OVERVIEW

Revenue

Our Automotive sector's revenue is generated primarily by sales of vehicles, parts, and accessories; we generally treat sales and marketing incentives as a reduction to revenue. Revenue is recorded when all risks and rewards of ownership are transferred to our customers (generally, our dealers and distributors). For the majority of sales, this occurs when products are shipped from our manufacturing facilities. This is not the case, however, with respect to vehicles produced for sale to daily rental car companies that are subject to a guaranteed repurchase option. These vehicles are accounted for as operating leases, with lease revenue and profits recognized over the term of the lease. When we sell the returned vehicle at auction, we recognize a gain or loss on the difference, if any, between actual auction value and the projected auction value. In addition, revenue for finished vehicles we sell to customers or vehicle modifiers on consignment is not recognized until the vehicle is sold to the ultimate customer.

Most of the vehicles sold by us to our dealers and distributors are financed at wholesale by Ford Credit. Upon Ford Credit originating the wholesale receivable related to a dealer's purchase of a vehicle, Ford Credit pays cash to the relevant legal entity in our Automotive sector in payment of the dealer's obligation for the purchase price of the vehicle. The dealer then pays the wholesale finance receivable to Ford Credit when it sells the vehicle to a retail customer.

Our Financial Services sector's revenue is generated primarily from interest on finance receivables, net of certain deferred origination costs that are included as a reduction of financing revenue, and such revenue is recognized over the term of the receivable using the interest method. Also, revenue from operating leases, net of certain deferred origination costs, is recognized on a straight-line basis over the term of the lease. Income is generated to the extent revenues exceed expenses, most of which are interest, depreciation, and operating expenses.

Transactions between our Automotive and Financial Services sectors occur in the ordinary course of business. For example, we offer special retail financing and lease incentives to dealers' customers who choose to finance or lease our vehicles from Ford Credit. The estimated cost for these incentives is recorded as revenue reduction to *Automotive sales* at the later of the date the related vehicle sales to our dealers are recorded or the date the incentive program is both approved and communicated. 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. Ford Credit recognizes the amount over the life of the related contracts as an element of financing revenue. See Note 1 of the Notes to the Financial Statements for a more detailed discussion of transactions and payments between our Automotive and Financial Services sectors.

Costs and Expenses

Our income statement classifies our Automotive total costs and expenses into two categories: (i) cost of sales, and (ii) selling, administrative, and other expenses. We include within cost of sales those costs related to the development, manufacture, and distribution of our vehicles, parts, and accessories. Specifically, we include in cost of sales each of the following: material costs (including commodity costs); freight costs; warranty, including product recall and customer satisfaction program costs; labor and other costs related to the development and manufacture of our products; depreciation and amortization; and other associated costs. We include within selling, administrative, and other expenses labor and other costs not directly related to the development and manufacture of our products, including such expenses as advertising and sales promotion costs.

Certain of our costs, such as material costs, generally vary directly with changes in volume and mix of production. In our industry, production volume often varies significantly from quarter to quarter and year to year. Quarterly production volumes experience seasonal shifts throughout the year (including peak retail sales seasons, and the impact on production of model changeover and new product launches). As we have seen in recent years, annual production volumes are heavily impacted by external economic factors, including the pace of economic growth and factors such as the availability of consumer credit and cost of fuel.

As a result, we analyze the profit impact of certain cost changes holding constant present-year volume and mix and currency exchange, in order to evaluate our cost trends absent the impact of varying production and currency exchange levels. We analyze these cost changes in the following categories:

- Material excluding commodity costs - primarily reflecting the change in cost of purchased parts used in the assembly of our vehicles.
- Commodity costs - reflecting the change in cost for raw materials (such as steel, aluminum, and resins) used in the manufacture of our products.
- Structural costs - reflecting the change in costs that generally do not have a directly proportionate relationship to our production volumes, such as labor costs, including pension and health care; other costs related to the development and manufacture of our vehicles; depreciation and amortization; and advertising and sales promotion costs.
- Warranty and other costs - reflecting the change in cost related to warranty coverage, including product recalls and customer satisfaction actions, as well as the change in freight and other costs related to the distribution of our vehicles and support for the sale and distribution of parts and accessories.

While material (including commodity), freight, and warranty costs generally vary directly in proportion to production volume, elements within our structural costs category are impacted to differing degrees by changes in production volume. We also have varying degrees of discretion when it comes to controlling the different elements within our structural costs. For example, depreciation and amortization expense largely is associated with prior capital spending decisions. On the other hand, while labor costs do not vary directly with production volume, manufacturing labor costs may be impacted by changes in volume, for example when we increase overtime, add a production shift or add personnel to support volume increases. Other structural costs, such as advertising or engineering costs, do not necessarily have a directly proportionate relationship to production volume. Our structural costs generally are within our discretion, although to varying degrees, and can be adjusted over time in response to external factors.

We consider certain structural costs to be a direct investment in future growth and revenue. For example, increases in structural costs are necessary to grow our business and improve profitability as we expand around the world, invest in new products and technologies, respond to increasing industry sales volume, and grow our market share.

Automotive total costs and expenses for full-year 2012 was $121.6 billion. Material costs (including commodity costs) make up the largest portion of our Automotive total costs and expenses, representing in 2012 about two-thirds of the total amount. Of the remaining balance of our Automotive costs and expenses, the largest piece is structural costs. Although material costs are our largest absolute cost, our margins can be affected significantly by changes in any category of costs.

Key Economic Factors and Trends Affecting the Automotive Industry

Global Economic Conditions. During 2011, global economic growth slowed to about 2.5% from 4% in 2010, as the worsening debt crisis in Europe, regime changes in North Africa, natural disasters in Japan and Thailand, and moderating economic growth in several key newly-developed and emerging markets all contributed to slow growth. Global growth in 2012 remained at the relatively low level of about 2.5% due to the European debt crisis, slowing of Chinese economic growth, and moderate pace of recovery in the United States. During 2013, global economic growth is expected to remain in the 2% - 3% range. The European debt crisis remains a key risk to economic growth. The current economic performance in many European countries, particularly Greece, Ireland, Italy, Portugal and Spain, is being hampered by excessive government debt levels and the resulting budget austerity measures that are contributing to weak economic growth. The EU, the European Central Bank, and the International Monetary Fund have provided important support for many of these countries undergoing structural changes. During 2013, economic growth is likely to remain weak in these markets, even though financial markets have begun to stabilize. The U.K. government has implemented budget cuts and tax increases that will depress growth, although the labor market has stabilized in recent months.

Uncertainties associated with the European debt crisis, and policy responses to it, could impact global economic performance in 2013. Although housing is stabilizing in some of the worst hit markets, such as the United States, the prospect of a strong economic rebound is hampered by fiscal tightening.

Global industry vehicle sales volume (including medium and heavy truck) is estimated to have increased to 81 million units in 2012, up more than 4 million units - or about 5% - from 2011 levels. In 2013, in light of the volatile external environment, global industry sales are projected to be in a range of 80 million - 85 million units.

Excess Capacity. According to IHS Automotive, an automotive research firm, the estimated automotive industry global production capacity for light vehicles (which as of 2011 includes an expanded truck segment compared with previous years) of about 108 million units exceeded global production by about 26 million units in 2012. In North America and Europe, the two regions where the majority of industry revenue and profits are earned, excess capacity as a percent of production in 2012 was an estimated 11% and 37%, respectively. According to production capacity data projected by IHS Automotive, global excess capacity conditions could continue for several years at an average of about 31 million units per year during the period from 2013 to 2017.

Pricing Pressure. Excess capacity, coupled with a proliferation of new products being introduced in key segments, will keep pressure on manufacturers' ability to increase prices. In North America, the industry restructuring of the past few years has allowed manufacturers to better match production with demand, although Japanese and Korean manufacturers also have capacity (located outside of the region) directed to North America. In the future, Chinese and Indian manufacturers are expected to enter U.S. and European markets, further intensifying competition. Although there has been some firming of pricing in the U.S. market, particularly in 2011, it seems likely that over the long term intense competition and apparent excess capacity will continue to put downward pressure on inflation-adjusted prices for similarly-contented vehicles in the United States and contribute to a challenging pricing environment for the automotive industry. In Europe, the excess capacity situation was exacerbated by weakening demand and the lack of reductions in existing capacity, such that negative pricing pressure is expected to continue for the foreseeable future.

Commodity and Energy Price Increases. Despite weak demand conditions, light sweet crude oil prices increased from an average of $80 per barrel in 2010 to $95 per barrel in 2011, before declining slightly to about $87 per barrel in late 2012. Commodity prices have declined recently, but over the longer term prices are likely to trend higher given global demand growth.

Vehicle Profitability. Our financial results depend on the profitability of the vehicles we sell, which may vary significantly by vehicle line. In general, larger vehicles tend to command higher prices and be more profitable than smaller vehicles, both across and within vehicle segments. For example, in North America, our larger, more profitable vehicles had an average contribution margin that was about 130% of our total average contribution margin across all vehicles, whereas our smaller vehicles had significantly lower contribution margins. As we execute our One Ford plan, we are working to create best-in-class vehicles on global platforms that contribute higher margins, and offering a more balanced portfolio of vehicles with which we aim to be among the leaders in fuel efficiency in every segment in which we compete.

Increasing Sales of Smaller Vehicles. Like other manufacturers, we are increasing our participation in newly-developed and emerging markets, such as Brazil, Russia, India, and China, in which vehicle sales are expected to increase at a faster rate than in most mature markets. The largest segments in these markets are small vehicles (i.e., Sub-B, B, and C segments). To increase our participation in these fast-growing markets, we are significantly increasing our production capacity, directly or through joint ventures. In addition, we expect that increased demand for smaller, more fuel-efficient vehicles will continue in the mature markets of North America and Europe and, consequently, we have seen and expect in the future strong demand in those markets for our small car offerings (including our new Ford Fiesta and Focus models that are based on global platforms). Although we expect positive contribution margins from higher small vehicle sales, one result of increased production of small vehicles may be that, over time, our average per unit margin decreases because small vehicles tend to have lower margins than medium and large vehicles.

Currency Exchange Rate Volatility. The European debt crisis has contributed to recent financial market volatility. Coupled with the ongoing policy actions taken by central banks to support the financial system, exchange rates have remained volatile. Most recently, the euro currency value has fluctuated as progress toward a solution to the sovereign debt crisis remains highly uncertain; the yen has depreciated significantly as a result of policy changes by the Japanese government and Bank of Japan. The high inflation in newly-developed and emerging markets and capital flight to perceived stable investments have started to erode the strength of some local currencies. In most markets, exchange rates are market-determined, and all are impacted by many different macroeconomic and policy factors, and thus likely to remain volatile. In some other markets, exchange rates are heavily influenced or controlled by governments.

Trade Policy. To the extent governments in various regions erect or intensify barriers to imports, or implement currency policy that advantages local exporters selling into the global marketplace, there can be a significant negative impact on manufacturers based in markets that promote free trade. While we believe the long-term trend is toward the growth of free trade, we have noted with concern recent developments in a number of regions. In Asia Pacific Africa, for example, the recent dramatic depreciation of the yen significantly reduces the cost of exports into the United States, Europe, and other global markets by Japanese manufacturers. Over a period of time, the emerging weakness of the yen can contribute to other countries pursuing weak currency policies by intervening in the exchange rate markets. This is particularly likely in other Asian countries, such as South Korea. As another example, government actions in South America to incentivize local production and balance trade are driving trade frictions between South American countries and also with Mexico, resulting in business environment instability and new trade barriers. We will continue to monitor and address developing issues around trade policy.

Other Economic Factors. The eventual implications of higher government deficits and debt, with potentially higher long-term interest rates, could drive a higher cost of capital over our planning period. Higher interest rates and/or taxes to address the higher deficits also may impede real growth in gross domestic product and, therefore, vehicle sales over our planning period.

Trends and Strategies

We remain firm in our belief that our continued focus on executing the four key priorities of our One Ford plan enables us to go further for our customers, dealers, suppliers, employees, shareholders, and other key constituencies:

- Aggressively restructure to operate profitably at the current demand and changing model mix;
- Accelerate development of new products our customers want and value;
- Finance our plan and improve our balance sheet; and
- Work together effectively as one team, leveraging our global assets.

Despite the external economic environment in recent years, we have made significant progress in transforming our business.

Aggressively Restructure to Operate Profitably

Brands. In recent years, we have eliminated a number of brands from our portfolio in order to devote fully our financial, product development, production, and marketing and sales and services resources toward further growing our core Ford and Lincoln brands. We sold Aston Martin, Jaguar, Land Rover, and Volvo, and we discontinued the Mercury brand and further reduced our stake in Mazda. In 2012, we announced the revitalization of Lincoln reflecting the brand's distinct product strategy, including its own dedicated design studio, separate creative agency in New York, and financial services team to complement the vehicle acquisition and ownership experience.

Manufacturing. We are committed to maintaining an appropriate manufacturing footprint in markets around the world, both in the more mature markets in which we have an established presence, and in fast-growing newly-developed and emerging markets. We are making substantial investments in newly-developed and emerging markets, including in China, India, and Thailand to increase our production capacity with flexible new manufacturing plants. We and our unconsolidated affiliates in Asia Pacific Africa launched two new plants in 2012, and have announced that we expect to complete seven more plants in the region by mid-decade. We also are making substantial investments in North America to grow production as industry sales rebound, including the addition of 400,000 annual incremental units of production capacity during 2012 and significant hiring in the United States as part of our manufacturing capacity expansions.

In October 2012, we also announced our plan to transform our European operations in response to structural industry overcapacity in the region. Our plan targets all areas of the business, including product, brand, and cost. We have detailed an aggressive product acceleration in Europe, including plans to introduce 15 global vehicles within five years; we are taking steps to further strengthen our brand, and to enhance brand awareness in fast-growing emerging markets within the region; and we are moving to ensure a more efficient manufacturing footprint. As announced, we intend to close three European manufacturing facilities, which would affect approximately 6,200 positions. Our intent to close our assembly plant in Genk, Belgium is subject to an information and consultation process with employee representatives, which we have commenced. See "Outlook" for additional discussion of our European transformation plan.

Suppliers. We continue to work to strengthen our global supply base. As part of this process, we have been reducing the global number of production suppliers from 3,300 in 2004 to about 1,260 at year-end 2012. We have identified plans that will take us to a target of about 750 suppliers, and we are confident that our consolidation efforts will result in a stronger and healthier supply base. We continue to work closely with our suppliers to address any near-term capacity constraints as we continue to ramp up production. In addition, our move to global vehicle platforms increases our ability to source to common suppliers for the total global volume of vehicle components resulting in a smaller number of suppliers receiving a greater volume of purchases to support our global vehicle platforms and allowing us to gain greater economies of scale.

Ford and Lincoln Dealerships. Our dealers are a source of strength in North America and around the world, representing the face of Ford to local communities. Our goal is to achieve a sustainable and profitable dealer network by rightsizing the number of dealerships, identifying the right locations, and ensuring the appropriate branded facilities to satisfy current and future demand. We are adding dealerships rapidly in markets in our Asia Pacific Africa region where industry volume is growing at a rapid pace. Our network includes about 460 dealerships in China, and about 170 dealerships in India. We have plans to continue our expansion of these networks, in addition to the dealership networks in our growth markets of Brazil and Russia. We have completed planned dealer consolidations in the United States to rightsize the number of Ford and Lincoln outlets, particularly in our largest 130 metropolitan markets. As part of these efforts, we have reduced the number of outlets in our U.S. Ford and Lincoln network from about 4,400 at the end of 2005 to about 3,290 at the end of 2012. This has contributed to increased profitability of our U.S. dealers as they have grown their businesses by investing in their facilities, employees, and communities while continuously striving to improve the experience of retail customers.

Product Development. Our One Ford global product development system is fully operationalized, utilizing global platforms to deliver customer-focused programs rapidly and efficiently across global markets. Through our "hub and satellite" approach, one lead product development engineering center - the hub - is assigned for each global vehicle line, thereby ensuring global scale and efficiency through common designs, parts, suppliers, and manufacturing processes. The hubs are supported by regional engineering centers - satellites - which also help deliver products tuned to local market customer preferences while maintaining global design DNA. Typical delivery metrics for global programs include 80% part commonality, 75% pre-sourcing to global suppliers, and 100% common manufacturing and assembly process.

The global Ford lineup is now one of the most extensive in the industry and includes a full spectrum of offerings from innovative small cars (B-platform products) such as the B-MAX sold in Europe to large commercial trucks sold around the world. The strength of our One Ford plan has enabled a focus on delivering the industry's best refresh rate, sustained and funded by efficiencies and delivered by a world-class global network of engineering centers. We agree with external analysts that a sustained fresh showroom is a good indicator of long-term market share growth.

We are making swift progress on our commitment to platform consolidation. In 2007, we utilized 27 different vehicle platforms. By 2014, we will have 14 total platforms, and we are on track to meet our target of nine core platforms globally. By 2013, more than 87% of our global volume will be produced across just nine core platforms. One of these platforms, our global C-platform, which underpins a number of unique vehicles including the best-selling Focus, will produce more platform volume than any other automaker - evidence small cars are a clear global priority. Our new B-sized Fiesta and C-sized Focus are now among the best-selling nameplates in the world. Over the past few years, we have been reinventing our global portfolio of vehicles - small, medium, large, cars, utilities and trucks - and have a mid-decade target of selling approximately 8 million vehicles around the world.

In 2013, we also are focused on strategic opportunities around commercial vehicles. The global commercial vehicle industry represented approximately 17 million units in 2012, and is forecasted to grow by 4.8 million units - or 28% - through 2017. Ford has been the best-selling brand of commercial vehicles in North America for 28 years. In Europe, Transit vans are the best-selling medium commercial brand. We plan to leverage these strengths through a common global family of commercial vehicles across all applicable markets.

Our full spectrum of van products now carries the Transit badge umbrella and spans three platforms, including the B-sized Transit Courier; C-sized Transit Connect; full-size, one-ton front-wheel-drive Transit Custom; and full-size, two-ton rear-wheel-drive Transit - providing right-sized Built Ford Tough products for all customer applications and markets. Our new lineup of full-size Transit commercial vans will offer the largest available selection of configurations and engine types to global customers (and provide an initial average scale of more than 475,000 units annually). In Europe, the Transit Custom, which launched in 2012, won the 2013 International Van of the Year award.

We also will supplement our commercial van line with personal-use variants, including the Tourneo wagon offerings, delivering premium look and feel to discerning customers and additional premium revenue.

Further proof of our commitment to truck leadership is our 36 years as America's top truck producer. In 2012, our F-Series outsold its nearest competitors by a wide margin. At the 2013 North American International Auto Show, we provided a glimpse of our strategy to protect and expand our truck leadership by showing the Ford Atlas Concept - which won Autoweek Magazine's Most Significant vehicle award. The bold emotive styling, innovative features, and fuel economy leadership intentions are more than a hint of the designs to come.

Our market strength in trucks is due to great products and strong customer relationships - Ford trucks are clear leaders in commercial subcategories, including mining, construction, oil and energy, small business, etc. Our future market expectations are further bolstered by global economic recovery indicators.

Additionally, Ford Motor Company is firmly committed to the transformation and success of the Lincoln brand. The 2013 Lincoln MKZ is our first transformational product - with four all-new Lincolns in total launching within the next four years. Each will deliver:

- A uniquely Lincoln experience, inside and out - built on our core platforms, leveraging global scale and efficiencies
- Design excellence that is stunning and understated, with premium amenities offered on every nameplate
- Product excellence that is enabled by class-leading technologies
- The full spectrum of customer services that discerning luxury customers expect and appreciate

Lincoln is focusing on the largest and fastest-growing segments of the luxury market, with the intention of having all-new entries competing in 90% of the premium industry by 2015.

The global premium industry is projected to grow 39% by 2017. China will play a key role in that period. By 2017, the United States and China will represent 50% of the global premium opportunity - exactly why Lincoln recently announced plans to enter China, the single largest car market in the world.

