FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1. PRESENTATION

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

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

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

Adoption of New Accounting Standards

Balance Sheet - Offsetting. On January 1, 2013, we adopted the new accounting standard that requires disclosures about offsetting and related arrangements for derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions. See Note 4 and Note 16 for further disclosure regarding balance sheet offsetting.

Intangibles - Goodwill and Other. On January 1, 2013, we adopted the new accounting standard that provides the option to evaluate qualitative factors to determine whether a calculated impairment test for indefinite-lived intangible assets is necessary. The adoption of this accounting standard did not impact our consolidated financial statements.

Comprehensive Income - Reporting of Reclassification Adjustments. During 2012, we early adopted the new accounting standard that requires us to disclose significant amounts reclassified out of each component of *Accumulated other comprehensive income/(loss)* (“AOCI”) and the affected income statement line item only if the item reclassified is required to be reclassified to net income in its entirety. See Note 18 for further disclosure regarding the significant amounts reclassified out of AOCI.

NOTE 1. PRESENTATION *(Continued)*

Reconciliations between Consolidated and Sector Financial Statements

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

	December 31, 2013	December 31, 2012
Sector balance sheet presentation of deferred income tax assets		
Automotive sector current deferred income tax assets	$ 1,574	$ 3,488
Automotive sector non-current deferred income tax assets	13,283	13,325
Financial Services sector deferred income tax assets (a)	184	184
Total	15,041	16,997
Reclassification for netting of deferred income taxes	(1,726)	(1,812)
Consolidated balance sheet presentation of deferred income tax assets	$ 13,315	$ 15,185
Sector balance sheet presentation of deferred income tax liabilities		
Automotive sector current deferred income tax liabilities	$ 267	$ 81
Automotive sector non-current deferred income tax liabilities	430	514
Financial Services sector deferred income tax liabilities	1,627	1,687
Total	2,324	2,282
Reclassification for netting of deferred income taxes	(1,726)	(1,812)
Consolidated balance sheet presentation of deferred income tax liabilities	$ 598	$ 470

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

NOTE 1. PRESENTATION *(Continued)*

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

	2013	2012	2011
Automotive net cash provided by/(used in) operating activities	$ 7,738	$ 6,266	$ 9,368
Financial Services net cash provided by/(used in) operating activities	3,352	2,043	418
Total sector net cash provided by/(used in) operating activities (Note 25)	11,090	8,309	9,786
Reclassifications from investing to operating cash flows			
Purchases/Collections of wholesale receivables (a)	(2,971)	(1,235)	(2,010)
Purchases/Collections of other receivables (b)	(73)	57	21
Payments of interest supplements and residual support (c)	2,398	1,914	1,987
Consolidated net cash provided by/(used in) operating activities	$ 10,444	$ 9,045	$ 9,784
Automotive net cash provided by/(used in) investing activities	$ (8,111)	$ (8,024)	$ (1,541)
Financial Services net cash provided by/(used in) investing activities	(11,821)	(4,404)	1,401
Total sector net cash provided by/(used in) investing activities	(19,932)	(12,428)	(140)
Reclassifications from investing to operating cash flows			
Purchases/Collections of wholesale receivables (a)	2,971	1,235	2,010
Purchases/Collections of other receivables (b)	73	(57)	(21)
Payments of interest supplements and residual support (c)	(2,398)	(1,914)	(1,987)
Reclassifications from investing to financing cash flows			
Maturity of Financial Services sector debt held by Automotive sector (d)	—	(201)	—
Elimination of investing activity to/(from) Financial Services in consolidation	(445)	(925)	(2,903)
Consolidated net cash provided by/(used in) investing activities	$ (19,731)	$ (14,290)	$ (3,041)
Automotive net cash provided by/(used in) financing activities	$ (822)	$ 40	$ (5,932)
Financial Services net cash provided by/(used in) financing activities	8,510	2,539	(1,212)
Total sector net cash provided by/(used in) financing activities	7,688	2,579	(7,144)
Reclassifications from investing to financing cash flows			
Maturity of Financial Services sector debt held by Automotive sector (d)	—	201	—
Elimination of investing activity to/(from) Financial Services in consolidation	445	925	2,903
Consolidated net cash provided by/(used in) financing activities	$ 8,133	$ 3,705	$ (4,241)

