cash flows and market-based expectations for interest rates, credit risk, and the contractual terms of the debt instruments. For certain short-term debt with an original maturity date of one year or less, we assume that book value is a reasonable approximation of the debt's fair value. The fair value of debt is categorized within Level 2 of the hierarchy.

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

Input Hierarchy of Items Measured at Fair Value on a Recurring Basis

The following tables categorize the fair values of items measured at fair value on a recurring basis on our balance sheet (in millions):

	December 31, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Automotive Sector								
Assets								
Cash equivalents – financial instruments								
U.S. government	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
U.S. government-sponsored enterprises	—	718	—	718	—	319	—	319
Non-U.S. government	—	139	—	139	—	168	—	168
Non-U.S. government agencies (a)	—	365	—	365	—	820	—	820
Corporate debt	—	—	—	—	—	2	—	2
Total cash equivalents – financial instruments (b)	—	1,222	—	1,222	—	1,309	—	1,309
Marketable securities (c)								
U.S. government	4,493	—	—	4,493	2,960	—	—	2,960
U.S. government-sponsored enterprises	—	5,459	—	5,459	—	4,852	—	4,852
Non-U.S. government agencies (a)	—	4,794	—	4,794	—	4,558	—	4,558
Corporate debt	—	1,871	—	1,871	—	1,631	—	1,631
Mortgage-backed and other asset-backed	—	25	—	25	—	38	—	38
Equities	142	—	—	142	129	—	—	129
Non-U.S. government	—	1,367	—	1,367	—	598	—	598
Other liquid investments (d)	—	27	—	27	—	17	—	17
Total marketable securities	4,635	13,543	—	18,178	3,089	11,694	—	14,783
Derivative financial instruments								
Foreign currency exchange contracts	—	218	—	218	—	198	14	212
Commodity contracts	—	19	4	23	—	1	1	2
Other – warrants	—	—	—	—	—	—	4	4
Total derivative financial instruments (e)	—	237	4	241	—	199	19	218
Total assets at fair value	$ 4,635	$ 15,002	$ 4	$ 19,641	$ 3,089	$ 13,202	$ 19	$ 16,310
Liabilities								
Derivative financial instruments								
Foreign currency exchange contracts	$ —	$ 486	$ —	$ 486	$ —	$ 442	$ 6	$ 448
Commodity contracts	—	112	12	124	—	289	83	372
Total derivative financial instruments (e)	—	598	12	610	—	731	89	820
Total liabilities at fair value	$ —	$ 598	$ 12	$ 610	$ —	$ 731	$ 89	$ 820

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(a) Includes notes issued by non-U.S. government agencies, as well as notes issued by supranational institutions.
(b) Excludes time deposits, certificates of deposit, money market accounts, and other cash equivalents reported at par value on our balance sheet totaling \$3 billion and \$4.6 billion at December 31, 2012 and 2011, respectively, for the Automotive sector. In addition to these cash equivalents, our Automotive sector also had cash on hand totaling \$2 billion and \$2.1 billion at December 31, 2012 and 2011, respectively.
(c) Excludes an investment in Ford Credit debt securities held by the Automotive sector with a carrying value of \$201 million and an estimated fair value of \$201 million at December 31, 2011. This investment matured in 2012.
(d) Includes certificates of deposit and time deposits subject to changes in value.
(e) See Note 18 for additional information regarding derivative financial instruments.

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

	December 31, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial Services Sector								
Assets								
Cash equivalents – financial instruments								
U.S. government	$ 200	$ —	$ —	$ 200	$ 1	$ —	$ —	$ 1
U.S. government-sponsored enterprises	—	20	—	20	—	75	—	75
Non-U.S. government	—	103	—	103	—	15	—	15
Non-U.S. government agencies (a)	—	—	—	—	—	150	—	150
Corporate debt	—	1	—	1	—	—	—	—
Total cash equivalents – financial instruments (b)	200	124	—	324	1	240	—	241
Marketable securities								
U.S. government	620	—	—	620	619	—	—	619
U.S. government-sponsored enterprises	—	12	—	12	—	713	—	713
Non-U.S. government agencies (a)	—	95	—	95	—	778	—	778
Corporate debt	—	1,155	—	1,155	—	1,186	—	1,186
Mortgage-backed and other asset-backed	—	67	—	67	—	88	—	88
Non-U.S. government	—	142	—	142	—	444	—	444
Other liquid investments (c)	—	15	—	15	—	7	—	7
Total marketable securities	620	1,486	—	2,106	619	3,216	—	3,835
Derivative financial instruments								
Interest rate contracts	—	1,291	—	1,291	—	1,196	—	1,196
Foreign currency exchange contracts	—	9	—	9	—	30	—	30
Cross-currency interest rate swap contracts	—	—	—	—	—	12	—	12
Other (d)	—	—	—	—	—	—	137	137
Total derivative financial instruments (e)	—	1,300	—	1,300	—	1,238	137	1,375
Total assets at fair value	$ 820	$ 2,910	$ —	$ 3,730	$ 620	$ 4,694	$ 137	$ 5,451
Liabilities								
Derivative financial instruments								
Interest rate contracts	$ —	$ 256	$ —	$ 256	$ —	$ 237	$ —	$ 237
Foreign currency exchange contracts	—	8	—	8	—	50	—	50
Cross-currency interest rate swap contracts	—	117	—	117	—	12	—	12
Total derivative financial instruments (e)	—	381	—	381	—	299	—	299
Total liabilities at fair value	$ —	$ 381	$ —	$ 381	$ —	$ 299	$ —	$ 299

(a) Includes notes issued by non-U.S. government agencies, as well as notes issued by supranational institutions.
(b) Excludes time deposits, certificates of deposit, and money market accounts reported at par value on our balance sheet totaling $6.5 billion and $6 billion at December 31, 2012 and 2011, respectively. In addition to these cash equivalents, we also had cash on hand totaling $2.6 billion and $3 billion at December 31, 2012 and 2011, respectively.
(c) Includes certificates of deposit and time deposits subject to changes in value.
(d) Represents derivative features included in the FUEL Notes.
(e) See Note 18 for additional information regarding derivative financial instruments.

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

Reconciliation of Changes in Level 3 Balances

The following table summarizes the changes recorded through income in Level 3 items measured at fair value on a recurring basis and reported on our balance sheet for the years ended December 31 (in millions):

	2012			2011		
	Marketable Securities	Derivative Financial Instruments, Net	Total Level 3 Fair Value	Marketable Securities	Derivative Financial Instruments, Net	Total Level 3 Fair Value
Automotive Sector						
Beginning balance	$ —	$ (70)	$ (70)	$ 2	$ 38	$ 40
Realized/unrealized gains/(losses)						
Cost of sales	—	11	11	—	(99)	(99)
Interest income and other income/(loss), net	—	(4)	(4)	(1)	(1)	(2)
Other comprehensive income/(loss) (a)	—	—	—	—	—	—
Total realized/unrealized gains/(losses)	—	7	7	(1)	(100)	(101)
Purchases, issues, sales, and settlements						
Purchases	—	—	—	7	—	7
Issues	—	—	—	—	—	—
Sales	—	—	—	(1)	—	(1)
Settlements	—	65	65	—	(14)	(14)
Total purchases, issues, sales, and settlements	—	65	65	6	(14)	(8)
Transfers into Level 3	—	—	—	—	—	—
Transfers out of Level 3 (b)	—	(10)	(10)	(7)	6	(1)
Ending balance	$ —	$ (8)	$ (8)	$ —	$ (70)	$ (70)
Unrealized gains/(losses) on instruments still held	$ —	$ 9	$ 9	$ —	$ (69)	$ (69)
Financial Services Sector						
Beginning balance	$ —	$ 137	$ 137	$ 1	$ (89)	$ (88)
Realized/unrealized gains/(losses)						
Other income/(loss), net	—	(81)	(81)	—	382	382
Other comprehensive income/(loss) (a)	—	—	—	—	(1)	(1)
Interest income/(expense) (c)	—	—	—	—	90	90
Total realized/unrealized gains/(losses)	—	(81)	(81)	—	471	471
Purchases, issues, sales, and settlements						
Purchases	—	—	—	5	—	5
Issues (d)	—	—	—	—	73	73
Sales	—	—	—	—	—	—
Settlements (e)	—	(56)	(56)	—	114	114
Total purchases, issues, sales, and settlements	—	(56)	(56)	5	187	192
Transfers into Level 3	—	—	—	—	—	—
Transfers out of Level 3 (b)	—	—	—	(6)	(432)	(438)
Ending balance	$ —	$ —	$ —	$ —	$ 137	$ 137
Unrealized gains/(losses) on instruments still held	$ —	$ —	$ —	$ —	$ 65	$ 65

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(a) Represents foreign currency translation on derivative asset and liability balances held by non-U.S. dollar foreign affiliates.
(b) The transfer out of Level 3 of $432 million in 2011 was primarily the result of management's validation of the observable data and determination that certain unobservable inputs had an insignificant impact on the valuation of these instruments. The remaining transfers were due to the increase in availability of observable data.
(c) Recorded in *Interest expense*.
(d) Represents derivative features included in the FUEL Notes.
(e) Reflects exchange of the FUEL Notes to unsecured notes.

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

Input Hierarchy of Items Measured at Fair Value on a Nonrecurring Basis

The following table summarizes the items measured at fair value subsequent to initial recognition on a nonrecurring basis by input hierarchy at December 31 that were still held on our balance sheet at those dates (in millions):

	December 31, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial Services Sector								
North America								
Retail receivables	$ —	$ —	$ 52	$ 52	$ —	$ —	$ 70	$ 70
Dealer loans	—	—	2	2	—	—	6	6
Total North America	—	—	54	54	—	—	76	76
International								
Retail receivables	—	—	26	26	—	—	39	39
Total International	—	—	26	26	—	—	39	39
Total Financial Services sector	$ —	$ —	$ 80	$ 80	$ —	$ —	$ 115	$ 115

Nonrecurring Fair Value Changes

The following table summarizes the total change in value of items for which a nonrecurring fair value adjustment has been included in our income statement for the years ended December 31, related to items still held on our balance sheet at those dates (in millions):

	Total Gains/(Losses)		
	2012	2011	2010
Financial Services Sector			
North America			
Retail receivables	$ (13)	$ (23)	$ (29)
Dealer loans	(1)	—	(3)
Total North America	(14)	(23)	(32)
International			
Retail receivables	(11)	(14)	(25)
Total International	(11)	(14)	(25)
Total Financial Services sector	$ (25)	$ (37)	$ (57)

Fair value changes related to retail and dealer loan finance receivables that have been written down based on the fair value of collateral adjusted for estimated costs to sell are recorded in *Financial Services provision for credit and insurance losses.*

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

Information About Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following table summarizes significant unobservable inputs and the variability of those inputs to alternate methodologies for the year ended December 31, 2012 (in millions):

	Fair Value	Valuation Technique	Unobservable Input	Fair Value Range
Automotive Sector				
Recurring basis				
Net commodity contracts	$(8)	Income Approach	Forward commodity prices for certain commodity types. A lower forward price will result in a lower fair value.	$(7) - $(8)
Financial Services Sector				
Nonrecurring basis				
Retail receivables				
North America	$52	Income Approach	POD percentage	$38 - $52
International	$26	Income Approach	ARV percentage	$25 - $27
Dealer loans	$2	Income Approach	Estimated fair value	$1 - $3

NOTE 5. RESTRICTED CASH

Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements are recorded in *Other assets* on our balance sheet.

Our Automotive sector restricted cash balances primarily include cash collateral required to be held against loans from the European Investment Bank ("EIB"). Additionally, restricted cash includes various escrow agreements related to legal, insurance, customs, and environmental matters. Our Financial Services sector restricted cash balances primarily include cash held to meet certain local governmental and regulatory reserve requirements and cash held under the terms of certain contractual agreements.

Restricted cash does not include required minimum balances or cash securing debt issued through securitization transactions.

Restricted cash balances were as follows (in millions):

	December 31, 2012	December 31, 2011
Automotive sector	$ 172	$ 330
Financial Services sector	172	149
Total Company	$ 344	$ 479

NOTE 6. MARKETABLE AND OTHER SECURITIES

We hold various investments classified as marketable securities, including U.S. government and non-U.S. government securities, securities issued by non-U.S. government agencies, corporate obligations and equities, and asset-backed securities.

We record marketable securities at fair value. Realized and unrealized gains and losses and interest income are recorded in *Automotive interest income and other income/(expense), net* and *Financial Services other income/(loss), net*. Realized gains and losses are measured using the specific identification method.

Investments in Marketable Securities

Investments in marketable securities were as follows (in millions):

	December 31, 2012		December 31, 2011	
	Fair Value	Unrealized Gains/ (Losses) (a)	Fair Value	Unrealized Gains/ (Losses) (a)
Automotive sector	$ 18,178	$ 52	$ 14,984	$ (93)
Financial Services sector	2,106	6	3,835	(9)
Intersector elimination (b)	—	—	(201)	—
Total Company	$ 20,284	$ 58	$ 18,618	$ (102)

(a) Unrealized gains/(losses) for period related to instruments still held.
(b) "Fair Value" reflects an investment in Ford Credit debt securities shown at a carrying value of $201 million (estimated fair value of which was $201 million) at December 31, 2011. This investment matured in 2012.

Other Securities

Investments in entities that we do not control and over which we do not have the ability to exercise significant influence are recorded at cost and included in *Other assets.* These cost method investments were as follows (in millions):

	December 31, 2012	December 31, 2011
Automotive sector	$ 21	$ 21
Financial Services sector	5	5
Total Company	$ 26	$ 26

NOTE 7. FINANCE RECEIVABLES

Finance receivable balances were as follows (in millions):

	December 31, 2012	December 31, 2011
Automotive sector (a)	$ 519	$ 355
Financial Services sector	75,770	73,330
Reclassification of receivables purchased by Financial Services sector from Automotive sector to *Other receivables, net*	(4,779)	(3,709)
Finance receivables, net	$ 71,510	$ 69,976

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(a) Finance receivables are reported on our sector balance sheet in *Receivables, less allowances* and *Other assets*.

Automotive Sector

Our Automotive sector notes receivable consist primarily of amounts loaned to our unconsolidated affiliates. Performance of this group of receivables is evaluated based on payment activity and the financial stability of the debtor. Notes receivable initially are recorded at fair value and subsequently measured at amortized cost.

Notes receivable, net were as follows (in millions):

	December 31, 2012	December 31, 2011
Notes receivable	$ 542	$ 384
Less: Allowance for credit losses	(23)	(29)
Notes receivable, net	$ 519	$ 355

Financial Services Sector

Our Financial Services sector finance receivables primarily relate to Ford Credit, but also include the Other Financial Services segment and certain intersector eliminations.

Our Financial Services sector segments the North America and International portfolio of finance receivables into "consumer" and "non-consumer" receivables. The receivables are secured by the vehicles, inventory, or other property being financed.

Consumer Segment. Receivables in this portfolio segment include products offered to individuals and businesses that finance the acquisition of Ford and Lincoln vehicles from dealers for personal or commercial use. Retail financing includes retail installment contracts for new and used vehicles and direct financing leases with retail customers, government entities, daily rental companies, and fleet customers.

Non-Consumer Segment. Receivables in this portfolio segment include products offered to automotive dealers. The products include:

- *Dealer financing* – wholesale loans to dealers to finance the purchase of vehicle inventory, also known as floorplan financing, and loans to dealers to finance working capital and improvements to dealership facilities, finance the purchase of dealership real estate, and other dealer vehicle program financing. Wholesale is approximately 95% of our dealer financing
- *Other financing* – purchased receivables primarily related to the sale of parts and accessories to dealers

Finance receivables are recorded at the time of origination or purchase for the principal amount financed and are subsequently reported at amortized cost, net of any allowance for credit losses. Amortized cost is the outstanding principal adjusted for any charge-offs, unamortized deferred fees or costs, and unearned interest supplements.

NOTE 7. FINANCE RECEIVABLES *(Continued)*

Finance receivables, net were as follows (in millions):

	December 31, 2012			December 31, 2011		
	North America	International	Total Finance Receivables	North America	International	Total Finance Receivables
Consumer						
Retail financing, gross	$ 39,504	$ 10,460	$ 49,964	$ 38,410	$ 11,083	$ 49,493
Less: Unearned interest supplements	(1,264)	(287)	(1,551)	(1,407)	(335)	(1,742)
Consumer finance receivables	$ 38,240	$ 10,173	$ 48,413	$ 37,003	$ 10,748	$ 47,751
Non-Consumer						
Dealer financing	$ 19,429	$ 7,242	$ 26,671	$ 16,501	$ 8,479	$ 24,980
Other	689	386	1,075	723	377	1,100
Non-Consumer finance receivables	20,118	7,628	27,746	17,224	8,856	26,080
Total recorded investment	$ 58,358	$ 17,801	$ 76,159	$ 54,227	$ 19,604	$ 73,831
Recorded investment in finance receivables	$ 58,358	$ 17,801	$ 76,159	$ 54,227	$ 19,604	$ 73,831
Less: Allowance for credit losses	(309)	(80)	(389)	(388)	(113)	(501)
Finance receivables, net	$ 58,049	$ 17,721	$ 75,770	$ 53,839	$ 19,491	$ 73,330
Net finance receivables subject to fair value (a)			$ 73,618			$ 70,754
Fair value			75,618			72,294

(a) At December 31, 2012 and 2011, excludes $2.2 billion and $2.6 billion, respectively, of certain receivables (primarily direct financing leases) that are not subject to fair value disclosure requirements. All finance receivables are categorized within Level 3 of the fair value hierarchy. See Note 4 for additional information.

Excluded from Financial Services sector finance receivables at December 31, 2012 and 2011, was $183 million and $180 million, respectively, of accrued uncollected interest receivable, which we report in *Other assets* on the balance sheet.

Included in the recorded investment in finance receivables at December 31, 2012 and 2011 were North America consumer receivables of $23 billion and $29.4 billion and non-consumer receivables of $17.1 billion and $14.2 billion, respectively, and International consumer receivables of $6.6 billion and $7.1 billion and non-consumer receivables of $4.5 billion and $5.6 billion, respectively, that secure certain debt obligations. The receivables are available only for payment of the debt and other obligations issued or arising in securitization transactions; they are not available to pay the other obligations of our Financial Services sector or the claims of our other creditors. We hold the right to receive the excess cash flows not needed to pay the debt and other obligations issued or arising in securitization transactions (see Notes 12 and 17).

NOTE 7. FINANCE RECEIVABLES *(Continued)*

Contractual maturities of total finance receivables, excluding unearned interest supplements, outstanding at December 31, 2012 reflect contractual repayments due from customers or borrowers as follows (in millions):

	Due in Year Ending December 31,				
	2013	2014	2015	Thereafter	Total
North America					
Consumer					
Retail financing, gross	$ 11,599	$ 9,992	$ 8,096	$ 9,817	$ 39,504
Non-Consumer					
Dealer financing	17,966	546	72	845	19,429
Other	685	2	1	1	689
Total North America	$ 30,250	$ 10,540	$ 8,169	$ 10,663	$ 59,622
International					
Consumer					
Retail financing, gross	$ 4,381	$ 3,096	$ 1,826	$ 1,157	$ 10,460
Non-Consumer					
Dealer financing	6,464	717	58	3	7,242
Other	386	—	—	—	386
Total International	$ 11,231	$ 3,813	$ 1,884	$ 1,160	$ 18,088

Our finance receivables are pre-payable without penalty, so prepayments may cause actual maturities to differ from contractual maturities. The above table, therefore, is not to be regarded as a forecast of future cash collections. For wholesale receivables, which are included in dealer financing, maturities stated above are estimated based on historical trends, as maturities on outstanding amounts are scheduled upon the sale of the underlying vehicle by the dealer.

Investment in direct financing leases, which are included in consumer receivables, were as follows (in millions):

	December 31, 2012			December 31, 2011		
	North America	International	Total Direct Financing Leases	North America	International	Total Direct Financing Leases
Total minimum lease rentals to be received	$ 58	$ 1,466	$ 1,524	$ 4	$ 1,897	$ 1,901
Initial direct costs	1	16	17	—	18	18
Estimated residual values	—	851	851	1	971	972
Less: Unearned income	(7)	(152)	(159)	(1)	(203)	(204)
Less: Unearned interest supplements	—	(82)	(82)	—	(116)	(116)
Recorded investment in direct financing leases	52	2,099	2,151	4	2,567	2,571
Less: Allowance for credit losses	(1)	(8)	(9)	—	(12)	(12)
Net investment in direct financing leases	$ 51	$ 2,091	$ 2,142	$ 4	$ 2,555	$ 2,559

Future minimum rental payments due from direct financing leases at December 31, 2012 were as follows (in millions):

	2013	2014	2015	2016	Thereafter
North America	$ 21	$ 12	$ 13	$ 9	$ 3
International	571	430	317	136	12

NOTE 7. FINANCE RECEIVABLES *(Continued)*

Aging. For all classes of finance receivables, we define "past due" as any payment, including principal and interest, that has not been collected and is at least 31 days past the contractual due date. Recorded investment of consumer accounts greater than 90 days past due and still accruing interest was $13 million and $14 million at December 31, 2012 and 2011, respectively. The recorded investment of non-consumer accounts greater than 90 days past due and still accruing interest was $5 million and de minimis at December 31, 2012 and 2011, respectively.

The aging analysis of our Financial Services sector finance receivables balances at December 31 were as follows (in millions):

	2012			2011		
	North America	International	Total	North America	International	Total
Consumer						
31-60 days past due	$ 783	$ 50	$ 833	$ 732	$ 64	$ 796
61-90 days past due	97	18	115	68	28	96
91-120 days past due	21	9	30	22	12	34
Greater than 120 days past due	52	29	81	70	43	113
Total past due	953	106	1,059	892	147	1,039
Current	37,287	10,067	47,354	36,111	10,601	46,712
Consumer finance receivables	$ 38,240	$ 10,173	$ 48,413	$ 37,003	$ 10,748	$ 47,751
Non-Consumer						
Total past due	$ 29	$ 11	$ 40	$ 30	$ 9	$ 39
Current	20,089	7,617	27,706	17,194	8,847	26,041
Non-Consumer finance receivables	20,118	7,628	27,746	17,224	8,856	26,080
Total recorded investment	$ 58,358	$ 17,801	$ 76,159	$ 54,227	$ 19,604	$ 73,831

Consumer Credit Quality. When originating all classes of consumer receivables, we use a proprietary scoring system that measures the credit quality of the receivables using several factors, such as credit bureau information, consumer credit risk scores (e.g., FICO score), and contract characteristics. In addition to our proprietary scoring system, we consider other individual consumer factors, such as employment history, financial stability, and capacity to pay.

Subsequent to origination, we review the credit quality of retail and direct financing lease receivables based on customer payment activity. As each customer develops a payment history, we use an internally-developed behavioral scoring model to assist in determining the best collection strategies. Based on data from this scoring model, contracts are categorized by collection risk. Our collection models evaluate several factors, including origination characteristics, updated credit bureau data, and payment patterns. These models allow for more focused collection activity on higher-risk accounts and are used to refine our risk-based staffing model to ensure collection resources are aligned with portfolio risk.