<u>Accelerate Development of New Products Our Customers Want and Value</u>

Our global product strategy is to serve our key geographic markets with a complete family of small, medium and large, cars, utilities and trucks that have best-in-class design and quality, are environmentally responsible, and contain high-value feature content. The result of this strategy is a full line of vehicles that:

- Have bold, emotive exterior design
- Are great to drive
- Are great to sit in (with the comfort and convenience of a second home on wheels and exceptional quietness)
- Provide fuel economy as a reason to buy
- Are unmistakably a Ford or Lincoln in look, sound and feel
- Provide exceptional value and quality

Developing products customers want and value for Ford and Lincoln demands consistent focus on our commitment to lead in four key areas - Quality, Green, Safe and Smart.

Quality. We have made significant strides in recent years to achieve world-class levels of quality and desirability. This has been accomplished by following an established global set of disciplined, standardized processes that are aimed at making us a leader in automotive quality. Via our common global management team, we are leveraging our assets by eliminating duplication, implementing best practices and utilizing a systematic approach to quality.

Overall, we expect quality to improve in 2013, including improvement in North America, where we are making progress addressing specific customer concerns. We already have made steady and significant progress in South America, Europe, and Asia Pacific Africa.

In fact, using the key quality measure of "things gone wrong" ("TGW") per 1,000 vehicles at three months in service, as measured by Global Quality Research System, a Ford-sponsored competitive research survey, we had our best performance of the last five years in 2012 in South America, Europe, and Asia Pacific Africa, and we expect to build on this solid accomplishment in 2013.

Green. Our commitment and approach to sustainability is unique in the industry. We prefer to provide our customers the power of choice. All Ford front-wheel drive and all-wheel drive global platforms are engineered to accept a full technology range of gasoline, diesel, hybrid, plug-in hybrid or electric vehicle propulsion systems. That concept, coupled with our commitment to standardized flexible production facilities, provides Ford the advantage of producing vehicles to meet unique customer preferences or changes across markets real-time as they occur. More importantly, our commitment to provide fuel economy leadership with every all-new or significantly refreshed product is unwavering.

The new C-platform is a good example. The 2013 Focus SFE, with 2.0-liter gasoline engine technology, is among the fuel economy leaders in the United States, delivering an EPA-rated 40 mpg on the highway. In Europe, the same Focus with a 1.6-liter diesel enjoys fuel economy/CO_2 leadership in the most competitive diesel market in the world. The same Focus is also available in North America as a full battery-electric vehicle with leadership in charge rate and range. Focus Electric has been certified by EPA to offer 110 MPGe in the city. Additionally, the 2013 C-MAX Hybrid and C-MAX Energi plug-in hybrid sold in North America are built on the same C-platform and deliver leadership against competitive vehicles. Lastly, our first global C-size sports car, Focus ST, delivers more than 250 horsepower from an advanced 2.0-liter EcoBoost® engine; Focus ST offers driving excitement and leadership in fuel economy against its competitors. All of these vehicles, from Focus Electric and C-MAX Energi to the high-performance Focus ST, are built for North America at the same plant - Michigan Assembly Plant - running on the same line resulting in lower overall costs.

South America and Asia Pacific regions are rapidly evolving to embrace fuel economy and low-emissions technologies as well. Therefore, Ford is accelerating migration of world-class EcoBoost, hybrid and next-generation diesels to those markets at the same time we are leveraging global platforms and top hats. That translates into global-scale cost and investment efficiencies as well as ongoing affordable freshening and technology cadence across all markets.

Safe. We are strengthening our safety leadership by focusing on three key areas - addressing driver behavior, enhancing crash protection even further, and pioneering the next frontier of safety with driver-assist crash-avoidance technologies.

For example, we introduced MyKey® to help parents encourage teenagers to drive more safely and fuel efficiently, and to increase safety belt usage. MyKey - which debuted on the 2010 Focus and Taurus, and is now standard on most Ford and Lincoln models - allows owners to program a key that can limit the vehicle's top speed and audio volume as well as mute the audio if front seat occupants are not buckled up. For 2013, the SYNC "Do Not Disturb" feature was added to MyKey. We also are the leader in another dimension of driver behavior - enabling drivers to more safely operate vehicles during recent years in which we have seen a sharp growth in the number of personal electronic devices (e.g., cell phones, MP3 players, etc.). Our SYNC system provides hands-free connectivity, with more than 5 million SYNC-equipped vehicles on the road, and our just-launched second generation of SYNC has added a "Do Not Disturb" feature that allows users to redirect incoming messages and calls directly to their cellular mailbox. We expect to have 14 million SYNC-equipped vehicles on the road by 2015 as we launch SYNC globally.

We have led the industry in migrating driver assist technologies from premium segments to family segments. We also offer a new advanced crash-avoidance technology - collision warning with brake support - on several Ford and Lincoln vehicles including Ford Taurus, Fusion, Edge and Explorer, and Lincoln MKS, MKX, MKZ and MKT. This feature uses radar to monitor traffic directly ahead, and warns the driver with an authoritative beep and a red warning light projected on the windshield if a collision threat is detected. We also launched the industry's first-ever production use of inflatable seat belts, designed to provide additional protection for rear-seat occupants - often children and older passengers who can be more vulnerable to head, chest, and neck injuries. This technology is now incorporated into the 2013 Ford Flex and Explorer, and Lincoln MKT and MKZ, and we plan to expand further offerings to other vehicles globally.

Other global driver-assist features such as Blind Spot Information System (BLIS®), active park assist and adaptive cruise control have enjoyed strong customer demand and expanded vehicle applications. We also have begun offering the next suite of new safety features and driver-assistance technologies - we introduced Lane-Keeping Aid and Driver Alert on the 2013 Ford Explorer and Fusion and Lincoln MKS, MKZ and MKT in North America and the Ford Mondeo and Focus in Europe.

The independent car safety organization, Euro NCAP, named the Focus Europe's best-in-class small family car, while Focus also became the industry's first vehicle to earn four Euro NCAP Advanced Technology Awards, being recognized for Active City Stop, Lane-Keeping Aid, Driver Alert, and Forward Alert. Features such as Speed Limiter, Torque Vectoring Control, Traffic Sign Recognition System, All-Seat BeltMinder® and Power Child Locks also have been introduced in Europe on Focus, C-MAX, Grand C-MAX, Mondeo, S-MAX and Galaxy.

Smart. We recently completed our seventh consecutive year participating in the International Consumer Electronics Show ("CES"), which many media say is becoming more important than ever to automakers. At the 2013 show, Ford Chief Technical Officer Paul Mascarenas and Vice President of Engineering Hau Thai-Tang introduced the Ford Developer Program, the automotive industry's first smartphone app software development program. The program allows for those outside the company with innovative ideas to work with Ford to create compelling and valuable new features and services for our customers at an unprecedented rate. Using SYNC AppLink™, drivers are able to connect their smartphones and control their favorite mobile apps simply using their voice.

We continue to work on the future of the connected car, having introduced the Ford Evos Concept to North America for the first time at the 2012 CES. The Evos Concept showcases a dramatic four-door, four-seat fastback concept with a state-of-the-art lithium-ion plug-in hybrid powertrain that previews our vision for customer-focused, intuitive technologies. Driver engagement technologies explore a seamless enhancement of the driving experience and smart electrified powertrain. Technologies use online data to check for potential travel routes and to set the most efficient braking, steering and suspension settings with efficient and enjoyable powertrain settings, and to reserve a charging parking spot at the driver's destination. We also built on our power of choice fuel-efficient powertrain momentum by showcasing and offering drives of the Fiesta with EcoBoost 1.0-liter three-cylinder engine, Fusion Hybrid and C-MAX Energi plug-in hybrid - which was named Official Car of CES at the 2013 show.

Building upon our demonstrated strategy to globally democratize our technology, Fusion and Explorer launched with a full suite of driver-assist technologies, each leading their respective segments. With features including Lane-Keeping Aid, adaptive cruise control and active park assist, both vehicles help drivers with a new level of convenience. Lane-Keeping uses a forward-facing camera to monitor the lane markings ahead and warn drivers if they are drifting outside, and will even nudge the car back into the correct lane if the driver does not immediately respond. Adaptive cruise control features radar that tracks the vehicles ahead of you and keeps pace and maintains a safe distance, adjusting as necessary to the speed of traffic. Active park assist helps drivers minimize the stress associated with parallel parking. Using sonar, the car can identify an appropriate parallel parking spot and then assist the driver by automatically steering the car into the spot while the driver maintains control of the throttle and brakes. Additionally, the new Lincoln MKZ introduces Active Noise Control ("ANC"), which helps manage the sounds passengers hear inside the car. Using elements of the audio system, ANC technology will block out unwanted engine and road noise, helping improve the overall in-car experience.

We also are celebrating the first anniversary of the new Ford Silicon Valley Lab, which opened in 2012 in downtown Palo Alto, California. Our lab employees are working closely with local universities including Stanford, new startup companies, and leading innovators such as Facebook, Microsoft, and Google.

Leveraging key new technologies across multiple regions and on global platforms helps drive tremendous scale and efficiency savings that can be reinvested, allowing us to have the freshest showroom in the industry. In 2012, we showed growth in nearly every aspect of our business, with 25 new vehicles launched around the world. We expect to grow even further in 2013, driven by having the freshest products in the business - the average age of our global product lineup improves again this year compared with 2012.

Our aggressive freshening cadence and relentless focus on efficiency is producing results that are greater than our major global full-line competitors. Our global programs continue to offer bold, emotive designs, high levels of quality, fuel economy leadership, top safety ratings, innovative technologies, and greater feature content than higher-series competitive offerings, which will allow us to reduce brand discounts and increase revenue across our portfolio. This overall combination of cost efficiency and revenue enhancement that is being realized from One Ford and our global product strategy will help us continue to profitably grow and Go Further.

Finance Our Plan and Strengthen Our Balance Sheet

Execution of our One Ford plan has generated significant positive Automotive operating-related cash flow in recent years, which has allowed us to strengthen our balance sheet while continuing to invest in new products that customers want and value, transform and grow our business, pay our debts and obligations as and when they come due, pay a sustainable dividend, and provide protection within an uncertain global economic environment. We expect to generate significant positive Automotive operating-related cash flow again in 2013.

Work Together Effectively as One Team

As part of the One Team approach, we have implemented a disciplined business plan process to regularly review our business environment, risks and opportunities, strategy, and plan, and to identify areas of our plan that need special attention while pursuing opportunities to improve our plan. Everyone is included and contributes, openness is encouraged, our leaders are responsible and accountable, we use facts and data to make our decisions, high performance teamwork is a performance criteria - and we follow this process every week, every month, and every quarter, driving continuous improvement. We believe this process gives us a clear picture of our business in real time and the ability to respond quickly and decisively to new issues and changing conditions - as we have done in the face of rapid changes in the market and business environment in the last few years. As needed, we convene daily management meetings to handle potentially acute situations, which allows us to ensure that we are vigorously managing daily developments and moving decisively in response to changing conditions.

In addition, we are partnering with and enlisting all of our stakeholders to help us execute our plan to deal with our business realities and create an exciting and viable business going forward. We are reaching out and listening to customers, dealers, employees, labor unions, suppliers, investors, communities, retirees, and federal, state, and local governments. Each of these constituencies is a critical part of the success of our business going forward. Realizing our goal of profitable growth for all is as important to these stakeholders as it is to our shareholders.

RESULTS OF OPERATIONS

TOTAL COMPANY

As shown in the table below, full year net income in 2012 was lower than a year ago, primarily reflecting the non-repeat of the 2011 release of the tax valuation allowance against deferred tax assets.

	2012 (Mils.)	2011 (Mils.)	2010 (Mils.)
Income			
Pre-tax results (excl. special items)	$ 7,966	$ 8,763	$ 8,300
Special items	(246)	(82)	(1,151)
Pre-tax results (incl. special items)	7,720	8,681	7,149
(Provision for)/Benefit from income taxes	(2,056)	11,541	(592)
Net income	5,664	20,222	6,557
Less: Income/(Loss) attributable to noncontrolling interests	(1)	9	(4)
Net income attributable to Ford	$ 5,665	$ 20,213	$ 6,561

Income before income taxes includes certain items ("special items") that we have grouped into "Personnel and Dealer-Related Items" and "Other Items" to provide useful information to investors about the nature of the special items. The first category includes items related to our efforts to match production capacity and cost structure to market demand and changing model mix and therefore helps investors track amounts related to those activities. The second category includes items that we do not generally consider to be indicative of our ongoing operating activities, and therefore allows investors analyzing our pre-tax results to identify certain infrequent significant items that they may wish to exclude when considering the trend of ongoing operating results.

As detailed in Note 28 of the Notes to the Financial Statements, we allocate special items to a separate reconciling item, as opposed to allocating them among the operating segments and Other Automotive, reflecting the fact that management excludes these items from its review of operating segment results for purposes of measuring segment profitability and allocating resources among the segments.

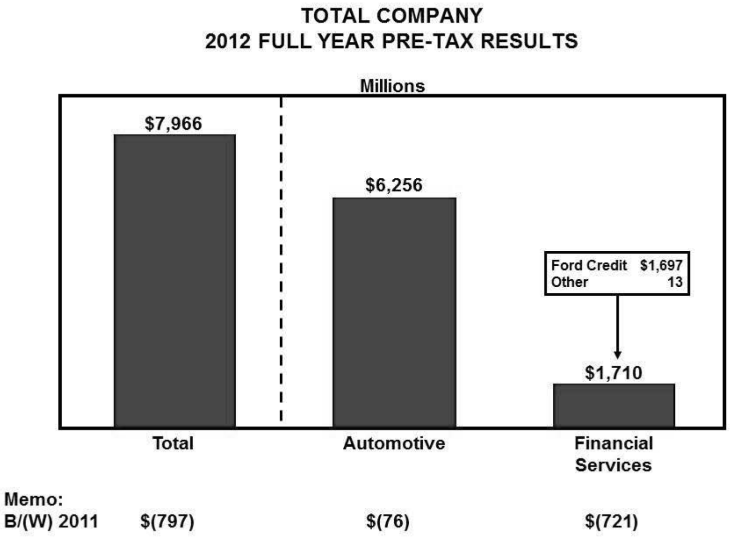
The following table details Automotive sector special items in each category:

	2012 (Mils.)	2011 (Mils.)	2010 (Mils.)
Personnel and Dealer-Related Items			
Personnel-reduction actions (a)	$ (498)	$ (269)	$ (145)
Mercury discontinuation/Other dealer actions	(71)	(151)	(339)
Job Security Benefits/Other	17	93	36
Total Personnel and Dealer-Related Items	(552)	(327)	(448)
Other Items			
CFMA restructuring	625	—	—
AAI consolidation (b)	136	—	—
FordSollers gain	1	401	—
U.S. pension lump-sum program	(250)	—	—
Loss on sale of two component businesses	(174)	—	—
Belgium pension settlement	—	(109)	—
Debt reduction actions	—	(60)	(853)
Sale of Volvo and related charges	—	8	179
Other	(32)	5	(29)
Total Other Items	306	245	(703)
Total Special Items	$ (246)	$ (82)	$ (1,151)

(a) Includes pension-related special items other than the U.S. pension lump-sum program.
(b) The special item of $136 million is comprised of the $155 million gain from the consolidation of AAI (see Note 25 of the Notes to the Financial Statements), less a related $19 million adjustment for sales in September 2012 of Ford-brand vehicles produced by AAI.

Discussion of Automotive sector, Financial Services sector, and total Company results of operations below is on a pre-tax basis and excludes special items unless otherwise specifically noted.

The chart below details 2012 pre-tax results by sector:



Total Company 2012 pre-tax profit of $8 billion reflects strong results from both sectors. Compared with 2011, total Company pre-tax profit declined, primarily explained by the expected reduction in Financial Services.

AUTOMOTIVE SECTOR

In general, we measure year-over-year change in Automotive pre-tax operating profit for our total Automotive sector and reportable segments using the causal factors listed below, with revenue and cost variances calculated at present-year volume and mix and exchange:

- *Market Factors*:
  - *Volume and Mix* - Primarily measures profit variance from changes in wholesale volumes (at prior-year average margin per unit) driven by changes in industry volume, market share, and dealer stocks, as well as the profit variance resulting from changes in product mix, including mix among vehicle lines and mix of trim levels and options within a vehicle line
  - *Net Pricing* - Primarily measures profit variance driven by changes in wholesale prices to dealers and marketing incentive programs such as rebate programs, low-rate financing offers, and special lease offers

- *Contribution Costs* - Primarily measures profit variance driven by per-unit changes in cost categories that typically vary with volume, such as material costs (including commodity and component costs), warranty expense, and freight and duty costs

- *Other Costs* - Primarily measures profit variance driven by absolute change in cost categories that typically do not have a directly proportionate relationship to production volume. These include mainly structural costs, described below, as well as all other costs, which include items such as litigation costs and costs related to our after-market parts, accessories, and service business. Structural costs include the following cost categories:
  - *Manufacturing and Engineering* - consists primarily of costs for hourly and salaried manufacturing- and engineering-related personnel, plant overhead (such as utilities and taxes), new product launch expense, prototype materials, and outside engineering services
  - *Spending-Related* - consists primarily of depreciation and amortization of our manufacturing and engineering assets, but also includes asset retirements and operating leases
  - *Advertising and Sales Promotions* - includes costs for advertising, marketing programs, brand promotions, customer mailings and promotional events, and auto shows
  - *Administrative and Selling* - includes primarily costs for salaried personnel and purchased services related to our staff activities and selling functions, as well as associated information technology costs
  - *Pension and OPEB* - consists primarily of past service pension cost and other postretirement employee benefit costs

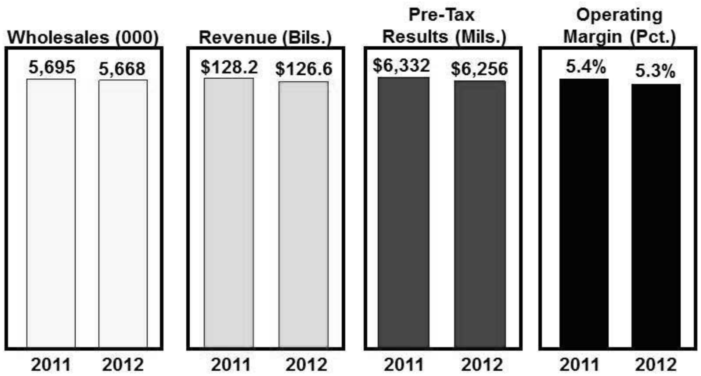
- *Exchange* - Primarily measures profit variance driven by one or more of the following: (i) impact of gains or losses arising from transactions denominated in currencies other than the functional currency of the locations, including currency transactions, (ii) effect of remeasuring income, assets, and liabilities of foreign subsidiaries using U.S. dollars as the functional currency, or (iii) results of our foreign currency hedging activities

- *Net Interest and Other* - Primarily measures profit variance driven by changes in our Automotive sector's centrally-managed net interest (primarily interest expense, interest income, and other adjustments) and related fair value market adjustments in our investment portfolio and marketable securities as well as other items not included in the causal factors defined above

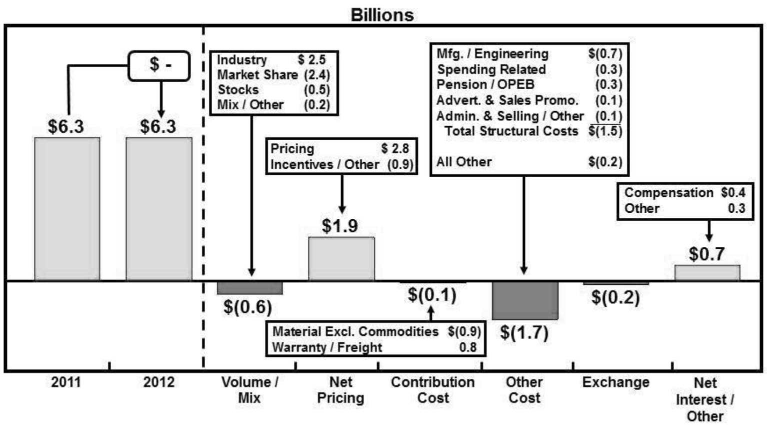
2012 Compared with 2011

Total Automotive. The charts below detail key metrics and the change in 2012 pre-tax results compared with 2011 by causal factor. Automotive operating margin is defined as Automotive pre-tax results, excluding special items and Other Automotive, divided by Automotive revenue.