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

NOTE 1. PRESENTATION *(Continued)*

Certain Transactions Between Automotive and Financial Services Sectors

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

	December 31, 2013		December 31, 2012	
	Automotive	Financial Services	Automotive	Financial Services
Finance receivables, net (a)		$ 3.3		$ 4.8
Unearned interest supplements and residual support (b)		(3.1)		(2.6)
Wholesale receivables/Other (c)		0.8		0.8
Net investment in operating leases (d)		0.6		0.5
Intersector receivables/(payables) (e)	$ (0.2)	0.2	$ (0.3)	0.3

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

Venezuelan Operations

On February 13, 2013, the Venezuelan government effected a devaluation of the bolivar, from an exchange rate of 4.3 bolivars to the U.S. dollar to an exchange rate of 6.3 bolivars to the U.S. dollar. This resulted in a remeasurement loss of $186 million in the first quarter. For periods subsequent to the date of the devaluation, assets, liabilities, and results of operations from our Venezuelan subsidiary are remeasured at this new exchange rate.

At December 31, 2013, we had a bolivar denominated net monetary position of $749 million, including $765 million of bolivar denominated cash and cash equivalents. Based on our net monetary position at December 31, 2013, a further devaluation from an exchange rate of 6.3 bolivars to the U.S. dollar to an exchange rate of 12 bolivars to the U.S. dollar would have resulted in a balance sheet remeasurement loss of approximately $360 million.

At December 31, 2013, our investment in our Venezuelan subsidiary (which includes undistributed earnings) was $881 million. Also, at December 31, 2013, it had $300 million of U.S. dollar currency exchange requests pending with and in transit to the governmental controlled currency exchange, including $295 million payable to other Ford consolidated affiliates.

The operating environment in Venezuela continues to be challenging. Foreign exchange control regulations have affected our Venezuelan operation's ability to pay dividends and obligations denominated in U.S. dollars, and are constraining parts availability and our ability to maintain normal production. Recent developments in Venezuela, including price controls and a very limited and uneven supply of foreign currency to support production, have affected adversely our business and results of operations. These and other restrictions could limit our ability to benefit from our investment and maintain a controlling interest in our Venezuelan subsidiary.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES

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

Use of Estimates

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

Foreign Currency Translation

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

Gains or losses arising from transactions denominated in currencies other than the affiliate's functional currency, the effect of remeasuring assets and liabilities of foreign subsidiaries using U.S. dollars as their functional currency, and the results of our foreign currency hedging activities are reported in *Automotive cost of sales, Selling, administrative, and other expenses,* and *Automotive interest income and other income/(loss), net.* The pre-tax gains/(losses) of this activity for 2013, 2012, and 2011 was $(349) million, $(426) million, and $4 million, respectively.

Trade Receivables

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

Net Intangible Assets

We capitalize and amortize our finite-lived intangible assets over their estimated useful lives. Indefinite-lived intangible assets are not amortized, but are tested for impairment annually or more frequently if events or circumstances indicate the asset may be impaired. Our intangible assets are comprised primarily of license and advertising agreements, land rights, patents, customer contracts, and technology. Our indefinite-lived intangibles have been tested for impairment in 2013 and no impairment was required.

The net carrying amount of our intangible asset was $85 million and $87 million at December 31, 2013 and 2012, respectively, and is reported in *Other Assets* on our balance sheet. Pre-tax amortization expense was $11 million, $10 million, and $12 million at December 31, 2013, 2012, and 2011, respectively. Amortization for intangible assets is forecasted to be $11 million in 2014 and each year thereafter.