Credit quality ratings for our consumer receivables are based on aging (as described in the aging table above). Consumer receivables credit quality ratings are as follows:

- *Pass* – current to 60 days past due
- *Special Mention* – 61 to 120 days past due and in intensified collection status
- *Substandard* – greater than 120 days past due and for which the uncollectible portion of the receivables has already been charged-off, as measured using the fair value of collateral

NOTE 7. FINANCE RECEIVABLES *(Continued)*

Non-Consumer Credit Quality. We extend credit to dealers primarily in the form of lines of credit to purchase new Ford and Lincoln vehicles as well as used vehicles. Each non-consumer lending request is evaluated by taking into consideration the borrower's financial condition and the underlying collateral securing the loan. We use a proprietary model to assign each dealer a risk rating. This model uses historical performance data to identify key factors about a dealer that we consider significant in predicting a dealer's ability to meet its financial obligations. We also consider numerous other financial and qualitative factors including capitalization and leverage, liquidity and cash flow, profitability, and credit history with ourselves and other creditors. A dealer's risk rating does not reflect any guarantees or a dealer owner's net worth.

Dealers are assigned to one of four groups according to their risk rating as follows:

- *Group I* – strong to superior financial metrics
- *Group II* – fair to favorable financial metrics
- *Group III* – marginal to weak financial metrics
- *Group IV* – poor financial metrics, including dealers classified as uncollectible

We suspend credit lines and extend no further funding to dealers classified in Group IV.

We regularly review our model to confirm the continued business significance and statistical predictability of the factors and update the model to incorporate new factors or other information that improves its statistical predictability. In addition, we verify the existence of the assets collateralizing the receivables by physical audits of vehicle inventories, which are performed with increased frequency for higher-risk (i.e., Group III and Group IV) dealers. We perform a credit review of each dealer at least annually and adjust the dealer's risk rating, if necessary.

Performance of non-consumer receivables is evaluated based on our internal dealer risk rating analysis, as payment for wholesale receivables generally is not required until the dealer has sold the vehicle. A dealer has the same risk rating for all of its dealer financing regardless of the type of financing.

The credit quality analysis of our dealer financing receivables at December 31 were as follows (in millions):

	2012			2011		
	North America	International	Total	North America	International	Total
Dealer Financing						
Group I	$ 16,526	$ 4,551	$ 21,077	$ 13,506	$ 5,157	$ 18,663
Group II	2,608	1,405	4,013	2,654	1,975	4,629
Group III	277	1,279	1,556	331	1,337	1,668
Group IV	18	7	25	10	10	20
Total recorded investment	$ 19,429	$ 7,242	$ 26,671	$ 16,501	$ 8,479	$ 24,980

NOTE 7. FINANCE RECEIVABLES *(Continued)*

Impaired Receivables. Impaired consumer receivables include accounts that have been re-written or modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code that are considered to be Troubled Debt Restructurings ("TDRs"), as well as all accounts greater than 120 days past due. Impaired non-consumer receivables represent accounts with dealers that have weak or poor financial metrics or dealer financing that have been modified in TDRs. The recorded investment of consumer receivables that were impaired at December 31, 2012 and 2011 was $422 million or 0.9% of consumer receivables, and $382 million or 0.8% of consumer receivables, respectively. The recorded investment of non-consumer receivables that were impaired at December 31, 2012 and 2011 was $47 million or 0.2% of non-consumer receivables, and $64 million or 0.2% of the non-consumer receivables, respectively. Impaired finance receivables are evaluated both collectively and specifically. See Note 9 for additional information related to the development of our allowance for credit losses.

Non-Accrual Receivables. The accrual of revenue is discontinued at the earlier of the time a receivable is determined to be uncollectible, at bankruptcy status notification, or greater than 120 days past due. Accounts may be restored to accrual status only when a customer settles all past-due deficiency balances and future payments are reasonably assured. For receivables in non-accrual status, subsequent financing revenue is recognized only to the extent a payment is received. Payments generally are applied first to outstanding interest and then to the unpaid principal balance.

The recorded investment of consumer receivables in non-accrual status was $304 million or 0.6% of our consumer receivables, at December 31, 2012, and $402 million or 0.9% of our consumer receivables, at December 31, 2011. The recorded investment of non-consumer receivables in non-accrual status was $29 million or 0.1% of our non-consumer receivables, at December 31, 2012, and $27 million or 0.1% of our non-consumer receivables, at December 31, 2011.

Troubled Debt Restructurings. A restructuring of debt constitutes a TDR if we grant a concession to a customer or borrower for economic or legal reasons related to the debtor's financial difficulties that we otherwise would not consider. Consumer contracts that have a modified interest rate that is below the market rate and those modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code are considered to be TDRs. Non-consumer receivables subject to forbearance, moratoriums, extension agreements, or other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral are classified as TDRs. We do not grant concessions on the principal balance of our loans. If a contract is modified in reorganization proceeding, all payment requirements of the reorganization plan need to be met before remaining balances are forgiven. The outstanding recorded investment at time of modification for consumer receivables that are considered to be TDRs were $249 million or 0.5% and $370 million or 0.8% of our consumer receivables during the period ended December 31, 2012 and 2011, respectively. The subsequent default rate of TDRs that were previously modified in TDRs within the last twelve months and resulted in repossession for consumer contracts was 5.8% and 3.7% of TDRs at December 31, 2012 and 2011, respectively. The outstanding recorded investment of non-consumer loans involved in TDRs was de minimis during the years ended December 31, 2012 and 2011.

Finance receivables involved in TDRs are specifically assessed for impairment. An impairment charge is recorded as part of the provision to the allowance for credit losses for the amount that the recorded investment of the receivable exceeds its estimated fair value. Estimated fair value is based on either the present value of the expected future cash flows of the receivable discounted at the loan's original effective interest rate, or for loans where foreclosure is probable the fair value of the collateral adjusted for estimated costs to sell. The allowance for credit losses related to consumer TDRs was $19 million and $16 million at December 31, 2012 and 2011, respectively. The allowance for credit losses related to non-consumer TDRs was de minimis during the years ended December 31, 2012 and 2011.

NOTE 8. NET INVESTMENT IN OPERATING LEASES

Net investment in operating leases on our balance sheet consists primarily of lease contracts for vehicles with retail customers, daily rental companies, government entities, and fleet customers. Assets subject to operating leases are depreciated using the straight-line method over the term of the lease to reduce the asset to its estimated residual value. Estimated residual values are based on assumptions for used vehicle prices at lease termination and the number of vehicles that are expected to be returned.

Net Investment in Operating Leases

The net investment in operating leases was as follows (in millions):

	December 31, 2012	December 31, 2011
Automotive Sector		
Vehicles, net of depreciation	$ 1,415	$ 1,356
Financial Services Sector		
Vehicles and other equipment, at cost (a)	18,159	14,242
Accumulated depreciation	(3,100)	(2,720)
Allowance for credit losses	(23)	(40)
Total Financial Services sector	15,036	11,482
Total Company	$ 16,451	$ 12,838

(a) Includes Ford Credit's operating lease assets of $6.3 billion and $6.4 billion at December 31, 2012 and 2011, respectively, for which the related cash flows have been used to secure certain lease securitization transactions. Cash flows associated with the net investment in operating leases are available only for payment of the debt or other obligations issued or arising in the securitization transactions; they are not available to pay other obligations or the claims of other creditors.

Automotive Sector

Operating lease depreciation expense (which excludes gains and losses on disposal of assets) for the years ended December 31 was as follows (in millions):

	2012	2011	2010
Operating lease depreciation expense	$ 53	$ 61	$ 297

Included in *Automotive revenues* are rents on operating leases. The amount contractually due for minimum rentals on operating leases is $110 million for 2013.

Financial Services Sector

Operating lease depreciation expense (which includes gains and losses on disposal of assets) for the years ended December 31 was as follows (in millions):

	2012	2011	2010
Operating lease depreciation expense	$ 2,488	$ 1,799	$ 1,977

Included in *Financial Services revenues* are rents on operating leases. The amounts contractually due for minimum rentals on operating leases as of December 31, 2012 are as follows (in millions):

	2013	2014	2015	2016	Thereafter	Total
Minimum rentals on operating leases	$ 1,754	$ 2,012	$ 1,037	$ 223	$ 66	$ 5,092

NOTE 9. ALLOWANCE FOR CREDIT LOSSES

Automotive Sector

We estimate credit loss reserves for notes receivable on an individual receivable basis. A specific impairment allowance reserve is established based on expected future cash flows, the fair value of any collateral, and the financial condition of the debtor. Following is an analysis of the allowance for credit losses for the years ended December 31 (in millions):

	2012	2011
Allowance for credit losses		
Beginning balance	$ 29	$ 120
Charge-offs	(7)	—
Recoveries	(11)	(85)
Provision for credit losses	6	2
Other	6	(8)
Ending balance	$ 23	$ 29

Financial Services Sector

The allowance for credit losses represents our estimate of the probable loss on the collection of finance receivables and operating leases as of the balance sheet date. The adequacy of the allowance for credit losses is assessed quarterly and the assumptions and models used in establishing the allowance are evaluated regularly. Because credit losses may vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain. The majority of credit losses are attributable to Ford Credit's consumer receivables segment.

Additions to the allowance for credit losses are made by recording charges to *Provision for credit and insurance losses* on the sector income statement. The uncollectible portion of finance receivables and investments in operating leases are charged to the allowance for credit losses at the earlier of when an account is deemed to be uncollectible or when an account is 120 days delinquent, taking into consideration the financial condition of the customer, borrower, or lessee, the value of the collateral, recourse to guarantors, and other factors. In the event we repossess the collateral, the receivable is written off and we record the collateral at its estimated fair value less costs to sell and report it in *Other assets* on the balance sheet. Recoveries on finance receivables and investment in operating leases previously charged-off as uncollectible are credited to the allowance for credit losses.

Consumer

We estimate the allowance for credit losses on our consumer receivables and on our investments in operating leases using a combination of measurement models and management judgment. The models consider factors such as historical trends in credit losses and recoveries (including key metrics such as delinquencies, repossessions, and bankruptcies), the composition of the present portfolio (including vehicle brand, term, risk evaluation, and new/used vehicles), trends in historical and projected used vehicle values, and economic conditions. Estimates from these models rely on historical information and may not fully reflect losses inherent in the present portfolio. Therefore, we may adjust the estimate to reflect management judgment regarding justifiable changes in recent economic trends and conditions, portfolio composition, and other relevant factors.

We make projections of two key assumptions to assist in estimating the consumer allowance for credit losses:

- Frequency - number of finance receivables and operating lease contracts that are expected to default over the loss emergence period, measured as repossessions
- Loss severity - expected difference between the amount of money a customer owes when the finance contract is charged off and the amount received, net of expenses from selling the repossessed vehicle, including any recoveries from the customer

NOTE 9. ALLOWANCE FOR CREDIT LOSSES *(Continued)*

Collective Allowance for Credit Losses. The collective allowance is evaluated primarily using a collective loss-to-receivables ("LTR") model that, based on historical experience, indicates credit losses have been incurred in the portfolio even though the particular accounts that are uncollectible cannot be specifically identified. The LTR model is based on the most recent years of history. Each LTR is calculated by dividing credit losses by average end-of-period receivables or average end-of-period investment in operating leases, excluding unearned interest supplements and allowance for credit losses. An average LTR is calculated for each class and multiplied by the end-of-period balances for that given class.

The loss emergence period ("LEP") is a key assumption within our models and represents the average amount of time between when a loss event first occurs and when it is charged off. This time period starts when the consumer begins to experience financial difficulty. It is evidenced, typically through delinquency, before eventually resulting in a charge-off. The LEP is a multiplier in the calculation of the collective consumer allowance for credit losses.

For accounts greater than 120 days past due, the uncollectible portion is charged-off such that the remaining recorded investment is equal to the estimated fair value of the collateral less costs to sell.

Specific Allowance for Impaired Receivables. Consumer receivables involved in TDRs are specifically assessed for impairment. A specific allowance is estimated based on the present value of the expected future cash flows of the receivable discounted at the loan's original effective interest rate or the fair value of any collateral adjusted for estimated costs to sell.

After establishing the collective and specific allowance for credit losses, if management believes the allowance does not reflect all losses inherent in the portfolio due to changes in recent economic trends and conditions, or other relevant factors, an adjustment is made based on management judgment.

Non-Consumer

We estimate the allowance for credit losses for non-consumer receivables based on historical LTR ratios, expected future cash flows, and the fair value of collateral.

Collective Allowance for Credit Losses. We estimate an allowance for non-consumer receivables that are not specifically identified as impaired using a LTR model for each financing product based on historical experience. This LTR is an average of the most recent historical experience and is calculated consistent with the consumer receivables LTR approach. All accounts that are specifically identified as impaired are excluded from the calculation of the non-specific or collective allowance.

Specific Allowance for Impaired Receivables. The dealer financing is evaluated by segmenting individual loans by the risk characteristics of the loan (such as the amount of the loan, the nature of the collateral, and the financial status of the debtor). The loans are analyzed to determine whether individual loans are impaired, and a specific allowance is estimated based on the present value of the expected future cash flows of the receivable discounted at the loan's original effective interest rate or the fair value of the collateral adjusted for estimated costs to sell.

After establishment of the collective and the specific allowance for credit losses, if management believes the allowance does not reflect all losses inherent in the portfolio due to changes in recent economic trends and conditions or other relevant factors, an adjustment is made based on management judgment.

NOTE 9. ALLOWANCE FOR CREDIT LOSSES *(Continued)*

Following is an analysis of the allowance for credit losses related to finance receivables and net investment in operating leases for the years ended December 31 (in millions):

	2012				
	Finance Receivables			Net Investment in Operating Leases	Total Allowance
	Consumer	Non-Consumer	Total		
Allowance for credit losses					
Beginning balance	$ 457	$ 44	$ 501	$ 40	$ 541
Charge-offs	(316)	(8)	(324)	(47)	(371)
Recoveries	171	12	183	49	232
Provision for credit losses	45	(19)	26	(19)	7
Other (a)	3	—	3	—	3
Ending balance	$ 360	$ 29	$ 389	$ 23	$ 412
Analysis of ending balance of allowance for credit losses					
Collective impairment allowance	$ 341	$ 27	$ 368	$ 23	$ 391
Specific impairment allowance	19	2	21	—	21
Ending balance	$ 360	$ 29	$ 389	$ 23	$ 412
Analysis of ending balance of finance receivables and net investment in operating leases					
Collectively evaluated for impairment	$ 47,991	$ 27,699	$ 75,690	$ 15,059	
Specifically evaluated for impairment	422	47	469	—	
Recorded investment (b)	$ 48,413	$ 27,746	$ 76,159	$ 15,059	
Ending balance, net of allowance for credit losses	$ 48,053	$ 27,717	$ 75,770	$ 15,036	

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(a) Represents amounts related to translation adjustments.
(b) Represents finance receivables and net investment in operating leases before allowance for credit losses.

	2011				
	Finance Receivables			Net Investment in Operating Leases	Total Allowance
	Consumer	Non-Consumer	Total		
Allowance for credit losses					
Beginning balance	$ 707	$ 70	$ 777	$ 87	$ 864
Charge-offs	(405)	(11)	(416)	(89)	(505)
Recoveries	207	7	214	86	300
Provision for credit losses	(51)	(22)	(73)	(44)	(117)
Other (a)	(1)	—	(1)	—	(1)
Ending balance	$ 457	$ 44	$ 501	$ 40	$ 541
Analysis of ending balance of allowance for credit losses					
Collective impairment allowance	$ 441	$ 36	$ 477	$ 40	$ 517
Specific impairment allowance	16	8	24	—	24
Ending balance	$ 457	$ 44	$ 501	$ 40	$ 541
Analysis of ending balance of finance receivables and net investment in operating leases					
Collectively evaluated for impairment	$ 47,369	$ 26,016	$ 73,385	$ 11,522	
Specifically evaluated for impairment	382	64	446	—	
Recorded investment (b)	$ 47,751	$ 26,080	$ 73,831	$ 11,522	
Ending balance, net of allowance for credit losses	$ 47,294	$ 26,036	$ 73,330	$ 11,482	

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(a) Represents amounts related to translation adjustments.
(b) Represents finance receivables and net investment in operating leases before allowance for credit losses.

NOTE 10. INVENTORIES

All inventories are stated at the lower of cost or market. Cost for a substantial portion of U.S. inventories is determined on a last-in, first-out ("LIFO") basis. LIFO was used for approximately 18% and 17% of total inventories at December 31, 2012 and 2011, respectively. Cost of other inventories is determined by costing methods that approximate a first-in, first-out ("FIFO") basis.

Inventories were as follows (in millions):

	December 31, 2012	December 31, 2011
Raw materials, work-in-process, and supplies	$ 3,697	$ 2,847
Finished products	4,614	3,982
Total inventories under FIFO	8,311	6,829
Less: LIFO adjustment	(949)	(928)
Total inventories	$ 7,362	$ 5,901

NOTE 11. EQUITY IN NET ASSETS OF AFFILIATED COMPANIES

We use the equity method of accounting for our investments in entities over which we do not have control, but over whose operating and financial policies we are able to exercise significant influence.

Ownership Percentages and Investment Balances

The following table reflects our ownership percentages and carrying value of equity method investments (in millions, except percentages):

	Ownership Percentage	Investment Balance	
Automotive Sector	December 31, 2012	December 31, 2012	December 31, 2011
Changan Ford Automobile Corporation, Ltd ("CAF") (a)	50.0%	$ 990	$ —
Changan Ford Mazda Automobile Corporation, Ltd ("CFMA") (a)	—	—	468
Jiangling Motors Corporation, Ltd	30.0	419	373
AutoAlliance International, Inc ("AAI") (a)	—	—	372
Ford Otomotiv Sanayi Anonim Sirketi ("Ford Otosan")	41.0	394	369
AutoAlliance (Thailand) Co., Ltd.	50.0	391	367
FordSollers Netherlands B.V. ("FordSollers") (a)	50.0	407	361
Getrag Ford Transmissions GmbH ("GFT")	50.0	242	229
Ford Romania S.A. ("Ford Romania") (b)	100.0	63	92
Tenedora Nemak, S.A. de C.V.	6.8	73	68
Changan Ford Mazda Engine Company, Ltd.	25.0	50	33
DealerDirect LLC	97.7	25	18
OEConnection LLC	50.0	20	13
Percepta, LLC	45.0	9	7
Blue Diamond Truck, S. de R.L. de C.V.	25.0	11	7
Ford Performance Vehicles Pty Ltd.	49.0	5	6
Blue Diamond Parts, LLC	25.0	4	4
Automotive Fuel Cell Cooperation Corporation	30.0	5	4
Other	Various	4	6
Total Automotive sector		3,112	2,797
Financial Services Sector			
Forso Nordic AB	50.0	71	71
FFS Finance South Africa (Pty) Limited	50.0	39	43
RouteOne LLC	30.0	20	15
CNF-Administradora de Consorcio Nacional Ltda.	33.3	4	10
Total Financial Services sector		134	139
Total Company		$ 3,246	$ 2,936

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(a) See Note 25 for additional information.
(b) Although we manage the day-to-day operations for Ford Romania, through December 31, 2012 the Romanian government contractually maintained the ability to influence key decisions regarding the business, including implementation of the business plan, employment levels, and capital expenditure and investment levels. As a result, we did not consolidate our investment in Ford Romania as of year-end 2012.

We received $610 million, $316 million, and $337 million of dividends from these affiliated companies for the years ended December 31, 2012, 2011, and 2010, respectively.

NOTE 12. VARIABLE INTEREST ENTITIES

A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary. The primary beneficiary has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE.

We have the power to direct the activities of an entity when our management has the ability to make key operating decisions, such as decisions regarding capital or product investment or manufacturing production schedules. We have the power to direct the activities of our special purpose entities when we have the ability to exercise discretion in the servicing of financial assets, issue additional debt, exercise a unilateral call option, add assets to revolving structures, or control investment decisions.

Assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against our general assets. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs.

Automotive Sector

VIEs of Which We are Not the Primary Beneficiary

Getrag Ford Transmissions GmbH ("GFT") is a joint venture that constitutes a significant VIE of which we are not the primary beneficiary, and which was not consolidated as of December 31, 2012 or December 31, 2011. GFT is a 50/50 joint venture with Getrag Deutsche Venture GmbH and Co. KG. Ford and its related parties purchase substantially all of the joint venture's output. We do not, however, have the power to direct economically-significant activities of the joint venture.

We also have suppliers that are VIEs of which we are not the primary beneficiary. Although we have provided certain suppliers guarantees and other financial support, we do not have any key decision making power related to their businesses.

Our maximum exposure to loss from VIEs of which we are not the primary beneficiary was as follows (in millions):

	December 31, 2012	December 31, 2011	Change in Maximum Exposure
Investments	$ 242	$ 229	$ 13
Guarantees and other supplier arrangements	5	6	(1)
Total maximum exposure	$ 247	$ 235	$ 12

Financial Services Sector

VIEs of Which We are the Primary Beneficiary

Our Financial Services sector uses special purpose entities to issue asset-backed securities in transactions to public and private investors, bank conduits, and government-sponsored entities or others who obtain funding from government programs. We have deemed most of these special purpose entities to be VIEs. The asset-backed securities are secured by finance receivables and interests in net investments in operating leases. The assets continue to be consolidated by us. We retain interests in our securitization VIEs, including subordinated securities issued by the VIEs, rights to cash held for the benefit of the securitization investors, and rights to the excess cash flows not needed to pay the debt and other obligations issued or arising in the securitization transactions.

The transactions create and pass along risks to the variable interest holders, depending on the assets securing the debt and the specific terms of the transactions. We aggregate and analyze the asset-backed securitization transactions based on the risk profile of the product and the type of funding structure, including:

- Retail - consumer credit risk and pre-payment risk
- Wholesale - dealer credit risk
- Net investments in operating lease - vehicle residual value risk, consumer credit risk, and pre-payment risk

NOTE 12. VARIABLE INTEREST ENTITIES *(Continued)*

As a residual interest holder, we are exposed to the underlying residual and credit risk of the collateral, and are exposed to interest rate risk in some transactions. The amount of risk absorbed by our residual interests generally is represented by and limited to the amount of overcollaterization of the assets securing the debt and any cash reserves.

We have no obligation to repurchase or replace any securitized asset that subsequently becomes delinquent in payment or otherwise is in default, except under standard representations and warranties such as good and marketable title to the assets, or when certain changes are made to the underlying asset contracts. Securitization investors have no recourse to us or our other assets and have no right to require us to repurchase the investments. We generally have no obligation to provide liquidity or contribute cash or additional assets to the VIEs and do not guarantee any asset-backed securities. We may be required to support the performance of certain securitization transactions, however, by increasing cash reserves.