AUTOMOTIVE SECTOR -- TOTAL AUTOMOTIVE
2012 FULL YEAR KEY METRICS COMPARED WITH 2011



AUTOMOTIVE SECTOR
2012 FULL YEAR PRE-TAX RESULTS COMPARED WITH 2011



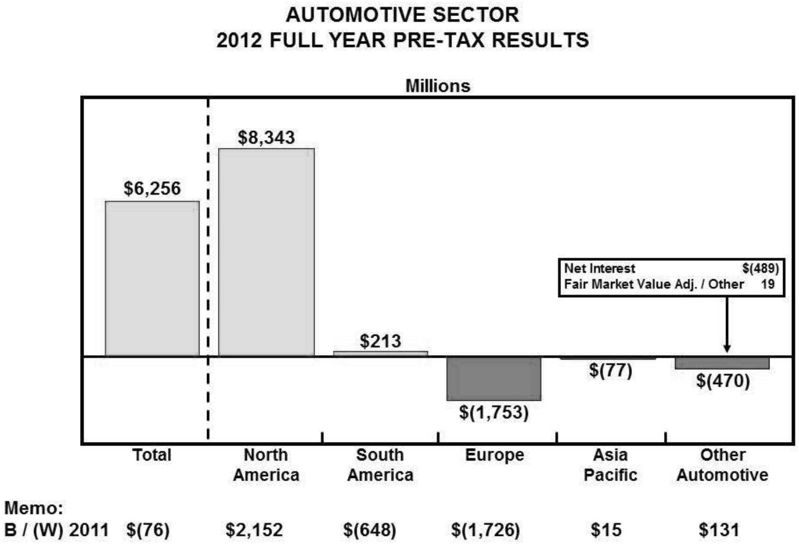
As shown above, all four key metrics were about equal for 2012 compared with 2011, with pre-tax profit primarily reflecting higher net pricing and lower compensation costs (primarily the non-repeat of 2011 UAW ratification bonuses), offset by higher costs, mainly structural, and unfavorable volume and mix.

Total costs and expenses for our Automotive sector for 2012 and 2011 was $121.6 billion and $122.4 billion, respectively, a difference of about $800 million. An explanation of the changes, as reconciled to our income statement, is shown below (in billions):

	2012 Better/(Worse) 2011
Explanation of change:	
Volume and mix, exchange, and other	$ 3.0
Contribution costs (a)	
Commodity costs (incl. hedging)	—
Material costs excluding commodity costs	(0.9)
Warranty/Freight	0.8
Other costs (a)	
Structural costs	(1.5)
Other	(0.2)
Special items	(0.4)
Total	$ 0.8

(a) Our key cost change elements are measured primarily at present-year exchange; in addition, costs that vary directly with volume, such as material, freight and warranty costs, are measured at present-year volume and mix. Excludes special items.

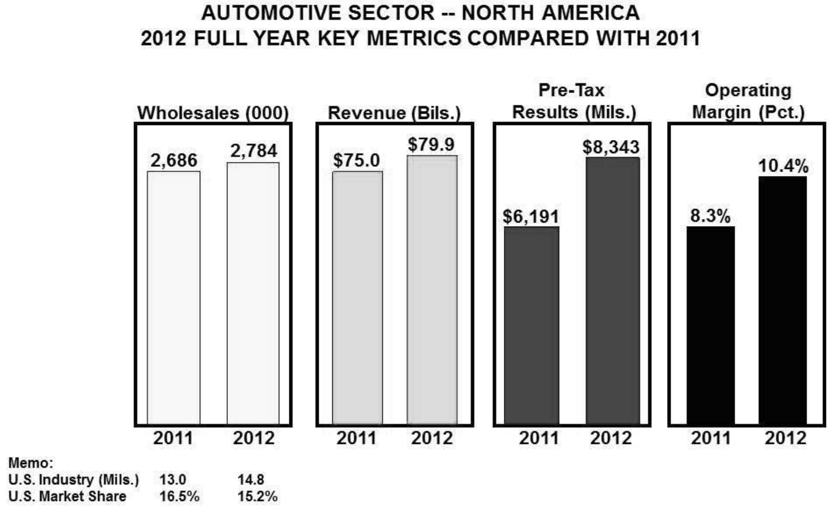
Results by Automotive Segment. Details by segment of *Income before income taxes* are shown below for 2012.

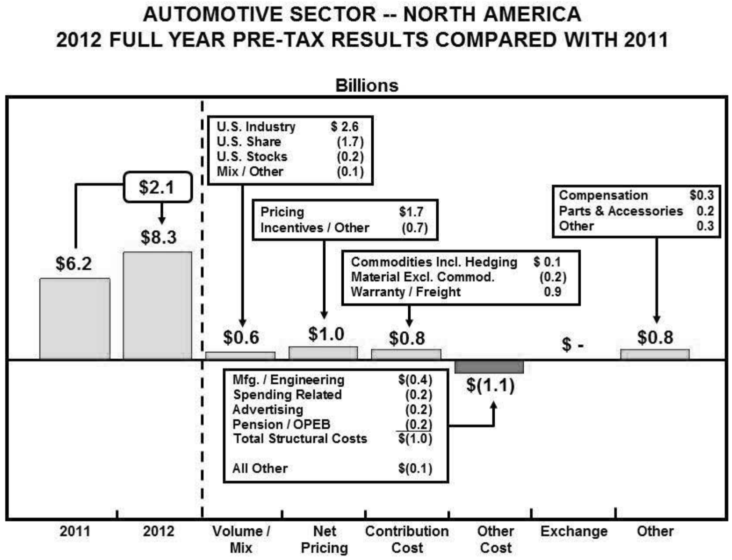


Total Automotive pre-tax profit in 2012 was more than explained by profit from Ford North America. Ford South America was profitable and Ford Asia Pacific Africa incurred a small loss, while Ford Europe reported a substantial loss. The loss in Other Automotive was more than explained by net interest expense.

For 2013, we expect net interest expense to be higher than our fourth quarter 2012 run rate of $147 million, reflecting the increase in Automotive debt associated with our January 2013 issuance (discussed under "Liquidity and Capital Resources - Automotive Sector") and lower interest income.

Ford North America Segment. The charts below detail key metrics, and the change in 2012 pre-tax results compared with 2011 by causal factor.



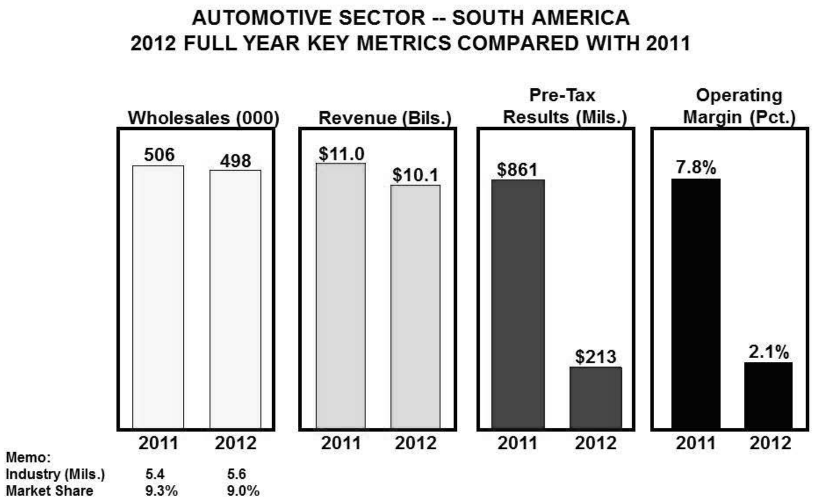


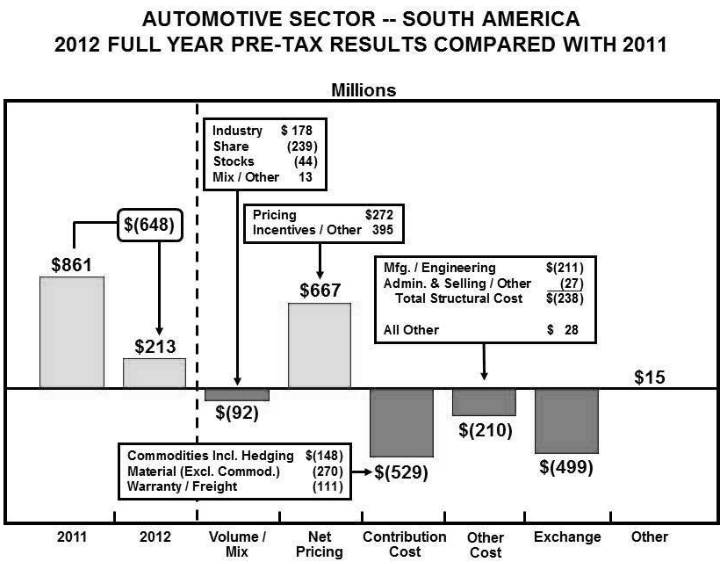
As shown above, all four key metrics increased for 2012 compared with 2011. The increase in pre-tax profit for 2012 compared with 2011 primarily reflected favorable market factors, lower contribution costs, and lower compensation costs (primarily the non-repeat of 2011 UAW ratification bonuses), offset partially by higher structural cost.

For the year, total U.S. market share was down 1.3 percentage points, while U.S. retail share of retail industry declined 0.7 of a percentage point. The declines largely reflected the discontinuation of the Crown Victoria and Ranger, capacity constraints, and reduced availability associated with our Fusion and Escape model changeovers.

For 2013, we expect the strong Ford North America performance to continue with higher pre-tax profits than 2012 and an operating margin of about 10%. This reflects a growing industry, a strong Ford brand, an outstanding product line-up driven by industry-leading refresh rates, continued discipline in matching our production with demand, and a lean cost structure.

Ford South America Segment. The charts below detail key metrics, and the change in 2012 pre-tax results compared with 2011 by causal factor.



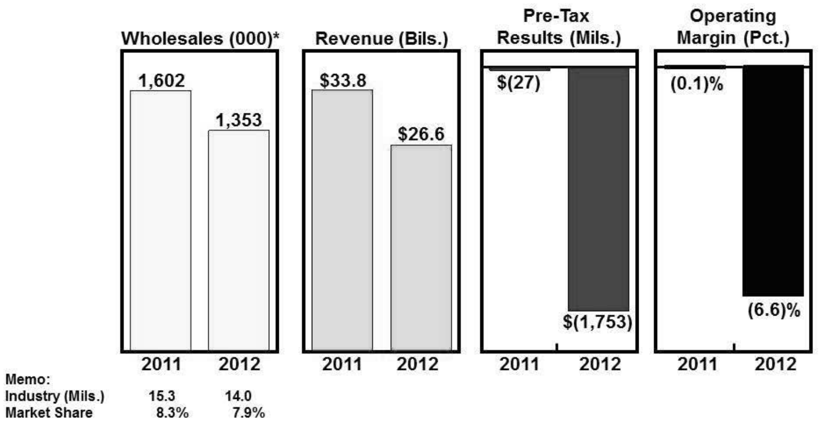


As shown above, all four key metrics decreased for 2012 compared with 2011. The decrease in pre-tax profit for 2012 compared with 2011 primarily reflects higher costs and unfavorable exchange, primarily in Brazil, offset partially by higher net pricing.

For 2013, we expect Ford South America results to be about breakeven. Although results will benefit from new products recently launched or to be launched during the year, the competitive environment and currency risks across the region, especially in Venezuela, are expected to impact our profits adversely. In addition, government actions to incentivize local production and balance trade are driving trade frictions between South American countries and also with Mexico, resulting in business environment instability and new trade barriers.

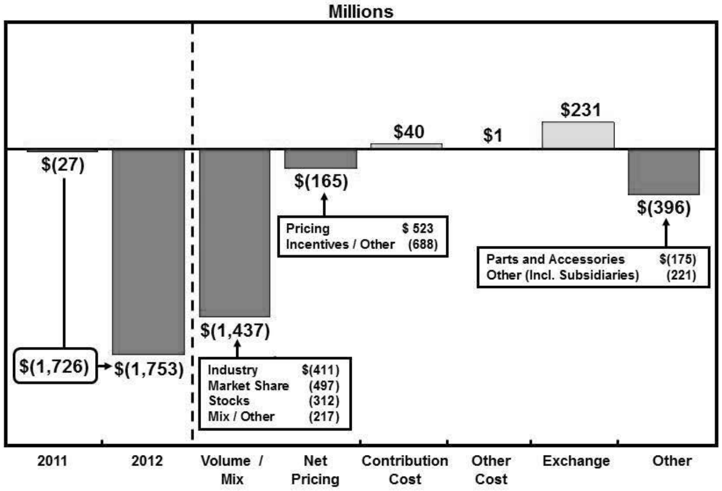
Ford Europe Segment. The charts below detail key metrics, and the change in 2012 pre-tax results compared with 2011 by causal factor.

AUTOMOTIVE SECTOR -- EUROPE
2012 FULL YEAR KEY METRICS COMPARED WITH 2011



* Includes Ford Brand vehicles sold in Turkey by our unconsolidated affiliate (totaling about 83,000 and 64,000 units in Full Year 2011 and 2012, respectively) and, beginning in 2011 Fourth Quarter, in Russia with the formation of our unconsolidated joint venture FordSollers (totaling about 31,000 and 127,000 units in Full Year 2011 and 2012, respectively), although revenue does not include these sales

AUTOMOTIVE SECTOR -- EUROPE
2012 FULL YEAR PRE-TAX RESULTS COMPARED WITH 2011



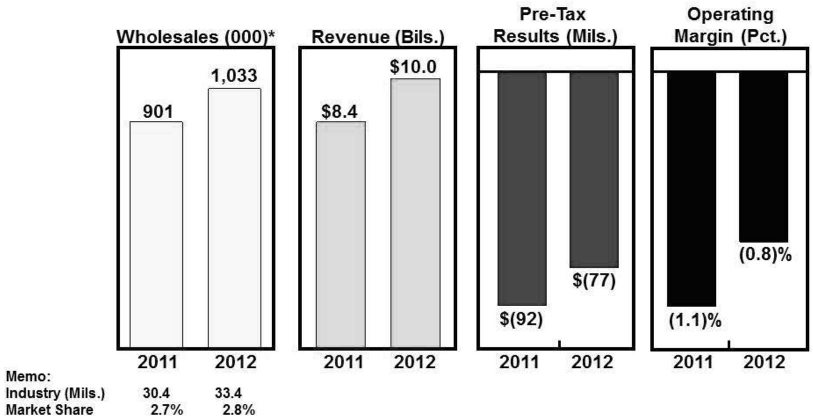
All four key metrics declined for 2012 compared with 2011. The decline in wholesales and revenue primarily reflected lower industry sales and market share, and reductions in dealer stocks. Exchange was also a contributing factor adversely affecting net revenue. The decline in 2012 pre-tax results compared with 2011 primarily reflected unfavorable market factors.

Our 2012 results are consistent with our guidance from October 2012, when we announced our European transformation plan. In 2013, compared with 2012, we expect to benefit from the non-repeat of dealer stock reductions to the degree incurred in 2012. However, consistent with our guidance, we will incur higher costs associated with restructuring actions, mainly investment in new products, as well as accelerated depreciation and costs to implement our revised manufacturing footprint. Similar to our successful restructuring of North America, these are the investments we are making to enable the transformation of our European business for profitable growth in the future.

While our restructuring-related investments this year are consistent with our October 2012 guidance, our outlook for industry volume in 2013 has deteriorated - now expected to be at the lower end of the range of 13 million to 14 million units. In addition, we are being affected adversely by higher pension costs due to lower discount rates and a stronger euro. As a result, we now expect a loss of about $2 billion for 2013, compared with prior guidance of a loss about equal to 2012. The business environment in Europe remains uncertain. As is our practice, we will continue to monitor the situation and will take further action as necessary to ensure we remain on track to deliver our plan.

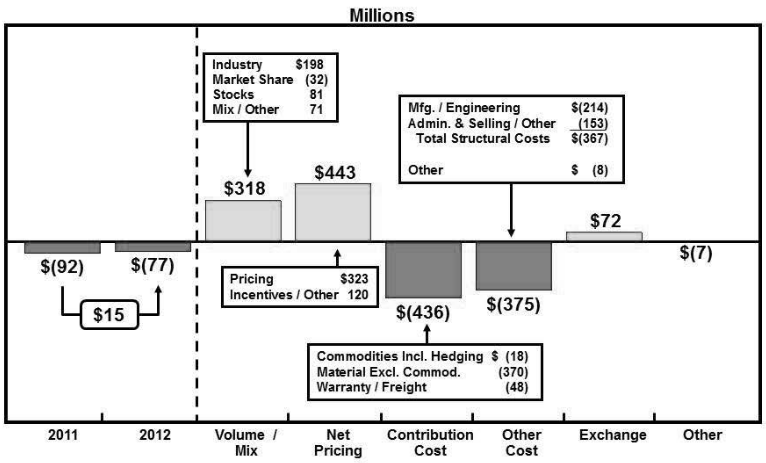
Ford Asia Pacific Africa Segment. The charts below detail key metrics, and the change in 2012 pre-tax results compared with 2011 by causal factor.

AUTOMOTIVE SECTOR -- ASIA PACIFIC AFRICA
2012 FULL YEAR KEY METRICS COMPARED WITH 2011



* Includes Ford brand and JMC brand vehicles sold in China by unconsolidated affiliates (totaling about 515,000 and 619,000 units in Full Year 2011 and 2012, respectively), although revenue does not include these sales

AUTOMOTIVE SECTOR -- ASIA PACIFIC AFRICA
2012 FULL YEAR PRE-TAX RESULTS COMPARED WITH 2011



As shown above, all four key metrics improved for 2012 compared with 2011. The improvement in 2012 pre-tax results compared with 2011 is more than explained by higher net pricing, favorable volume and mix, and favorable exchange, offset partially by higher costs associated with new products and investments to support higher volumes and future growth.

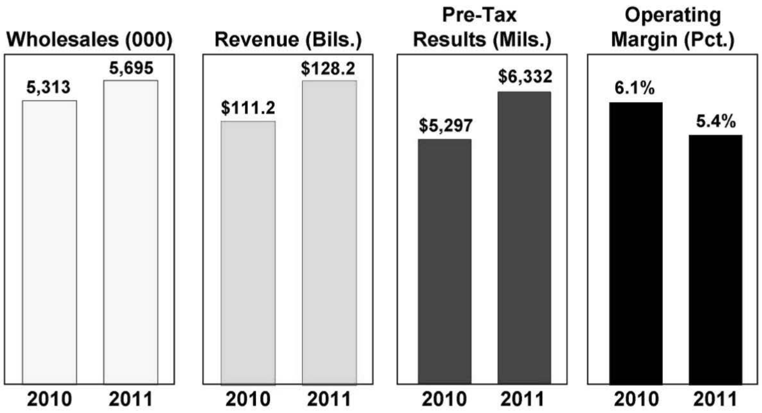
Our market share in the region increased sequentially each quarter during 2012, with fourth quarter 2012 market share at 3.4%, as we continued to benefit from increased capacity and new products. Further demonstrating the growth we are experiencing in Asia Pacific Africa, since 2009, wholesale volume has about doubled, market share has improved by half a point and net revenue has increased by about two-thirds even though our reported revenue does not include the revenue of unconsolidated joint ventures in China.

For 2013, we expect Asia Pacific Africa to be about breakeven. We expect our volume and revenue growth in the region to accelerate, supported by the launch of the all-new Kuga, EcoSport, and refreshed Fiesta across the region, as well as the launch of Mondeo and Explorer in China. This will be offset in large part by continued strong investment across the region to support our longer-range growth plans.