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

Long-Lived Asset Impairment

We test long-lived asset groups for recoverability, at the operating segment level 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, significant negative industry or economic trends, and a significant adverse change in the manner in which an asset group is used or in its physical condition. 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. When an impairment loss is recognized for assets to be held and used, the adjusted carrying amount of those assets is depreciated over their remaining useful life.

Revenue Recognition — Automotive Sector

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

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

Revenue Recognition — Financial Services Sector

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

Retail and Lease Incentives

We offer special retail financing and lease incentives to dealers' customers who choose to finance or lease Ford- or Lincoln-brand vehicles from Ford Credit. The estimated cost for these incentives is recorded as a revenue reduction to *Automotive revenues* when the vehicle is sold to the dealer. See Note 1 for additional information regarding transactions between Automotive and Financial Services sectors. We pay the discounted value of the incentive directly to Ford Credit on behalf of the retail customer upon acquisition of the retail finance or lease contract to compensate Ford Credit for the lower interest or lease rates offered to the retail customer. The Financial Services sector recognized revenue of $1.5 billion, $1.6 billion, and $2.1 billion in 2013, 2012, and 2011, respectively, for special financing consistent with the earnings process of the underlying receivable, and lower depreciation of $946 million, $850 million, and $889 million in 2013, 2012 and 2011, respectively, related to leasing programs.

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

Sales and Marketing Incentives

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

Supplier Price Adjustments

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

Raw Material Arrangements

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

Government Incentives

We receive incentives from U.S. and non-U.S. governmental entities in the form of tax rebates or credits, grants, and loans. Government incentives are recorded in the financial statements in accordance with their purpose, either as a reduction of expense or a reduction of the cost of the capital investment. A discount is calculated on government loans with a below-market interest rate. The benefit of these incentives generally is recorded when all conditions as specified in the agreement are fulfilled.

Selected Other Costs

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

	2013	2012	2011
Engineering, research, and development	$ 6.4	$ 5.5	$ 5.3
Advertising	4.4	4.0	4.1

Presentation of Sales and Sales-Related Taxes

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

NOTE 3. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

Income Taxes - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. In July 2013, the Financial Accounting Standards Board ("FASB") issued a new accounting standard that requires an unrecognized tax benefit to be presented as a decrease in a deferred tax asset where a net operating loss, a similar tax loss, or a tax credit carryforward exists and certain criteria are met. The new accounting standard is effective as of January 1, 2014 and is consistent with our present practice.

Foreign Currency Matters - Parent's Accounting for Cumulative Translation Adjustment. In March 2013, the FASB issued a new accounting standard that clarifies the applicable guidance for a parent company's accounting for the release of the cumulative translation adjustment into net income upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The new accounting standard is effective as of January 1, 2014 and is consistent with our present practice.

Liabilities - Obligations Resulting from Joint and Several Liability Arrangements. In February 2013, the FASB issued a new accounting standard that provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements. This new accounting standard is effective as of January 1, 2014 and we do not expect this standard to have a material impact on our consolidated financial statements or financial statement disclosures.

NOTE 4. FAIR VALUE MEASUREMENTS

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

Fair Value Measurements

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

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

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

Valuation Methodologies

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

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

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

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

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

We have entered into repurchase agreements with certain counterparties where we are the transferee. These agreements allow us to offset our entire gross exposure in the event of default or breach of contract. The gross value of these assets and liabilities reflected on our balance sheet at December 31, 2013 and December 31, 2012 was $228 million and $51 million, respectively.

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

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

Finance Receivables. We measure finance receivables at fair value for purposes of disclosure (see Note 6) using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest). The projected cash flows are discounted to present value based on assumptions regarding credit losses, pre-payment speed, and applicable spreads to approximate current rates. Our assumptions regarding pre-payment speed and credit losses are based on historical performance. The fair value of finance receivables is categorized within Level 3 of the hierarchy.