Although not contractually required, we regularly support our wholesale securitization programs by repurchasing receivables of a dealer from a VIE when the dealer's performance is at risk, which transfers the corresponding risk of loss from the VIE to us. In order to continue to fund the wholesale receivables, we also may contribute additional cash or wholesale receivables if the collateral falls below required levels. The balances of cash related to these contributions were $0 at December 31, 2012 and 2011, respectively, and ranged from $0 to $373 million during 2012 and $0 to $490 million during 2011. In addition, while not contractually required, we may purchase the commercial paper issued by Ford Credit's FCAR Owner Trust asset-backed commercial paper program ("FCAR").

The following table includes assets to be used to settle the liabilities of the consolidated VIEs. We may retain debt issued by consolidated VIEs and this debt is excluded from the table below. We hold the right to the excess cash flows from the assets that are not needed to pay liabilities of the consolidated VIEs. The assets and debt reflected on our consolidated balance sheet were as follows (in billions):

	December 31, 2012		
	Cash and Cash Equivalents	Finance Receivables, Net and Net Investment in Operating Leases	Debt
Finance receivables			
Retail	$ 2.2	$ 27.0	$ 23.2
Wholesale	0.3	20.5	12.8
Total finance receivables	2.5	47.5	36.0
Net investment in operating leases	0.4	6.3	4.2
Total (a)	$ 2.9	$ 53.8	$ 40.2

(a) Certain notes issued by the VIEs to affiliated companies served as collateral for accessing the European Central Bank ("ECB") open market operations program. This external funding of $145 million at December 31, 2012 was not reflected as debt of the VIEs and is excluded from the table above, but was included in our consolidated debt. The finance receivables backing this external funding are included in the table above.

	December 31, 2011		
	Cash and Cash Equivalents	Finance Receivables, Net and Net Investment in Operating Leases	Debt
Finance receivables			
Retail	$ 2.5	$ 31.9	$ 26.0
Wholesale	0.5	17.9	11.2
Total finance receivables	3.0	49.8	37.2
Net investment in operating leases	0.4	6.4	4.2
Total (a)	$ 3.4	$ 56.2	$ 41.4

(a) Certain notes issued by the VIEs to affiliated companies served as collateral for accessing the ECB open market operations program. This external funding of $246 million at December 31, 2011 was not reflected as debt of the VIEs and is excluded from the table above, but was included in our consolidated debt. The finance receivables backing this external funding are included in the table above.

NOTE 12. VARIABLE INTEREST ENTITIES *(Continued)*

Interest expense on securitization debt related to consolidated VIEs was $760 million, $994 million, and $1,247 million in 2012, 2011, and 2010, respectively.

VIEs that are exposed to interest rate or currency risk have reduced their risks by entering into derivative transactions. In certain instances, we have entered into offsetting derivative transactions with the VIE to protect the VIE from the risks that are not mitigated through the derivative transactions between the VIE and its external counterparty. In other instances, we have entered into derivative transactions with the counterparty to protect the counterparty from risks absorbed through derivative transactions with the VIEs. See Note 18 for additional information regarding the accounting for derivatives.

Our exposures based on the fair value of derivative instruments with external counterparties related to consolidated VIEs that support our securitization transactions were as follows (in millions):

	December 31, 2012		December 31, 2011	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
Derivatives of the VIEs	$ 4	$ 134	$ 157	$ 97
Derivatives related to the VIEs	74	63	81	63
Total exposures related to the VIEs	$ 78	$ 197	$ 238	$ 160

Derivative expense/(income) related to consolidated VIEs that support Ford Credit's securitization programs for the years ended December 31 was as follows (in millions):

	2012	2011	2010
VIEs	$ 227	$ 31	$ 225
Related to the VIEs	(5)	11	(73)
Total derivative expense/(income) related to the VIEs	$ 222	$ 42	$ 152

VIEs of Which We are Not the Primary Beneficiary

We have an investment in Forso Nordic AB, a joint venture determined to be a VIE of which we are not the primary beneficiary. The joint venture provides consumer and dealer financing in its local markets and is financed by external debt and additional subordinated debt provided by the joint venture partner. The operating agreement indicates that the power to direct economically significant activities is shared with the joint venture partner, and the obligation to absorb losses or right to receive benefits resides primarily with the joint venture partner. Our investment in the joint venture is accounted for as an equity method investment and is included in *Equity in net assets of affiliated companies*. Our maximum exposure to any potential losses associated with this VIE is limited to our equity investment, and amounted to $71 million at December 31, 2012 and 2011, respectively.

NOTE 13. NET PROPERTY AND LEASE COMMITMENTS

Net Property

Net property includes land, buildings and land improvements, machinery and equipment, special tools, and other assets that we use in our normal operations. These assets are recorded at cost, net of accumulated depreciation and impairments. We capitalize new assets when we expect to use the asset for more than one year. Routine maintenance and repair costs are expensed when incurred.

Property and equipment are depreciated primarily using the straight-line method over the estimated useful life of the asset. Useful lives range from 3 years to 36 years. The estimated useful lives generally are 14.5 years for machinery and equipment, 3 years for software (8 years for mainframe and client based software), 30 years for land improvements, and 36 years for buildings. Special tools generally are amortized over the expected life of a product program using a straight-line method. If the expected production volumes for major product programs associated with the tools decline significantly, we accelerate the amortization reflecting the rate of decline.

Net property was as follows (in millions):

Automotive Sector	**December 31, 2012**	**December 31, 2011**
Land	$ 423	$ 384
Buildings and land improvements	10,249	10,129
Machinery, equipment and other	35,040	34,363
Software	1,813	1,917
Construction in progress	1,783	1,311
Total land, plant and equipment and other	49,308	48,104
Accumulated depreciation	(32,835)	(32,874)
Net land, plant and equipment and other	16,473	15,230
Special tools, net of amortization	8,340	6,999
Total Automotive sector	24,813	22,229
Financial Services sector (a)	129	142
Total Company	$ 24,942	$ 22,371

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(a) Included in *Financial Services other assets* on our sector balance sheet.

Automotive sector property-related expenses for the years ended December 31 were as follows (in millions):

	2012	**2011**	**2010**
Depreciation and other amortization	$ 1,794	$ 1,759	$ 1,956
Amortization of special tools	1,861	1,774	1,920
Total	$ 3,655	$ 3,533	$ 3,876
Maintenance and rearrangement	$ 1,352	$ 1,431	$ 1,397

Conditional Asset Retirement Obligations

We accrue for costs related to legal obligations to perform certain activities in connection with the retirement, abandonment, or disposal of our assets for which the fair value can be reasonably estimated. These conditional asset retirement obligations relate to the estimated costs for asbestos abatement and removal of polychlorinated biphenyl ("PCB").

Asbestos abatement costs were estimated using site-specific surveys where available and a per/square foot estimate where surveys were unavailable. PCB removal costs were based on historical removal costs per transformer and applied to transformers identified by a PCB transformer global survey we conducted.

NOTE 13. NET PROPERTY AND LEASE COMMITMENTS *(Continued)*

The liability for our conditional asset retirement obligations which are recorded in *Accrued liabilities and deferred revenue* was as follows (in millions):

	December 31, 2012	December 31, 2011
Beginning balance	$ 266	$ 331
Liabilities settled	(8)	(6)
Revisions to estimates	9	(59)
Ending balance	$ 267	$ 266

Lease Commitments

We lease land, buildings, and equipment under agreements that expire over various contractual periods. Minimum non-cancelable operating lease commitments at December 31, 2012 were as follows (in millions):

	2013	2014	2015	2016	2017	Thereafter	Total
Automotive sector	$ 217	$ 189	$ 144	$ 98	$ 74	$ 172	$ 894
Financial Services sector	52	41	34	31	22	24	204
Total Company	$ 269	$ 230	$ 178	$ 129	$ 96	$ 196	$ 1,098

Operating lease expense for the years ended December 31 was as follows (in millions):

	2012	2011	2010
Automotive sector	$ 404	$ 416	$ 475
Financial Services sector	106	124	136
Total Company	$ 510	$ 540	$ 611

NOTE 14. NET INTANGIBLE ASSETS

Our intangible assets are comprised primarily of license and advertising agreements, land rights, patents, customer contracts, and technology, and each is amortized over its determinable life.

The components of net intangible assets were as follows (in millions):

	December 31, 2012			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Automotive Sector						
License and advertising agreements	$ 118	$ (54)	$ 64	$ 118	$ (47)	$ 71
Land rights	23	(8)	15	23	(8)	15
Patents	27	(20)	7	26	(17)	9
Other	11	(10)	1	27	(22)	5
Total Automotive sector	$ 179	$ (92)	$ 87	$ 194	$ (94)	$ 100

Amortization periods primarily range from 5 years to 25 years for our license and advertising agreements, from 40 years to 50 years for our land rights, and primarily from 7 years to 17 years for our patents. Our other intangibles (primarily customer contracts and technology) have various amortization periods.

Pre-tax amortization expense for the periods ending December 31 was as follows (in millions):

	2012	2011	2010
Pre-tax amortization expense	$ 10	$ 12	$ 97

Amortization for current intangible assets is forecasted to be approximately $10 million in 2013 and each year thereafter.

NOTE 15. ACCRUED LIABILITIES AND DEFERRED REVENUE

Accrued liabilities and deferred revenue were as follows (in millions):

	December 31, 2012	December 31, 2011
Automotive Sector		
Current		
Dealer and customer allowances and claims	$ 6,779	$ 6,694
Deferred revenue	2,796	2,216
Employee benefit plans	1,504	1,552
Accrued interest	277	253
Other postretirement employee benefits ("OPEB")	409	439
Pension	387	388
Other	3,206	3,461
Total Automotive accrued liabilities and deferred revenue	15,358	15,003
Non-current		
Pension	18,400	15,091
OPEB	6,398	6,152
Dealer and customer allowances and claims	2,036	2,179
Deferred revenue	1,893	1,739
Employee benefit plans	767	709
Other	1,055	1,040
Total Automotive other liabilities	30,549	26,910
Total Automotive sector	45,907	41,913
Financial Services Sector	3,500	3,457
Total sectors	49,407	45,370
Intersector elimination (a)	—	(1)
Total Company	$ 49,407	$ 45,369

(a) Accrued interest related to Ford's acquisition of Ford Credit debt securities. See Note 17 for additional details.

NOTE 16. RETIREMENT BENEFITS

We provide pension benefits and OPEB, such as health care and life insurance, to employees in many of our operations around the world. Plan obligations are measured based on the present value of projected future benefit payments for all participants for services rendered to date. The measurement of projected future benefits is dependent on the provisions of each specific plan, demographics of the group covered by the plan, and other key measurement assumptions. For plans that provide benefits dependent on salary assumptions, we include a projection of salary growth in our measurements. No assumption is made regarding any potential changes to benefit provisions beyond those to which we are presently committed (e.g., in existing labor contracts).

The net periodic benefit costs associated with the Company's defined benefit pension plans are determined using assumptions regarding the benefit obligation and the market-related value of plan assets as of the beginning of each year. We have elected to use a market-related value of plan assets to calculate the expected return on assets in net periodic benefit costs. The market-related value recognizes changes in the fair value of plan assets in a systematic manner over five years. Net periodic benefit costs are recorded in *Automotive cost of sales* and *Selling, administrative, and other expenses*. The funded status of the benefit plans, which represents the difference between the benefit obligation and fair value of plan assets, is calculated on a plan-by-plan basis. The benefit obligation and related funded status are determined using assumptions as of the end of each year. The impact of plan amendments and actuarial gains and losses are recorded in *Accumulated other comprehensive income/(loss)* and generally are amortized as a component of net periodic cost over the remaining service period of our active employees. We record a curtailment when an event occurs that significantly reduces the expected years of future service or eliminates the accrual of defined benefits for the future services of a significant number of employees. We record a curtailment gain when the employees who are entitled to the benefits terminate their employment; we record a curtailment loss when it becomes probable a loss will occur.

Our policy for funded pension plans is to contribute annually, at a minimum, amounts required by applicable laws and regulations. We may make contributions beyond those legally required. In general, our plans are funded, with the main exceptions being certain plans in Germany, and U.S. defined benefit plans for senior management. In such cases, an unfunded liability is recorded.

Employee Retirement and Savings Plans. We, and certain of our subsidiaries, sponsor plans to provide pension benefits for retired employees. We have qualified defined benefit retirement plans in the United States covering hourly and salaried employees. The principal hourly plan covers Ford employees represented by the UAW. The salaried plan covers substantially all other Ford employees in the United States hired on or before December 31, 2003. The hourly plan provides noncontributory benefits related to employee service. The salaried plan provides similar noncontributory benefits and contributory benefits related to pay and service. Other U.S. and non-U.S. subsidiaries have separate plans that generally provide similar types of benefits for their employees.

We established, effective January 1, 2004, a defined contribution plan covering salaried U.S. employees hired on or after that date. Effective October 24, 2011, hourly U.S. employees represented by the UAW hired on or after that date also participate in a defined contribution plan.

On April 27, 2012, we announced a program to offer voluntary lump-sum pension payout options to eligible salaried U.S. retirees and former salaried employees that, if accepted, would settle our obligation to them. The program provides participants with a one-time choice of electing to receive a lump-sum settlement of their remaining pension benefit. Offers to eligible participants began in August 2012 and will continue through 2013. In 2012, as part of this voluntary lump sum program, the Company settled $1.2 billion of its pension obligations for salaried retirees.

The expense for our worldwide defined contribution plans was $167 million, $131 million, and $123 million in 2012, 2011, and 2010, respectively. This includes the expense for company matching contributions to our primary employee savings plan in the United States of $70 million, $54 million, and $52 million in 2012, 2011, and 2010, respectively.

OPEB. We, and certain of our subsidiaries, sponsor plans to provide OPEB for retired employees, primarily certain health care and life insurance benefits. The Ford Salaried Health Care Plan (the "Plan") provides retiree health care benefits for Ford salaried employees in the United States hired before June 1, 2001. U.S. salaried employees hired on or after June 1, 2001 are covered by a separate plan that provides for annual company allocations to employee-specific notional accounts to be used to fund postretirement health care benefits. The Plan also covers Ford hourly non-UAW represented employees in the United States hired before November 19, 2007. U.S. hourly employees hired on or after November 19, 2007 are eligible to participate in a separate health care plan that provides defined contributions made by Ford to individual participant accounts. UAW-represented employees hired before November 19, 2007 are covered by the UAW Retiree Medical Benefits Trust (the "UAW VEBA Trust"), an independent, non-Ford sponsored voluntary employee beneficiary association trust. Company-paid postretirement life insurance benefits also are provided to U.S. salaried employees hired before January 1, 2004 and all U.S. hourly employees.

NOTE 16. RETIREMENT BENEFITS *(Continued)*

Effective August 1, 2008, the Company-paid retiree basic life insurance benefits were capped at $25,000 for eligible existing and future salaried retirees. Salaried employees hired on or after January 1, 2004 are not eligible for retiree basic life insurance.

Benefit Plans – Expense and Status

The measurement date for all of our worldwide postretirement benefit plans is December 31. The pre-tax expense for our defined benefit pension and OPEB plans for the years ended December 31 was as follows (in millions):

	Pension Benefits								
	U.S. Plans			Non-U.S. Plans			Worldwide OPEB		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Service cost	$ 521	$ 467	$ 376	$ 372	$ 327	$ 314	$ 67	$ 63	$ 54
Interest cost	2,208	2,374	2,530	1,189	1,227	1,249	290	327	338
Expected return on assets	(2,873)	(3,028)	(3,172)	(1,340)	(1,404)	(1,337)	—	—	—
Amortization of									
Prior service costs/(credits)	220	343	370	72	72	75	(545)	(612)	(617)
(Gains)/Losses	425	194	20	412	301	218	129	94	92
Separation programs/other	7	1	(2)	162	170	54	2	10	5
(Gains)/Losses from curtailments and settlements	250	—	—	—	111	—	(11)	(26)	(30)
Net expense/(income)	$ 758	$ 351	$ 122	$ 867	$ 804	$ 573	$ (68)	$ (144)	$ (158)

NOTE 16. RETIREMENT BENEFITS *(Continued)*

The year-end status of these plans was as follows (dollar amounts in millions):

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Worldwide OPEB	
	2012	2011	2012	2011	2012	2011
Change in Benefit Obligation						
Benefit obligation at January 1	$ 48,816	$ 46,647	$ 25,163	$ 23,385	$ 6,593	$ 6,423
Service cost	521	467	372	327	67	63
Interest cost	2,208	2,374	1,189	1,227	290	327
Amendments	(39)	5	222	38	(156)	(62)
Separation programs and other	(40)	(52)	202	196	3	10
Curtailments	—	—	—	—	—	(50)
Settlements	(1,123)	—	—	(152)	—	—
Plan participant contributions	27	23	36	46	29	29
Benefits paid	(3,427)	(3,534)	(1,420)	(1,373)	(454)	(473)
Foreign exchange translation	—	—	803	(441)	47	(62)
Divestiture	—	—	—	—	—	—
Actuarial (gain)/loss	5,182	2,886	4,135	1,910	391	388
Benefit obligation at December 31	$ 52,125	$ 48,816	$ 30,702	$ 25,163	$ 6,810	$ 6,593
Change in Plan Assets						
Fair value of plan assets at January 1	$ 39,414	$ 39,960	$ 19,198	$ 18,615	$ —	$ —
Actual return on plan assets	5,455	2,887	1,637	934	—	—
Company contributions	2,134	132	1,629	1,403	—	—
Plan participant contributions	27	23	36	46	—	—
Benefits paid	(3,427)	(3,534)	(1,420)	(1,373)	—	—
Settlements	(1,123)	—	—	(152)	—	—
Foreign exchange translation	—	—	641	(267)	—	—
Divestiture	—	—	—	—	—	—
Other	(85)	(54)	(8)	(8)	—	—
Fair value of plan assets at December 31	$ 42,395	$ 39,414	$ 21,713	$ 19,198	$ —	$ —
Funded status at December 31	$ (9,730)	$ (9,402)	$ (8,989)	$ (5,965)	$ (6,810)	$ (6,593)
Amounts Recognized on the Balance Sheet						
Prepaid assets	$ —	$ —	$ 85	$ 114	$ —	$ —
Accrued liabilities	(9,730)	(9,402)	(9,074)	(6,079)	(6,810)	(6,593)
Total	$ (9,730)	$ (9,402)	$ (8,989)	$ (5,965)	$ (6,810)	$ (6,593)
Amounts Recognized in Accumulated Other Comprehensive Loss (pre-tax)						
Unamortized prior service costs/(credits)	$ 938	$ 1,197	$ 487	$ 323	$ (1,263)	$ (1,648)
Unamortized net (gains)/losses	11,349	9,394	11,375	7,612	2,594	2,305
Total	$ 12,287	$ 10,591	$ 11,862	$ 7,935	$ 1,331	$ 657
Pension Plans in which Accumulated Benefit Obligation Exceeds Plan Assets at December 31						
Accumulated benefit obligation	$ 50,821	$ 47,555	$ 21,653	$ 18,138		
Fair value of plan assets	42,395	39,414	14,625	13,207		
Accumulated Benefit Obligation at December 31	$ 50,821	$ 47,555	$ 28,136	$ 23,524		
Pension Plans in which Projected Benefit Obligation Exceeds Plan Assets at December 31						
Projected benefit obligation	$ 52,125	$ 48,816	$ 29,984	$ 24,184		
Fair value of plan assets	42,395	39,414	20,910	18,105		
Projected Benefit Obligation at December 31	$ 52,125	$ 48,816	$ 30,702	$ 25,163		

NOTE 16. RETIREMENT BENEFITS *(Continued)*

As a result of various personnel-reduction programs (discussed in Note 23), we have recognized curtailments in the U.S. and Canadian OPEB plans.

In 2011, we recognized a settlement loss of $109 million associated with the partial settlement of a Belgium pension plan.

In 2012, we changed our accounting policy for recognizing unamortized gains or losses upon the settlement of plan obligations. We now recognize a proportionate amount of the unamortized gains and losses if the cost of all settlements during the year exceeds the interest component of net periodic cost for the affected plan. Prior to 2012, we recognized a proportionate amount of the unamortized gains and losses if the cost of all settlements during the year exceeded both interest and service cost for the affected plan. The Company believes this change in accounting principle is preferable as it results in the earlier recognition of unamortized gains and losses that previously had been deferred and recognized over time.

An incremental settlement loss of $250 million related to the U.S. salaried lump sum program has been recognized during 2012 as a result of this change with a corresponding balance sheet reduction in *Accumulated other comprehensive income/(loss)*. This accounting change does not impact financial results in prior periods.

The financial impact of the curtailments and settlements is reflected in the tables above and the expense is recorded in *Automotive cost of sales* and *Selling, administrative, and other expenses*.

The following table summarizes the assumptions used to determine benefit obligation and expense:

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		U.S. OPEB	
	2012	2011	2012	2011	2012	2011
Weighted Average Assumptions at December 31						
Discount rate	3.84%	4.64%	3.92%	4.84%	3.80%	4.60%
Expected long-term rate of return on assets	7.38	7.50	6.74	6.77	—	—
Average rate of increase in compensation	3.80	3.80	3.41	3.39	3.80	3.80
Assumptions Used to Determine Net Benefit Cost for the Year Ended December 31						
Discount rate	4.64%	5.24%	4.84%	5.31%	4.60%	5.20%
Expected long-term rate of return on assets	7.50	8.00	6.77	7.20	—	—
Average rate of increase in compensation	3.80	3.80	3.39	3.34	3.80	3.80

The amounts in *Accumulated other comprehensive income/(loss)* that are expected to be recognized as components of net expense/(income) during 2013 are as follows (in millions):

	Pension Benefits			
	U.S. Plans	Non-U.S. Plans	Worldwide OPEB	Total
Prior service cost/(credit)	$ 174	$ 68	$ (286)	$ (44)
(Gains)/Losses	778	707	160	1,645

Pension Plan Contributions

In 2012, we contributed $3.4 billion to our worldwide funded pension plans (including $2 billion in discretionary contributions to our U.S. plans) and made $400 million of benefit payments to participants in unfunded plans. During 2013, we expect to contribute about $5 billion from Automotive cash and cash equivalents to our worldwide funded plans (including discretionary contributions of about $3.4 billion largely to our U.S. plans), and to make $400 million of benefit payments to participants in unfunded plans, for a total of about $5.4 billion.

Based on current assumptions and regulations, we do not expect to have a legal requirement to fund our major U.S. pension plans in 2013.

NOTE 16. RETIREMENT BENEFITS *(Continued)*

Estimated Future Benefit Payments

The following table presents estimated future gross benefit payments (in millions):

	Gross Benefit Payments		
	Pension		
	U.S. Plans	Non-U.S. Plans	Worldwide OPEB
2013	$ 5,940	$ 1,370	$ 440
2014	3,320	1,350	400
2015	3,250	1,380	390
2016	3,200	1,410	390
2017	3,160	1,450	380
2018 - 2022	15,330	7,690	1,890

Pension Plan Asset Information

Investment Objective and Strategies. Our investment objectives for the U.S. plans are to minimize the volatility of the value of our U.S. pension assets relative to U.S. pension liabilities and to ensure assets are sufficient to pay plan benefits. As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011, in 2011 we adopted a broad global pension de-risking strategy, including a revised U.S. investment strategy which increases the matching characteristics of our assets relative to our liabilities. Our U.S. target asset allocations, which we expect to reach over the next several years as the plans achieve full funding, are 80% fixed income and 20% growth assets (primarily alternative investments, which include hedge funds, real estate, private equity, and public equity). Our largest non-U.S. plans (Ford U.K. and Ford Canada) have similar investment objectives to the U.S. plans. We expect to reach target asset allocations similar to the new U.S. target asset allocations over the next several years, subject to legal requirements in each country.