2011 Compared with 2010

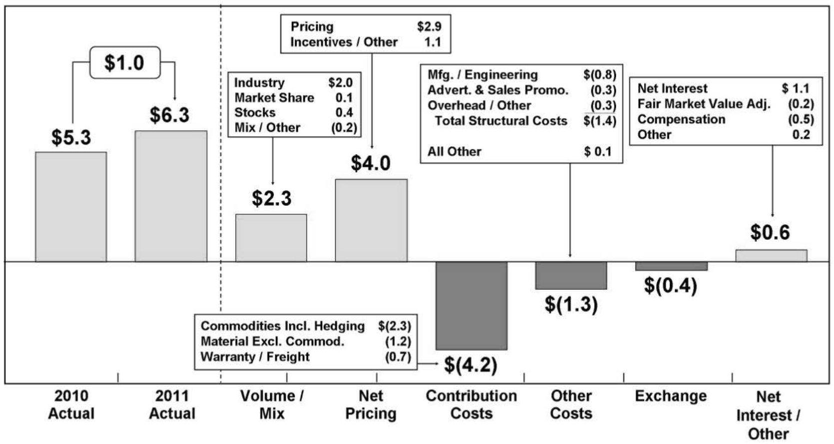
Total Automotive. The charts below detail full-year key metrics and the change in full-year 2011 pre-tax operating results compared with full-year 2010 by causal factor. Automotive operating margin is defined as Automotive pre-tax operating results, excluding special items and Other Automotive, divided by Automotive revenue.

AUTOMOTIVE SECTOR -- TOTAL AUTOMOTIVE
2011 FULL YEAR KEY METRICS COMPARED WITH 2010



AUTOMOTIVE SECTOR
2011 FULL YEAR PRE-TAX RESULTS COMPARED WITH 2010

Billions



As shown above, full-year wholesale volume and revenue were higher than the year-ago period, but operating margin was down seven-tenths of a point; higher commodity costs reduced our margin by 1.8 points.

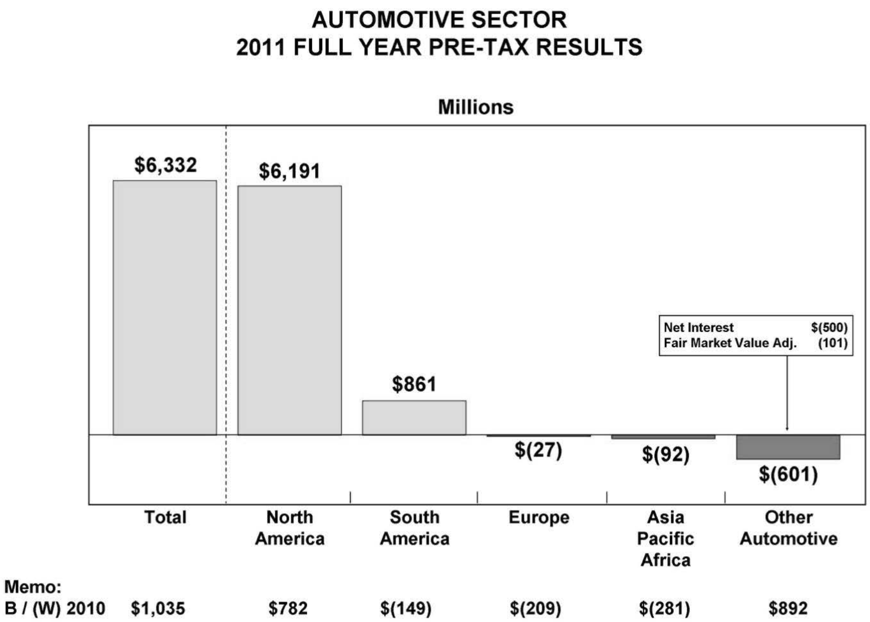
Total Automotive pre-tax operating profit in 2011 was $6.3 billion, an increase of $1 billion from 2010. The increase in earnings is explained by strong performance in market factors, and lower interest expense net of interest income (due primarily to lower debt levels). This was offset partially by higher contribution costs, higher structural costs (including the effect of higher volumes, new product launches, and investments to support our future product, capacity, and brand-building plans), higher compensation costs in North America, and unfavorable exchange.

Total costs and expenses for our Automotive sector for 2011 and 2010 was $122.4 billion and $113.5 billion, respectively, a difference of $8.9 billion. An explanation of the change as reconciled to our income statement is shown below (in billions):

	2011 Better/(Worse) 2010
Explanation of change:	
Volume and mix, exchange, and other	$ (11.4)
Contribution costs (a)	
Commodity costs (incl. hedging)	(2.3)
Material costs excluding commodity costs	(1.2)
Warranty/Freight	(0.7)
Other costs (a)	
Structural costs	(1.4)
Other	0.1
Special items (b)	8.0
Total	$ (8.9)

(a) Our key cost change elements are measured primarily at present-year exchange; in addition, costs that vary directly with volume, such as material, freight and warranty costs, are measured at present-year volume and mix. Excludes special items.
(b) Special items primarily reflect the non-recurrence of Volvo costs and expenses in 2011.

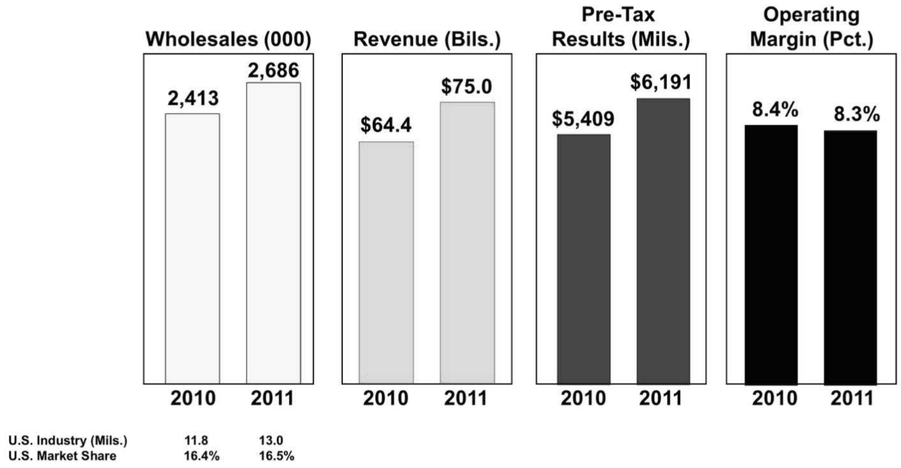
Results by Automotive Segment. Details by segment of *Income before income taxes* are shown below for 2011.



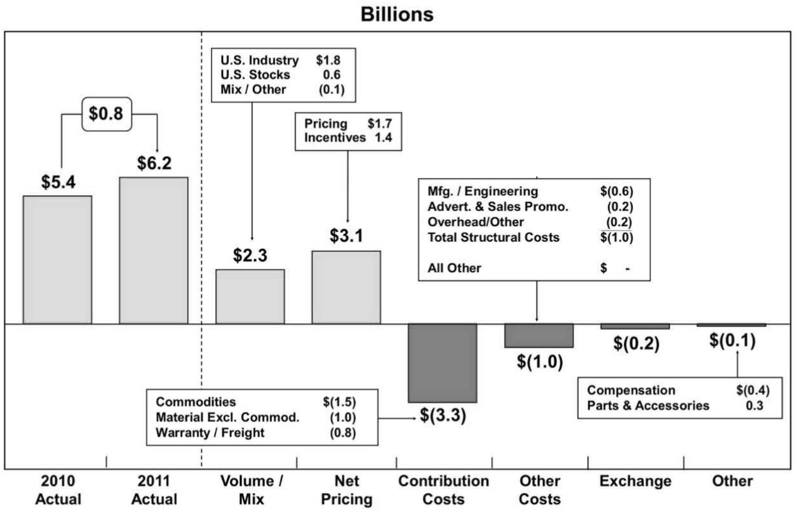
Total Automotive pre-tax operating profit of $6.3 billion was led by a $6.2 billion profit from Ford North America. Ford South America earned a solid profit, while Ford Europe was about breakeven, incurring a small loss driven by the economic uncertainty in the region. Ford Asia Pacific Africa incurred a loss as well, more than explained by the impact of the Japan and Thailand natural disasters. The loss in Other Automotive was $601 million, reflecting higher interest expense net of interest income and unfavorable fair market valuation adjustments, mainly for our investment in Mazda.

Ford North America Segment. The charts below detail key metrics and the change in 2011 pre-tax operating profit compared with 2010 by causal factor.

AUTOMOTIVE SECTOR -- NORTH AMERICA
2011 FULL YEAR KEY METRICS COMPARED WITH 2010



AUTOMOTIVE SECTOR – NORTH AMERICA
2011 FULL YEAR PRE-TAX RESULTS COMPARED WITH 2010

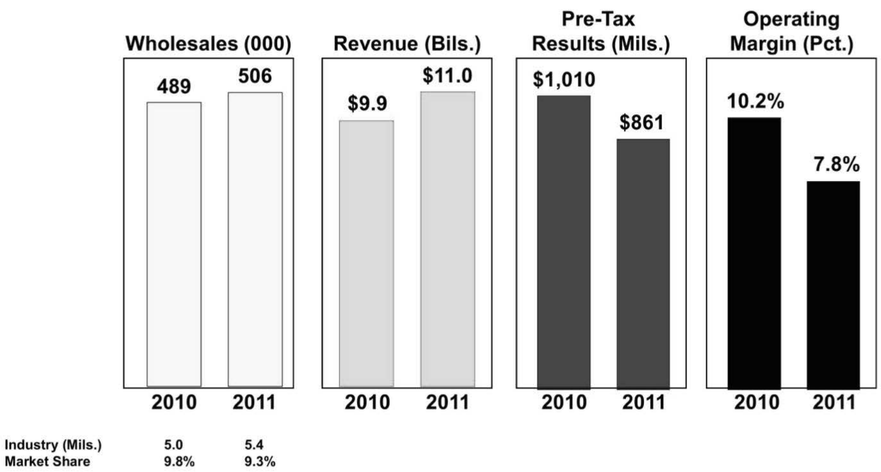


As shown above, full-year wholesale volume and revenue improved in 2011 compared with the prior year. Operating margin declined one-tenth of a percentage point; this includes an adverse impact of 2 points due to higher commodity costs.

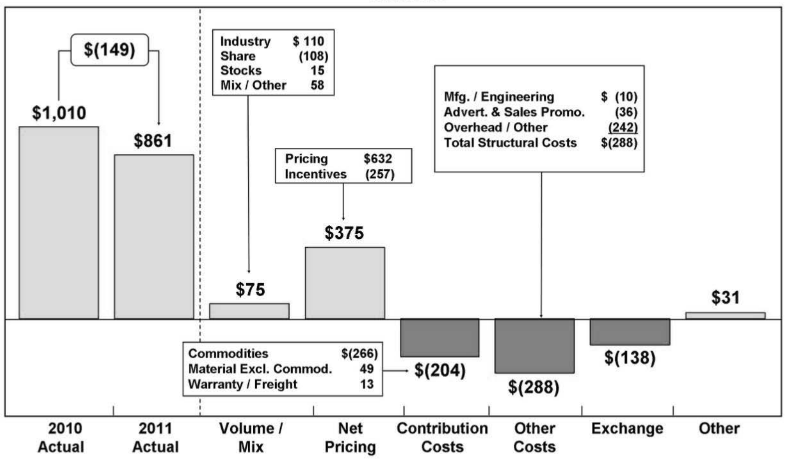
Ford North America reported a pre-tax operating profit of $6.2 billion, compared with a profit of $5.4 billion a year ago. Higher net pricing reflects the strength of our brand and products, a disciplined approach to incentive spending, and our ongoing practice to match production to customer demand. Favorable volume and mix was more than explained by higher U.S. industry and dealer stocks. These were offset partially by unfavorable contribution costs reflecting higher commodity costs, higher material costs excluding commodities, and higher warranty and freight costs. Other costs reflect unfavorable structural costs.

Ford South America Segment. The charts below detail key metrics and the change in 2011 pre-tax operating profit compared with 2010 by causal factor.

AUTOMOTIVE SECTOR -- SOUTH AMERICA
2011 FULL YEAR KEY METRICS COMPARED WITH 2010



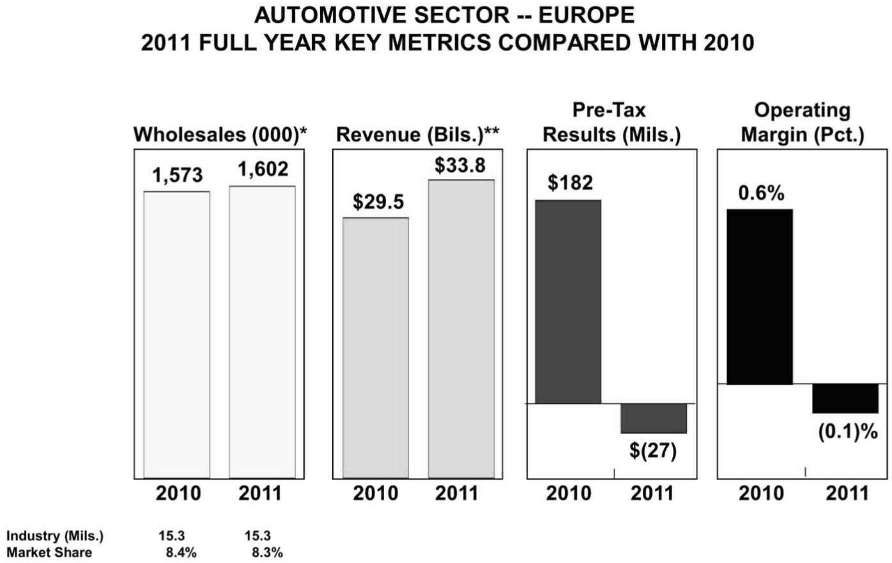
AUTOMOTIVE SECTOR – SOUTH AMERICA
2011 FULL YEAR PRE-TAX RESULTS COMPARED WITH 2010
Millions



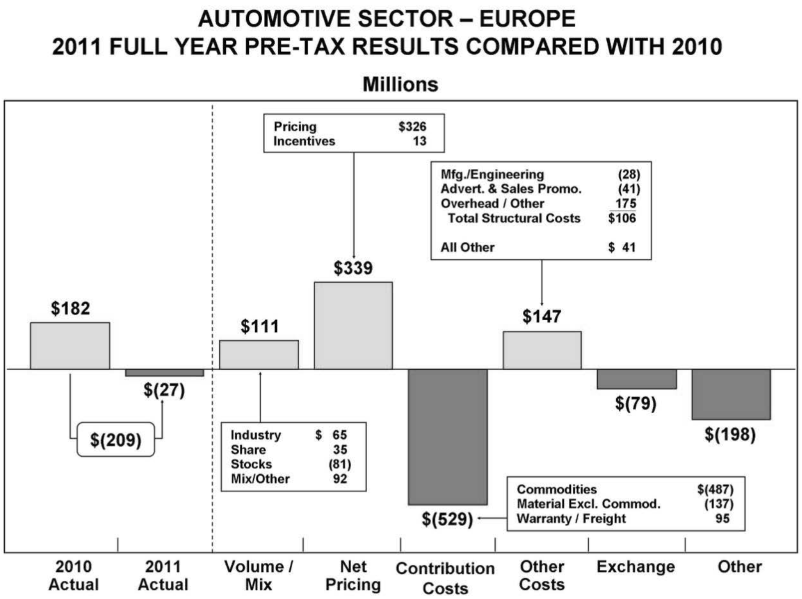
As shown above, full-year wholesales and revenue increased compared with a year ago, while operating margin declined.

Ford South America reported a pre-tax operating profit of $861 million, compared with a profit of $1 billion a year ago. The decline in earnings is more than explained by higher structural costs (driven primarily by local inflation), higher contribution costs (more than explained by commodity costs), and unfavorable exchange, offset partially by favorable net pricing and volume and mix.

Ford Europe Segment. The charts below detail key metrics and the change in 2011 pre-tax operating profit compared with 2010 by causal factor.



* Includes Ford brand vehicles sold in Turkey by our unconsolidated affiliates and, beginning in 2011 Fourth Quarter, in Russia with the formation of our unconsolidated joint venture FordSollers, although revenue does not include these sales
** Revenue reflects impact of the formation of our unconsolidated joint venture, FordSollers beginning in 2011 Fourth Quarter

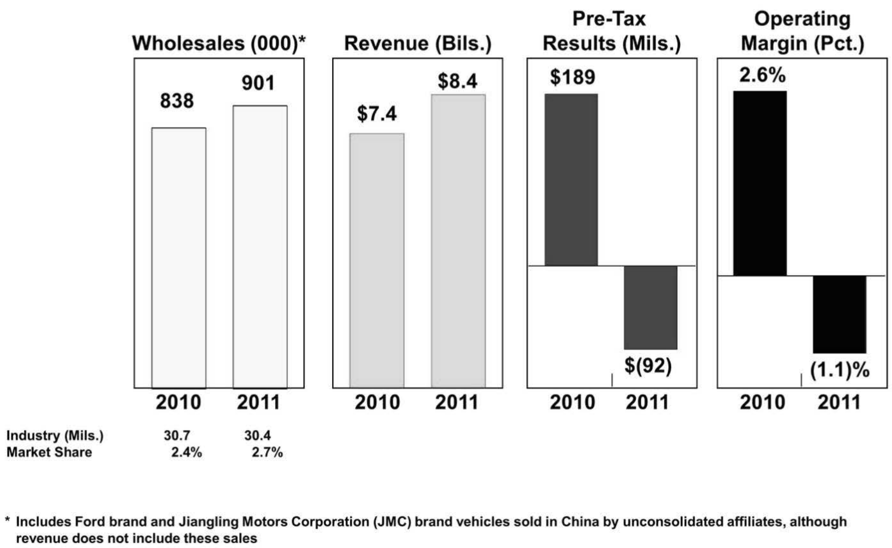


As shown above, full-year wholesale volume and revenue improved in 2011 compared with the prior year. Operating margin declined in 2011, with higher commodity costs contributing a negative 1.5 points to Europe's full-year margin.

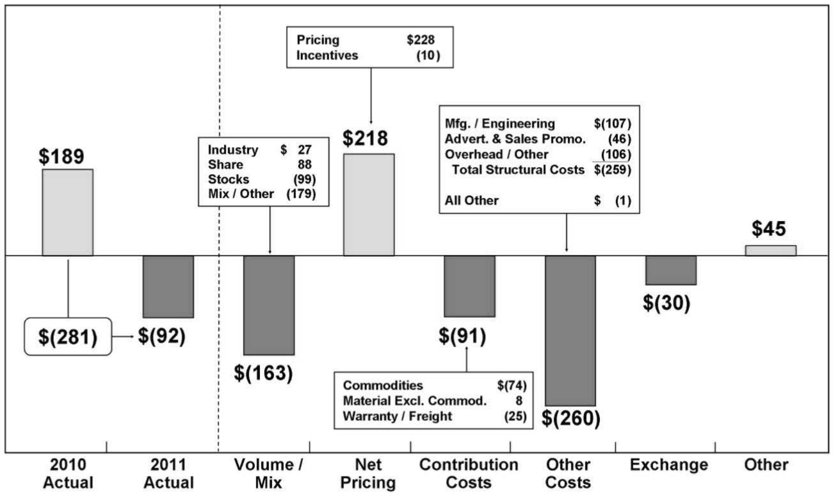
Ford Europe reported a pre-tax operating loss of $27 million, compared with a profit of $182 million a year ago. The decline in results is more than explained by higher commodity costs and material costs excluding commodities, as well as unfavorable exchange. These costs were offset partially by higher net pricing and favorable volume and mix. Other reflects our continued investment in the Craiova facility in Romania in preparation for the production volume ramp-up in 2012, as well as lower parts and accessories profits.

Ford Asia Pacific Africa Segment. The charts below detail key metrics and the change in 2011 pre-tax operating profit compared with 2010 by causal factor.