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

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

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

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

The fair value of retail and dealer loans measured on a non-recurring basis was $61 million and $80 million at December 31, 2013 and December 31, 2012, respectively. Changes in the significant unobservable inputs will not materially affect the fair value of these loans. The fair value adjustment recorded to expense for these receivables was $20 million, $25 million and $37 million in 2013, 2012 and 2011, respectively.

Debt. We measure debt at fair value for purposes of disclosure (see Note 15) using quoted prices for our own debt with approximately the same remaining maturities, where possible. Where quoted prices are not available, we estimate fair value using discounted cash flows and market-based expectations for interest rates, credit risk, and the contractual terms of the debt instruments. For certain short-term debt with an original maturity date of one year or less, we assume that book value is a reasonable approximation of the debt's fair value. The fair value of debt is categorized within Level 2 of the hierarchy.

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

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

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

	December 31, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Automotive Sector								
Assets								
Cash equivalents – financial instruments								
U.S. government	$ —	$ 9	$ —	$ 9	$ —	$ —	$ —	$ —
U.S. government-sponsored enterprises	—	24	—	24	—	718	—	718
Non-U.S. government	—	200	—	200	—	139	—	139
Non-U.S. government agencies (a)	—	—	—	—	—	365	—	365
Total cash equivalents – financial instruments (b)	—	233	—	233	—	1,222	—	1,222
Marketable securities								
U.S. government	3,752	—	—	3,752	4,493	—	—	4,493
U.S. government-sponsored enterprises	—	6,596	—	6,596	—	5,459	—	5,459
Non-U.S. government agencies (a)	—	5,423	—	5,423	—	4,794	—	4,794
Corporate debt	—	2,623	—	2,623	—	1,871	—	1,871
Mortgage-backed and other asset-backed	—	295	—	295	—	25	—	25
Equities	341	—	—	341	142	—	—	142
Non-U.S. government	—	1,115	—	1,115	—	1,367	—	1,367
Other liquid investments (c)	—	12	—	12	—	27	—	27
Total marketable securities	4,093	16,064	—	20,157	4,635	13,543	—	18,178
Derivative financial instruments								
Foreign currency exchange contracts	—	557	—	557	—	218	—	218
Commodity contracts	—	22	1	23	—	19	4	23
Total derivative financial instruments (d)	—	579	1	580	—	237	4	241
Total assets at fair value	$ 4,093	$ 16,876	$ 1	$ 20,970	$ 4,635	$ 15,002	$ 4	$ 19,641
Liabilities								
Derivative financial instruments								
Foreign currency exchange contracts	$ —	$ 399	$ —	$ 399	$ —	$ 486	$ —	$ 486
Commodity contracts	—	17	2	19	—	112	12	124
Total derivative financial instruments (d)	—	416	2	418	—	598	12	610
Total liabilities at fair value	$ —	$ 416	$ 2	$ 418	$ —	$ 598	$ 12	$ 610

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(a) Includes notes issued by non-U.S. government agencies, as well as notes issued by supranational institutions.
(b) Excludes time deposits, certificates of deposit, money market accounts, and other cash equivalents reported at par value on our balance sheet totaling $2.7 billion and $3 billion at December 31, 2013 and 2012, respectively, for the Automotive sector. In addition to these cash equivalents, our Automotive sector also had cash on hand totaling $2 billion and $2 billion at December 31, 2013 and 2012, respectively.
(c) Includes certificates of deposit and time deposits subject to changes in value.
(d) See Note 16 for additional information regarding derivative financial instruments.