Investment strategies and policies for the U.S. plans and the largest non-U.S. plans reflect a balance of risk-reducing and return-seeking considerations. The objective of minimizing the volatility of assets relative to liabilities is addressed primarily through asset - liability matching, asset diversification, and hedging. The fixed income target asset allocation matches the bond-like and long-dated nature of the pension liabilities. Assets are broadly diversified within asset classes to achieve risk-adjusted returns that in total lower asset volatility relative to the liabilities. Our rebalancing policies ensure actual allocations are in line with target allocations as appropriate. Strategies to address the goal of ensuring sufficient assets to pay benefits include target allocations to a broad array of asset classes, and strategies within asset classes that provide adequate returns, diversification, and liquidity.

All assets are externally managed and most assets are actively managed. Managers are not permitted to invest outside of the asset class (e.g., fixed income, public equity, alternatives) or strategy for which they have been appointed. We use investment guidelines and recurring audits as tools to ensure investment managers invest solely within the investment strategy they have been provided.

Derivatives are permitted for fixed income investment and public equity managers to use as efficient substitutes for traditional securities and to manage exposure to interest rate and foreign exchange risks. Interest rate and foreign currency derivative instruments are used for the purpose of hedging changes in the fair value of assets that result from interest rate changes and currency fluctuations. Interest rate derivatives also are used to adjust portfolio duration. Derivatives may not be used to leverage or to alter the economic exposure to an asset class outside the scope of the mandate an investment manager has been given. Alternative investment managers are permitted to employ leverage (including through the use of derivatives or other tools) that may alter economic exposure.

Significant Concentrations of Risk. Significant concentrations of risk in our plan assets relate to interest rate, equity, and operating risk. In order to minimize asset volatility relative to the liabilities, a portion of plan assets is allocated to fixed income investments that are exposed to interest rate risk. Rate increases generally will result in a decline in fixed income assets while reducing the present value of the liabilities. Conversely, rate decreases will increase fixed income assets, partially offsetting the related increase in the liabilities.

NOTE 16. RETIREMENT BENEFITS *(Continued)*

In order to ensure assets are sufficient to pay benefits, a portion of plan assets is allocated to growth assets (equity investments and alternative investments) that are expected over time to earn higher returns with more volatility than fixed income investments which more closely match pension liabilities. Within equities, risk is mitigated by constructing a portfolio that is broadly diversified by geography, market capitalization, manager mandate size, investment style and process. Within alternative investments, risk is similarly mitigated by constructing a portfolio that is broadly diversified by asset class, investment strategy, manager, style and process.

Operating risks include the risks of inadequate diversification and weak controls. To mitigate these risks, investments are diversified across and within asset classes in support of investment objectives. Policies and practices to address operating risks include ongoing manager oversight (e.g., style adherence, team strength, firm health, and internal risk controls), plan and asset class investment guidelines and instructions that are communicated to managers, and periodic compliance and audit reviews to ensure adherence.

At year-end 2012, within the total fair value of our assets in major worldwide plans, we held less than 2% of fixed income investments in the obligations of Greece, Ireland, Italy, Portugal, and Spain. Also at year-end 2012, we held less than 2% in Ford securities.

Expected Long-Term Rate of Return on Assets. The long-term return assumption at year-end 2012 is 7.38% for the U.S. plans, 7.25% for the U.K. plans, and 6.75% for the Canadian plans, and averages 6.74% for all non-U.S. plans. A generally consistent approach is used worldwide to develop this assumption. This approach considers various sources, primarily inputs from a range of advisors for long-term capital market returns, inflation, bond yields, and other variables, adjusted for specific aspects of our investment strategy by plan. Historical returns also are considered where appropriate.

At December 31, 2012, our actual 10-year annual rate of return on pension plan assets was 11.1% for the U.S. plans, 8.7% for the U.K. plans, and 6.4% for the Canadian plans. At December 31, 2011, our actual 10-year annual rate of return on pension plan assets was 8.6% for the U.S. plans, 6.0% for the U.K. plans, and 4.6% for the Canadian plans.

Fair Value of Plan Assets. Pension assets are recorded at fair value, and include primarily fixed income and equity securities, derivatives, and alternative investments, which include hedge funds, private equity, and real estate. Fixed income and equity securities may each be combined into commingled fund investments. Commingled funds are valued to reflect the pension fund's interest in the fund based on the reported year-end net asset value ("NAV"). Alternative investments are valued based on year-end reported NAV, with adjustments as appropriate for lagged reporting of 1 month - 6 months.

Fixed Income - Government and Agency Debt Securities and Corporate Debt Securities. U.S. government and government agency obligations, non-U.S. government and government agency obligations, municipal securities, supranational obligations, corporate bonds, bank notes, floating rate notes, and preferred securities are valued based on quotes received from independent pricing services or from dealers who make markets in such securities. Pricing services utilize matrix pricing, which considers readily available inputs such as the yield or price of bonds of comparable quality, coupon, maturity, and type, as well as dealer-supplied prices, and generally are categorized as Level 2 inputs in the fair value hierarchy. Securities categorized as Level 3 typically are priced by dealers and pricing services that use proprietary pricing models which incorporate unobservable inputs. These inputs primarily consist of yield and credit spread assumptions.

Fixed Income - Agency and Non-Agency Mortgage and Other Asset-Backed Securities. U.S. and non-U.S. government agency mortgage and asset-backed securities, non-agency collateralized mortgage obligations, commercial mortgage securities, residential mortgage securities, and other asset-backed securities are valued based on quotes received from independent pricing services or from dealers who make markets in such securities. Pricing services utilize matrix pricing, which considers prepayment speed assumptions, attributes of the collateral, yield or price of bonds of comparable quality, coupon, maturity and type, as well as dealer-supplied prices, and generally are categorized as Level 2 inputs in the fair value hierarchy. Securities categorized as Level 3 typically are priced by dealers and pricing services that use proprietary pricing models which incorporate unobservable inputs. These inputs primarily consist of prepayment curves, discount rates, default assumptions, and recovery rates.

NOTE 16. RETIREMENT BENEFITS *(Continued)*

Equities. Equity securities are valued based on quoted prices and are primarily exchange-traded. Securities for which official close or last trade pricing on an active exchange is available are classified as Level 1 in the fair value hierarchy. If closing prices are not available, securities are valued at the last quoted bid price or may be valued using the last available price and typically are categorized as Level 2. Level 3 securities often are thinly traded or delisted, with unobservable pricing data.

Derivatives. Exchange-traded derivatives for which market quotations are readily available are valued at the last reported sale price or official closing price as reported by an independent pricing service on the primary market or exchange on which they are traded and are categorized as Level 1. Over-the-counter derivatives typically are valued by independent pricing services and categorized as Level 2. Level 3 derivatives typically are priced by dealers and pricing services that use proprietary pricing models which incorporate unobservable inputs, including extrapolated or model-derived assumptions such as volatilities and yield and credit spread assumptions.

Alternative Assets. Hedge funds generally hold liquid and readily priced securities, such as public equities in long/short funds, exchange-traded derivatives in macro/commodity trading advisor funds, and corporate bonds in credit relative value funds. Since hedge funds do not have readily available market quotations, they are valued using the NAV provided by the investment sponsor or third party administrator. Hedge fund assets typically are categorized as Level 3 in the fair value hierarchy due to the inherent restrictions on redemptions that may affect our ability to sell the investment at its NAV in the near term. Valuations may be lagged 1 month - 3 months. For 2012 and 2011, we made adjustments of $33 million, and $(10) million, respectively, to adjust for hedge fund lagged valuations.

Private equity and real estate investments are less liquid. External investment managers typically report valuations reflecting initial cost or updated appraisals, which are adjusted for cash flows, and realized and unrealized gains/losses. Private equity and real estate funds do not have readily available market quotations, and therefore are valued using the NAV provided by the investment sponsor or third party administrator. These assets typically are categorized as Level 3 in the fair value hierarchy, due to the inherent restrictions on redemptions that may affect our ability to sell the investment at its NAV in the near term. Valuations may be lagged 1 month - 6 months. The NAV will be adjusted for cash flows (additional investments or contributions, and distributions) through year-end. We may make further adjustments for any known substantive valuation changes not reflected in the NAV. For 2012 and 2011, we made adjustments of $56 million and $6 million, respectively, to adjust for private equity lagged valuations. For 2012 and 2011, we made adjustments of $24 million and $13 million, respectively, to adjust for real estate lagged valuations.

The Ford Germany defined benefit plan is funded through a group insurance contract and exists in a pooled structure with other policy holders. The contract value represents the value of the underlying assets held by the insurance company (primarily bonds) at the guaranteed rate of return. The adjustment to fair value to recognize contractual returns is a significant unobservable input; therefore the contract is Level 3.

NOTE 16. RETIREMENT BENEFITS *(Continued)*

The fair value of our pension benefits plan assets (including dividends and interest receivables of $274 million and $84 million for U.S. and non-U.S. plans, respectively) by asset category was as follows (in millions):

U.S. Plans	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Asset Category				
Equity				
U.S. companies	$ 7,544	$ 48	$ 15	$ 7,607
International companies	4,971	133	3	5,107
Derivative financial instruments (a)	—	—	—	—
Total equity	12,515	181	18	12,714
Fixed Income				
U.S. government	2,523	—	—	2,523
U.S. government-sponsored enterprises (b)	—	3,236	3	3,239
Non-U.S. government	—	2,884	32	2,916
Corporate bonds (c)				
Investment grade	—	10,581	80	10,661
High yield	—	1,386	14	1,400
Other credit	—	28	50	78
Mortgage/other asset-backed	—	1,183	115	1,298
Commingled funds	—	477	—	477
Derivative financial instruments (a)				
Interest rate contracts	(31)	15	—	(16)
Credit contracts	—	2	—	2
Other contracts	—	(122)	—	(122)
Total fixed income	2,492	19,670	294	22,456
Alternatives				
Hedge funds (d)	—	—	3,121	3,121
Private equity (e)	—	—	2,412	2,412
Real estate (f)	—	—	457	457
Total alternatives	—	—	5,990	5,990
Cash and cash equivalents (g)	—	1,844	57	1,901
Other (h)	(681)	15	—	(666)
Total assets at fair value	$ 14,326	$ 21,710	$ 6,359	$ 42,395

(a) Net derivative position.
(b) Debt securities primarily issued by U.S. government-sponsored enterprises ("GSEs").
(c) "Investment grade" bonds are those rated Baa3/BBB or higher by at least two rating agencies; "High yield" bonds are those rated below investment grade; "Other credit" refers to non-rated bonds.
(d) Funds investing in diverse hedge fund strategies with the following composition of underlying hedge fund investments within the U.S. pension plans at December 31, 2012: global macro (39%), event-driven (21%), equity long/short (17%), relative value (13%), and multi-strategy (10%).
(e) Diversified investments in private equity funds with the following strategies: buyout (60%), venture capital (25%), mezzanine/distressed (8%), and other (7%). Allocations are estimated based on latest available data for managers reflecting June 30, 2012 holdings.
(f) Investment in private property funds broadly classified as core (54%), value-added and opportunistic (46%).
(g) Primarily short-term investment funds to provide liquidity to plan investment managers and cash held to pay benefits.
(h) Primarily cash related to net pending security (purchases)/sales and net pending foreign currency purchases/(sales).

NOTE 16. RETIREMENT BENEFITS *(Continued)*

Non-U.S. Plans	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Asset Category				
Equity				
U.S. companies	$ 3,221	$ 223	$ —	$ 3,444
International companies	3,424	188	1	3,613
Derivative financial instruments (a)	—	—	—	—
Total equity	6,645	411	1	7,057
Fixed Income				
U.S. government	99	—	—	99
U.S. government-sponsored enterprises (b)	—	6	—	6
Non-U.S. government	—	5,841	41	5,882
Corporate bonds (c)				
Investment grade	—	1,147	22	1,169
High yield	—	268	1	269
Other credit	—	13	6	19
Mortgage/other asset-backed	—	168	28	196
Commingled funds	—	504	—	504
Derivative financial instruments (a)				
Interest rate contracts	—	4	(1)	3
Credit contracts	—	(1)	—	(1)
Other contracts	—	—	—	—
Total fixed income	99	7,950	97	8,146
Alternatives				
Hedge funds (d)	—	—	1,142	1,142
Private equity (e)	—	—	236	236
Real estate (f)	—	1	329	330
Total alternatives	—	1	1,707	1,708
Cash and cash equivalents (g)	—	867	—	867
Other (h)	(751)	16	4,670	3,935
Total assets at fair value	$ 5,993	$ 9,245	$ 6,475	$ 21,713

(a) Net derivative position.
(b) Debt securities primarily issued by GSEs.
(c) "Investment grade" bonds are those rated Baa3/BBB or higher by at least two rating agencies; "High yield" bonds are those rated below investment grade; "Other credit" refers to non-rated bonds.
(d) Funds investing in diversified portfolio of underlying hedge funds. At December 31, 2012, the composition of underlying hedge fund investments (within the U.K. and Canada pension plans) was: event-driven (36%), equity long/short (26%), multi-strategy (14%), global macro (13%) and relative value (11%).
(e) Investments in private investment funds (funds of funds) pursuing strategies broadly classified as venture capital and buyouts.
(f) Investment in private property funds broadly classified as core (31%), value-added and opportunistic (69%). Also includes investment in real assets.
(g) Primarily short-term investment funds to provide liquidity to plan investment managers.
(h) Primarily Ford-Werke GmbH ("Ford-Werke") plan assets (insurance contract valued at $3,609 million) and cash related to net pending security (purchases)/sales and net pending foreign currency purchases/(sales).

NOTE 16. RETIREMENT BENEFITS *(Continued)*

The fair value of our pension benefits plan assets (including dividends and interest receivables of $291 million and $78 million for U.S. and non-U.S. plans, respectively) by asset category was as follows (in millions):

U.S. Plans	**December 31, 2011**			
	Level 1	**Level 2**	**Level 3**	**Total**
Asset Category				
Equity				
U.S. companies	$ 7,331	$ 44	$ 12	$ 7,387
International companies	5,565	32	3	5,600
Commingled funds	—	244	3	247
Derivative financial instruments (a)	—	—	—	—
Total equity	12,896	320	18	13,234
Fixed Income				
U.S. government	4,084	—	—	4,084
U.S. government-sponsored enterprises (b)	—	4,581	7	4,588
Non-U.S. government	—	1,375	169	1,544
Corporate bonds (c)				
Investment grade	—	9,061	33	9,094
High yield	—	1,280	11	1,291
Other credit	—	17	18	35
Mortgage/other asset-backed	—	1,348	54	1,402
Commingled funds	—	258	—	258
Derivative financial instruments (a)				
Interest rate contracts	13	28	(3)	38
Credit contracts	—	(8)	—	(8)
Other contracts	—	(265)	9	(256)
Total fixed income	4,097	17,675	298	22,070
Alternatives				
Hedge funds (d)	—	—	2,968	2,968
Private equity (e)	—	—	2,085	2,085
Real estate (f)	—	—	362	362
Total alternatives	—	—	5,415	5,415
Cash and cash equivalents (g)	—	1,477	1	1,478
Other (h)	(2,798)	18	(3)	(2,783)
Total assets at fair value	$ 14,195	$ 19,490	$ 5,729	$ 39,414

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(a) Net derivative position.
(b) Debt securities primarily issued by GSEs.
(c) "Investment grade" bonds are those rated Baa3/BBB or higher by at least two rating agencies; "High yield" bonds are those rated below investment grade; "Other credit" refers to non-rated bonds.
(d) Funds investing in diverse hedge fund strategies (primarily commingled fund of funds) with the following composition of underlying hedge fund investments within the U.S. pension plans at December 31, 2011: global macro (42%), equity long/short (21%), event-driven (18%), relative value (11%), and multi-strategy (8%).
(e) Diversified investments in private equity funds with the following strategies: buyout (61%), venture capital (25%), mezzanine/distressed (8%), and other (6%). Allocations are estimated based on latest available data for managers reflecting June 30, 2011 holdings.
(f) Investment in private property funds broadly classified as core (64%), value-added and opportunistic (36%).
(g) Primarily short-term investment funds to provide liquidity to plan investment managers and cash held to pay benefits.
(h) Primarily cash related to net pending trade purchases/sales and net pending foreign exchange purchases/sales.

NOTE 16. RETIREMENT BENEFITS *(Continued)*

Non-U.S. Plans	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Asset Category				
Equity				
U.S. companies	$ 2,596	$ 181	$ —	$ 2,777
International companies	2,906	154	1	3,061
Derivative financial instruments (a)	—	—	—	—
Total equity	5,502	335	1	5,838
Fixed Income				
U.S. government	33	—	—	33
U.S. government-sponsored enterprises (b)	—	16	—	16
Non-U.S. government	2	5,805	122	5,929
Corporate bonds (c)				
Investment grade	—	975	11	986
High yield	—	271	—	271
Other credit	—	15	—	15
Mortgage/other asset-backed	—	189	6	195
Commingled funds	—	415	—	415
Derivative financial instruments (a)				
Interest rate contracts	—	(15)	(6)	(21)
Credit contracts	—	(1)	—	(1)
Other contracts	—	(1)	—	(1)
Total fixed income	35	7,669	133	7,837
Alternatives				
Hedge funds (d)	—	—	1,053	1,053
Private equity (e)	—	—	123	123
Real estate (f)	—	1	160	161
Total alternatives	—	1	1,336	1,337
Cash and cash equivalents (g)	—	370	—	370
Other (h)	(554)	12	4,358	3,816
Total assets at fair value	$ 4,983	$ 8,387	$ 5,828	$ 19,198

(a) Net derivative position.
(b) Debt securities primarily issued by GSEs.
(c) "Investment grade" bonds are those rated Baa3/BBB or higher by at least two rating agencies; "High yield" bonds are those rated below investment grade; "Other credit" refers to non-rated bonds.
(d) Funds investing in diversified portfolio of underlying hedge funds (commingled fund of funds). At December 31, 2011, the composition of underlying hedge fund investments (within the U.K. and Canada pension plans) was: event-driven (30%), equity long/short (27%), global macro (14%), multi-strategy (14%), relative value (11%), and cash (4%).
(e) Investments in private investment funds (funds of funds) pursuing strategies broadly classified as venture capital and buyouts.
(f) Investment in private property funds broadly classified as core (13%), value-added and opportunistic (87%). Also includes investment in real assets.
(g) Primarily short-term investment funds to provide liquidity to plan investment managers.
(h) Primarily Ford-Werke plan assets (insurance contract valued at $3,406 million) and cash related to net pending trade purchases/sales and net pending foreign exchange purchases/sales.

NOTE 16. RETIREMENT BENEFITS *(Continued)*

The following table summarizes the changes in Level 3 pension benefits plan assets measured at fair value on a recurring basis for the year ended December 31, 2012 (in millions):

U.S. Plans	2012						
		Return on plan assets			Transfers		
Asset Category	Fair Value at January 1, 2012	Attributable to Assets Held at December 31, 2012	Attributable to Assets Sold	Net Purchases/ (Settlements)	Into Level 3	Out of Level 3	Fair Value at December 31, 2012
Equity							
U.S. companies	$ 15	$ —	$ —	$ —	$ —	$ —	$ 15
International companies	3	—	3	(3)	1	(1)	3
Derivative financial instruments	—	—	—	—	—	—	—
Total equity	18	—	3	(3)	1	(1)	18
Fixed Income							
U.S. government	—	—	—	—	—	—	—
U.S. government-sponsored enterprises	8	—	—	(5)	—	—	3
Non-U.S. government	169	2	5	(137)	5	(12)	32
Corporate bonds							
Investment grade	33	5	(4)	14	42	(10)	80
High yield	11	1	1	4	1	(4)	14
Other credit	17	5	—	28	—	—	50
Mortgage/other asset-backed	54	1	3	43	21	(7)	115
Derivative financial instruments							
Interest rate contracts	(3)	—	5	(2)	—	—	—
Credit contracts	—	—	—	—	—	—	—
Other contracts	9	(3)	(14)	12	—	(4)	—
Total fixed income	298	11	(4)	(43)	69	(37)	294
Alternatives							
Hedge funds	2,968	189	(6)	(30)	—	—	3,121
Private equity	2,085	201	—	126	—	—	2,412
Real estate	362	31	1	63	—	—	457
Total alternatives	5,415	421	(5)	159	—	—	5,990
Other	(2)	2	—	67	—	(10)	57
Total Level 3 fair value	$ 5,729	$ 434	$ (6)	$ 180	$ 70	$ (48)	$ 6,359

NOTE 16. RETIREMENT BENEFITS *(Continued)*

Non-U.S. Plans	2012						
		Return on plan assets			Transfers		
	Fair Value at January 1, 2012	Attributable to Assets Held at December 31, 2012	Attributable to Assets Sold	Net Purchases/ (Settlements)	Into Level 3	Out of Level 3	Fair Value at December 31, 2012
Asset Category							
Equity							
U.S. companies	$ —	$ —	$ —	$ —	$ —	$ —	$ —
International companies	1	—	—	—	—	—	1
Total equity	1	—	—	—	—	—	1
Fixed Income							
U.S. government	—	—	—	—	—	—	—
U.S. government-sponsored enterprises	—	—	—	—	—	—	—
Non-U.S. government	122	1	9	(31)	—	(60)	41
Corporate bonds							
Investment grade	11	1	1	4	5	—	22
High yield	—	—	—	1	—	—	1
Other credit	—	—	—	6	—	—	6
Mortgage/other asset-backed	6	—	—	14	8	—	28
Commingled funds	—	—	—	—	—	—	—
Derivative financial instruments	(6)	—	(3)	—	8	—	(1)
Total fixed income	133	2	7	(6)	21	(60)	97
Alternatives							
Hedge funds	1,053	79	10	—	—	—	1,142
Private equity	123	14	—	99	—	—	236
Real estate	160	4	(1)	166	—	—	329
Total alternatives	1,336	97	9	265	—	—	1,707
Other (a)	4,358	312	—	—	—	—	4,670
Total Level 3 fair value	$ 5,828	$ 411	$ 16	$ 259	$ 21	$ (60)	$ 6,475

(a) Primarily Ford-Werke plan assets (insurance contract valued at $3,609 million).