AUTOMOTIVE SECTOR -- ASIA PACIFIC AFRICA
2011 FULL YEAR KEY METRICS COMPARED WITH 2010



AUTOMOTIVE SECTOR – ASIA PACIFIC AFRICA
2011 FULL YEAR PRE-TAX RESULTS COMPARED WITH 2010
Millions



As shown above, wholesales and revenue increased compared with a year ago, while operating margin declined.

Ford Asia Pacific Africa reported a pre-tax operating loss of $92 million, compared with a profit of $189 million a year ago. The decline in results reflects higher costs (primarily structural costs in support of Ford Asia Pacific Africa growth plans), unfavorable volume and mix (which includes the impact of events in Japan and Thailand), and unfavorable exchange, offset partially by higher net pricing.

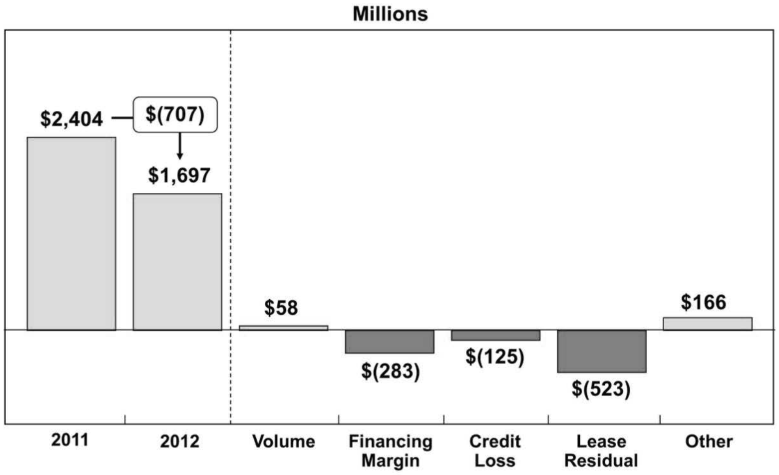
FINANCIAL SERVICES SECTOR

2012 Compared with 2011

As shown in the total Company discussion above, we present our Financial Services sector results in two segments, Ford Credit and Other Financial Services. Ford Credit, in turn, has two segments, North America and International.

Ford Credit. The chart below details the change in 2012 pre-tax profit compared with 2011 by causal factor:

FORD CREDIT
2012 FULL YEAR PRE-TAX RESULTS COMPARED WITH 2011



The decline in pre-tax profits is more than explained by fewer leases being terminated, which resulted in fewer vehicles sold at a gain and lower financing margin, as higher yielding assets originated in prior years run off.

Results of Ford Credit's operations and unallocated risk management for the years ended December 31 are shown below (in millions):

Income before income taxes	2012	2011	2012 Over/(Under) 2011
North America segment	$ 1,550	$ 2,159	$ (609)
International segment	249	371	(122)
Unallocated risk management (a)	(102)	(126)	24
Income before income taxes	$ 1,697	$ 2,404	$ (707)

____
(a) Consists of gains and losses related to market valuation adjustments to derivatives primarily related to movements in interest rates.

The full-year decrease in Ford Credit's North America segment pre-tax earnings is more than explained by fewer lease terminations, which resulted in fewer vehicles sold at a gain, and lower financing margin as higher yielding assets originated in prior years run off. The full-year decrease in its International segment pre-tax results is more than explained by the non-recurrence of 2011 foreign currency translation adjustments related to the discontinuation of financing in Australia, lower volume, and unfavorable lease residual performance, offset partially by higher financing margin.

Ford Credit's receivables, including finance receivables and operating leases at December 31 were as follows (in billions):

	2012	2011	2010
Receivables			
Finance receivables - North America segment			
Consumer			
Retail installment and direct financing leases	$ 39.5	$ 38.4	$ 39.1
Non-Consumer			
Wholesale	18.1	15.5	13.3
Dealer loan	1.4	1.1	1.1
Other	1.1	1.0	0.8
Total North America segment - finance receivables (a)	60.1	56.0	54.3
Finance receivables - International segment			
Consumer			
Retail installment and direct financing leases	9.0	9.1	10.6
Non-Consumer			
Wholesale	7.4	8.5	8.7
Dealer loan	0.1	—	—
Other	0.4	0.4	0.4
Total International segment - finance receivables (a)	16.9	18.0	19.7
Unearned interest supplements	(1.5)	(1.6)	(1.9)
Allowance for credit losses	(0.4)	(0.5)	(0.8)
Finance receivables, net	75.1	71.9	71.3
Net investment in operating leases (a)	14.7	11.1	10.0
Total receivables (b)	$ 89.8	$ 83.0	$ 81.3
Memo:			
Total managed receivables (c)	$ 91.3	$ 84.6	$ 83.2

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(a) At December 31, 2012, 2011 and 2010, includes consumer receivables before allowance for credit losses of $29.3 billion, $36 billion, and $35.8 billion, respectively, and non-consumer receivables before allowance for credit losses of $21.6 billion, $19.8 billion, and $18.7 billion, respectively, that have been sold for legal purposes in securitization transactions but continue to be reported in Ford Credit's consolidated financial statements. In addition, at December 31, 2012, 2011, and 2010, includes net investment in operating leases before allowance for credit losses of $6.3 billion, $6.4 billion, and $6.2 billion, respectively, that have been included in securitization transactions but continue to be reported in Ford Credit's financial statements. The receivables are available only 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 holds the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of these securitization transactions. See Note 17 of the Notes to the Financial Statements for more information regarding securitization transactions.

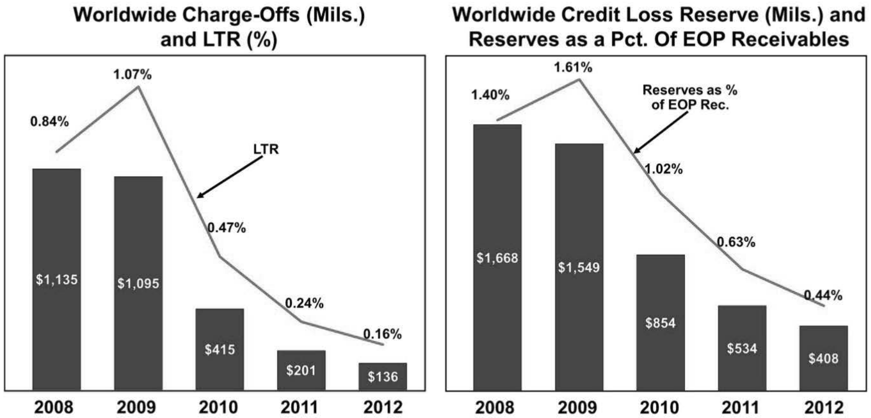
(b) Includes allowance for credit losses of $408 million, $534 million, and $854 million at December 31, 2012, 2011 and 2010, respectively.

(c) Excludes unearned interest supplements related to finance receivables.

Receivables at December 31, 2012 increased from year-end 2011, primarily driven by increases in wholesale receivables and net investment in operating leases.

Credit Losses. The charts below detail (i) annual trends of charge-offs (credit losses, net of recoveries), (ii) loss-to-receivables ("LTR") ratios (charge-offs divided by the average amount of receivables outstanding for the period, excluding the allowance for credit losses (also referred to as credit loss reserves) and unearned interest supplements related to finance receivables), (iii) credit loss reserves, and (iv) Ford Credit's credit loss reserves as a percentage of end-of-period ("EOP") receivables:

FORD CREDIT
HISTORICAL CREDIT LOSS METRICS



Ford Credit's charge-offs are down from 2011, primarily reflecting lower repossessions in the United States and lower losses in all international regions, offset partially by lower recoveries in the United States. The LTR ratio is about one-third lower than in 2011, and is the lowest since Ford Credit started tracking LTRs more than thirty years ago.

Reserves and reserves as a percent of EOP receivables are both lower than a year ago reflecting the decrease in charge-offs. The allowance for credit losses is estimated using a combination of models and management judgment, and is based on such factors as portfolio quality, historical loss performance, and receivable levels.

In purchasing retail finance and lease contracts, Ford Credit uses a proprietary scoring system that classifies contracts using several factors, such as credit bureau information, credit bureau scores (e.g., FICO score), and contract characteristics. In addition to Ford Credit's proprietary scoring system, it considers other factors, such as employment history, financial stability, and capacity to pay. At December 31, 2012 and 2011, Ford Credit classified between 5% - 6% of the outstanding U.S. retail finance and lease contracts in its portfolio as high risk at contract inception. For additional discussion, see "Critical Accounting Estimates - Allowance for Credit Losses" below.

Residual Risk. Ford Credit is exposed to residual risk on operating leases and similar balloon payment products where the customer may return the financed vehicle to Ford Credit. Residual risk is the possibility that the amount Ford Credit obtains from returned vehicles will be less than its estimate of the expected residual value for the vehicle. Ford Credit estimates the expected residual value by evaluating recent auction values, return volumes for its leased vehicles, industry-wide used vehicle prices, marketing incentive plans, and vehicle quality data. For additional discussion, see "Critical Accounting Estimates - Accumulated Depreciation on Vehicles Subject to Operating Leases" below.

North America Retail Operating Lease Experience

Ford Credit uses various statistics to monitor its residual risk:

- Placement volume measures the number of leases Ford Credit purchases in a given period;
- Termination volume measures the number of vehicles for which the lease has ended in the given period; and
- Return volume reflects the number of vehicles returned to Ford Credit by customers at lease-end.

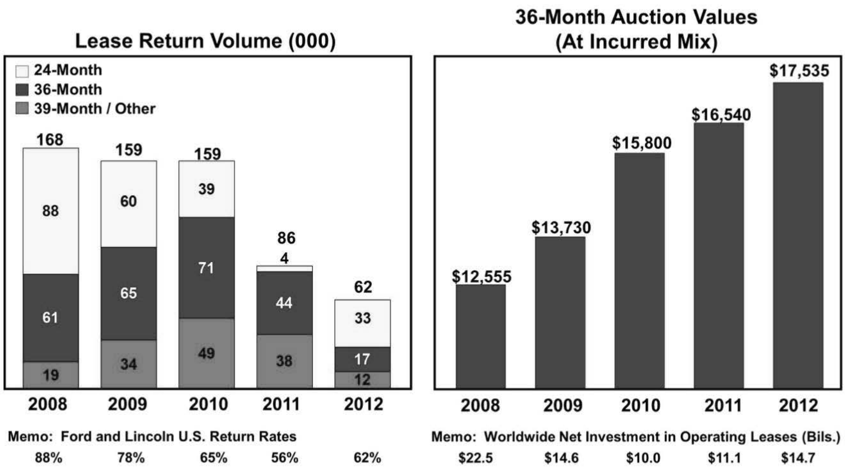
Ford Credit's North America segment accounted for 98% of its total operating leases at December 31, 2012. The following table shows operating lease placement, termination, and return volumes for this segment for the years ending December 31 (in thousands, except for percentages):

	2012	2011	2010
Placements	257	219	120
Terminations	126	246	408
Returns	76	144	281
Memo:			
Return Rates	60%	59%	69%

In 2012, placement volumes were up 38,000 units compared with 2011, primarily reflecting higher industry sales. Termination volumes decreased by 120,000 units compared with last year, reflecting lower placement volumes in 2009. Return volumes decreased 68,000 units compared with last year, primarily reflecting lower terminations.

U.S. Ford and Lincoln Brand Operating Lease Experience. The following chart shows annual return volumes and auction values at incurred vehicle mix for vehicles returned in the respective periods. In 2012, Ford Credit's U.S. lease originations represented about 15% of total U.S. retail sales of Ford and Lincoln brand vehicles, and the U.S. operating lease portfolio accounted for about 89% of Ford Credit's total investment in operating leases at December 31, 2012.

FORD CREDIT
HISTORICAL U.S. LEASE RESIDUAL PERFORMANCE



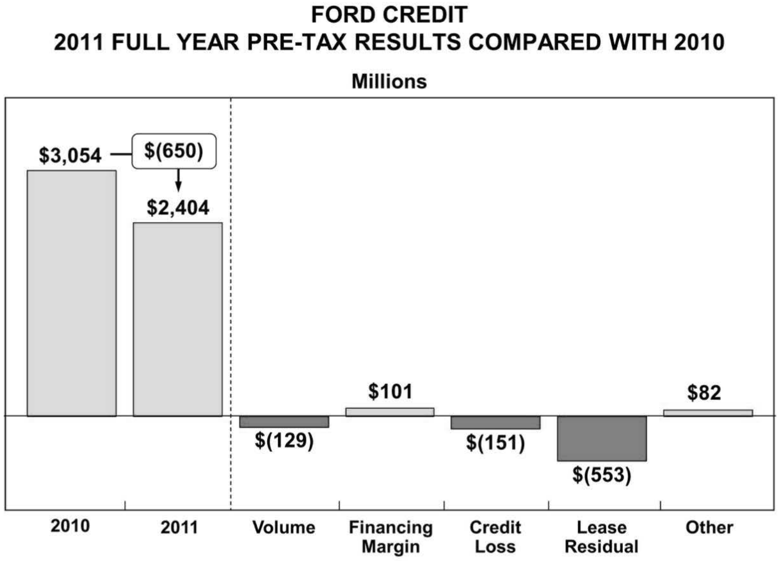
Ford Credit's lease return volumes in 2012 were about 30% lower than 2011, reflecting primarily the lower lease placements in 2009. Its 2012 lease return rate was 62%, up 6 percentage points compared with 2011, reflecting a higher mix of 24 month contracts.

In 2012, Ford Credit's auction values for vehicles subject to 36-month leases continued to increase, up $995 per unit from 2011. The increase primarily reflects vehicles with higher content, including a higher mix of Lincolns.

Ford Credit's worldwide net investment in operating leases was $14.7 billion at the end of 2012, up from $11.1 billion in 2011.

2011 Compared with 2010

The chart below details the change in 2011 pre-tax profit compared with 2010 by causal factor.



The decline in Ford Credit's pre-tax profit reflects fewer leases being terminated and the related vehicles sold at a gain, and lower credit loss reserve reductions.

LIQUIDITY AND CAPITAL RESOURCES

Automotive Sector

Our Automotive liquidity strategy includes ensuring that we have sufficient liquidity available with a high degree of certainty throughout the business cycle by generating cash from operations and maintaining access to other sources of funding. For a discussion of risks to our liquidity, see "Item 1A. Risk Factors," of our Annual Report on Form 10-K for year ended December 31, 2012, as well as Note 31 of the Notes to the Financial Statements regarding commitments and contingencies that could impact our liquidity.

Gross Cash. Automotive gross cash includes cash and cash equivalents and marketable securities, net of any securities-in-transit. Gross cash at December 31 was as follows (in billions):

	2012	2011	2010
Cash and cash equivalents	$ 6.2	$ 7.9	$ 6.3
Marketable securities	18.2	15.0	14.2
Total cash, marketable securities and loaned securities	24.4	22.9	20.5
Securities-in-transit (a)	(0.1)	—	—
Gross cash	$ 24.3	$ 22.9	$ 20.5

(a) The purchase or sale of marketable securities for which the cash settlement was not made by period-end and for which there was a payable or receivable recorded on the balance sheet at period-end.

Our cash, cash equivalents, and marketable securities are held primarily in highly liquid investments, which provide for anticipated and unanticipated cash needs. Our cash, cash equivalents, and marketable securities primarily include U.S. Department of Treasury obligations, federal agency securities, bank time deposits with investment-grade institutions, corporate investment-grade securities, commercial paper rated A-1/P-1 or higher, and debt obligations of a select group of non-U.S. governments, non-U.S. governmental agencies, and supranational institutions. The average maturity of these investments ranges from 90 days to up to one year, and is adjusted based on market conditions and liquidity needs. We monitor our cash levels and average maturity on a daily basis. Within our Automotive gross cash portfolio, we currently do not hold investments in government obligations of Greece, Ireland, Italy, Portugal, or Spain, nor did we hold any at December 31, 2012.

In managing our business, we classify changes in Automotive gross cash into operating-related and other items (which includes the impact of certain special items, contributions to funded pension plans, certain tax-related transactions, acquisitions and divestitures, capital transactions with the Financial Services sector, dividends paid to shareholders, and other -- primarily financing-related). Our key liquidity metrics are operating-related cash flow (which best represents the ability of our Automotive operations to generate cash), Automotive gross cash, and Automotive liquidity. Automotive gross cash and liquidity as of the dates shown were as follows (in billions):

	December 31, 2012	December 31, 2011
Gross cash	$ 24.3	$ 22.9
Available credit lines		
Revolving credit facility, unutilized portion	9.5	8.8
Local lines available to foreign affiliates, unutilized portion	0.7	0.7
Automotive liquidity	$ 34.5	$ 32.4

We believe the cash flow analysis reflected in the table below is useful to investors because it includes in operating-related cash flow elements that we consider to be related to our Automotive operating activities (e.g., capital spending) and excludes cash flow elements that we do not consider to be related to the ability of our operations to generate cash. This differs from a GAAP cash flow statement and differs from *Net cash provided by/(used in) operating activities*, the most directly comparable GAAP financial measure.

Changes in Automotive gross cash are summarized below (in billions):

	2012	2011	2010
Gross cash at end of period	$ 24.3	$ 22.9	$ 20.5
Gross cash at beginning of period	22.9	20.5	24.9
Total change in gross cash	$ 1.4	$ 2.4	$ (4.4)
Automotive income before income taxes (excluding special items)	$ 6.3	$ 6.3	$ 5.3
Capital expenditures	(5.5)	(4.3)	(3.9)
Depreciation and special tools amortization	3.7	3.6	3.8
Changes in working capital (a)	(2.3)	0.3	(0.1)
Other/Timing differences (b)	1.2	(0.3)	(0.7)
Total operating-related cash flows	3.4	5.6	4.4
Cash impact of personnel-reduction programs accrual	(0.4)	(0.3)	(0.2)
Net receipts from Financial Services sector (c)	0.7	4.2	2.7
Other (d)	1.1	(0.2)	(0.8)
Cash flow before other actions	4.8	9.3	6.1
Net proceeds from/(Payments on) Automotive sector debt	0.9	(6.0)	(12.1)
Contributions to funded pension plans	(3.4)	(1.1)	(1.0)
Dividends/Other	(0.9)	0.2	2.6
Total change in gross cash	$ 1.4	$ 2.4	$ (4.4)

(a) Working capital comprised of changes in receivables, inventory, and trade payables.
(b) Primarily expense and payment timing differences for items such as pension and OPEB, compensation, marketing, and warranty, as well as additional factors, such as the impact of tax payments.
(c) Primarily distributions and tax payments received from Ford Credit.
(d) 2012 includes cash and marketable securities resulting from the consolidation of AAI.

With respect to "Changes in working capital," in general we carry relatively low trade receivables compared to our trade payables because the majority of our Automotive wholesales are financed (primarily by Ford Credit) immediately upon sale of vehicles to dealers, which generally occurs at the time the vehicles are gate-released shortly after being produced. In addition, our inventories are lean because we build to order, not for inventory. In contrast, our Automotive trade payables are based primarily on industry-standard production supplier payment terms generally ranging between 30 days to 45 days. As a result, our cash flow tends to improve as wholesale volumes increase, but can deteriorate significantly when wholesale volumes drop sharply. In addition, these working capital balances generally are subject to seasonal changes that can impact cash flow. For example, we typically experience cash flow timing differences associated with inventories and payables due to our annual summer and December shutdown periods, when production, and therefore inventories and wholesale volumes, are usually at their lowest levels, while payables continue to come due and be paid. The net impact of this typically results in cash outflows from changes in our working capital balances during these shutdown periods.