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

	December 31, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial Services Sector								
Assets								
Cash equivalents – financial instruments								
U.S. government	$ —	$ —	$ —	$ —	$ 200	$ —	$ —	$ 200
U.S. government-sponsored enterprises	—	—	—	—	—	20	—	20
Non-U.S. government	—	24	—	24	—	103	—	103
Corporate debt	—	—	—	—	—	1	—	1
Total cash equivalents – financial instruments (a)	—	24	—	24	200	124	—	324
Marketable securities								
U.S. government	418	—	—	418	620	—	—	620
U.S. government-sponsored enterprises	—	25	—	25	—	12	—	12
Non-U.S. government agencies	—	128	—	128	—	95	—	95
Corporate debt	—	1,273	—	1,273	—	1,155	—	1,155
Mortgage-backed and other asset-backed	—	43	—	43	—	67	—	67
Non-U.S. government	—	56	—	56	—	142	—	142
Other liquid investments (b)	—	—	—	—	—	15	—	15
Total marketable securities	418	1,525	—	1,943	620	1,486	—	2,106
Derivative financial instruments								
Interest rate contracts	—	584	—	584	—	1,291	—	1,291
Foreign currency exchange contracts	—	1	—	1	—	9	—	9
Cross-currency interest rate swap contracts	—	—	—	—	—	—	—	—
Total derivative financial instruments (c)	—	585	—	585	—	1,300	—	1,300
Total assets at fair value	$ 418	$ 2,134	$ —	$ 2,552	$ 820	$ 2,910	$ —	$ 3,730
Liabilities								
Derivative financial instruments								
Interest rate contracts	$ —	$ 305	$ —	$ 305	$ —	$ 256	$ —	$ 256
Foreign currency exchange contracts	—	25	—	25	—	8	—	8
Cross-currency interest rate swap contracts	—	176	—	176	—	117	—	117
Total derivative financial instruments (c)	—	506	—	506	—	381	—	381
Total liabilities at fair value	$ —	$ 506	$ —	$ 506	$ —	$ 381	$ —	$ 381

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(a) Excludes time deposits, certificates of deposit, and money market accounts reported at par value on our balance sheet totaling $6.7 billion and $6.5 billion at December 31, 2013 and 2012, respectively. In addition to these cash equivalents, we also had cash on hand totaling $2.8 billion and $2.6 billion at December 31, 2013 and 2012, respectively.
(b) Includes certificates of deposit and time deposits subject to changes in value.
(c) See Note 16 for additional information regarding derivative financial instruments.

NOTE 5. RESTRICTED CASH

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

Our Automotive sector restricted cash balances primarily include various escrow agreements related to legal, insurance, customs, and environmental matters. The December 31, 2012 balance included cash collateral required to be held against loans from the European Investment Bank ("EIB"). Our Financial Services sector restricted cash balances primarily include cash held to meet certain local governmental and regulatory reserve requirements and cash held under the terms of certain contractual agreements.

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

Restricted cash balances were as follows (in millions):

	December 31, 2013	December 31, 2012
Automotive sector	$ 14	$ 172
Financial Services sector	172	172
Total Company	$ 186	$ 344

NOTE 6. FINANCIAL SERVICES SECTOR FINANCE RECEIVABLES

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

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

Finance receivables are recorded at the time of origination or purchase at fair value and are subsequently reported at amortized cost, net of any allowance for credit losses.

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

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

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

NOTE 6. FINANCIAL SERVICES SECTOR FINANCE RECEIVABLES *(Continued)*

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

	December 31, 2013			December 31, 2012		
	North America	International	Total Finance Receivables	North America	International	Total Finance Receivables
Consumer						
Retail financing, gross	$ 40,902	$ 10,797	$ 51,699	$ 39,504	$ 10,460	$ 49,964
Less: Unearned interest supplements	(1,255)	(247)	(1,502)	(1,264)	(287)	(1,551)
Consumer finance receivables	39,647	10,550	50,197	38,240	10,173	48,413
Non-Consumer						
Dealer financing	22,072	7,833	29,905	19,429	7,242	26,671
Other	732	339	1,071	689	386	1,075
Non-Consumer finance receivables	22,804	8,172	30,976	20,118	7,628	27,746
Total recorded investment	$ 62,451	$ 18,722	$ 81,173	$ 58,358	$ 17,801	$ 76,159
Recorded investment in finance receivables	$ 62,451	$ 18,722	$ 81,173	$ 58,358	$ 17,801	$ 76,159
Less: Allowance for credit losses	(280)	(77)	(357)	(309)	(80)	(389)
Finance receivables, net (a)	$ 62,171	$ 18,645	$ 80,816	$ 58,049	$ 17,721	$ 75,770
Net finance receivables subject to fair value (b)			$ 79,149			$ 73,618
Fair value			80,838			75,618