NOTE 16. RETIREMENT BENEFITS *(Continued)*

The following table summarizes the changes in Level 3 pension benefits plan assets measured at fair value on a recurring basis for the year ended December 31, 2011 (in millions):

U.S. Plans	2011						
		Return on plan assets			Transfers		
	Fair Value at January 1, 2011	Attributable to Assets Held at December 31, 2011	Attributable to Assets Sold	Net Purchases/ (Settlements)	Into Level 3	Out of Level 3	Fair Value at December 31, 2011
Asset Category							
Equity							
U.S. companies	$ 16	$ (1)	$ —	$ —	$ —	$ —	$ 15
International companies	6	—	(1)	(1)	—	(1)	3
Derivative financial instruments	—	—	—	—	—	—	—
Total equity	22	(1)	(1)	(1)	—	(1)	18
Fixed Income							
U.S. government	—	—	—	—	—	—	—
U.S. government-sponsored enterprises	14	—	—	(5)	—	(1)	8
Non-U.S. government	280	(2)	(3)	(86)	13	(33)	169
Corporate bonds							
Investment grade	28	4	2	18	3	(22)	33
High yield	2	(1)	—	8	3	(1)	11
Other credit	50	(1)	—	(32)	—	—	17
Mortgage/other asset-backed	125	(3)	1	(38)	4	(35)	54
Derivative financial instruments							
Interest rate contracts	(2)	—	(1)	—	—	—	(3)
Credit contracts	—	—	—	—	—	—	—
Other contracts	—	25	(8)	(8)	—	—	9
Total fixed income	497	22	(9)	(143)	23	(92)	298
Alternatives							
Hedge funds	2,854	10	(22)	126	—	—	2,968
Private equity	1,491	244	—	350	—	—	2,085
Real estate	120	39	—	203	—	—	362
Total alternatives	4,465	293	(22)	679	—	—	5,415
Other	(3)	—	—	1	—	—	(2)
Total Level 3 fair value	$ 4,981	$ 314	$ (32)	$ 536	$ 23	$ (93)	$ 5,729

NOTE 16. RETIREMENT BENEFITS *(Continued)*

Non-U.S. Plans	2011						
		Return on plan assets			Transfers		
	Fair Value at January 1, 2011	Attributable to Assets Held at December 31, 2011	Attributable to Assets Sold	Net Purchases/ (Settlements)	Into Level 3	Out of Level 3	Fair Value at December 31, 2011
Asset Category							
Equity							
U.S. companies	$ —	$ —	$ —	$ —	$ —	$ —	$ —
International companies	10	—	—	(5)	1	(5)	1
Commingled funds	—	—	—	—	—	—	—
Total equity	10	—	—	(5)	1	(5)	1
Fixed Income							
U.S. government	—	—	—	—	—	—	—
U.S. government-sponsored enterprises	—	—	—	—	—	—	—
Non-U.S. government	103	(6)	1	28	—	(4)	122
Corporate bonds							
Investment grade	15	(1)	1	(7)	3	—	11
High yield	20	—	—	(10)	—	(10)	—
Other credit	—	—	—	—	—	—	—
Mortgage/other asset-backed	34	—	1	(24)	1	(6)	6
Commingled funds	8	—	—	(8)	—	—	—
Derivative financial instruments	—	—	(2)	(4)	—	—	(6)
Total fixed income	180	(7)	1	(25)	4	(20)	133
Alternatives							
Hedge funds	711	(31)	11	362	—	—	1,053
Private equity	31	(3)	—	95	—	—	123
Real estate	11	6	—	143	—	—	160
Total alternatives	753	(28)	11	600	—	—	1,336
Other (a)	4,380	(22)	—	—	—	—	4,358
Total Level 3 fair value	$ 5,323	$ (57)	$ 12	$ 570	$ 5	$ (25)	$ 5,828

(a) Primarily Ford-Werke plan assets (insurance contract valued at $3,406 million).

NOTE 17. DEBT AND COMMITMENTS

Our debt consists of short-term and long-term unsecured debt securities, convertible debt securities, and unsecured and secured borrowings from banks and other lenders. Debt issuances are placed directly by us or through securities dealers or underwriters and are held by institutional and retail investors. In addition, Ford Credit sponsors securitization programs that provide short-term and long-term asset-backed financing through institutional investors in the U.S. and international capital markets.

Debt is recorded on our balance sheet at par value adjusted for unamortized discount or premium and adjustments related to designated fair value hedges (see Note 18 for policy detail). Discounts, premiums, and costs directly related to the issuance of debt generally are capitalized and amortized over the life of the debt or to the put date and are recorded in *Interest expense* using the effective interest method. Gains and losses on the extinguishment of debt are recorded in *Automotive interest income and other income/(expense), net* and *Financial Services other income/(loss), net*.

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

The carrying value of our debt was as follows (in millions):

			Interest Rates (a)			
			Average Contractual (b)		Average Effective (c)	
Automotive Sector	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Debt payable within one year						
Short-term with non-affiliates	$ 484	$ 559	1.5%	1.6%	1.5%	1.6%
Short-term with unconsolidated affiliates	—	18				
Long-term payable within one year						
U.S. Department of Energy ("DOE") Advanced Technology Vehicles Manufacturing ("ATVM") Incentive Program	591	240				
Other debt	311	216				
Total debt payable within one year	1,386	1,033				
Long-term debt payable after one year						
Public unsecured debt securities	5,420	5,260				
Unamortized discount	(100)	(77)				
Convertible notes	908	908				
Unamortized discount	(142)	(172)				
DOE ATVM Incentive Program	5,014	4,556				
EIB Credit Facilities	729	698				
Other debt	1,048	888				
Unamortized discount	(7)	—				
Total long-term debt payable after one year	12,870	12,061	4.6%	4.9%	5.1%	5.5%
Total Automotive sector	$ 14,256	$ 13,094				
Fair value of Automotive sector debt (d)	$ 14,867	$ 13,451				
Financial Services Sector						
Short-term debt						
Asset-backed commercial paper	$ 5,752	$ 6,835				
Other asset-backed short-term debt	3,762	2,987				
Floating rate demand notes	4,890	4,713				
Commercial paper	1,686	156				
Other short-term debt	1,655	1,905				
Total short-term debt	17,745	16,596	1.1%	1.4%	1.1%	1.4%
Long-term debt						
Unsecured debt						
Notes payable within one year	5,830	6,144				
Notes payable after one year	32,503	26,167				
Asset-backed debt						
Notes payable within one year	13,801	16,538				
Notes payable after one year	20,266	20,621				
Unamortized discount	(134)	(152)				
Fair value adjustments (e)	791	681				
Total long-term debt	73,057	69,999	3.8%	4.3%	4.1%	4.6%
Total Financial Services sector	$ 90,802	$ 86,595				
Fair value of Financial Services sector debt (d)	$ 94,578	$ 88,823				
Total Automotive and Financial Services sectors	$ 105,058	$ 99,689				
Intersector elimination (f)	—	(201)				
Total Company	$ 105,058	$ 99,488				

(a) Interest rates are presented for the fourth quarter of 2012 and the fourth quarter of 2011.
(b) Average contractual rates reflect the stated contractual interest rate with the exception of commercial paper, which is issued at a discount.
(c) Average effective rates reflect the average contractual interest rate plus amortization of discounts, premiums, and issuance fees.
(d) The fair value of debt includes $484 million and $326 million of Automotive sector short-term debt and $8.4 billion and $7 billion of Financial Services sector short-term debt at December 31, 2012 and 2011, respectively, carried at cost which approximates fair value. All debt is categorized within Level 2 of the fair value hierarchy. See Note 4 for additional information.
(e) Adjustments related to designated fair value hedges of unsecured debt.
(f) Debt related to Ford's acquisition of Ford Credit debt securities.

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

The fair value of debt presented above reflects interest accrued but not yet paid. Interest accrued on Automotive debt is reported in *Automotive accrued liabilities and deferred revenue* and was $194 million and $205 million at December 31, 2012 and 2011, respectively. Interest accrued on Financial Services debt is reported in *Financial Services other liabilities and deferred income* and was $744 million and $836 million at December 31, 2012 and 2011, respectively. See Note 4 for fair value methodology.

Maturities

Debt maturities at December 31, 2012 were as follows (in millions):

	2013	2014	2015	2016	2017	Thereafter	Total Debt Maturities
Automotive Sector							
Public unsecured debt securities	$ —	$ —	$ 160	$ —	$ —	$ 5,260	$ 5,420
Unamortized discount (a)	—	—	—	—	—	(100)	(100)
Convertible notes	—	—	—	883	—	25	908
Unamortized discount (a)	—	—	—	(137)	—	(5)	(142)
DOE ATVM Incentive Program	591	591	591	591	591	2,650	5,605
Short-term and other debt (b)	795	100	1,145	139	108	285	2,572
Unamortized discount (a)	(4)	(2)	(1)	—	—	—	(7)
Total Automotive debt	1,382	689	1,895	1,476	699	8,115	14,256
Financial Services Sector							
Unsecured debt	14,061	4,019	8,906	4,898	6,459	8,221	46,564
Asset-backed debt	23,315	12,356	5,005	1,319	1,586	—	43,581
Unamortized (discount)/premium (a)	(1)	(76)	(19)	(15)	(15)	(8)	(134)
Fair value adjustments (a) (c)	33	25	84	43	148	458	791
Total Financial Services debt	37,408	16,324	13,976	6,245	8,178	8,671	90,802
Total Company	$ 38,790	$ 17,013	$ 15,871	$ 7,721	$ 8,877	$ 16,786	$ 105,058

(a) Based on contractual payment date of related debt.
(b) Primarily non-U.S. affiliate debt and includes the EIB secured loan.
(c) Adjustments related to designated fair value hedges of unsecured debt.

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

Automotive Sector

Public Unsecured Debt Securities

Our public unsecured debt securities outstanding were as follows (in millions):

	Aggregate Principal Amount Outstanding	
Title of Security	**December 31, 2012**	**December 31, 2011**
4 7/8% Debentures due March 26, 2015	$ 160	$ —
6 1/2% Debentures due August 1, 2018	361	361
8 7/8% Debentures due January 15, 2022	86	86
6.55% Debentures due October 3, 2022 (a)	15	15
7 1/8% Debentures due November 15, 2025	209	209
7 1/2% Debentures due August 1, 2026	193	193
6 5/8% Debentures due February 15, 2028	104	104
6 5/8% Debentures due October 1, 2028 (b)	638	638
6 3/8% Debentures due February 1, 2029 (b)	260	260
5.95% Debentures due September 3, 2029 (a)	8	8
6.15% Debentures due June 3, 2030 (a)	10	10
7.45% GLOBLS due July 16, 2031 (b)	1,794	1,794
8.900% Debentures due January 15, 2032	151	151
9.95% Debentures due February 15, 2032	4	4
5.75% Debentures due April 2, 2035 (a)	40	40
7.50% Debentures due June 10, 2043 (c)	593	593
7.75% Debentures due June 15, 2043	73	73
7.40% Debentures due November 1, 2046	398	398
9.980% Debentures due February 15, 2047	181	181
7.70% Debentures due May 15, 2097	142	142
Total public unsecured debt securities (d)	$ 5,420	$ 5,260

(a) Unregistered industrial revenue bonds.
(b) Listed on the Luxembourg Exchange and on the Singapore Exchange.
(c) Listed on the New York Stock Exchange; this debt was redeemed as of February 4, 2013.
(d) Excludes 9.215% *Debentures due September 15, 2021* with an outstanding balance at December 31, 2012 of $180 million. The proceeds from these securities were on-lent by Ford to Ford Holdings to fund Financial Services activity and are reported as *Financial Services debt*.

Convertible Notes

At December 31, 2012, we had outstanding $883 million and $25 million principal of 4.25% Senior Convertible Notes due November 15, 2016 ("2016 Convertible Notes") and December 15, 2036 ("2036 Convertible Notes"), respectively. Subject to certain limitations relating to the price of Ford Common Stock, the 2016 Convertible Notes are convertible into shares of Ford Common Stock, based on a conversion rate (subject to adjustment) of 109.8554 shares per $1,000 principal amount of 2016 Convertible Notes (which is equal to a conversion price of $9.10 per share, representing a 22% conversion premium based on the closing price of $7.44 per share on November 3, 2009). The 2036 Convertible Notes are convertible into shares of Ford Common Stock, based on a conversion rate (subject to adjustment) of 111.0495 shares per $1,000 principal amount of 2036 Convertible Notes (which is equal to a conversion price of $9.01 per share, representing a 22% conversion premium based on the closing price of $7.36 per share on December 6, 2006).

Upon conversion, we have the right to deliver, in lieu of shares of Ford Common Stock, either cash or a combination of cash and Ford Common Stock. Holders may require us to purchase all or a portion of the Convertible Notes upon a change in control of the Company, or for shares of Ford Common Stock upon a designated event that is not a change in control, in each case for a price equal to 100% of the principal amount of the Convertible Notes being repurchased plus any accrued and unpaid interest to, but not including, the date of repurchase. Additionally, holders of the 2036 Convertible Notes may require us to purchase all or a portion for cash on December 20, 2016 and December 15, 2026.

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

We may terminate the conversion rights related to the 2016 Convertible Notes at any time on or after November 20, 2014 if the closing price of Ford Common Stock exceeds 130% of the then-applicable conversion price for 20 trading days during any consecutive 30-trading-day period. Also, we may redeem for cash all or a portion of the 2036 Convertible Notes at our option at any time or from time to time on or after December 20, 2016 at a price equal to 100% of the principal amount of the 2036 Convertible Notes to be redeemed, plus accrued and unpaid interest to, but not including, the redemption date. We may terminate the conversion rights related to the 2036 Convertible Notes at any time on or after December 20, 2013 if the closing price of Ford Common Stock exceeds 140% of the then-applicable conversion price for 20 trading days during any consecutive 30-trading-day period.

Liability, equity, and if-converted components of our Convertible Notes are summarized as follows (in millions):

	December 31, 2012	December 31, 2011	Total Effective Interest Rate December 31, 2012	Total Effective Interest Rate December 31, 2011
Liability component				
4.25% Debentures due November 15, 2016	$ 768	$ 768	9.2%	9.2%
4.25% Debentures due November 15, 2016 (underwriter option)	115	115	8.6%	8.6%
Subtotal Convertible Debt due November 15, 2016	883	883		
4.25% Debentures due December 15, 2036	25	25	10.5%	10.5%
Unamortized discount	(142)	(172)		
Net carrying amount	$ 766	$ 736		
Equity component of outstanding debt (a)	$ (225)	$ (225)		
Share value in excess of principal value, if converted (b)	$ 384	$ 143		

(a) Recorded in *Capital in excess of par value of stock.*
(b) Based on share price of $12.95 and $10.76 as of December 31, 2012 and 2011, respectively.

We recognized interest cost on our Convertible Notes as follows (in millions):

	2012	2011	2010
Contractual interest coupon	$ 38	$ 38	$ 138
Amortization of discount	30	27	87
Total interest cost on Convertible Notes	$ 68	$ 65	$ 225

2010 Conversion Offer. In the fourth quarter of 2010, pursuant to an exchange offer we conducted, about $2 billion and $554 million principal amount of the 2016 Convertible Notes and 2036 Convertible Notes, respectively, were exchanged for an aggregate of 274,385,596 shares of Ford Common Stock, $534 million in cash ($215 in cash per $1,000 principal amount and $190 in cash per $1,000 principal amount of 2016 Convertible Notes and 2036 Convertible Notes exchanged, respectively) and the applicable accrued and unpaid interest on such 2016 Convertible Notes and 2036 Convertible Notes. As a result of the conversion, we recorded a pre-tax loss of $962 million, net of unamortized discounts, premiums, and fees, in *Automotive interest income and other income/(expense), net.*

DOE ATVM Incentive Program

In September 2009, we entered into a Loan Arrangement and Reimbursement Agreement ("Arrangement Agreement") with the DOE, pursuant to which the DOE agreed to (i) arrange a 13-year multi-draw term loan facility (the "Facility") under the ATVM Program in the aggregate principal amount of up to $5.9 billion, (ii) designate us as a borrower under the ATVM Program and (iii) cause the Federal Financing Bank ("FFB") to enter into the Note Purchase Agreement for the purchase of notes to be issued by us evidencing such loans. In August 2012, the Facility was fully drawn with $5.9 billion outstanding after we had drawn the remaining $137 million of available funds. We began repayment in September 2012, and at December 31, 2012 an aggregate of $5.6 billion was outstanding. The proceeds of the ATVM loan have been used to finance certain costs for fuel efficient, advanced technology vehicles. The principal amount of the ATVM loan bears interest at a blended rate based on the U.S. Treasury yield curve at the time each draw was made (with the weighted-average interest rate on all such draws being about 2.3% per annum).

The ATVM loan is repayable in equal quarterly installments of $148 million, which began in September 2012 and will end in June 2022.

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

EIB Credit Facility

On July 12, 2010, Ford Motor Company Limited, our operating subsidiary in the United Kingdom ("Ford of Britain"), entered into a credit facility for an aggregate amount of £450 million (equivalent to $729 million at December 31, 2012) with the EIB. Proceeds of loans drawn under the facility are being used to fund costs for the research and development of fuel-efficient engines and commercial vehicles with lower emissions, and related upgrades to an engine manufacturing plant. The facility was fully drawn in the third quarter of 2010, and Ford of Britain had outstanding $729 million of loans at December 31, 2012. The loans are five-year, non-amortizing loans secured by a guarantee from the U.K. government for 80% of the outstanding principal amount and cash collateral from Ford of Britain equal to approximately 20% of the outstanding principal amount, and bear interest at a fixed rate of 3.9% per annum excluding a commitment fee of 0.30% to the U.K. government. Ford of Britain has pledged substantially all of its fixed assets, receivables and inventory to the U.K. government as collateral, and we have guaranteed Ford of Britain's obligations to the U.K. government related to the government's guarantee.

Automotive Credit Facilities

Lenders under our Credit Agreement dated December 15, 2006, as amended and restated on November 24, 2009 and as further amended (the "Credit Agreement"), have commitments totaling $9.3 billion, in a revolving facility that will mature on November 30, 2015, and commitments totaling an additional $307 million in a revolving facility that will mature on November 30, 2013. Our Credit Agreement is free of material adverse change clauses, restrictive financial covenants (for example, debt-to-equity limitations and minimum net worth requirements) and credit rating triggers that could limit our ability to obtain funding. The Credit Agreement contains a liquidity covenant that requires us to maintain a minimum of $4 billion in the aggregate of domestic cash, cash equivalents, loaned and marketable securities and/or availability under the revolving credit facilities. On May 22, 2012, the collateral securing our Credit Agreement was automatically released upon our senior, unsecured, long-term debt being upgraded to investment grade by Fitch and Moody's. If our senior, unsecured, long-term debt does not maintain at least two investment grade ratings, the guarantees of certain subsidiaries will be reinstated.

At December 31, 2012, the utilized portion of the revolving credit facilities was $93 million, representing amounts utilized as letters of credit. Less than 1% of the commitments in the revolving credit facilities are from financial institutions that are based in Greece, Ireland, Italy, Portugal, and Spain.

At December 31, 2012, we had $901 million of local credit facilities to foreign Automotive affiliates, of which $140 million has been utilized. Of the $901 million of committed credit facilities, $345 million expires in 2013, $196 million expires in 2014, $318 million expires in 2015, and $42 million thereafter.

Financial Services Sector

Debt Repurchases and Calls

From time to time and based on market conditions, we may repurchase or call some of our outstanding unsecured and asset-backed debt. If we have excess liquidity, and it is an economically favorable use of our available cash, we may repurchase or call debt at a price lower or higher than its carrying value, resulting in a gain or loss on extinguishment.

2012 Debt Repurchases. Through market transactions, we repurchased and called an aggregate principal amount of $628 million (including $43 million maturing in 2012) of our unsecured and asset backed debt. As a result, we recorded a pre-tax loss of $14 million, net of unamortized premiums, discounts and fees in *Financial Services other income/(loss), net* in 2012.

2011 Debt Repurchases. Through market transactions, we repurchased and called an aggregate principal amount of $2.3 billion (including $268 million maturing in 2011) of our unsecured debt. As a result, we recorded a pre-tax loss of $68 million, net of unamortized premiums, discounts and fees in *Financial Services other income/(loss), net* in 2011. There were no repurchase or call transactions for asset-backed debt during 2011.

2010 Debt Repurchases. Through market transactions, we repurchased and called an aggregate principal amount of $5.6 billion (including $683 million maturing in 2010) of its unsecured debt and asset-backed debt. As a result, we recorded a pre-tax loss of $139 million, net of unamortized premiums and discounts, in *Financial Services other income/(loss), net* in 2010.

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

Asset-Backed Debt

Ford Credit engages in securitization transactions to fund operations and to maintain liquidity. Ford Credit's securitization transactions are recorded as asset-backed debt and the associated assets are not de-recognized and continue to be included in our financial statements.

The finance receivables and cash flows related to the net investment in operating leases that have been included in securitization transactions are only available for payment of the debt and other obligations issued or arising in the securitization transactions. They are not available to pay Ford Credit's other obligations or the claims of its other creditors. Ford Credit does, however, hold the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of the securitization transactions. The debt is the obligation of our consolidated securitization entities and not Ford Credit's legal obligation or that of its other subsidiaries.

The following table shows the assets and liabilities related to our asset-backed debt arrangements that are included in our financial statements for the years ended December 31 (in billions):

	2012		
	Cash and Cash Equivalents	Finance Receivables, Net and Net Investment in Operating Leases	Related Debt
VIEs (a)			
Finance receivables	$ 2.5	$ 47.5	$ 36.0
Net investment in operating leases	0.4	6.3	4.2
Total	$ 2.9	$ 53.8	$ 40.2
Non-VIE			
Finance receivables (b)	$ 0.1	$ 3.5	$ 3.3
Total securitization transactions			
Finance receivables	$ 2.6	$ 51.0	$ 39.3
Net investment in operating leases	0.4	6.3	4.2
Total	$ 3.0	$ 57.3	$ 43.5

	2011		
	Cash and Cash Equivalents	Finance Receivables, Net and Net Investment in Operating Leases	Related Debt
VIEs (a)			
Finance receivables	$ 3.0	$ 49.8	$ 37.2
Net investment in operating leases	0.4	6.4	4.2
Total	$ 3.4	$ 56.2	$ 41.4
Non-VIE			
Finance receivables (b)	$ 0.3	$ 6.2	$ 5.6
Total securitization transactions			
Finance receivables	$ 3.3	$ 56.0	$ 42.8
Net investment in operating leases	0.4	6.4	4.2
Total	$ 3.7	$ 62.4	$ 47.0

(a) Includes assets to be used to settle liabilities of the consolidated VIEs. See Note 12 for additional information on Financial Services sector VIEs.
(b) Certain debt issued by the VIEs to affiliated companies served as collateral for accessing the ECB open market operations program. This external funding of $145 million and $246 million at December 31, 2012 and 2011, respectively was not reflected as a liability of the VIEs and is reflected as a non-VIE liability above. The finance receivables backing this external funding are reflected in VIE finance receivables.

Financial Services sector asset-backed debt also included $64 million and $75 million at December 31, 2012 and 2011, respectively, that is secured by property.