Shown below is a reconciliation between financial statement *Net cash provided by/(used in) operating activities* and operating-related cash flows (calculated as shown in the table above), as of the dates shown (in billions):

	2012	2011	2010
Net cash provided by/(used in) by operating activities	$ 6.3	$ 9.4	$ 6.4
Items included in operating-related cash flows			
Capital expenditures	(5.5)	(4.3)	(3.9)
Proceeds from the exercise of stock options	—	0.1	0.3
Net cash flows from non-designated derivatives	(0.8)	0.1	(0.2)
Items not included in operating-related cash flows			
Cash impact of Job Security Benefits and personnel-reduction actions	0.4	0.3	0.2
Contributions to funded pension plans	3.4	1.1	1.0
Tax refunds, tax payments, and tax receipts from affiliates	(0.1)	(1.4)	(0.2)
Settlement of outstanding obligation with affiliates	(0.3)	—	—
Other	—	0.3	0.8
Operating-related cash flows	$ 3.4	$ 5.6	$ 4.4

Credit Agreement. Lenders under our Credit Agreement have commitments totaling $9.3 billion in a revolving credit facility that will mature on November 30, 2015, and commitments totaling an additional $307 million in a revolving credit 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, and 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.

U.S. Department of Energy ("DOE") Advanced Technology Vehicle Manufacturer ("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 to enter into a 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. 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.

European Investment Bank ("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.

Export-Import Bank of the United States ("Ex-Im") and Private Export Funding Corporation ("PEFCO") Secured Revolving Loan. At December 31, 2012, this working capital facility, which supports vehicle exports from the United States, was fully drawn at $300 million. The facility will renew annually until June 15, 2015, provided that no payment or bankruptcy default exists and Ex-Im continues to have a perfected security interest in the collateral, which consists of vehicles in transit in the United States to be exported to Canada, Mexico, and other select markets.

Other Automotive Credit Facilities. At December 31, 2012, we had $901 million of local credit facilities available to non-U.S. Automotive affiliates, of which $140 million had 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.

Net Cash. Our Automotive sector net cash calculation as of the dates shown was as follows (in billions):

	December 31, 2012	December 31, 2011
Gross cash	$ 24.3	$ 22.9
Less:		
Long-term debt	12.9	12.1
Debt payable within one year	1.4	1.0
Total debt	14.3	13.1
Net cash	$ 10.0	$ 9.8

Total debt at December 31, 2012 increased by about $1.2 billion from December 31, 2011, primarily reflecting the additional drawdowns of low-cost loans for advanced technology vehicle development and our renminbi-denominated debt issuance in Hong Kong.

Not shown in the table above is the $2 billion aggregate principal amount of 4.75% Notes due January 15, 2043 we issued in January 2013. With this issuance we took advantage of favorable market conditions to issue low-cost, long-term debt, the proceeds of which have been used, in part, to redeem approximately $600 million principal amount of 7.50% Notes due June 10, 2043, with the remainder to be contributed to our funded pension plans during 2013 to support our pension de-risking actions (discussed below). This action is consistent with our mid-decade target of Automotive debt levels at about $10 billion.

Pension Plan Contributions and Strategy. Worldwide, our defined benefit pension plans were underfunded by $18.7 billion at December 31, 2012, compared with being underfunded by $15.4 billion at December 31, 2011. The deterioration is more than explained by sharply lower discount rates, with the U.S. weighted-average discount rate declining to 3.84% at the end of 2012 from 4.64% at the end of 2011.

Our long-term strategy is to reduce the risk of our funded defined benefit pension plans, including minimizing the volatility of the value of our pension assets relative to pension liabilities and the need for unplanned use of capital resources to fund the plans. The strategy will reduce balance sheet, cash flow, and income exposures and, in turn, reduce our risk profile. The key elements of this strategy include:

- Limiting liability growth in our defined benefit plans by closing participation to new participants;
- Reducing plan deficits through discretionary cash contributions;
- Progressively re-balancing assets to more fixed income investments, with a target asset allocation to be reached over the next several years of about 80% fixed income investments and 20% growth assets, which will provide a better matching of plan assets to the characteristics of the liabilities, thereby reducing our net exposure; and
- Taking other strategic actions to reduce pension liabilities, such as the voluntary lump sum payout program started in 2012 for U.S. salaried retirees.

In 2012, we contributed $3.4 billion to our worldwide funded pension plans, an increase of $2.3 billion compared with 2011. During 2013, we expect to contribute from Automotive cash and cash equivalents about $5 billion 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.

The voluntary lump sum payout program we started in 2012 will continue through 2013. To date, eligible retirees have accepted lump sum offers that have resulted in about $1.2 billion of our pension obligations being settled.

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.

Based on present planning assumptions for long-term asset returns, a normalization of discount rates and planned cash contributions, we expect our global funded pension obligations to be fully funded by mid-decade, with variability on a plan-by-plan basis.

For a detailed discussion of our pension plans, see Note 16 of the Notes to the Financial Statements.

Liquidity Sufficiency. One of the four key priorities of our One Ford plan is to finance our plan and improve our balance sheet, while at the same time having resources available to grow our business. The actions described above are consistent with this priority. Based on our planning assumptions, we believe that we have sufficient liquidity and capital resources to continue to invest in new products that customers want and value, transform and grow our business, pay our debts and obligations as and when they come due, pay a sustainable dividend, and provide protection within an uncertain global economic environment. We will continue to look for opportunities to strengthen our balance sheet, primarily by working to ensure our underlying business generates positive Automotive operating-related cash flow, even as we continue to invest in the growth of our business.

Financial Services Sector

Ford Credit

Funding Strategy. Ford Credit's funding strategy remains focused on diversification and it plans to continue accessing a variety of markets, channels, and investors. Ford Credit completed its full-year 2012 funding plan, issuing over $23 billion of public term funding. Ford Credit's public unsecured issuance was over $9 billion, including more than $700 million issued under the Ford Credit U.S. Retail Notes program. Ford Credit also issued its first public investment grade unsecured debt transaction since 2005. Additionally, Ford Credit launched an unsecured commercial paper program in the United States, which has grown to about $1.7 billion.

Ford Credit's liquidity remains strong and it ended the year with $19.7 billion of available liquidity and $31.5 billion of committed capacity, compared with about $17 billion and $33 billion at December 31, 2011, respectively.

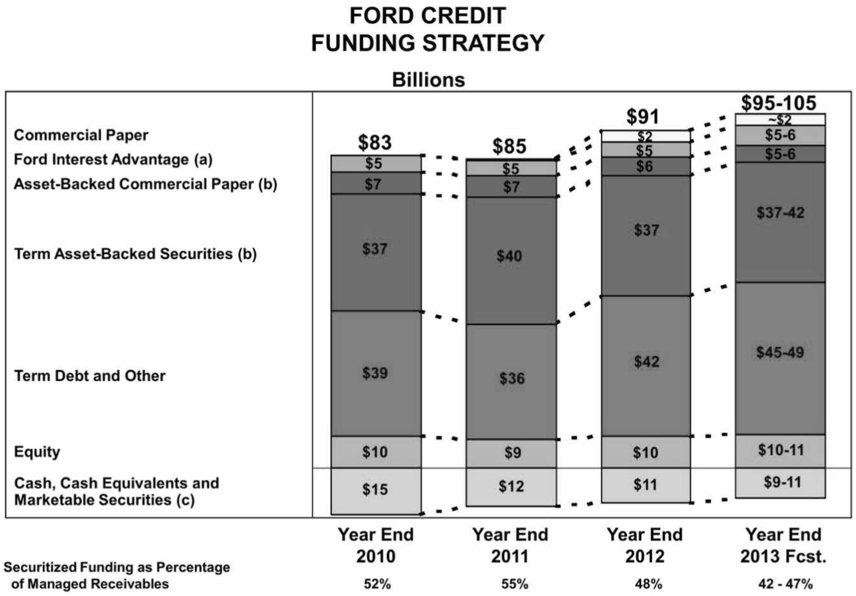
Ford Credit's funding plan is subject to risks and uncertainties, many of which are beyond its control, including disruption in the capital markets that could impact both unsecured debt and asset-backed securities issuance and the effects of regulatory reform efforts on the financial markets. Potential impacts of industry events and regulation on Ford Credit's ability to access debt and derivatives markets, or renew its committed liquidity programs in sufficient amounts and at competitive rates, represents another risk to its funding plan. As a result of such events or regulation, Ford Credit may need to reduce new originations of receivables, thereby reducing its ongoing profits and adversely affecting its ability to support the sale of our vehicles. Ford Credit is focused on maintaining liquidity levels that meet its business and funding requirement through economic cycles.

Funding. Ford Credit requires substantial funding in the normal course of business. Its funding requirements are driven mainly by the need to: (i) purchase retail installment sale contracts and retail lease contracts to support the sale of Ford products, which are influenced by Ford-sponsored special-rate financing programs that are available exclusively through Ford Credit, (ii) provide wholesale financing and capital financing for Ford dealers, and (iii) repay its debt obligations.

Ford Credit's funding sources include primarily securitization transactions (including other structured financings) and unsecured debt. Ford Credit issues both short- and long-term debt that is held by both institutional and retail investors, with long-term debt having an original maturity of more than 12 months. Ford Credit sponsors a number of securitization programs that can be structured to provide both short- and long-term funding through institutional investors in the United States and international capital markets.

Ford Credit obtains short-term unsecured funding from the sale of floating rate demand notes under its Ford Interest Advantage program and by issuing unsecured commercial paper in the United States, Europe, Mexico, and other international markets. At December 31, 2012, the principal amount outstanding of Ford Interest Advantage notes, which may be redeemed at any time at the option of the holders thereof without restriction, was $4.9 billion. At December 31, 2012, the principal amount outstanding of Ford Credit's unsecured commercial paper was about $1.7 billion, which primarily represents issuance under its commercial paper program in the United States. Ford Credit does not hold reserves specifically to fund the payment of any of its unsecured short-term funding obligations. Instead, Ford Credit maintains multiple sources of liquidity, including cash, cash equivalents, and marketable securities (excluding marketable securities related to insurance activities), unused committed liquidity programs, excess securitizable assets, and committed and uncommitted credit facilities, which should be sufficient to meet Ford Credit's unsecured short-term funding obligations.

Funding Portfolio. The chart below details the trends in the funding of Ford Credit's managed receivables:



(a) The Ford Interest Advantage program consists of Ford Credit's floating rate demand notes.
(b) Obligations issued in securitization transactions that are payable only out of collections on the underlying securitized assets and related enhancements.
(c) Excludes marketable securities related to insurance activities.

At year-end 2012, managed receivables were $91 billion and Ford Credit ended the year with about $11 billion in cash. Securitized funding was 48% of managed receivables, down from 55% at year-end 2011. This reflects a greater mix of unsecured debt given Ford Credit's improved credit spreads and the mandatory exchange of $2.5 billion of asset-backed Ford Upgrade Exchanged Linked ("FUEL") notes for unsecured notes of Ford Credit, which was triggered by the upgrade to investment grade of Ford Credit's long-term, unsecured debt by two credit rating agencies during the second quarter of 2012.

Ford Credit is projecting 2013 year-end managed receivables in the range of $95 billion to $105 billion and securitized funding is expected to represent about 42% to 47% of total managed receivables. It is Ford Credit's expectation that the securitized funding as a percent of managed receivables will decline going forward.

Public Term Funding Plan. The following table illustrates Ford Credit's planned issuances for full-year 2013, and its public term funding issuances in 2012, 2011, and 2010 (in billions):

	Public Term Funding Plan			
	2013 Forecast	2012	2011	2010
Unsecured	$ 7-10	$ 9	$ 8	$ 6
Securitizations (a)	10-14	14	11	11
Total	$ 17-24	$ 23	$ 19	$ 17

(a) Includes Rule 144A offerings.

In 2012, Ford Credit completed over $23 billion of public term funding in the United States, Canada, and Europe, including over $9 billion of unsecured debt and $14 billion of securitizations.

For 2013, Ford Credit projects full-year public term funding in the range of $17 billion to $24 billion, consisting of $7 billion to $10 billion of unsecured debt and $10 billion to $14 billion of public securitizations. Through February 18, 2013, Ford Credit completed about $4 billion of public term funding transactions in the United States, Canada, and Europe, including about $2 billion of unsecured debt and $2 billion of securitizations.

Liquidity. The following table illustrates Ford Credit's liquidity programs and utilization (in billions):

	December 31, 2012	December 31, 2011	December 31, 2010
Liquidity Sources (a)			
Cash (b)	$ 10.9	$ 12.1	$ 14.6
Unsecured credit facilities	0.9	0.7	1.1
FCAR bank lines	6.3	7.9	9.0
Conduit / Bank Asset-Backed Securitizations ("ABS")	24.3	24	24.2
Total liquidity sources	$ 42.4	$ 44.7	$ 48.9
Utilization of Liquidity			
Securitization cash (c)	$ (3.0)	$ (3.7)	$ (4.2)
Unsecured credit facilities	(0.1)	(0.2)	(0.5)
FCAR bank lines	(5.8)	(6.8)	(6.7)
Conduit / Bank ABS	(12.3)	(14.5)	(8.6)
Total utilization of liquidity	(21.2)	(25.2)	(20.0)
Gross liquidity	21.2	19.5	28.9
Capacity in excess of eligible receivables	(1.5)	(2.4)	(6.3)
Liquidity available for use	$ 19.7	$ 17.1	$ 22.6

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(a) FCAR and conduits subject to availability of sufficient assets and ability to obtain derivatives to manage interest rate risk; FCAR commercial paper must be supported by bank lines equal to at least 100% of the principal amount; conduits include committed securitization programs.
(b) Cash, cash equivalents, and marketable securities (excludes marketable securities related to insurance activities).
(c) Securitization cash is to be used only to support on-balance sheet securitization transactions.

At December 31, 2012, Ford Credit had $42.4 billion of committed capacity and cash diversified across a variety of markets and platforms. The utilization of its liquidity totaled $21.2 billion at year-end, compared with $25.2 billion at year-end 2011. The decrease of $4 billion reflects lower usage of its private conduits, FCAR outstanding commercial paper balance, and securitized cash.

Ford Credit ended 2012 with gross liquidity of $21.2 billion. Capacity in excess of eligible receivables decreased to $1.5 billion. This provides a funding source for future originations and flexibility to transfer capacity among markets and asset classes where most needed. Total liquidity available for use continues to remain strong at $19.7 billion at year-end 2012, $2.6 billion higher than year-end 2011. Ford Credit is focused on maintaining liquidity levels that meet its business and funding requirements through economic cycles.

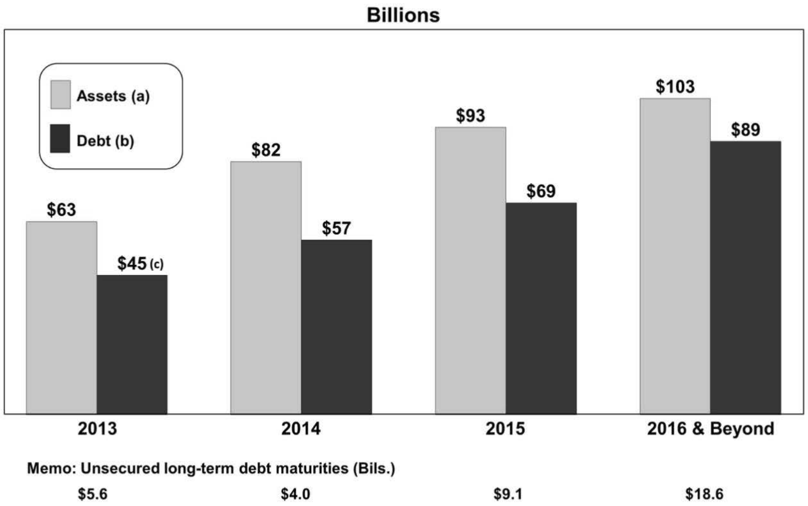
Cash, Cash Equivalents, and Marketable Securities. At December 31, 2012, Ford Credit's cash, cash equivalents, and marketable securities (excluding marketable securities related to insurance activities) totaled $10.9 billion, compared with $12.1 billion at year-end 2011. In the normal course of its funding activities, Ford Credit may generate more proceeds than are required for its immediate funding needs. These excess amounts are maintained primarily as highly liquid investments, which provide liquidity for its short-term funding needs and give it flexibility in the use of its other funding programs. Ford Credit's cash, cash equivalents, and marketable securities are held primarily in highly liquid investments, which provide for anticipated and unanticipated cash needs. Ford Credit's cash, cash equivalents, and marketable securities (excluding marketable securities related to insurance activities) primarily include U.S. Treasury obligations, federal agency securities, bank time deposits with investment-grade institutions and non-U.S. central banks, corporate investment-grade securities, A-1/P-1 (or higher) rated commercial paper, debt obligations of a select group of non-U.S. governments, non-U.S. government agencies, supranational institutions and money market funds that carry the highest possible ratings. Ford Credit currently does not hold cash, cash equivalents, or marketable securities consisting of investments in government obligations of Greece, Ireland, Italy, Portugal, or Spain, nor did it hold any at December 31, 2012. The average maturity of these investments ranges from 90 days to up to one year, and is adjusted based on market conditions and liquidity needs. Ford Credit monitors its cash levels and average maturity on a daily basis. Cash, cash equivalents, and marketable securities include amounts to be used only to support Ford Credit's securitization transactions of $3.0 billion and $3.7 billion at December 31, 2012 and 2011, respectively.

Ford Credit's substantial liquidity and cash balance have provided the opportunity to selectively call and repurchase its unsecured and asset-backed debt through market transactions. For full-year 2012, Ford Credit repurchased and called an aggregate principal amount of $628 million of its unsecured and asset-backed debt.

Credit Facilities and Committed Liquidity Programs. See Note 17 of the Notes to the Financial Statements for more information regarding credit facilities and committed liquidity programs for Ford Credit. While there is a risk of non-renewal of some of Ford Credit's committed liquidity programs, which could lead to a reduction in the size of these programs and/or higher costs, Ford Credit's capacity in excess of eligible receivables would enable it to absorb some reductions. 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.

Balance Sheet Liquidity Profile. Ford Credit defines its balance sheet liquidity profile as the cumulative maturities, including the impact of prepayments, of its finance receivables, investment in operating leases, and cash, less the cumulative debt maturities over upcoming annual periods. The following chart shows its cumulative maturities for the periods presented at December 31, 2012:

FORD CREDIT
BALANCE SHEET LIQUIDITY PROFILE



(a) Includes finance receivables net of unearned income, investment in operating leases net of accumulated depreciation, cash and cash equivalents, and marketable securities (excludes marketable securities related to insurance activities).
(b) Retail and lease ABS are treated as amortizing immediately to match the underlying assets.
(c) Includes all of the wholesale ABS term and conduit maturities of $8 billion that otherwise contractually extend to 2014 and beyond.

Ford Credit's balance sheet is inherently liquid because of the short-term nature of its finance receivables, investment in operating leases, and cash. Maturities of investment in operating leases consist primarily of rental payments attributable to depreciation over the remaining life of the lease and the expected residual value at lease termination. Maturities of finance receivables and investment in operating leases in the chart above include expected prepayments for Ford Credit's retail installment sale contracts and investment in operating leases. The 2013 finance receivables maturities in the chart above also include all of the wholesale receivables maturities that are otherwise extending beyond 2013. The chart above also reflects the following adjustments to debt maturities to match all of the asset-backed debt maturities with the underlying asset maturities:

- The 2013 maturities include all of the wholesale securitization transactions, even if the maturities extend beyond 2013; and
- Retail securitization transactions under certain committed liquidity programs are assumed to amortize immediately rather than amortizing after the expiration of the commitment period.

Leverage. Ford Credit uses leverage, or the debt-to-equity ratio, to make various business decisions, including evaluating and establishing pricing for retail, wholesale, and lease financing, and assessing its capital structure. Ford Credit refers to its shareholder's interest as equity.