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(a) At December 31, 2013 and 2012, *Finance receivables, net* on the consolidated balance sheet were $77.5 billion and $71 billion, respectively. The balance is comprised of Financial Services sector finance receivables of $80.8 billion and $75.8 billion, respectively, net of $3.3 billion and $4.8 billion, respectively, of receivables purchased by Financial Services sector from Automotive sector, which are reclassified to *Other receivables, net.*
(b) At December 31, 2013 and 2012, excludes $1.7 billion and $2.2 billion, respectively, of certain receivables (primarily direct financing leases) that are not subject to fair value disclosure requirements.

Excluded from finance receivables at December 31, 2013 and 2012, was $196 million and $183 million, respectively, of accrued uncollected interest, which we report in *Other assets* on the balance sheet.

Included in the recorded investment in finance receivables at December 31, 2013 and 2012 were North America consumer receivables of $21.8 billion and $23 billion and non-consumer receivables of $18.9 billion and $17.1 billion, respectively, and International consumer receivables of $5.9 billion and $6.6 billion and non-consumer receivables of $5 billion and $4.5 billion, respectively, that secure certain debt obligations. The receivables are available only for payment of the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions; they are not available to pay the other obligations of our Financial Services sector or the claims of Ford Credit's other creditors. Ford Credit holds the right to receive the excess cash flows not needed to pay the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions (see Notes 11 and 15).

NOTE 6. FINANCIAL SERVICES SECTOR FINANCE RECEIVABLES *(Continued)*

Contractual maturities of total finance receivables outstanding at December 31, 2013 reflect contractual repayments due from customers or borrowers as follows (in millions):

	Due in Year Ending December 31,				
	2014	2015	2016	Thereafter	Total
North America					
Consumer					
Retail financing, gross	$ 11,808	$ 10,134	$ 8,487	$ 10,473	$ 40,902
Non-Consumer					
Dealer financing	20,375	581	152	964	22,072
Other	729	2	1	—	732
Total North America	$ 32,912	$ 10,717	$ 8,640	$ 11,437	$ 63,706
International					
Consumer					
Retail financing, gross	$ 3,842	$ 3,363	$ 2,207	$ 1,385	$ 10,797
Non-Consumer					
Dealer financing	6,962	809	44	18	7,833
Other	339	—	—	—	339
Total International	$ 11,143	$ 4,172	$ 2,251	$ 1,403	$ 18,969

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

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

	December 31, 2013			December 31, 2012		
	North America	International	Total Direct Financing Leases	North America	International	Total Direct Financing Leases
Total minimum lease rentals to be received	$ 216	$ 1,468	$ 1,684	$ 58	$ 1,466	$ 1,524
Initial direct costs	4	15	19	1	16	17
Estimated residual values	—	143	143	—	851	851
Less: Unearned income	(22)	(116)	(138)	(7)	(152)	(159)
Less: Unearned interest supplements	—	(40)	(40)	—	(82)	(82)
Recorded investment in direct financing leases	198	1,470	1,668	52	2,099	2,151
Less: Allowance for credit losses	(2)	(5)	(7)	(1)	(8)	(9)
Net investment in direct financing leases	$ 196	$ 1,465	$ 1,661	$ 51	$ 2,091	$ 2,142

Future minimum rental payments due from direct financing leases at December 31, 2013 were as follows (in millions):

	2014	2015	2016	2017	Thereafter
North America	$ 73	$ 52	$ 50	$ 28	$ 13
International	568	459	272	139	30

Aging

For all finance receivables, we define “past due” as any payment, including principal and interest, that is at least 31 days past the contractual due date. The recorded investment of consumer receivables greater than 90 days past due and still accruing interest was $14 million and $13 million at December 31, 2013 and 2012, respectively. The recorded investment of non-consumer receivables greater than 90 days past due and still accruing interest was $21 million and $5 million at December 31, 2013 and 2012, respectively.