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

Credit Facilities

At December 31, 2012, Ford Credit and its majority-owned subsidiaries had $922 million of contractually committed unsecured credit facilities with financial institutions, including FCE Bank plc's ("FCE") £440 million (equivalent to $713 million at December 31, 2012) syndicated credit facility (the "FCE Credit Agreement") which matures in 2014. At December 31, 2012, $866 million were available for use. In January 2013, FCE drew £330 million (equivalent to about $535 million) of its syndicated facility. The FCE Credit Agreement contains certain covenants, including an obligation for FCE to maintain its ratio of regulatory capital to risk weighted assets at no less than the applicable regulatory minimum, and for the support agreement between FCE and Ford Credit to remain in full force and effect (and enforced by FCE to ensure that its net worth is maintained at no less than $500 million). In addition to customary payment, representation, bankruptcy, and judgment defaults, the FCE Credit Agreement contains cross-payment and cross-acceleration defaults with respect to other debt.

In addition, at December 31, 2012, Ford Credit had $6.3 billion of contractually-committed liquidity facilities provided by banks to support its FCAR program of which $3.3 billion expire in 2013 and $3 billion expire in 2014. Utilization of these facilities is subject to conditions specific to the FCAR program and Ford Credit having a sufficient amount of eligible retail assets for securitization. The FCAR program must be supported by liquidity facilities equal to at least 100% of its outstanding balance. At December 31, 2012, about $6.3 billion of FCAR's bank liquidity facilities were available to support FCAR's asset-backed commercial paper, subordinated debt or FCAR's purchase of Ford Credit asset-backed securities. At December 31, 2012, the outstanding commercial paper balance for the FCAR program was $5.8 billion.

Committed Liquidity Programs

Ford Credit and its subsidiaries, including FCE, have entered into agreements with a number of bank-sponsored asset-backed commercial paper conduits and other financial institutions. Such counterparties are contractually committed, at Ford Credit's option, to purchase from Ford Credit eligible retail or wholesale assets or to purchase or make advances under asset-backed securities backed by retail, lease, or wholesale assets for proceeds of up to $24.3 billion ($12.9 billion retail, $7 billion wholesale, and $4.4 billion lease assets) at December 31, 2012, of which about $4.9 billion are commitments to FCE. These committed liquidity programs have varying maturity dates, with $23.4 billion (of which about $4.2 billion relates to FCE commitments) having maturities within the next twelve months and the remaining balance having maturities between April 2014 and October 2014. Ford Credit plans to achieve capacity renewals to protect its global funding needs, optimize capacity utilization and maintain sufficient liquidity.

Ford Credit's ability to obtain funding under these programs is subject to having a sufficient amount of assets eligible for these programs as well as its ability to obtain interest rate hedging arrangements for certain securitization transactions. Ford Credit's capacity in excess of eligible receivables would protect it against the risk of lower than planned renewal rates. At December 31, 2012, $12.3 billion of these commitments were in use. These programs are free of material adverse change clauses, restrictive financial covenants (for example, debt-to-equity limitations and minimum net worth requirements), and generally, credit rating triggers that could limit Ford Credit's ability to obtain funding. However, the unused portion of these commitments may be terminated if the performance of the underlying assets deteriorates beyond specified levels. Based on Ford Credit's experience and knowledge as servicer of the related assets, it does not expect any of these programs to be terminated due to such events.

NOTE 18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

In the normal course of business, our operations are exposed to global market risks, including the effect of changes in foreign currency exchange rates, certain commodity prices, and interest rates. To manage these risks, we enter into various derivatives contracts:

- Foreign currency exchange contracts, including forwards and options, that are used to manage foreign exchange exposure;
- Commodity contracts, including forwards and options, that are used to manage commodity price risk;
- Interest rate contracts including swaps, caps, and floors that are used to manage the effects of interest rate fluctuations; and
- Cross-currency interest rate swap contracts that are used to manage foreign currency and interest rate exposures on foreign-denominated debt.

Our derivatives are over-the-counter customized derivative transactions and are not exchange-traded. We review our hedging program, derivative positions, and overall risk management strategy on a regular basis.

Derivative Financial Instruments and Hedge Accounting. All derivatives are recognized on the balance sheet at fair value. We do not net our derivative position by counterparty for purposes of balance sheet presentation and disclosure. We do, however, consider our net position for determining fair value.

We have elected to apply hedge accounting to certain derivatives. Derivatives that are designated in hedging relationships are evaluated for effectiveness using regression analysis at the time they are designated and throughout the hedge period.

Some derivatives do not qualify for hedge accounting; for others, we elect not to apply hedge accounting. Regardless, we only enter into transactions that we believe will be highly effective at offsetting the underlying economic risk.

Cash Flow Hedges. Our Automotive sector has designated certain forward contracts as cash flow hedges of forecasted transactions with exposure to foreign currency exchange risk.

The effective portion of changes in the fair value of cash flow hedges is deferred in *Accumulated other comprehensive income/(loss)* and is recognized in *Automotive cost of sales* when the hedged item affects earnings. The ineffective portion is reported in *Automotive cost of sales* in the period of measurement. Our policy is to de-designate cash flow hedges prior to the time forecasted transactions are recognized as assets or liabilities on the balance sheet and report subsequent changes in fair value through *Automotive cost of sales*. If it becomes probable that the originally-forecasted transaction will not occur, the related amount included in *Accumulated other comprehensive income/(loss)* is reclassified and recognized in earnings. The majority of our cash flow hedges mature in 2 years or less.

Fair Value Hedges. Our Financial Services sector uses derivatives to reduce the risk of changes in the fair value of debt. We have designated certain receive-fixed, pay-float interest rate swaps as fair value hedges of fixed-rate debt. The risk being hedged is the risk of changes in the fair value of the hedged debt attributable to changes in the benchmark interest rate. If the hedge relationship is deemed to be highly effective, we record the changes in the fair value of the hedged debt related to the risk being hedged in *Financial Services debt* with the offset in *Financial Services other income/(loss), net*. The change in fair value of the related derivative (excluding accrued interest) also is recorded in *Financial Services other income/(loss), net.* Net interest settlements and accruals on fair value hedges are excluded from the assessment of hedge effectiveness. We report net interest settlements and accruals on fair value hedges in *Interest expense.* The cash flows associated with fair value hedges are reported in *Net cash provided by/(used in) operating activities* on our statement of cash flows.

When a fair value hedge is de-designated, or when the derivative is terminated before maturity, the fair value adjustment to the hedged debt continues to be reported as part of the carrying value of the debt and is amortized over its remaining life.

Derivatives Not Designated as Hedging Instruments. Our Automotive sector reports changes in the fair value of derivatives not designated as hedging instruments through *Automotive cost of sales*. Cash flows associated with non-designated or de-designated derivatives are reported in *Net cash provided by/(used in) investing activities* in our statements of cash flows.

NOTE 18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

Our Financial Services sector reports net interest settlements and accruals and changes in the fair value of interest rate swaps not designated as hedging instruments in *Financial Services other income/(loss) net*. Foreign currency revaluation on accrued interest along with gains and losses on foreign exchange contracts and cross currency interest rate swaps are reported in *Financial Services Operating and other expenses*. Cash flows associated with non-designated or de-designated derivatives are reported in *Net cash provided by/(used in) investing activities* in our statements of cash flows.

Net Investment Hedges. We have used foreign currency exchange derivatives to hedge the net assets of certain foreign entities to offset the translation and economic exposures related to our investment in these entities. The effective portion of changes in the value of designated instruments (i.e., the spot-to-spot) is included in *Accumulated other comprehensive income/(loss)* as a foreign currency translation adjustment until the hedged investment is sold or liquidated. When the investment is sold or liquidated, the hedge gains and losses previously reported in *Accumulated other comprehensive income/(loss)* are recognized in *Automotive interest income and other income/(loss), net* as part of the gain or loss on sale. Presently, we have had no derivative instruments in an active net investment hedging relationship.

Normal Purchases and Normal Sales Classification. We have elected to apply the normal purchases and normal sales classification for physical supply contracts that are entered into for the purpose of procuring commodities to be used in production over a reasonable period in the normal course of our business.

NOTE 18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

Income Effect of Derivative Financial Instruments

The following table summarizes by hedge designation the pre-tax gains/(losses) recorded in Other comprehensive income/(loss) ("OCI"), reclassified from *Accumulated other comprehensive income/(loss)* ("AOCI") to income and/or recognized directly in income for the years ended December 31 (in millions):

	2012			2011			2010		
	Gain/(Loss) Recorded in OCI	Gain/(Loss) Reclassified from AOCI to Income	Gain/(Loss) Recognized in Income	Gain/(Loss) Recorded in OCI	Gain/(Loss) Reclassified from AOCI to Income	Gain/(Loss) Recognized in Income	Gain/(Loss) Recorded in OCI	Gain/(Loss) Reclassified from AOCI to Income	Gain/(Loss) Recognized in Income
Automotive Sector									
Cash flow hedges									
Foreign currency exchange contracts	$ (371)	$ (377)	$ 1	$ (100)	$ 119	$ (3)	$ (7)	$ 17	$ —
Derivatives not designated as hedging instruments									
Foreign currency exchange contracts			$ (138)			$ 20			$ (183)
Commodity contracts			(65)			(423)			68
Other – warrants			(4)			(1)			2
Total			$ (207)			$ (404)			$ (113)
Financial Services Sector									
Fair value hedges									
Interest rate contracts									
Net interest settlements and accruals excluded from the assessment of hedge effectiveness			$ 177			$ 217			$ 225
Ineffectiveness (a)			16			(30)			(6)
Total			$ 193			$ 187			$ 219
Derivatives not designated as hedging instruments									
Interest rate contracts			$ (14)			$ (5)			$ 38
Foreign currency exchange contracts			(70)			(48)			(88)
Cross-currency interest rate swap contracts			(150)			(3)			(1)
Other (b)			(81)			65			—
Total			$ (315)			$ 9			$ (51)

(a) For 2012, 2011, and 2010, hedge ineffectiveness reflects change in fair value on derivatives of $228 million gain, $433 million gain, and $117 million gain, respectively, and change in value on hedged debt attributable to the change in benchmark interest rate of $212 million loss, $463 million loss, and $123 million loss, respectively.
(b) Reflects gains/(losses) for derivative features included in the FUEL Notes (see Note 4).

NOTE 18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

Balance Sheet Effect of Derivative Financial Instruments

The following table summarizes the notional amount and estimated fair value of our derivative financial instruments (in millions):

	December 31, 2012			December 31, 2011		
	Notional	Fair Value of Assets	Fair Value of Liabilities	Notional	Fair Value of Assets	Fair Value of Liabilities
Automotive Sector						
Cash flow hedges						
Foreign currency exchange contracts	$ 17,663	$ 150	$ 357	$ 14,535	$ 120	$ 368
Derivatives not designated as hedging instruments						
Foreign currency exchange contracts	9,225	68	129	5,692	92	80
Commodity contracts	1,854	23	124	2,396	2	372
Other – warrants	—	—	—	12	4	—
Total derivatives not designated as hedging instruments	11,079	91	253	8,100	98	452
Total Automotive sector derivative financial instruments	$ 28,742	$ 241	$ 610	$ 22,635	$ 218	$ 820
Financial Services Sector						
Fair value hedges						
Interest rate contracts	$ 16,754	$ 787	$ 8	$ 7,786	$ 526	$ —
Derivatives not designated as hedging instruments						
Interest rate contracts	68,919	504	248	70,639	670	237
Foreign currency exchange contracts	2,378	9	8	3,582	30	50
Cross-currency interest rate swap contracts	3,006	—	117	987	12	12
Other (a)	—	—	—	2,500	137	—
Total derivatives not designated as hedging instruments	74,303	513	373	77,708	849	299
Total Financial Services sector derivative financial instruments	$ 91,057	$ 1,300	$ 381	$ 85,494	$ 1,375	$ 299

(a) Represents derivative features included in the FUEL Notes (see Note 4). The derivative features included in the FUEL Notes were extinguished as a result of the mandatory exchange of the FUEL Notes to unsecured notes in the second quarter of 2012.

The notional amounts of the derivative financial instruments do not represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. Notional amounts are presented on a gross basis with no netting of offsetting exposure positions. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, foreign currency exchange rates, or commodity volumes and prices.

On our consolidated balance sheet, derivative assets are reported in *Other assets* for Automotive and Financial Services sectors, and derivative liabilities are reported in *Payables* for our Automotive sector and in *Accrued liabilities and deferred revenue* for our Financial Services sector.

NOTE 18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

Counterparty Risk and Collateral

The use of derivatives exposes us to the risk that a counterparty may default on a derivative contract. We establish exposure limits for each counterparty to minimize this risk and provide counterparty diversification. Substantially all of our derivative exposures are with counterparties that have an investment grade rating. The aggregate fair value of our derivative instruments in asset positions on December 31, 2012 was $1.5 billion, representing the maximum loss that we would recognize at that date if all counterparties failed to perform as contracted. We enter into master agreements with counterparties that generally allow for netting of certain exposures; therefore, the actual loss we would recognize if all counterparties failed to perform as contracted would be lower.

We include an adjustment for non-performance risk in the measurement of fair value of derivative instruments. Our adjustment for non-performance risk is relative to a measure based on an unadjusted inter-bank deposit rate (e.g., LIBOR). For our Automotive sector, at December 31, 2012 and 2011, our adjustment decreased derivative assets by $1 million and $3 million, respectively, and decreased derivative liabilities by $1 million and $10 million, respectively. For our Financial Services sector, at December 31, 2012 and 2011, our adjustment decreased derivative assets by $14 million and $54 million, respectively, and decreased derivative liabilities by $5 million and $7 million, respectively. See Note 4 for more detail on valuation methodologies.

We post cash collateral with certain counterparties based on our net position with regard to foreign currency and commodity derivative contracts. As of December 31, 2012 and 2011, we posted $0 and $70 million, respectively, in *Other assets* for posted collateral.

NOTE 19. REDEEMABLE NONCONTROLLING INTEREST

On September 1, 2012, with respect to the business combination of AAI, we recognized a redeemable noncontrolling interest related to Mazda Motor Corporation's ("Mazda's") 50% equity interest in AAI. Mazda's share in AAI is redeemable by Ford or Mazda for a three-year period commencing on September 1, 2015 (see Note 25). The following table summarizes the changes in our redeemable noncontrolling interest for the period ended December 31 (in millions):

	2012
Balance on September 1, 2012	$ 319
Accretion to the redemption value of noncontrolling interest (recognized in *Interest expense)*	3
Ending balance	$ 322

NOTE 20. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The following table summarizes the changes in the accumulated balances for each component of AOCI attributable to Ford Motor Company for the years ended December 31 (in millions):

	2012	2011	2010
Foreign currency translation			
Beginning balance	$ (1,383)	$ (665)	$ 1,568
Net gain/(loss) on foreign currency translation (net of tax of $0, $2 and $2)	157	(697)	(497)
Reclassifications to net income (a)	(15)	(21)	(1,736)
Other comprehensive income/(loss), net of tax (b)	142	(718)	(2,233)
Ending balance	$ (1,241)	$ (1,383)	$ (665)
Derivative instruments (e)			
Beginning balance	$ (181)	$ (29)	$ (5)
Net gain/(loss) on derivative instruments (net of tax benefit of $115, $29 and $1)	(256)	(71)	(6)
Reclassifications to net income (net of tax of $115, tax benefit of $38 and tax of $1) (c)	262	(81)	(18)
Other comprehensive income/(loss), net of tax	6	(152)	(24)
Ending balance	$ (175)	$ (181)	$ (29)
Pension and other postretirement benefits			
Beginning balance	$ (17,170)	$ (13,617)	$ (12,427)
Prior service cost arising during the period (net of tax benefit of $1, $35 and $1)	(31)	56	60
Net gain/(loss) arising during the period (net of tax benefit of $2,238, $1,461 and tax of $142)	(4,693)	(4,229)	(1,690)
Amortization of prior service cost included in net income (net of tax benefit of $100, $183 and tax of $4) (d)	(164)	(40)	(230)
Amortization of (gain)/loss included in net income (net of tax of $404, $69 and $0) (d)	812	631	354
Translation impact on non-U.S. plans	(192)	29	316
Other comprehensive income/(loss), net of tax	(4,268)	(3,553)	(1,190)
Ending balance	$ (21,438)	$ (17,170)	$ (13,617)
Net holding gain/(loss)			
Beginning balance	$ —	$ (2)	$ —
Reclassifications to net income	—	2	(2)
Ending balance	$ —	$ —	$ (2)
Total AOCI ending balance at December 31	$ (22,854)	$ (18,734)	$ (14,313)

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(a) The accumulated translation adjustments related to an investment in a foreign subsidiary are reclassified to net income upon sale or upon complete or substantially complete liquidation of the entity and are recognized in *Automotive interest income and other income/(loss), net* or *Financial Services other income/(loss), net.* The adjustment for 2010 primarily relates to the sale of Volvo.
(b) There were losses of $2 million and $1 million attributable to noncontrolling interests in 2011 and 2010, respectively.
(c) Gain/(loss) on cash flow hedges is reclassified from AOCI to income when the hedged item affects earnings and is recognized in *Automotive cost of sales.*
(d) These AOCI components are included in the computation of net periodic pension cost. See Note 16 for additional details.
(e) We expect to reclassify existing net losses of $265 million from *Accumulated other comprehensive income/(loss)* to *Automotive cost of sales* during the next twelve months as the underlying exposures are realized.

NOTE 21. OTHER INCOME/(LOSS)

Automotive Sector

The following table summarizes amounts included in *Automotive interest income and other income/(loss), net* for the years ended December 31 (in millions):

	2012	2011	2010
Interest income	$ 272	$ 387	$ 262
Realized and unrealized gains/(losses) on cash equivalents and marketable securities	85	(77)	125
Gains/(Losses) on the sale of held-for-sale operations, equity and cost investments, business combinations, and other dispositions	594	436	5
Gains/(Losses) on extinguishment of debt	—	(60)	(844)
Other	234	139	90
Total	$ 1,185	$ 825	$ (362)

Financial Services Sector

The following table summarizes the amounts included in *Financial Services other income/(loss), net* for the years ended December 31 (in millions):

	2012	2011	2010
Interest income (investment-related)	$ 70	$ 84	$ 86
Realized and unrealized gains/(losses) on cash equivalents and marketable securities	16	15	22
Gains/(Losses) on the sale of held-for-sale operations, equity and cost investments, business combinations, and other dispositions	(8)	51	9
Gains/(Losses) on extinguishment of debt	(14)	(68)	(139)
Insurance premiums earned, net	105	100	98
Other	200	231	239
Total	$ 369	$ 413	$ 315

NOTE 22. SHARE-BASED COMPENSATION

At December 31, 2012, a variety of share-based compensation grants and awards were outstanding for employees (including officers). All share-based compensation plans are approved by the shareholders.

We have share-based compensation outstanding under two Long-Term Incentive Plans ("LTIP"): the 1998 LTIP and the 2008 LTIP. No further grants may be made under the 1998 LTIP. All outstanding share-based compensation under the 1998 LTIP continues to be governed by the terms and conditions of the existing agreements for those grants. Grants may continue to be made under the 2008 LTIP through April 2018. Under the 2008 LTIP, the number of shares of Common Stock that may be granted as share-based compensation in any year is limited to 2% of our issued and outstanding Common Stock as of December 31 of the prior calendar year. Any unused portion is available for later years. The limit may be increased up to 3% in any year, with a corresponding reduction in shares available for grants in future years. At December 31, 2012 the number of unused shares carried forward was 157 million shares.

We primarily issue two types of share-based compensation awards, restricted stock units ("RSUs") and stock options.

NOTE 22. SHARE-BASED COMPENSATION *(Continued)*

We grant performance-based and time-based RSUs to our employees. RSUs provide the recipients with the right to shares of Common Stock after a restriction period. We measure the fair value using the closing price of our Common Stock on grant date. Expenses associated with RSUs are recorded in *Selling, administrative, and other expense*.

Time-based RSUs generally have a graded vesting feature whereby one-third of each grant of RSUs vests after the first anniversary of the grant date, one-third after the second anniversary, and one-third after the third anniversary. Expense is recognized using the graded vesting method and is based on the fair value at grant date.

Performance-based RSUs have a performance period (usually one year) followed by a restriction period (usually two years). Compensation expense for performance-based RSUs is recognized when it is probable and estimable as measured against the performance metrics. Expense is recognized over the performance and restriction periods, if any, and is based on the fair value at grant date.

We also grant stock options to our employees. We measure the fair value of our stock options using the Black-Scholes option-pricing model, using historical volatility and our determination of the expected term. The expected term of stock options is the time period that the stock options are expected to be outstanding. Historical data are used to estimate option exercise behaviors and employee termination experience.

Stock options generally have a vesting feature whereby one-third of each grant of stock options are exercisable after the first anniversary of the grant date, one-third after the second anniversary, and one-third after the third anniversary. Stock options expire 10 years from the grant date and are expensed in *Selling, administrative, and other expenses* using a three-year graded vesting methodology.

We issue new shares of Common Stock upon vesting of RSUs and upon exercise of stock options.

Restricted Stock Units

RSU activity during 2012 was as follows:

	Shares (millions)	Weighted-Average Grant-Date Fair Value	Aggregate Intrinsic Value (millions)
Outstanding, beginning of year	36.1	$ 7.31	
Granted	8.2	12.43	
Vested	(25.4)	4.28	
Forfeited	(0.7)	14.12	
Outstanding, end of year	18.2	13.18	$ 235.7
RSU-stock expected to vest	18.0	N/A	232.6

Intrinsic value of RSUs is measured by applying the closing stock price as of December 31 to the applicable number of units. The fair value and intrinsic value of RSUs during 2012, 2011, and 2010 were as follows (in millions, except RSU per unit amounts):

	2012	2011	2010
Fair value			
Granted	$ 102	$ 123	$ 130
Weighted average for multiple grant dates (per unit)	12.43	14.47	12.69
Vested	109	141	112
Intrinsic value			
Vested	329	478	522

NOTE 22. SHARE-BASED COMPENSATION *(Continued)*

Compensation cost for RSUs for the years ended December 31 was as follows (in millions):

	2012	2011	2010
Compensation cost (a)	$ 62	$ 84	$ 138

(a) Net of tax benefit of $36 million, $49 million, and $0 in 2012, 2011, and 2010, respectively.

As of December 31, 2012, there was approximately $48 million in unrecognized compensation cost related to non-vested RSUs. This expense will be recognized over a weighted average period of 1.8 years.

Stock Options

Stock option activity was as follows:

	2012		2011		2010	
	Shares (millions)	Weighted-Average Exercise Price	Shares (millions)	Weighted-Average Exercise Price	Shares (millions)	Weighted-Average Exercise Price
Outstanding, beginning of year	144.4	$ 10.63	172.5	$ 13.07	225.4	$ 13.36
Granted	6.4	12.43	4.4	14.76	6.7	12.75
Exercised (a)	(7.6)	5.70	(8.2)	9.25	(36.5)	8.41
Forfeited (including expirations)	(35.2)	16.59	(24.3)	29.18	(23.1)	23.18
Outstanding, end of year	108.0	9.14	144.4	10.63	172.5	13.07
Exercisable, end of year	96.5	8.67	126.8	11.00	143.7	14.63

(a) Exercised at option price ranging from $1.96 to $12.49 during 2012, option price ranging from $1.96 to $16.91 during 2011, and option price ranging from $1.96 to $16.91 during 2010.