The following table shows the calculation of Ford Credit's financial statement leverage (in billions, except for ratios):

	December 31, 2012	December 31, 2011	December 31, 2010
Total debt	$ 89.3	$ 84.7	$ 82.9
Equity	9.7	8.9	10.3
Financial statement leverage (to 1)	9.2	9.5	8.0

The following table shows the calculation of Ford Credit's managed leverage (in billions, except for ratios):

	December 31, 2012	December 31, 2011	December 31, 2010
Total debt	$ 89.3	$ 84.7	$ 82.9
Adjustments for cash, cash equivalents, and marketable securities (a)	(10.9)	(12.1)	(14.6)
Adjustments for derivative accounting (b)	(0.8)	(0.7)	(0.3)
Total adjusted debt	$ 77.6	$ 71.9	$ 68.0
Equity	$ 9.7	$ 8.9	$ 10.3
Adjustments for derivative accounting (b)	(0.3)	(0.2)	(0.1)
Total adjusted equity	$ 9.4	$ 8.7	$ 10.2
Managed leverage (to 1) (c)	8.3	8.3	6.7

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(a) Excludes marketable securities related to insurance activities.
(b) Primarily related to market valuation adjustments to derivatives due to movements in interest rates. Adjustments to debt are related to designated fair value hedges and adjustments to equity are related to retained earnings.
(c) Equals total adjusted debt over total adjusted equity.

Ford Credit believes that managed leverage is useful to its investors because it reflects the way Ford Credit manages its business. Ford Credit deducts cash and cash equivalents, and marketable securities (excluding marketable securities related to insurance activities) because they generally correspond to excess debt beyond the amount required to support its operations and amounts to support on-balance sheet securitization transactions. Ford Credit makes derivative accounting adjustments to its assets, debt, and equity positions to reflect the impact of interest rate instruments Ford Credit uses in connection with its term-debt issuances and securitization transactions. The derivative accounting adjustments related to these instruments vary over the term of the underlying debt and securitized funding obligations based on changes in market interest rates. Ford Credit generally repays its debt obligations as they mature. As a result, Ford Credit excludes the impact of these derivative accounting adjustments on both the numerator and denominator in order to exclude the interim effects of changes in market interest rates.

Ford Credit plans its managed leverage by considering prevailing market conditions and the risk characteristics of its business. At December 31, 2012, Ford Credit's managed leverage was 8.3:1, unchanged from December 31, 2011. Ford Credit's guidance for managed leverage in 2013 is to be within the range of 8:1 to 9:1. In 2012, Ford Credit paid $600 million in distributions to its parent.

Total Company

Equity. At December 31, 2012, *Total equity attributable to Ford Motor Company* was $15.9 billion, an increase of about $900 million compared with December 31, 2011. The increase is more than explained by favorable changes in *Retained earnings*, related to full-year 2012 net income attributable to Ford Motor Company of $5.7 billion offset partially by cash dividends declared of $573 million. The favorable changes in *Retained earnings* are offset partially by unfavorable changes in *Accumulated other comprehensive income/(loss)* of $4.1 billion (more than explained by unfavorable pension and OPEB adjustments) and treasury stock purchases of $126 million.

Credit Ratings. Our short-term and long-term debt is rated by four credit rating agencies designated as nationally recognized statistical rating organizations ("NRSROs") by the U.S. Securities and Exchange Commission:

- DBRS Limited ("DBRS");
- Fitch, Inc. ("Fitch");
- Moody's Investors Service, Inc. ("Moody's"); and
- Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P").

In several markets, locally-recognized rating agencies also rate us. A credit rating reflects an assessment by the rating agency of the credit risk associated with a corporate entity or particular securities issued by that entity. Rating agencies' ratings of us are based on information provided by us and other sources. Credit ratings are not recommendations to buy, sell, or hold securities, and are subject to revision or withdrawal at any time by the assigning rating agency. Each rating agency may have different criteria for evaluating company risk and, therefore, ratings should be evaluated independently for each rating agency. Lower credit ratings generally result in higher borrowing costs and reduced access to capital markets.

There have been no ratings actions taken by these NRSROs since the filing of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.

The following chart summarizes certain of the credit ratings and outlook presently assigned by these four NRSROs:

NRSRO RATINGS

	Ford			Ford Credit		
	Issuer Default/ Corporate/ Issuer Rating	Long-Term Senior Unsecured	Outlook / Trend	Long-Term Senior Unsecured	Short-Term Unsecured	Outlook / Trend
DBRS	BBB (low)	BBB (low)	Stable	BBB (low)	R-3	Stable
Fitch	BBB-	BBB-	Stable	BBB-	F3	Stable
Moody's	N/A	Baa3	Stable	Baa3	P-3	Stable
S&P	BB+	BB+	Positive	BB+ *	NR	Positive

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* S&P assigns FCE a long-term senior unsecured rating of BBB-, maintaining a one notch differential versus Ford Credit.

OUTLOOK

Our One Ford plan - to aggressively restructure to operate profitably at current demand and changing model mix, accelerate development of new products our customers want and value, finance our plan and improve our balance sheet, and work together effectively as one team leveraging our global assets - continues to be the guiding strategy for our business.

The following summarizes results against planning assumptions and key metrics established at the beginning of 2012:

		Full-Year 2012	
	Full-Year 2011 Results	Plan	Results
Industry Volume (million units) (a)			
–United States	13.0	13.5 – 14.5	14.8
–Europe (b)	15.3	14.0 – 15.0	14.0
Operational Metrics			
Compared with prior full year:			
–U.S. Market Share	16.5%	About Equal	15.2%
–Europe Market Share (b)	8.3%	About Equal	7.9%
–Quality	Mixed	Improve	Mixed
Financial Metrics			
Compared with prior full year:			
–Automotive Pre-Tax Operating Profit (c)	$6.3 Billion	Higher	$6.3 Billion
–Ford Credit Pre-Tax Operating Profit	$2.4 Billion	Lower	$1.7 Billion
–Total Company Pre-Tax Operating Profit (c)	$8.8 Billion	About Equal	$8 Billion
–Automotive Structural Cost Increase (d)	$1.4 Billion	Less than $2 Billion	$1.5 Billion
–Automotive Operating Margin (c)	5.4%	Improve	5.3%
Absolute amount:			
–Capital Spending	$4.3 Billion	$5.5 Billion – $6 Billion	$5.5 Billion

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(a) Includes medium and heavy trucks.
(b) For the 19 markets we track.
(c) Excludes special items; Automotive operating margin equal to Automotive pre-tax results excluding Other Automotive divided by Automotive revenue.
(d) Structural cost changes are measured primarily at present-year exchange, and exclude special items and discontinued operations.

Our projected vehicle production is as follows (in thousands):

	First Quarter 2013 (a)	
	Planned Vehicle Unit Production	Over/(Under) First Quarter 2012
Ford North America	770	93
Ford South America	115	18
Ford Europe	405	(13)
Ford Asia Pacific Africa	275	62
Total	1,565	160

(a) Includes production of Ford and JMC brand vehicles to be sold by our unconsolidated affiliates.

The year-over-year increase in first quarter planned production reflects higher volumes in all regions except Europe. Planned production is consistent with our disciplined strategy to match production to consumer demand.

We expect 2013 global economic growth to be in the range of 2% - 3%, with global industry sales in the 80 million - 85 million unit range. We expect U.S. economic growth in the range of 2% - 2.5% for the year, with industry sales supported by replacement demand given the higher-than-normal average age of vehicles on the road. In South America, Brazil's easing of fiscal and monetary policies, such as sales tax reductions and policy interest rate cuts to historic lows, are setting the stage for renewed economic growth. On the other hand, economic and political uncertainty and risk are increasing in Venezuela. In Europe, we expect weak economic conditions to continue into 2013, especially in countries undergoing fiscal austerity programs. Recent policy moves are positive steps, but we do not believe they are enough to resolve the economic crisis and restore business and consumer confidence. In Asia Pacific Africa, the latest data suggest economic recovery is underway in China, while the economic slowdown in India seems to be bottoming out. Although countries are at different stages of the economic cycle, better growth is expected in 2013 across the Asia Pacific Africa region. Overall, despite challenges, we expect global economic growth to continue in 2013.

Based on the current economic environment, our planning assumptions and key metrics for 2013 include the following:

	Full-Year 2012 Results	2013 Full-Year Plan
Industry Volume (million units) (a)		
–United States	14.8	15.0 - 16.0
–Europe (b)	14.0	13.0 - 14.0
–China	19.0	19.5 - 21.5
Operational Metrics		
Compared with prior full year:		
–U.S. Market Share	15.2%	Higher
–Europe Market Share (b)	7.9%	About Equal
–China Market Share (c)	3.2%	Higher
–Quality	Mixed	Improve
Financial Metrics		
Compared with prior full year:		
–Total Company Pre-Tax Profit (d)	$8 Billion	About Equal
–Automotive Operating Margin (d)	5.3%	About Equal / Lower
–Automotive Operating-Related Cash Flow	$3.4 Billion	Higher

(a) Includes medium and heavy trucks.
(b) For the 19 markets we track.
(c) Includes Ford and JMC brand vehicles sold in China by our unconsolidated affiliates.
(d) Excludes special items; Automotive operating margin equal to Automotive pre-tax results excluding Other Automotive divided by Automotive revenue.

We project industry volume for the United States and China will increase in 2013 compared with 2012, while we expect industry volume for the 19 markets we track in Europe to weaken to the lower end of the range above in 2013 compared with 2012. We expect share for the markets we track in Europe to be about the same in 2013 as in 2012 and we expect our market share in the United States and China to increase, reflecting our strong products and brand, as well as an expanded product portfolio (which also now covers more vehicle segments in markets such as China). We also expect positive net pricing to continue in 2013, and we expect quality to improve.

We expect total Company pre-tax profit in 2013 to be about equal to strong results in 2012, and Automotive operating margin to be about equal to or lower than 2012. Projected 2013 operating margin reflects projected revenue increases, partially offset by the impact of structural cost increases to support higher volumes, new product launches, and growth plans, as well as more than $1 billion of non-cash structural cost increases. The non-cash structural cost increases include higher pension expense due to historically low discount rates, cessation of favorable amortization associated with previous benefit plan changes, and higher depreciation reflecting accelerated depreciation associated with our European restructuring and cessation of low depreciation resulting from prior asset impairments in North America. We expect Automotive operating-related cash flow to be higher in 2013 than 2012, notwithstanding higher planned capital spending of about $7 billion.

Turning to the regions, we expect strong Ford North America performance to continue, with higher pre-tax profits than 2012 and operating margin of about 10% for 2013. Our forecast reflects growing industry volume, our strong Ford brand, our outstanding product line-up driven by industry-leading refresh rates, our continued discipline in matching production with demand, and our lean cost structure. Going forward, we will continue to work to sustain and grow our strong North American operations.

For 2013, we expect Ford South America results to be about breakeven. Although results will benefit from new products recently launched or to be launched during the year, the competitive environment and currency risks across the region, especially in Venezuela, are expected to impact our profits adversely. In addition, government actions to incentivize local production and balance trade are driving trade frictions between South American countries and also with Mexico, resulting in business environment instability and new trade barriers that negatively impact our results. Going forward, we will continue expanding our product portfolio with global products, and look at all areas of our business to improve operating results.

As we have indicated, we view the challenges the automotive industry faces in Europe to be more structural than cyclical in nature; industry sales volume for the 19 markets we track in Europe has dropped 20% in the past five years, with only modest industry improvement expected by mid-decade. Against this backdrop, we announced in October 2012 our accelerated transformation plan for Ford Europe, which targets all areas of the business to return to profitability by mid-decade -- including new products and technologies, strengthened brand image, and improved cost efficiencies.

Our plan includes an aggressive new product rollout for the region, with 15 global vehicles launched within five years, along with a broad array of smart technologies. We are introducing initiatives to continue strengthening the Ford brand in the region, including strategic reduction of dealer inventories that was largely completed in 2012. Finally, we plan to close three facilities and relocate production for a more efficient manufacturing footprint. We plan to close our vehicle assembly plant and our tooling and stamping operations in the United Kingdom during 2013, and, subject to an information and consultation process with employee representatives, we intend to close our vehicle assembly plant in Belgium in late 2014. Once completed, our actions would reduce Ford Europe's installed assembly capacity (excluding Russia) by 18% or 355,000 units, affect 13% of Ford Europe's workforce, and result in annual gross cost savings of about $450 million - $500 million.

We are on track to deliver our European transformation plan. In 2013, we will benefit from the non-repeat of dealer stock reductions to the same degree incurred in 2012. As we previously guided, we will incur higher costs associated with restructuring actions in 2013 compared with 2012, mainly reflecting investment in new products, accelerated depreciation, and costs to implement our revised manufacturing footprint. As we did with our successful restructuring in North America, we are making these investments now to transform our European business for profitable growth in the future.

Since providing guidance in October 2012, our outlook for industry volume in Europe has deteriorated. We now expect industry volume to be in the lower end of the range of 13 million to 14 million units; the seasonally-adjusted annual rate of industry sales for the markets we track in Europe for the fourth quarter of 2012 was the lowest in nearly 20 years. In addition, we are being adversely impacted by higher pension costs due to lower discount rates, and a stronger euro. As a result, we now expect our full-year 2013 pre-tax loss for Ford Europe to be about $2 billion, compared with prior guidance of a loss about equal to 2012. The business environment in Europe remains uncertain, and, as is our practice, we will continue to monitor the situation and take further action as necessary. We believe that 2013 is likely the trough for European industry sales volume, and we expect industry sales volume and our results to begin to improve in 2014.

Our plan to return Ford Europe to profitability by mid-decade is driven by higher industry volume, higher market share from our product and brand initiatives, growth in emerging markets, richer mix, improved contribution margin, and our more efficient manufacturing footprint. A partial offset will be higher structural costs as we reconfigure and grow our business in Europe. As we proceed with our restructuring, most financial effects will flow through our operating results.

Employee separation costs, however, will be reflected as a special item. Longer-term, we are targeting Ford Europe to achieve an operating margin in the range of 6% to 8%.

For Ford Asia Pacific Africa, we expect 2013 results to be about breakeven. We expect our volume and revenue growth in the region to continue to accelerate, supported by the launch of all-new Kuga, EcoSport, and refreshed Fiesta across the region, as well as the launch of Mondeo and Explorer in China. This will be offset in large part by continued strong investment across the region to support our longer-range growth plans. Looking ahead, we see the results of our One Ford plan taking hold in Asia Pacific Africa, with record volume, revenue, and market share increasing as investments in new facilities and products gain traction.

We also are continuing the revitalization of our Lincoln brand reflecting the brand's distinct product strategy, including its own dedicated design studio, separate creative agency in New York, and financial services team to complement the vehicle acquisition and ownership experience -- and announced that we will be bringing the Lincoln brand to the burgeoning Chinese market.

Turning from our Automotive to Financial Services sector, we expect Ford Credit to generate 2013 pre-tax profit about equal to 2012, with managed receivables at year-end 2013 in the range of $95 billion to $105 billion, managed leverage continuing in the range of 8:1 to 9:1, and planned distributions of about $200 million.

Overall, we expect 2013 to be another strong year for Ford Motor Company, as we continue to work toward our mid-decade outlook. We have made tremendous progress in recent years by executing the fundamentals of our One Ford plan, and there are significant benefits ahead as we leverage our global assets, and also benefit more fully from the investments we are making today for future profitable growth. Our One Ford plan will continue to be our guide as we address head-on the diverse challenges and opportunities for our industry and our business worldwide.

Risk Factors

Statements included or incorporated by reference herein may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on expectations, forecasts, and assumptions by our management and involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those stated, including, without limitation:

- Decline in industry sales volume, particularly in the United States or Europe, due to financial crisis, recession, geopolitical events, or other factors;
- Decline in Ford's market share or failure to achieve growth;
- Lower-than-anticipated market acceptance of Ford's new or existing products;
- Market shift away from sales of larger, more profitable vehicles beyond Ford's current planning assumption, particularly in the United States;
- An increase in or continued volatility of fuel prices, or reduced availability of fuel;
- Continued or increased price competition resulting from industry excess capacity, currency fluctuations, or other factors;
- Fluctuations in foreign currency exchange rates, commodity prices, and interest rates;
- Adverse effects resulting from economic, geopolitical, or other events;
- Economic distress of suppliers that may require Ford to provide substantial financial support or take other measures to ensure supplies of components or materials and could increase costs, affect liquidity, or cause production constraints or disruptions;
- Work stoppages at Ford or supplier facilities or other limitations on production (whether as a result of labor disputes, natural or man-made disasters, tight credit markets or other financial distress, production constraints or difficulties, or other factors);
- Single-source supply of components or materials;
- Labor or other constraints on Ford's ability to maintain competitive cost structure;
- Substantial pension and postretirement health care and life insurance liabilities impairing our liquidity or financial condition;
- Worse-than-assumed economic and demographic experience for postretirement benefit plans (e.g., discount rates or investment returns);
- Restriction on use of tax attributes from tax law "ownership change;"
- The discovery of defects in vehicles resulting in delays in new model launches, recall campaigns, or increased warranty costs;
- Increased safety, emissions, fuel economy, or other regulations resulting in higher costs, cash expenditures, and/or sales restrictions;
- Unusual or significant litigation, governmental investigations, or adverse publicity arising out of alleged defects in products, perceived environmental impacts, or otherwise;
- A change in requirements under long-term supply arrangements committing Ford to purchase minimum or fixed quantities of certain parts, or to pay a minimum amount to the seller ("take-or-pay" contracts);
- Adverse effects on results from a decrease in or cessation or clawback of government incentives related to investments;
- Inherent limitations of internal controls impacting financial statements and safeguarding of assets;
- Cybersecurity risks to operational systems, security systems, or infrastructure owned by Ford, Ford Credit, or a third-party vendor or supplier;
- Failure of financial institutions to fulfill commitments under committed credit and liquidity facilities;
- Inability of Ford Credit to access debt, securitization, or derivative markets around the world at competitive rates or in sufficient amounts, due to credit rating downgrades, market volatility, market disruption, regulatory requirements, or other factors;
- Higher-than-expected credit losses, lower-than-anticipated residual values, or higher-than-expected return volumes for leased vehicles;
- Increased competition from banks or other financial institutions seeking to increase their share of financing Ford vehicles; and
- New or increased credit, consumer, or data protection or other regulations resulting in higher costs and/or additional financing restrictions.

We cannot be certain that any expectation, forecast, or assumption made in preparing forward-looking statements will prove accurate, or that any projection will be realized. It is to be expected that there may be differences between projected and actual results. Our forward-looking statements speak only as of the date of their initial issuance, and we do not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

CRITICAL ACCOUNTING ESTIMATES

We consider an accounting estimate to be critical if: 1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and 2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements.

Warranty and Product Recalls

Nature of Estimates Required. We accrue the estimated cost of basic warranty coverages for each vehicle at the time of sale. We establish estimates using historical information regarding the nature, frequency, and average cost of claims for each vehicle line by model year. Where little or no claims experience exists, we rely on historical averages. See Note 31 of the Notes to the Financial Statements for information regarding costs for warranty actions. Separately, we also accrue at the time of sale for potential product recalls based on historical experience. Product recalls are distinguishable from warranty coverages in that the actions may extend beyond basic warranty coverage periods.

Assumptions and Approach Used. We reevaluate our estimate of warranty obligations on a regular basis. Experience has shown that initial data for any given model year may be volatile; therefore, our process relies on long-term historical averages until sufficient data are available. As actual experience becomes available, we use the data to modify the historical averages in order to ensure that the estimate is within the range of likely outcomes. We then compare the resulting accruals with present spending rates to ensure that the balances are adequate to meet expected future obligations. Based on these data, we revise our estimates as necessary. Due to the uncertainty and potential volatility of these factors, changes in our assumptions could materially affect our financial condition and results of operations.

Pensions

Nature of Estimates Required. The estimation of our pension obligations, costs, and liabilities requires that we make use of estimates of the present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events such as demographic experience. These assumptions may have an effect on the amount and timing of future contributions.