NOTE 6. FINANCIAL SERVICES SECTOR FINANCE RECEIVABLES *(Continued)*

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

	2013			2012		
	North America	International	Total	North America	International	Total
Consumer						
31-60 days past due	$ 715	$ 39	$ 754	$ 783	$ 50	$ 833
61-90 days past due	88	17	105	97	18	115
91-120 days past due	18	9	27	21	9	30
Greater than 120 days past due	37	26	63	52	29	81
Total past due	858	91	949	953	106	1,059
Current	38,789	10,459	49,248	37,287	10,067	47,354
Consumer finance receivables	39,647	10,550	50,197	38,240	10,173	48,413
Non-Consumer						
Total past due	49	40	89	29	11	40
Current	22,755	8,132	30,887	20,089	7,617	27,706
Non-Consumer finance receivables	22,804	8,172	30,976	20,118	7,628	27,746
Total recorded investment	$ 62,451	$ 18,722	$ 81,173	$ 58,358	$ 17,801	$ 76,159

Credit Quality

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

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

Credit quality ratings for consumer receivables are based on aging. Refer to the aging table above.

Consumer receivables credit quality ratings are as follows:

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

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

NOTE 6. FINANCIAL SERVICES SECTOR FINANCE RECEIVABLES *(Continued)*

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

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

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

We regularly review our model to confirm the continued business significance and statistical predictability of the factors and update the model to incorporate new factors or other information that improves its statistical predictability. In addition, we regularly audit dealer inventory and dealer sales records to verify that the dealer is in possession of the financed vehicles and is promptly paying each receivable following the sale of the financed vehicle. The frequency of on-site vehicle inventory audits depends on the dealer's risk rating. Under our policies, on-site vehicle inventory audits of low-risk dealers are conducted only as circumstances warrant in North America and at least annually internationally, and audits of higher-risk dealers are conducted with increased frequency based on risk ratings worldwide. We perform a credit review of each dealer at least annually and adjust the dealer's risk rating, if necessary.

The credit quality of non-consumer receivables is evaluated based on our internal dealer risk rating analysis. A dealer has the same risk rating for its entire dealer financing regardless of the type of financing.

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

	2013			2012		
	North America	**International**	**Total**	**North America**	**International**	**Total**
Dealer Financing						
Group I	$ 18,357	$ 5,051	$ 23,408	$ 16,526	$ 4,551	$ 21,077
Group II	3,289	2,092	5,381	2,608	1,405	4,013
Group III	424	649	1,073	277	1,279	1,556
Group IV	2	41	43	18	7	25
Total recorded investment	$ 22,072	$ 7,833	$ 29,905	$ 19,429	$ 7,242	$ 26,671

Impaired Receivables. Impaired consumer receivables include accounts that have been rewritten or modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code that are considered to be troubled debt restructurings ("TDRs"), as well as all accounts greater than 120 days past due. Impaired non-consumer receivables represent accounts with dealers that have weak or poor financial metrics or dealer financing that has been modified in TDRs. The recorded investment of consumer receivables that were impaired at December 31, 2013 and 2012 was $435 million, or 0.9% of consumer receivables, and $422 million, or 0.9% of consumer receivables, respectively. The recorded investment of non-consumer receivables that were impaired at December 31, 2013 and 2012 was $71 million, or 0.2% of non-consumer receivables, and $47 million, or 0.2% of the non-consumer receivables, respectively. Impaired finance receivables are evaluated both collectively and specifically. See Note 8 for additional information related to the development of our allowance for credit losses.

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

The recorded investment of consumer receivables in non-accrual status was $238 million, or 0.5% of our consumer receivables at December 31, 2013, and $304 million, or 0.6% of consumer receivables at December 31, 2012. The recorded investment of non-consumer receivables in non-accrual status was $41 million, or 0.1% of our non-consumer receivables at December 31, 2013, and $29 million, or 0.1% of non-consumer receivables at December 31, 2012.