The total grant date fair value of options that vested during the years ended December 31 was as follows (in millions):

	2012	2011	2010
Fair value of vested options	$ 37	$ 36	$ 37

We have 96.5 million fully-vested stock options, with a weighted-average exercise price of $8.67 and average remaining term of 4 years. We expect 11.3 million stock options (after forfeitures), with a weighted-average exercise price of $13.08 and average remaining term of 9 years, to vest in the future.

The intrinsic value for stock options is measured by comparing the awarded option price to the closing stock price at December 31. The intrinsic value for vested and unvested options during the years ended December 31 was as follows (in millions):

	2012	2011	2010
Intrinsic value of vested options	$ 426	$ 257	$ 623
Intrinsic value of unvested options (after forfeitures)	4	74	324

We received approximately $43 million in proceeds from the exercise of stock options in 2012. The tax benefit realized was de minimis. An equivalent of about $87 million in new issues were used to settle exercised options. For options exercised during the years ended December 31, 2012, 2011, and 2010, the difference between the fair value of the Common Stock issued and the respective exercise price was $44 million, $54 million, and $187 million, respectively.

Compensation cost for stock options for the years ended December 31 was as follows (in millions):

	2012	2011	2010
Compensation cost (a)	$ 26	$ 30	$ 34

(a) Net of tax benefit of $16 million, $17 million, and $0 in 2012, 2011, and 2010, respectively.

NOTE 22. SHARE-BASED COMPENSATION *(Continued)*

As of December 31, 2012, there was about $10 million in unrecognized compensation cost related to non-vested stock options. This expense will be recognized over a weighted-average period of 1.9 years. A summary of the status of our non-vested shares and changes during 2012 follows:

	Shares (millions)	Weighted-Average Grant-Date Fair Value
Non-vested, beginning of year	17.6	$ 4.49
Granted	6.4	5.88
Vested	(12.4)	3.03
Forfeited	(0.1)	6.63
Non-vested, end of year	11.5	6.79

The estimated fair value of stock options at the time of grant using the Black-Scholes option-pricing model was as follows:

	2012	2011	2010
Fair value per stock option	$ 5.88	$ 8.48	$ 7.21
Assumptions:			
Annualized dividend yield	2%	—%	—%
Expected volatility	53.8%	53.2%	53.4%
Risk-free interest rate	1.6%	3.2%	3.0%
Expected stock option term (in years)	7.2	7.1	6.9

Details on various stock option exercise price ranges are as follows:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Shares (millions)	Weighted-Average Life (years)	Weighted-Average Exercise Price	Shares (millions)	Weighted-Average Exercise Price
$1.96 – $2.84	19.7	6.2	$ 2.11	19.7	$ 2.11
$5.11 – $8.58	36.2	3.4	7.34	36.2	7.34
$10.11 – $12.98	30.5	4.7	12.52	21.8	12.52
$13.07 – $16.64	21.6	2.6	13.81	18.8	13.66
Total stock options	108.0			96.5	

Other Share-Based Awards

Under the 1998 LTIP and 2008 LTIP, we have granted other share-based awards to certain employees. These awards include restricted stock grants, cash-settled restricted stock units, and stock appreciation rights. These awards have various vesting criteria which may include service requirements, individual performance targets, and company-wide performance targets.

Other share-based compensation cost for the years ended December 31 was as follows (in millions):

	2012	2011	2010
Compensation cost (a)	$ —	$ (6)	$ 6

(a) Net of tax of $0, $3 million, and $0 in 2012, 2011, and 2010, respectively.

NOTE 23. EMPLOYEE SEPARATION ACTIONS

As part of our plan to realign our vehicle assembly capacity to operate profitably at the current demand and changing model mix, we have implemented a number of different employee separation plans. The accounting for employee separation plans is dependent on the specific design of the plans.

Under certain labor agreements, we are required to pay transitional benefits to our employees who are idled. For employees who will be temporarily idled, we expense the benefits on an as-incurred basis. For employees who will be permanently idled, we expense all of the future benefit payments in the period when it is probable that the employees will be permanently idled. Our reserve balance for these future benefit payments to permanently idled employees takes into account several factors: the demographics of the population at each affected facility, redeployment alternatives, estimate of benefits to be paid, and recent experience relative to voluntary redeployments.

We also incur payments to employees for separation actions. The costs of voluntary employee separation actions are recorded at the time of employee acceptance, unless the acceptance requires explicit approval by the Company. The costs of involuntary separation programs are accrued when management has approved the program and the affected employees are identified.

Automotive Sector

Transitional Benefits

Our collective bargaining agreements with the UAW and the CAW require us to pay a portion of wages and benefits for a specified period of time to employees who are considered permanently idled and who meet certain conditions. We have established a reserve for employee benefits that we expect to provide under our collective bargaining agreements. At December 31, 2012 and 2011, this reserve was $66 million and $153 million, respectively.

The balance in the reserve primarily relates to the closure of our St. Thomas Assembly Plant in Canada, which was announced in the fourth quarter of 2009.

Separation Actions

The following table shows pre-tax charges for hourly and salaried employee separation actions, which are recorded in *Automotive cost of sales* and *Selling, administrative, and other expenses* for the years ended December 31 (in millions):

	2012	2011	2010
Ford Europe	$ 76	$ 67	$ 56
Ford North America	194	154	110
Ford South America	65	15	3
Ford Asia Pacific Africa	43	38	1

The charges above exclude costs for pension and OPEB.

Financial Services Sector

Separation Actions

We recorded in *Selling, administrative, and other expenses* pre-tax charges of $7 million, $32 million, and $33 million for 2012, 2011, and 2010, respectively, for employee separation actions. These charges exclude costs for pension and OPEB.

NOTE 24. INCOME TAXES

In accordance with GAAP, we have elected to recognize accrued interest related to unrecognized tax benefits and tax-related penalties in the *Provision for/(Benefit from) income taxes* on our consolidated income statement.

Valuation of Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences that exist between the financial statement carrying value of assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards on a taxing jurisdiction basis. We measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which we expect the temporary differences to be recovered or paid.

Our accounting for deferred tax consequences represents our best estimate of the likely future tax consequences of events that have been recognized in our financial statements or tax returns and their future probability. In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. If, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be realized, we record a valuation allowance.

Components of Income Taxes

Components of income taxes excluding discontinued operations, cumulative effects of changes in accounting principles, other comprehensive income, and equity in net results of affiliated companies accounted for after-tax, are as follows:

	2012	2011	2010
Income before income taxes, excluding equity in net results of affiliated companies accounted for after-tax (in millions)			
U.S.	$ 6,639	$ 6,043	$ 4,057
Non-U.S.	493	2,138	2,554
Total	$ 7,132	$ 8,181	$ 6,611
Provision for/(Benefit from) income taxes (in millions)			
Current			
Federal	$ 4	$ (4)	$ (69)
Non-U.S.	270	298	289
State and local	3	(24)	(5)
Total current	277	270	215
Deferred			
Federal	2,076	(9,785)	—
Non-U.S.	(126)	(1,590)	292
State and local	(171)	(436)	85
Total deferred	1,779	(11,811)	377
Total	$ 2,056	$ (11,541)	$ 592
Reconciliation of effective tax rate			
U.S. statutory rate	35.0%	35.0 %	35.0%
Non-U.S. tax rates under U.S. rates	(1.6)	(1.5)	(0.1)
State and local income taxes	0.2	1.1	1.5
General business credits	0.3	(1.9)	(1.8)
Dispositions and restructurings	(1.7)	6.8	(9.5)
U.S. tax on non-U.S. earnings	(1.0)	(0.8)	0.1
Prior year settlements and claims	(1.8)	(0.2)	(10.0)
Tax-related interest	—	(0.9)	(0.7)
Tax-exempt income	(3.9)	(3.9)	(4.7)
Other	1.7	(2.5)	0.2
Valuation allowances	1.6	(172.3)	(1.0)
Effective rate	28.8%	(141.1)%	9.0%

NOTE 24. INCOME TAXES *(Continued)*

We historically have provided deferred taxes for the presumed repatriation to the United States of earnings from nearly all non-U.S. subsidiaries. During 2011, we determined that $6.9 billion of these non-U.S. subsidiaries' undistributed earnings are now indefinitely reinvested outside the United States. As management has determined that the earnings of these subsidiaries are not required as a source of funding for U.S. operations, such earnings are not planned to be distributed to the United States in the foreseeable future. As a result of this change in assertion, deferred tax liabilities related to undistributed foreign earnings decreased by $63 million.

As of December 31, 2012, $6.6 billion of non-U.S. earnings are considered indefinitely reinvested in operations outside the United States, for which deferred taxes have not been provided. These earnings have been subject to significant non-U.S. taxes; repatriation in their entirety would result in a residual U.S. tax liability of about $600 million.

At the end of 2011, our U.S. operations had returned to a position of cumulative profits for the most recent 3-year period. We concluded that this record of cumulative profitability in recent years, our ten consecutive quarters of pre-tax operating profits, our successful completion of labor negotiations with the UAW, and our business plan showing continued profitability provided assurance that our future tax benefits more likely than not would be realized. Accordingly, at year-end 2011, we released almost all of our valuation allowance against net deferred tax assets for entities in the United States, Canada, and Spain.

At December 31, 2012, we have retained a valuation allowance against approximately $500 million in North America related to various state and local operating loss carryforwards that are subject to restrictive rules for future utilization, and a valuation allowance totaling $1.4 billion primarily against deferred tax assets for our South American operations.

Components of Deferred Tax Assets and Liabilities

The components of deferred tax assets and liabilities were as follows (in millions):

	December 31, 2012	December 31, 2011
Deferred tax assets		
Employee benefit plans	$ 8,079	$ 8,189
Net operating loss carryforwards	2,417	3,163
Tax credit carryforwards	4,973	4,534
Research expenditures	2,321	2,297
Dealer and customer allowances and claims	1,820	1,731
Other foreign deferred tax assets	1,790	694
Allowance for credit losses	146	194
All other	1,176	1,483
Total gross deferred tax assets	22,722	22,285
Less: valuation allowances	(1,923)	(1,545)
Total net deferred tax assets	20,799	20,740
Deferred tax liabilities		
Leasing transactions	1,145	932
Deferred income	2,094	2,098
Depreciation and amortization (excluding leasing transactions)	1,561	1,659
Finance receivables	616	551
Other foreign deferred tax liabilities	379	360
All other	289	711
Total deferred tax liabilities	6,084	6,311
Net deferred tax assets/(liabilities)	$ 14,715	$ 14,429

Operating loss carryforwards for tax purposes were $6.9 billion at December 31, 2012, resulting in a deferred tax asset of $2.4 billion. A substantial portion of these losses begin to expire in 2029; the remaining losses will begin to expire in 2018. Tax credits available to offset future tax liabilities are $5 billion. A substantial portion of these credits have a remaining carryforward period of 10 years or more. Tax benefits of operating loss and tax credit carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances.

NOTE 24. INCOME TAXES *(Continued)*

Other

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows for the years listed (in millions):

	2012	2011
Beginning balance	$ 1,721	$ 966
Increase – tax positions in prior periods	84	1,045
Increase – tax positions in current period	19	59
Decrease – tax positions in prior periods	(246)	(134)
Settlements	(31)	(186)
Lapse of statute of limitations	(14)	(21)
Foreign currency translation adjustment	14	(8)
Ending balance	$ 1,547	$ 1,721

The amount of unrecognized tax benefits at December 31, 2012 and 2011 that would affect the effective tax rate if recognized was $1.2 billion and $1.2 billion, respectively.

Examinations by tax authorities have been completed through 2004 in Germany, and through 2007 in Canada, the United States, and the United Kingdom. Although examinations have been completed in these jurisdictions, limited transfer pricing disputes exist for years dating back to 1996.

We recorded in our consolidated income statement approximately $9 million, $77 million, and $45 million in tax-related interest income for the years ended December 31, 2012, 2011, and 2010. As of December 31, 2012 and 2011, we had recorded a net payable of $120 million and $171 million, respectively, for tax-related interest.

NOTE 25. DISPOSITIONS AND OTHER CHANGES IN INVESTMENTS IN AFFILIATES

We classify assets and liabilities as held for sale ("disposal group") when management, having the authority to approve the action, commits to a plan to sell the disposal group, the sale is probable within one year, and the disposal group is available for immediate sale in its present condition. We also consider whether an active program to locate a buyer has been initiated, whether the disposal group is marketed actively for sale at a price that is reasonable in relation to its current fair value, and whether actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. We classify a disposal group as a discontinued operation when the criteria to be classified as held for sale have been met and we will not have any significant involvement with the disposal group after the sale.

When we classify a disposal group as held for sale, we test for impairment. An impairment charge is recognized when the carrying value of the disposal group exceeds the estimated fair value, less transaction costs.

We aggregate the assets and liabilities of all held-for-sale disposal groups on the balance sheet for the period in which the disposal group is held for sale. To provide comparative balance sheets, we also aggregate the assets and liabilities for significant held-for-sale disposal groups on the prior-period balance sheet.

Automotive Sector

Dispositions

Automotive Components Holdings, LLC ("ACH"). On June 30, 2012, ACH completed the sale of its automotive lighting business located at its Ohio facilities to Ventra Sandusky, a Flex-N-Gate group affiliate. Ventra Sandusky will continue to supply Ford with automotive lighting components and service parts from the Sandusky and Bellevue facilities. As a result of this transaction, we recognized a second quarter pre-tax loss of $77 million reported in *Automotive interest income and other income/(loss), net*. Additionally, we assumed a contractual obligation of $15 million associated with the pricing of products to be purchased over the four and one-half-year term of the related purchase and supply agreement with Ventra Sandusky.

On June 1, 2012, ACH completed the sale of its automotive interior trim components business located at its Saline, Michigan plant to Faurecia. Faurecia will continue to supply Ford with interior trim components from the Saline facility as well as other Faurecia facilities. As a result of this transaction, we recognized a second quarter pre-tax loss of $96 million reported in *Automotive interest income and other income/(loss), net*. Additionally, we assumed contractual obligations of $182 million associated with the pricing of products to be purchased over the six-year terms of the related purchase and supply agreements with Faurecia and an affiliate of Faurecia.

Ford Russia. During the second quarter of 2011, we signed an agreement with Sollers OJSC ("Sollers") establishing FordSollers, a 50/50 joint venture in Russia. On October 1, 2011, we contributed our wholly-owned operations in Russia, consisting primarily of a manufacturing plant near St. Petersburg and access to our Russian dealership network, to the joint venture. Additionally, we entered into an agreement with FordSollers for the granting of an exclusive right to manufacture, assemble, and distribute certain Ford-brand vehicles in Russia through the licensing of certain trademarks and intellectual property rights. Sollers contributed two production facilities. The joint venture is engaged in the manufacturing and distribution of a range of Ford passenger cars and light commercial vehicles in Russia. As part of our ongoing relationship with FordSollers, we supply parts and other vehicle components to the joint venture and receive a royalty of 5% of the joint venture's net sales revenue.

Upon contribution of our wholly-owned operations in Russia to the joint venture in exchange for a 50% equity interest, we deconsolidated the assets and liabilities, recorded an equity method investment in FordSollers at its fair value of $364 million, and recognized a pre-tax gain of $178 million attributable to the remeasurement to fair value of the retained investment. In addition, we received cash proceeds of $174 million, recorded a note receivable in the amount of $133 million, recorded a payable of $27 million, and recognized loss in accumulated foreign currency adjustment of $57 million. The total pre-tax gain of $401 million is reported in *Automotive interest income and other income/(expense), net.*

NOTE 25. DISPOSITIONS AND OTHER CHANGES IN INVESTMENTS IN AFFILIATES *(Continued)*

We measured the fair value of our equity interest using the income approach. We used cash flows that were developed jointly by Ford and Sollers. The significant assumptions used in this approach included:

- Projected growth in the Russian automobile market;
- Reduced import duties on certain auto parts; and
- A discount rate of 16% based on an appropriate weighted average cost of capital, adjusted for perceived business risks related to regulatory concerns, foreign exchange volatility, execution risk, and risk associated with the Russian automotive industry.

We, along with Sollers, pledged 100% of the shares in the joint venture to the State Corporation Bank for Development and Foreign Economic Operations - Vnesheconombank ("VEB") as collateral securing the joint venture's debt.

Other Changes in Investments in Affiliates

AAI. AAI is a 50/50 joint venture between Ford and Mazda that operates an automobile assembly plant in Flat Rock, Michigan. In September 2011, we signed a Memorandum of Understanding ("MOU") with Mazda to change our future business relationship with respect to AAI. Pursuant to the terms of the MOU, in the third quarter of 2012 the assembly plant ceased production of Mazda vehicles and on September 1, 2012 we acquired full management control of AAI.

In exchange, beginning on September 1, 2015, for a three year period, we have granted to Mazda a put option to sell, and received a call option to purchase from Mazda, the 50% equity interest in AAI that is held by Mazda ("the Option"). The Option is exercisable at a price of $338 million as determined by a formula based on AAI's final December 31, 2012 closing balance sheet.

The change in management control resulted in a business combination on September 1, 2012 and we consolidated AAI under the acquisition method of accounting. We measured the fair value of AAI using the income approach and used cash flows that reflect our approved business plan for AAI. We assumed a discount rate of 10% based on an appropriate weighted average cost of capital adjusted for perceived business risks. The fair value of 100% of AAI's identifiable net assets was $868 million, as shown below (in millions):

	September 1, 2012
Assets	
Cash and cash equivalents	$ 191
Marketable securities	321
Receivables	202
Inventories	99
Property, plant and equipment	487
Deferred tax assets	119
Total assets of AAI (a)	$ 1,419
Liabilities	
Trade payables	$ 150
Other payables	185
Accrued liabilities	41
Debt payable to Ford	51
Deferred tax liabilities	124
Total liabilities of AAI (a)	$ 551

(a) As of September 1, 2012, intercompany assets of $121 million and intercompany liabilities of $306 million have been eliminated in both consolidated and sector balance sheets.

As part of the business combination, the Option was recorded as a redeemable noncontrolling interest in the mezzanine section of our balance sheet at the then fair value of $319 million (see Note 19). This represents the discounted cash flow of the option price using Ford's incremental borrowing rate of 2.75%.

As a result, the fair value attributable to our investment in AAI at September 1, 2012 was $549 million. The excess of this fair value over the carrying value of our previously recorded 50% unconsolidated equity interest resulted in a third quarter 2012 pre-tax gain of $155 million in *Automotive interest income and other income/(loss), net.*

NOTE 25. DISPOSITIONS AND OTHER CHANGES IN INVESTMENTS IN AFFILIATES *(Continued)*

CFMA. Our Chinese joint venture CFMA, whose members include Chongqing Changan Automobile Co., Ltd. ("Changan") (50% partner), Mazda (15% partner) and us (35% partner), produces and distributes in China an expanding variety of Ford passenger car models, as well as Mazda and Volvo models. On November 30, 2012, CFMA transferred its Nanjing operations to Changan Mazda Automobile Ltd. ("CMA"), and CFMA was renamed CAF. Immediately after the split, Ford and Mazda fully exchanged their respective interest in the two joint ventures. As a result, Ford now owns a 50% interest in CAF and Mazda owns a 50% interest in CMA; Changan remains a 50% partner in each joint venture. CMA will continue to assemble vehicles for CAF as a contract manufacturer until 2014.

Upon the exchange, we de-recognized the historical carrying value of our equity investment in CMA of $115 million, increased our equity investment in CAF by the fair value of the interest received of $740 million, and recognized a fourth quarter 2012 pre-tax gain of $625 million in *Automotive interest income and other income/(expense), net*.

Financial Services Sector

Dispositions

Asia Pacific Markets. In 2011, Ford Credit recorded foreign currency translation adjustments of $60 million (including $72 million recorded in the fourth quarter of 2011), related to the strategic decision to exit retail and wholesale financing in certain Asia Pacific markets. These adjustments decreased *Accumulated other comprehensive income* (foreign currency translation) and increased pre-tax income, which was recorded to *Financial Services other income/loss, net*.

NOTE 26. CAPITAL STOCK AND AMOUNTS PER SHARE

All general voting power is vested in the holders of Common Stock and Class B Stock. Holders of our Common Stock have 60% of the general voting power and holders of our Class B Stock are entitled to such number of votes per share as will give them the remaining 40%. Shares of Common Stock and Class B Stock share equally in dividends when and as paid, with stock dividends payable in shares of stock of the class held.

If liquidated, each share of Common Stock will be entitled to the first $0.50 available for distribution to holders of Common Stock and Class B Stock, each share of Class B Stock will be entitled to the next $1.00 so available, each share of Common Stock will be entitled to the next $0.50 so available and each share of Common and Class B Stock will be entitled to an equal amount thereafter.

We present both basic and diluted earnings per share ("EPS") amounts in our financial reporting. EPS is computed independently each quarter for income from continuing operations, income from discontinued operations, and net income; as a result, the sum of per-share amounts from continuing operations and discontinued operations may not equal the total per-share amount for net earnings. Basic EPS excludes dilution and is computed by dividing income available to Common and Class B Stock holders by the weighted-average number of Common and Class B Stock outstanding for the period. Diluted EPS reflects the maximum potential dilution that could occur if all of our equity-linked securities and other share-based compensation, including stock options, warrants, and rights under our convertible notes, were exercised. Potential dilutive shares are excluded from the calculation if they have an anti-dilutive effect in the period.

Warrants

As part of the transfer of assets to the UAW VEBA Trust on December 31, 2009, we issued warrants to purchase 362,391,305 shares of Ford Common Stock at an exercise price of $9.20 per share, which was subsequently adjusted to $9.01 per share. On April 6, 2010, the UAW VEBA Trust sold all such warrants to parties unrelated to us. In connection with the sale, the terms of the warrants were modified to provide for, among other things, net share settlement as the only permitted settlement method thereby eliminating full physical settlement as an option, and elimination of certain of the transfer restrictions applicable to the underlying stock. We received no proceeds from the offering.

The warrants expired by their terms on January 1, 2013. By the deadline for exercise of December 31, 2012, 362 million warrants were exercised on a net share settlement basis. This resulted in the issuance of 106 million shares of Common Stock, of which 72 million shares were issued on January 8, 2013 in settlement of exercises that took place during the last four trading days of 2012. Because we were obligated in 2012 to issue the shares, all 106 million shares issued for warrant exercises are reflected on our consolidated and sector balance sheets as being outstanding at December 31, 2012. No warrants are presently outstanding.

Dividend Declaration

On January 10, 2013, our Board of Directors declared a first quarter 2013 dividend on our Common and Class B Stock of $0.10 per share payable on March 1, 2013 to stockholders of record on January 30, 2013.