Assumptions and Approach Used. The assumptions used in developing the required estimates include the following key factors:

- *Discount rates.* We base the discount rate assumption primarily on the results of a cash flow matching analysis, which matches the future cash outflows for each major plan to a yield curve comprised of high-quality bonds specific to the country of the plan. Benefit payments are discounted at the rates on the curve and a single discount rate specific to the plan is determined.
- *Expected long-term rate of return on assets.* The expected long-term rate of return on assets assumption reflects historical returns and long-run inputs from a range of advisors for capital market returns, inflation, bond yields, and other variables, adjusted for specific aspects of our investment strategy. The assumption is based on consideration of all inputs, with a focus on long-term trends to avoid short-term market influences. Assumptions are not changed unless structural trends in the underlying economy are identified, our asset strategy changes, or there are significant changes in other inputs.
- *Salary growth.* The salary growth assumption reflects our long-term actual experience, outlook, and assumed inflation.
- *Inflation.* Our inflation assumption is based on an evaluation of external market indicators, including real gross domestic product growth and central bank inflation targets.
- *Expected contributions.* The expected amount and timing of contributions is based on an assessment of minimum requirements, and additional amounts based on cash availability and other considerations (e.g., funded status, avoidance of regulatory premiums and levies, and tax efficiency).
- *Retirement rates.* Retirement rates are developed to reflect actual and projected plan experience.
- *Mortality rates.* Mortality rates are developed to reflect actual and projected plan experience.

Plan obligations and costs are based on existing retirement plan provisions. No assumption is made regarding any potential future changes to benefit provisions beyond those to which we are presently committed (e.g., in existing labor contracts).

The effects of actual results differing from our assumptions and the effects of changing assumptions are included in unamortized net gains and losses. Unamortized gains and losses are amortized over future periods and, therefore, generally affect our recognized expense in future periods. Amounts are recognized as a component of net expense over the expected future years of service (approximately 11 years for the major U.S. plans). In 2012, the U.S. actual return on assets was 14.2%, which was higher than the expected long-term rate of return of 7.5%. The year-end 2012 weighted average discount rates for the U.S. and non-U.S. plans decreased by 80 basis points and 92 basis points, respectively. These differences resulted in unamortized losses of about $6 billion. Unamortized gains and losses are amortized only to the extent they exceed 10% of the higher of the market-related value of assets or the projected benefit obligation of the respective plan. For the major U.S. plans, unamortized losses exceed this threshold and recognition is continuing in 2013.

See Note 16 of the Notes to the Financial Statements for more information regarding costs and assumptions for employee retirement benefits.

Sensitivity Analysis. The December 31, 2012 pension funded status and 2013 expense are affected by year-end 2012 assumptions. These sensitivities may be asymmetric and are specific to the time periods noted. They also may not be additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown. The effect of the indicated increase/(decrease) in factors which generally have the largest impact on pension expense and obligation is shown below (in millions):

	Percentage	Increase/(Decrease) in:			
	Point	2013 Expense		December 31, 2012 Obligation	
Assumption	**Change**	**U.S. Plans**	**Non-U.S. Plans**	**U.S. Plans**	**Non-U.S. Plans**
Discount rate	+/- 1.0 pt.	$(300)/360	$(300)/350	$(5,200)/6,400	$(4,000)/4,700
Expected long-term rate of return on assets	+/- 1.0	(390)/390	(210)/210		

Other Postretirement Employee Benefits

Nature of Estimates Required. The estimation of our obligations, costs, and liabilities associated with OPEB, primarily retiree health care and life insurance, requires that we make use of estimates of the present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events such as health care cost increases and demographic experience, which may have an effect on the amount and timing of future payments.

Assumptions and Approach Used. The assumptions used in developing the required estimates include the following key factors:

- *Discount rates.* We base the discount rate assumption primarily on the results of a cash flow matching analysis, which matches the future cash outflows for each plan to a yield curve comprised of high quality bonds specific to the country of the plan. Benefit payments are discounted at the rates on the curve and a single discount rate specific to the plan is determined.
- *Health care cost trends.* Our health care cost trend assumptions are developed based on historical cost data, the near-term outlook, and an assessment of likely long-term trends.
- *Salary growth.* Salary growth assumptions reflect our long-term actual experience, our outlook, and assumed inflation.
- *Retirement rates.* Retirement rates are developed to reflect actual and projected plan experience.
- *Mortality rates.* Mortality rates are developed to reflect actual and projected plan experience.

Plan obligations and costs are based on existing retirement plan provisions. No assumption is made regarding any potential future changes to benefit provisions beyond those to which we are presently committed (e.g., in existing labor contracts).

The effects of actual results differing from our assumptions and the effects of changing assumptions are included in unamortized net gains and losses. Unamortized gains and losses are amortized over future periods and, therefore, generally affect our recognized expense in future periods. The weighted average discount rate used to determine the benefit obligation for U.S. plans at December 31, 2012 was 3.8%, compared with 4.6% at December 31, 2011, resulting in an unamortized loss of $410 million. This amount is expected to be recognized as a component of net expense over the expected future years of service (approximately 12 years).

See Note 16 of the Notes to the Financial Statements for more information regarding OPEB costs and assumptions.

Sensitivity Analysis. The effect on U.S. and Canadian plans of a one percentage point increase/(decrease) in the assumed discount rate would be a (decrease)/increase in the postretirement health care benefit expense for 2013 of approximately $(40) million/$50 million, and in the year-end 2012 obligation of approximately $(780) million/$940 million.

Income Taxes

Nature of Estimates Required. We must make estimates and apply judgment in determining the provision for income taxes for financial reporting purposes. We make these estimates and judgments primarily in the following areas: (i) the calculation of tax credits, (ii) the calculation of differences in the timing of recognition of revenue and expense for tax and financial statement purposes that will ultimately be reported in tax returns, as well as (iii) the calculation of interest and penalties related to uncertain tax positions. Changes in these estimates and judgments may result in a material increase or decrease to our tax provision, which would be recorded in the period in which the change occurs.

Assumptions and Approach Used. We are subject to the income tax laws and regulations of the many jurisdictions in which we operate. These tax laws and regulations are complex and involve uncertainties in the application to our facts and circumstances that may be open to interpretation. We recognize benefits for these uncertain tax positions based upon a process that requires judgment regarding the technical application of the law, regulations and various related judicial opinions. If, in our judgment, it is more likely than not that the uncertain tax position will be settled favorably to us, we estimate an amount that ultimately will be realized. This process is inherently subjective, since it requires our assessment of the probability of future outcomes. We evaluate these uncertain tax positions on a quarterly basis, including consideration of changes in facts and circumstances, such as new regulations or recent judicial opinions, as well as the status of audit activities by taxing authorities. Changes to our estimate of the amount to be realized are recorded in our provision for income taxes during the period in which the change occurred.

We must also assess the likelihood that we will be able to recover our deferred tax assets against future sources of taxable income. GAAP requires a reduction of the carrying amount of deferred tax assets by recording a valuation allowance if, based on all available evidence, it is more likely than not (defined as a likelihood of more than 50%) that all or a portion of such assets will not be realized. We presently believe that a valuation allowance of $1.9 billion is required, primarily for deferred tax assets related to our Ford South America operations, as well as various U.S. state and local net operating losses. We believe that we ultimately will recover the remaining $20.8 billion of deferred tax assets. Within this amount is $1.4 billion of net deferred tax assets related to our European operations. We have assessed recoverability of these assets, and concluded that no valuation allowance is required. We will continue to monitor recoverability as we progress our European transformation plan.

Changes in our judgment regarding our ability to recover our deferred tax assets would be reflected in our tax provision in the period in which the change occurred. We expect that continued delivery of our One Ford plan could lead to the reduction in the overall level of valuation allowance related to U.S state and local net operating losses in the foreseeable future.

For additional information regarding income taxes, see Note 24 of the Notes to the Financial Statements.

Allowance for Credit Losses

The allowance for credit losses is Ford Credit's estimate of the probable credit losses inherent in finance receivables and operating leases at the date of the balance sheet. Consistent with its normal practices and policies, Ford Credit assesses the adequacy of its allowance for credit losses quarterly and regularly evaluates the assumptions and models used in establishing the allowance. Because credit losses can vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain.

Nature of Estimates Required. Ford Credit estimates the probable credit losses inherent in finance receivables and operating leases based on several factors.

Consumer Segment. The retail installment and lease portfolio is evaluated using a combination of models and management judgment, and is based on factors such as historical trends in credit losses and recoveries (including key metrics such as delinquencies, repossessions, and bankruptcies), the composition of Ford Credit's 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 models may not fully reflect losses inherent in the present portfolio, and an element of the allowance for credit losses is established for the imprecision inherent in loan loss models. Reasons for imprecision include changes in economic trends and conditions, portfolio composition, and other relevant factors.

Assumptions Used. Ford Credit makes projections of two key assumptions:

- *Frequency.* The number of finance receivables and operating lease contracts that Ford Credit expects will default over a period of time, measured as repossessions; and
- *Loss severity.* The expected difference between the amount of money a customer owes Ford Credit when Ford Credit charges off the finance contract and the amount Ford Credit receives, net of expenses, from selling the repossessed vehicle, including any recoveries from the customer.

Ford Credit uses these assumptions to assist it in estimating its allowance for credit losses. See Note 9 of the Notes to the Financial Statements for more information regarding allowance for credit losses.

Sensitivity Analysis. Changes in the assumptions used to derive frequency and severity would affect the allowance for credit losses. The effect of the indicated increase/decrease in the assumptions is shown below for Ford Credit's U.S. Ford and Lincoln retail and lease portfolio (in millions):

		Increase/(Decrease)	
Assumption	**Percentage Point Change**	**December 31, 2012 Allowance for Credit Losses**	**2012 Expense**
Repossession ratios (a)	+/- 0.1 pt.	$20/$(20)	$20/$(20)
Loss severity	+/- 1.0	5/(5)	5/(5)

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(a) Reflects the number of finance receivables and operating lease contracts that Ford Credit expects will default over a period of time relative to the average number of contracts outstanding.

Non-Consumer Segment. We estimate an allowance using an LTR model for non-consumer receivables that are not specifically identified as impaired. All accounts that are specifically identified as impaired are excluded from the calculation of the non-specific or collective allowance. The non-consumer portfolio is evaluated by segmenting individual loans by the risk characteristics of the loan (such as the amount of the loan, the nature of collateral, and the financial status of the dealer). The loans are analyzed to determine if individual loans are impaired, and an allowance is estimated for the expected loss of these loans.

Changes in Ford Credit's assumptions affect the *Provision for credit and insurance losses* on our income statement and the allowance for credit losses contained within *Finance receivables, net* and *Net investment in operating leases* on our balance sheet, in each case under the Financial Services sector.

Accumulated Depreciation on Vehicles Subject to Operating Leases

Accumulated depreciation on vehicles subject to operating leases reduces the value of the leased vehicles in our operating lease portfolio from their original acquisition value to their expected residual value at the end of the lease term. These vehicles primarily consist of retail lease contracts for Ford Credit and vehicles sold to daily rental car companies subject to a guaranteed repurchase option ("rental repurchase vehicles") for the Automotive sector.

We monitor residual values each month, and we review the adequacy of our accumulated depreciation on a quarterly basis. If we believe that the expected residual values for our vehicles have changed, we revise depreciation to ensure that our net investment in operating leases (equal to our acquisition value of the vehicles less accumulated depreciation) will be adjusted to reflect our revised estimate of the expected residual value at the end of the lease term. Such adjustments to depreciation expense would result in a change in the depreciation rates of the vehicles subject to operating leases, and are recorded prospectively on a straight-line basis.

For retail leases, each lease customer has the option to buy the leased vehicle at the end of the lease or to return the vehicle to the dealer. Ford Credit's North America operating lease activity was as follows for each of the last three years (in thousands, except percentages):

	2012	2011	2010
Vehicle return volume	76	144	281
Return rate	60%	59%	69%

For rental repurchase vehicles, practically all vehicles have been returned to us.

Nature of Estimates Required. Each operating lease in our portfolio represents a vehicle we own that has been leased to a customer. At the time we purchase a lease, we establish an expected residual value for the vehicle. We estimate the expected residual value by evaluating recent auction values, historical return volumes for our leased vehicles, industry-wide used vehicle prices, our marketing incentive plans, and vehicle quality data.

Assumptions Used. For retail leases, our accumulated depreciation on vehicles subject to operating leases is based on our assumptions regarding:

- *Auction value.* Ford Credit's projection of the market value of the vehicles when we sell them at the end of the lease; and
- *Return volume.* Ford Credit's projection of the number of vehicles that will be returned at lease-end.

See Note 8 of the Notes to the Financial Statements for more information regarding accumulated depreciation on vehicles subject to operating leases.

Sensitivity Analysis. For returned vehicles, we face a risk that the amount we obtain from the vehicle sold at auction will be less than our estimate of the expected residual value for the vehicle. The effect of the indicated increase/decrease in the assumptions for our U.S. Ford and Lincoln retail and lease portfolio is as follows:

		Increase/(Decrease)	
Assumption	**Percentage Change**	**December 31, 2012 Accumulated Depreciation on Vehicles Subject to Operating Leases**	**2013 Expense**
Future auction values	+/- 1.0	$47/$(47)	$12/$(12)
Return volumes	+/- 1.0	3/(3)	1/(1)

The impact of the increased accumulated supplemental depreciation in 2012 would be charged to expense in the 2013 - 2016 periods. Adjustments to the amount of accumulated depreciation on operating leases are reflected on our balance sheet as *Net investment in operating leases* and on the income statement in *Depreciation*, in each case under the Financial Services sector.

Automotive Sector Long-Lived Asset Impairment Testing

Nature of Estimates Required - Long-Lived Assets. Long-lived asset groups are tested for recoverability when changes in circumstances indicate the carrying value may not be recoverable. Events that trigger a test for recoverability include material adverse changes in projected revenues and expenses, significant underperformance relative to historical and projected future operating results, and significant negative industry or economic trends. When a triggering event occurs, a test for recoverability is performed, comparing projected undiscounted future cash flows to the carrying value of the asset group. If the test for recoverability identifies a possible impairment, the asset group's fair value is measured relying primarily on a discounted cash flow methodology. An impairment charge is recognized for the amount by which the carrying value of the asset group exceeds its estimated fair value. A test for recoverability also is performed when management has committed to a plan to sell or otherwise dispose of an asset group and the plan is expected to be completed within a year. When an impairment loss is recognized for assets to be held and used, the adjusted carrying amount of those assets is depreciated over its remaining useful life. Restoration of a previously recognized long-lived asset impairment loss is not allowed.

Assumptions and Approach Used. We measure the fair value of a reporting unit or asset group based on market prices (i.e., the amount for which the asset could be sold to a third party), when available. When market prices are not available, we estimate the fair value of the reporting unit or asset group using the income approach and/or the market approach. The income approach uses cash flow projections. Inherent in our development of cash flow projections are assumptions and estimates derived from a review of our operating results, business plan forecasts, expected growth rates, and cost of capital, similar to those a market participant would use to assess fair value. We also make certain assumptions about future economic conditions and other data. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates may change in future periods.

Changes in assumptions or estimates can materially affect the fair value measurement of a reporting unit or asset group, and therefore can affect the test results. The following are key assumptions we use in making cash flow projections:

- *Business projections*. We make assumptions about the demand for our products in the marketplace. These assumptions drive our planning assumptions for volume, mix, and pricing. We also make assumptions about our cost levels (e.g., capacity utilization, cost performance, etc.). These projections are derived using our internal business plan forecasts that are updated at least annually and reviewed by our Board of Directors.

- *Long-term growth rate*. A growth rate is used to calculate the terminal value of the business, and is added to the present value of the debt-free interim cash flows. The growth rate is the expected rate at which a business unit's earnings stream is projected to grow beyond the planning period.

- *Discount rate.* When measuring possible impairment, future cash flows are discounted at a rate that is consistent with a weighted-average cost of capital that we anticipate a potential market participant would use. Weighted-average cost of capital is an estimate of the overall risk-adjusted after-tax rate of return required by equity and debt holders of a business enterprise.

- *Economic projections.* Assumptions regarding general economic conditions are included in and affect our assumptions regarding industry sales and pricing estimates for our vehicles. These macro-economic assumptions include, but are not limited to, industry sales volumes, inflation, interest rates, prices of raw materials (i.e., commodities), and foreign currency exchange rates.

The market approach is another method for measuring the fair value of a reporting unit or asset group. This approach relies on the market value (i.e., market capitalization) of companies that are engaged in the same or similar line of business.

During the third quarter of 2012, operating profits and cash flow from operations outside of North America remained under pressure. In particular, industry sales volume for the markets we track in Europe declined significantly in recent years with only modest improvement expected by mid-decade, suggesting that current changes in the European business environment are more structural than cyclical in nature. Against this backdrop, we determined that it was appropriate to test for impairment the long-lived assets of our Ford Europe segment. Using our economic and business projections, including an assumption of an 8% operating margin for Ford Europe over the longer term, we determined that the carrying value of our Ford Europe long-lived asset group at September 30, 2012 did not exceed fair value. Our long-term economic and business projections did not change during the fourth quarter of 2012. If in future quarters our economic or business projections were to change as a result of our plans or changes in the business environment, we would undertake additional testing as appropriate which could result in an impairment of long-lived assets.

ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

For information on accounting standards issued but not yet adopted, see Note 3 of the Notes to the Financial Statements.

AGGREGATE CONTRACTUAL OBLIGATIONS

We are party to many contractual obligations involving commitments to make payments to third parties. Most of these are debt obligations incurred by our Financial Services sector. Long-term debt may have fixed or variable interest rates. For long-term debt with variable-rate interest, we estimate the future interest payments based on projected market interest rates for various floating-rate benchmarks received from third parties. In addition, as part of our normal business practices, we enter into contracts with suppliers for purchases of certain raw materials, components, and services to facilitate adequate supply of these materials and services. These arrangements may contain fixed or minimum quantity purchase requirements. "Purchase obligations" are defined as off-balance sheet agreements to purchase goods or services that are enforceable and legally binding on the Company and that specify all significant terms.

The table below summarizes our contractual obligations as of December 31, 2012 (in millions):

	Payments Due by Period				
	2013	2014 - 2015	2016 - 2017	2018 and Thereafter	Total
Automotive Sector					
On-balance sheet					
Long-term debt (a) (b) (excluding capital leases)	$ 893	$ 2,576	$ 2,307	$ 8,216	$ 13,992
Interest payments relating to long-term debt (c)	589	1,113	990	6,872	9,564
Capital leases	9	11	5	4	29
Pension funding (d)	458	774	426	—	1,658
Off-balance sheet					
Purchase obligations	1,873	1,668	880	936	5,357
Operating leases	217	333	172	172	894
Total Automotive sector	4,039	6,475	4,780	16,200	31,494
Financial Services Sector					
On-balance sheet					
Long-term debt (a) (b) (excluding capital leases)	19,630	30,284	14,261	8,222	72,397
Interest payments relating to long-term debt (c)	2,621	3,468	1,717	1,762	9,568
Capital leases	1	2	—	—	3
Off-balance sheet					
Purchase obligations	29	4	3	1	37
Operating leases	52	75	53	24	204
Total Financial Services sector	22,333	33,833	16,034	10,009	82,209
Total Company	$ 26,372	$ 40,308	$ 20,814	$ 26,209	$ 113,703

(a) Amount includes, prior to adjustment noted above, $902 million for the Automotive sector and $19,631 million for the Financial Services sector for the current portion of long-term debt. See Note 17 of the Notes to the Financial Statements for additional discussion.
(b) Automotive sector excludes unamortized debt discounts of $(249) million. Financial Services sector excludes unamortized debt discounts of $(134) million and adjustments of $791 million related to designated fair value hedges of the debt.
(c) Excludes amortization of debt discounts/premiums.
(d) Amounts represent our estimate of contractually obligated deficit contributions to U.K. plans. See Note 16 for further information regarding our expected 2013 pension contributions and funded status.

The amount of unrecognized tax benefits for 2012 of $1.5 billion (see Note 24 of the Notes to the Financial Statements for additional discussion) is excluded from the table above. Final settlement of a significant portion of these obligations will require bilateral tax agreements among us and various countries, the timing of which cannot reasonably be estimated.

For additional information regarding operating lease obligations, pension and OPEB obligations, and long-term debt, see Notes 8, 16, and 17, respectively, of the Notes to the Financial Statements.