Effect of Dividends on Convertible Notes

As a result of dividends totaling $0.20 per share ($0.05 per share in each quarter of 2012) paid on our Common Stock, the conversion rates for our outstanding convertible notes (see Note 17) have been adjusted pursuant to their terms as follows:

	Conversion Rate - Shares of Ford Common Stock for Each $1,000 Principal Amount		
Security	In Effect At January 1, 2012	After Adjustment Effective August 1, 2012	After Adjustment Effective November 9, 2012
4.25% Senior Convertible Notes Due November 15, 2016	107.5269 shares	109.3202 shares	109.8554 shares
	In Effect At January 1, 2012	After Adjustment Effective August 6, 2012	After Adjustment Effective December 15, 2012
4.25% Senior Convertible Notes Due December 15, 2036	108.6957 shares	110.5085 shares	111.0495 shares

NOTE 26. CAPITAL STOCK AND AMOUNTS PER SHARE *(Continued)*

Amounts Per Share Attributable to Ford Motor Company Common and Class B Stock

Basic and diluted income per share were calculated using the following (in millions):

	2012	2011	2010
Basic and Diluted Income Attributable to Ford Motor Company			
Basic income from continuing operations	$ 5,665	$ 20,213	$ 6,561
Effect of dilutive 2016 Convertible Notes (a)	46	64	173
Effect of dilutive 2036 Convertible Notes (a)	2	2	37
Effect of dilutive Trust Preferred Securities (a) (b)	—	40	182
Diluted income from continuing operations	$ 5,713	$ 20,319	$ 6,953
Basic and Diluted Shares (c)			
Basic shares (average shares outstanding)	3,815	3,793	3,449
Net dilutive options and warrants	101	187	217
Dilutive 2016 Convertible Notes	96	95	291
Dilutive 2036 Convertible Notes	3	3	58
Dilutive Trust Preferred Securities (b)	—	33	163
Diluted shares	4,015	4,111	4,178

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(a) As applicable, includes interest expense, amortization of discount, amortization of fees, and other changes in income or loss that would result from the assumed conversion.
(b) The Trust Preferred Securities, which were convertible into Ford Common Stock, were fully redeemed on March 15, 2011.
(c) Includes (i) 53 million in average net dilutive shares for 2012 for warrants outstanding prior to exercise and (ii) 9 million in average basic shares outstanding for 2012 for shares issued for warrants exercised. In total, by the deadline for exercise of December 31, 2012, 362 million warrants were exercised on a net share settlement basis, resulting in the issuance of 106 million shares.

NOTE 27. OPERATING CASH FLOWS

The reconciliation of *Net income attributable to Ford Motor Company* to *Net cash provided by/(used in) operating activities* for the years ended December 31 was as follows (in millions):

	2012		
	Automotive	Financial Services	Total (a)
Net income attributable to Ford Motor Company	$ 4,466	$ 1,199	$ 5,665
Depreciation and special tools amortization	3,655	2,524	6,179
Other amortization	43	(1,018)	(975)
Provision for credit and insurance losses	6	86	92
Net (gain)/loss on extinguishment of debt	—	14	14
Net (gain)/loss on investment securities	(89)	(16)	(105)
Dividends in excess of equity investment earnings	20	—	20
Foreign currency adjustments	(121)	5	(116)
Net (gain)/loss on sale of businesses	183	4	187
Gain on changes in investments in affiliates	(780)	—	(780)
Stock compensation	134	6	140
Cash changes in operating assets and liabilities were as follows:			
Provision for deferred income taxes	1,444	545	1,989
Decrease/(Increase) in intersector receivables/payables	899	(899)	—
Decrease/(Increase) in accounts receivable and other assets	(2,335)	713	(1,622)
Decrease/(Increase) in inventory	(1,401)	—	(1,401)
Increase/(Decrease) in accounts payable and accrued and other liabilities	(520)	1,005	485
Other	662	(211)	451
Net cash provided by/(used in) operating activities	$ 6,266	$ 3,957	$ 10,223

	2011		
	Automotive	Financial Services	Total (a)
Net income attributable to Ford Motor Company	$ 18,447	$ 1,766	$ 20,213
Depreciation and special tools amortization	3,533	1,843	5,376
Other amortization	80	(1,200)	(1,120)
Provision for credit and insurance losses	2	(33)	(31)
Net (gain)/loss on extinguishment of debt	60	68	128
Net (gain)/loss on investment securities	76	6	82
Equity investment earnings in excess of dividends received	(169)	—	(169)
Foreign currency adjustments	(35)	(2)	(37)
Net (gain)/loss on sale of businesses	(410)	(11)	(421)
Stock compensation	163	8	171
Cash changes in operating assets and liabilities were as follows:			
Provision for deferred income taxes	(11,566)	495	(11,071)
Decrease/(Increase) in intersector receivables/payables	642	(642)	—
Decrease/(Increase) in accounts receivable and other assets	(1,658)	722	(936)
Decrease/(Increase) in inventory	(367)	—	(367)
Increase/(Decrease) in accounts payable and accrued and other liabilities	(168)	(450)	(618)
Other	738	(165)	573
Net cash provided by/(used in) operating activities	$ 9,368	$ 2,405	$ 11,773

(a) See Note 1 for a reconciliation of the sum of the sector net cash provided by/(used in) operating activities to the consolidated net cash provided by/(used in) operating activities.

NOTE 27. OPERATING CASH FLOWS *(Continued)*

	2010		
	Automotive	Financial Services	Total (a)
Net income attributable to Ford Motor Company	$ 4,690	$ 1,871	$ 6,561
Depreciation and special tools amortization	3,876	2,024	5,900
Other amortization	703	(1,019)	(316)
Provision for credit and insurance losses	51	(216)	(165)
Net (gain)/loss on extinguishment of debt	844	139	983
Net (gain)/loss on investment securities	(102)	19	(83)
Net (gain)/loss on pension and OPEB curtailment	(29)	—	(29)
Equity investment earnings in excess of dividends received	(198)	—	(198)
Foreign currency adjustments	(347)	(1)	(348)
Net (gain)/loss on sale of businesses	23	(5)	18
Stock option expense	32	2	34
Cash changes in operating assets and liabilities were as follows:			
Provision for deferred income taxes	300	(266)	34
Decrease/(Increase) in intersector receivables/payables	321	(321)	—
Decrease/(Increase) in accounts receivable and other assets	(988)	1,683	695
Decrease/(Increase) in inventory	(903)	—	(903)
Increase/(Decrease) in accounts payable and accrued and other liabilities	(1,311)	475	(836)
Other	(599)	(587)	(1,186)
Net cash provided by/(used in) operating activities	$ 6,363	$ 3,798	$ 10,161

(a) See Note 1 for a reconciliation of the sum of the sector net cash provided by/(used in) operating activities to the consolidated net cash provided by/(used in) operating activities.

Cash paid/(received) for interest and income taxes for continuing operations for the years ended December 31 was as follows (in millions):

	2012	2011	2010
Interest			
Automotive sector	$ 693	$ 1,012	$ 1,336
Financial Services sector	3,003	3,357	4,018
Total interest paid	$ 3,696	$ 4,369	$ 5,354
Income taxes	$ 344	$ 268	$ 73

NOTE 28. SEGMENT INFORMATION

Our operating activity consists of two operating sectors, Automotive and Financial Services. Segment selection is based on the organizational structure we use to evaluate performance and make decisions on resource allocation, as well as availability and materiality of separate financial results consistent with that structure.

Automotive Sector

Our Automotive sector is divided into four segments: 1) Ford North America, 2) Ford South America, 3) Ford Europe, and 4) Ford Asia Pacific Africa. Included in each segment, described below, are the associated costs to develop, manufacture, distribute, and service vehicles and parts.

Ford North America segment primarily includes the sale of Ford- and Lincoln-brand vehicles and related service parts and accessories in North America (the United States, Canada, and Mexico).

Ford South America segment primarily includes the sale of Ford-brand vehicles and related service parts and accessories in South America.

Ford Europe segment primarily includes the sale of Ford-brand vehicles, components, and related service parts and accessories in Europe, Turkey, and Russia.

Ford Asia Pacific Africa segment primarily includes the sale of Ford-brand vehicles and related service parts and accessories in the Asia Pacific region and South Africa.

Revenue from Ford-brand and Jiangling Motors Corporation-brand vehicles produced and distributed by our unconsolidated affiliates are not included in our revenue.

In August 2010 we completed the sale of Volvo. Results for Volvo are reported as special items in 2010.

The Other Automotive component of the Automotive sector consists primarily of centrally-managed net interest expense and related fair market value adjustments.

Transactions among Automotive segments generally are presented on a "where-sold," absolute-cost basis, which reflects the profit/(loss) on the sale within the segment making the ultimate sale to an external entity. This presentation generally eliminates the effect of legal entity transfer prices within the Automotive sector for vehicles, components, and product engineering.

NOTE 28. SEGMENT INFORMATION *(Continued)*

Financial Services Sector

The Financial Services sector includes the following segments: 1) Ford Credit, and 2) Other Financial Services. Ford Credit provides vehicle-related financing, leasing, and insurance. Other Financial Services includes a variety of businesses including holding companies, real estate, and the financing and leasing of some Volvo vehicles in Europe.

Special Items

Special items are presented as a separate reconciling item to reconcile segment results to consolidated results of the Company. These special items include (i) personnel and dealer-related items stemming from our efforts to match production capacity and cost structure to market demand and changing model mix, and (ii) certain infrequent significant items that we generally do not consider to be indicative of our ongoing operating activities. This presentation reflects the fact that management excludes these items from its review of the results of the operating segments for purposes of measuring segment profitability and allocating resources.

NOTE 28. SEGMENT INFORMATION *(Continued)*

Key operating data for our business segments for the years ended or at December 31 were as follows (in millions):

	Automotive Sector						
	Operating Segments				Reconciling Items		
	Ford North America	Ford South America	Ford Europe	Ford Asia Pacific Africa	Other Automotive	Special Items	Total
2012							
Revenues							
External customer	$ 79,943	$ 10,080	$ 26,546	$ 9,998	$ —	$ —	$ 126,567
Intersegment	593	—	602	—	—	—	1,195
Income							
Income before income taxes	8,343	213	(1,753)	(77)	(470)	(246)	6,010
Other disclosures:							
Depreciation and special tools amortization	1,964	256	1,132	303	—	—	3,655
Amortization of intangibles	9	—	—	1	—	—	10
Interest expense	—	—	—	—	713	—	713
Interest income	72	—	—	—	200	—	272
Cash outflow for capital expenditures	3,150	668	1,112	529	—	—	5,459
Unconsolidated affiliates							
Equity in net income/(loss)	127	—	113	315	—	—	555
Total assets at December 31	51,699	6,819	20,305	7,635	—	—	86,458
2011							
Revenues							
External customer	$ 75,022	$ 10,976	$ 33,758	$ 8,412	$ —	$ —	$ 128,168
Intersegment	244	—	836	—	—	—	1,080
Income							
Income before income taxes	6,191	861	(27)	(92)	(601)	(82)	6,250
Other disclosures:							
Depreciation and special tools amortization	1,769	265	1,225	274	—	—	3,533
Amortization of intangibles	9	2	—	1	—	—	12
Interest expense	—	—	—	—	817	—	817
Interest income	60	—	—	—	327	—	387
Cash outflow for capital expenditures	2,164	581	1,034	493	—	—	4,272
Unconsolidated affiliates							
Equity in net income/(loss)	179	—	61	239	—	—	479
Total assets at December 31	46,038	6,878	19,737	6,133	—	—	78,786
2010							
Revenues							
External customer	$ 64,428	$ 9,905	$ 29,486	$ 7,381	$ —	$ 8,080	$ 119,280
Intersegment	674	—	732	—	—	13	1,419
Income							
Income before income taxes	5,409	1,010	182	189	(1,493)	(1,151)	4,146
Other disclosures:							
Depreciation and special tools amortization	2,058	247	1,199	262	—	110	3,876
Amortization of intangibles	9	77	—	1	—	10	97
Interest expense	—	—	—	—	1,807	—	1,807
Interest income	47	—	—	—	215	—	262
Cash outflow for capital expenditures	2,127	364	971	467	—	137	4,066
Unconsolidated affiliates							
Equity in net income/(loss)	155	—	128	242	—	1	526
Total assets at December 31	29,955	6,623	22,260	5,768	—	—	64,606

NOTE 28. SEGMENT INFORMATION *(Continued)*

	Financial Services Sector				Total Company	
	Operating Segments		Reconciling Item			
	Ford Credit	Other Financial Services	Elims	Total	Elims (a)	Total
2012						
Revenues						
External customer	$ 7,422	$ 263	$ —	$ 7,685	$ —	$ 134,252
Intersegment	460	4	—	464	(1,659)	—
Income						
Income before income taxes	1,697	13	—	1,710	—	7,720
Other disclosures:						
Depreciation and special tools amortization	2,499	25	—	2,524	—	6,179
Amortization of intangibles	—	—	—	—	—	10
Interest expense	3,027	88	—	3,115	—	3,828
Interest income (b)	69	1	—	70	—	342
Cash outflow for capital expenditures	18	11	—	29	—	5,488
Unconsolidated affiliates						
Equity in net income/(loss)	33	—	—	33	—	588
Total assets at December 31	105,744	7,698	(7,282)	106,160	(2,064)	190,554
2011						
Revenues						
External customer	$ 7,764	$ 332	$ —	$ 8,096	$ —	$ 136,264
Intersegment	557	5	—	562	(1,642)	—
Income						
Income before income taxes	2,404	27	—	2,431	—	8,681
Other disclosures:						
Depreciation and special tools amortization	1,813	30	—	1,843	—	5,376
Amortization of intangibles	—	—	—	—	—	12
Interest expense	3,507	107	—	3,614	—	4,431
Interest income (b)	83	1	—	84	—	471
Cash outflow for capital expenditures	15	6	—	21	—	4,293
Unconsolidated affiliates						
Equity in net income/(loss)	21	—	—	21	—	500
Total assets at December 31	100,242	8,634	(7,302)	101,574	(2,012)	178,348
2010						
Revenues						
External customer	$ 9,357	$ 317	$ —	$ 9,674	$ —	$ 128,954
Intersegment	469	10	—	479	(1,898)	—
Income						
Income before income taxes	3,054	(51)	—	3,003	—	7,149
Other disclosures:						
Depreciation and special tools amortization	1,989	35	—	2,024	—	5,900
Amortization of intangibles	—	—	—	—	—	97
Interest expense	4,222	123	—	4,345	—	6,152
Interest income (b)	86	—	—	86	—	348
Cash outflow for capital expenditures	13	13	—	26	—	4,092
Unconsolidated affiliates						
Equity in net income/(loss)	12	—	—	12	—	538
Total assets at December 31	101,696	8,708	(7,134)	103,270	(3,189)	164,687

(a) Includes intersector transactions occurring in the ordinary course of business and deferred tax netting.
(b) Interest income reflected on this line for Financial Services sector is non-financing related. Interest income in the normal course of business for Financial Services sector is reported in *Financial Services revenues.*

NOTE 29. GEOGRAPHIC INFORMATION

The following table includes information for both Automotive and Financial Services sectors for the years ended December 31 (in millions):

	2012		2011		2010	
	Revenues	Long-Lived Assets (a)	Revenues	Long-Lived Assets (a)	Revenues	Long-Lived Assets (a)
North America						
United States	$ 76,418	$ 23,987	$ 71,165	$ 19,311	$ 63,318	$ 17,423
Canada	9,523	2,674	9,525	2,525	9,351	3,456
Mexico/Other	1,406	1,991	1,436	1,420	1,537	1,411
Total North America	87,347	28,652	82,126	23,256	74,206	22,290
Europe						
United Kingdom	9,214	1,668	9,486	1,721	9,172	1,817
Germany	8,281	2,770	8,717	3,060	7,139	3,395
Italy	1,633	3	3,038	3	3,656	3
France	1,964	183	2,806	102	2,754	105
Spain	1,735	1,500	2,189	1,185	2,235	1,211
Russia	—	—	1,913	—	2,041	228
Belgium	892	824	1,288	735	1,539	964
Other	4,199	28	5,843	28	8,238	33
Total Europe	27,918	6,976	35,280	6,834	36,774	7,756
All Other	18,987	4,350	18,858	3,763	17,974	3,526
Total Company	$ 134,252	$ 39,978	$ 136,264	$ 33,853	$ 128,954	$ 33,572

(a) Includes *Net property* from our consolidated balance sheet and Financial Services *Net investment in operating leases* from the sector balance sheet.

NOTE 30. SELECTED QUARTERLY FINANCIAL DATA (unaudited)

Selected financial data by calendar quarter were as follows (in millions, except per share amounts):

	2012				2011			
Automotive Sector	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Revenues	$ 30,525	$ 31,328	$ 30,247	$ 34,467	$ 31,038	$ 33,476	$ 31,043	$ 32,611
Income before income taxes	1,582	1,148	1,858	1,422	2,070	2,004	1,241	935
Financial Services Sector								
Revenues	1,920	1,883	1,925	1,957	2,076	2,051	2,004	1,965
Income before income taxes	456	447	388	419	706	602	605	518
Total Company								
Income before income taxes	2,038	1,595	2,246	1,841	2,776	2,606	1,846	1,453
Amounts Attributable to Ford Motor Company Common and Class B Shareholders								
Net income	1,396	1,040	1,631	1,598	2,551	2,398	1,649	13,615
Common and Class B per share from income from continuing operations before cumulative effects of changes in accounting principles								
Basic	0.37	0.27	0.43	0.42	0.68	0.63	0.43	3.58
Diluted	0.35	0.26	0.41	0.40	0.61	0.59	0.41	3.40

Certain of the quarterly results identified above include material unusual or infrequently occurring items as follows:

The pre-tax income of $1.8 billion in the fourth quarter of 2012 includes 1) a $250 million unfavorable item related to the U.S. salaried lump sum pension buyout program (see Note 16), and 2) a $625 million gain related to the reorganization of our equity investment in CFMA (see Note 25).

The pre-tax income of $1.5 billion in the fourth quarter of 2011 includes a $401 million gain related to the sale of our Russian operations to the newly-created FordSollers joint venture, which began operations on October 1, 2011.

The net income attributable to Ford Motor Company of $13.6 billion in the fourth quarter of 2011 includes a $12.4 billion favorable item, reflecting the release of almost all of the valuation allowance against our net deferred tax assets.

NOTE 31. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies consist primarily of guarantees and indemnifications, litigation and claims, and warranty.

Guarantees are recorded at fair value at the inception of the guarantee. Litigation and claims are accrued when losses are deemed probable and reasonably estimable.

Estimated warranty costs and additional service actions are accrued for at the time the vehicle is sold to a dealer, including costs for basic warranty coverage on vehicles sold, product recalls, and other customer service actions. Fees or premiums for the issuance of extended service plans are recognized in income over the contract period in proportion to the costs expected to be incurred in performing services under the contract.

Guarantees

At December 31, 2012 and December 31, 2011, the following guarantees and indemnifications were issued and outstanding:

Guarantees related to affiliates and third parties. We guarantee debt and lease obligations of certain joint ventures, as well as certain financial obligations of outside third parties, including suppliers, to support our business and economic growth. Expiration dates vary through 2019, and guarantees will terminate on payment and/or cancellation of the obligation. A payment by us would be triggered by failure of the joint venture or other third party to fulfill its obligation covered by the guarantee. In some circumstances, we are entitled to recover from the third party amounts paid by us under the guarantee. However, our ability to enforce these rights is sometimes stayed until the guaranteed party is paid in full, and may be limited in the event of insolvency of the third party or other circumstances. The maximum potential payments under guarantees and the carrying value of recorded liabilities related to guarantees were as follows (in millions):

	December 31, 2012	December 31, 2011
Maximum potential payments	$ 409	$ 444
Carrying value of recorded liabilities related to guarantees	17	31

We regularly review our performance risk under these guarantees, which has resulted in no changes to our initial valuations.

Indemnifications. In the ordinary course of business, we execute contracts involving indemnifications standard in the industry and indemnifications specific to a transaction, such as the sale of a business. These indemnifications might include and are not limited to claims relating to any of the following: environmental, tax, and shareholder matters; intellectual property rights; power generation contracts; governmental regulations and employment-related matters; dealers, supplier, and other commercial contractual relationships; and financial matters, such as securitizations. Performance under these indemnities generally would be triggered by a breach of terms of the contract or by a third-party claim. We also are party to numerous indemnifications which do not limit potential payment; therefore, we are unable to estimate a maximum amount of potential future payments that could result from claims made under these indemnities.

Litigation and Claims

Various legal actions, proceedings, and claims (generally, "matters") are pending or may be instituted or asserted against us. These include but are not limited to matters arising out of alleged defects in our products; product warranties; governmental regulations relating to safety, emissions, and fuel economy or other matters; government incentives; tax matters; alleged illegal acts resulting in fines or penalties; financial services; employment-related matters; dealer, supplier, and other contractual relationships; intellectual property rights; environmental matters; shareholder or investor matters; and financial reporting matters. Certain of the pending legal actions are, or purport to be, class actions. Some of the matters involve or may involve claims for compensatory, punitive, or antitrust or other treble damages in very large amounts, or demands for recall campaigns, environmental remediation programs, sanctions, loss of government incentives, assessments, or other relief, which, if granted, would require very large expenditures.

The extent of our financial exposure to these matters is difficult to estimate. Many matters do not specify a dollar amount for damages, and many others specify only a jurisdictional minimum. To the extent an amount is asserted, our historical experience suggests that in most instances the amount asserted is not a reliable indicator of the ultimate outcome.

NOTE 31. COMMITMENTS AND CONTINGENCIES *(Continued)*

In evaluating for accrual and disclosure purposes matters filed against us, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, and the severity of any potential loss. We reevaluate and update our accruals as matters progress over time.

For the majority of matters, which generally arise out of alleged defects in our products, we establish an accrual based on our extensive historical experience with similar matters, and we do not believe that there is a reasonably possible outcome materially in excess of our accrual.

For the remaining matters, where our historical experience with similar matters is of more limited value (i.e., "non-pattern matters"), we evaluate matters primarily based on the individual facts and circumstances. For non-pattern matters, we evaluate whether there is a reasonable possibility of a material loss in excess of any accrual that can be estimated. Our estimate of reasonably possible loss in excess of our accruals for all material matters currently reflects non-U.S. indirect tax matters, for which we estimate this aggregate risk to be a range of up to about $2.3 billion.

As noted, the litigation process is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. Our assessments are based on our knowledge and experience, but the ultimate outcome of any matter could require payment substantially in excess of the amount that we have accrued and/or disclosed.

Warranty

Included in warranty cost accruals are the costs for basic warranty coverages and field service actions (i.e., product recalls and owner notification programs) on products sold. These costs are estimates based primarily on historical warranty claim experience. Warranty accruals accounted for in *Accrued liabilities and deferred revenue* for the years ended December 31 were as follows (in millions):

	2012	2011
Beginning balance	$ 3,915	$ 3,855
Payments made during the period	(2,254)	(2,799)
Changes in accrual related to warranties issued during the period	1,885	2,215
Changes in accrual related to pre-existing warranties	49	690
Foreign currency translation and other	61	(46)
Ending balance	$ 3,656	$ 3,915

Excluded from the table above are costs accrued for customer satisfaction actions.