NOTE 6. FINANCIAL SERVICES SECTOR FINANCE RECEIVABLES *(Continued)*

Troubled Debt Restructurings. A restructuring of debt constitutes a TDR if we grant a concession to a borrower for economic or legal reasons related to the debtor's financial difficulties that we otherwise would not consider. Consumer and non-consumer receivables that have a modified interest rate below market rate or that were modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code, except non-consumer receivables that are current with minimal risk of loss, are considered to be TDRs. We do not grant concessions on the principal balance of our receivables. If a receivable is modified in a reorganization proceeding, all payment requirements of the reorganization plan need to be met before remaining balances are forgiven. The outstanding recorded investment at time of modification for consumer receivables that are considered to be TDRs was $233 million, or 0.5% of consumer receivables and $249 million, or 0.5% of consumer receivables during the years ended December 31, 2013 and 2012, respectively. The annual subsequent default rate of TDRs that were previously modified in TDRs within the last twelve months and resulted in repossession for consumer receivable was 5.8% and 5.8% of TDRs at December 31, 2013 and 2012, respectively. There were no non-consumer receivables involved in TDRs during the year ended December 31, 2013 and the outstanding recorded investment of non-consumer receivables involved in TDRs was de minimis during the year ended December 31, 2012.

Finance receivables involved in TDRs are specifically assessed for impairment. An impairment charge is recorded as part of the provision to the allowance for credit losses for the amount that the recorded investment of the receivable exceeds its estimated fair value. Estimated fair value is based on either the present value of the expected future cash flows of the receivable discounted at the contract's original effective interest rate, or, for receivables where foreclosure is probable, the fair value of the collateral adjusted for estimated costs to sell. The allowance for credit losses related to all active consumer TDRs was $23 million and $19 million at December 31, 2013 and 2012, respectively. The allowance for credit losses related to all active non-consumer TDRs was de minimis at December 31, 2013 and 2012.

NOTE 7. NET INVESTMENT IN OPERATING LEASES

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

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

	December 31, 2013	December 31, 2012
Automotive Sector		
Vehicles, net of depreciation	$ 1,384	$ 1,415
Financial Services Sector		
Vehicles and other equipment, at cost (a)	21,738	16,258
Accumulated depreciation	(3,115)	(2,347)
Allowance for credit losses	(23)	(23)
Total Financial Services sector	18,600	13,888
Total Company	$ 19,984	$ 15,303

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(a) Includes Ford Credit's operating lease assets of $8.1 billion and $6.3 billion at December 31, 2013 and 2012, respectively, for which the related cash flows have been used to secure certain lease securitization transactions. Cash flows associated with the net investment in operating leases are available only for payment of the debt or other obligations issued or arising in the securitization transactions; they are not available to pay other obligations or the claims of other creditors.

NOTE 7. NET INVESTMENT IN OPERATING LEASES *(Continued)*

Financial Services Sector

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

	2013	2012	2011
Operating lease depreciation expense	$ 2,411	$ 1,795	$ 1,140

Included in *Financial Services revenues* are rents on operating leases. The amounts contractually due for minimum rentals on operating leases as of December 31, 2013 are as follows (in millions):

	2014	2015	2016	2017	Thereafter	Total
Minimum rentals on operating leases	$ 2,618	$ 2,217	$ 1,578	$ 221	$ 49	$ 6,683

NOTE 8. FINANCIAL SERVICES SECTOR ALLOWANCE FOR CREDIT LOSSES

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

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

Consumer

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

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

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

NOTE 8. FINANCIAL SERVICES SECTOR ALLOWANCE FOR CREDIT LOSSES *(Continued)*

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

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

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

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

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

Non-Consumer

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

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

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

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

NOTE 8. FINANCIAL SERVICES SECTOR ALLOWANCE FOR CREDIT LOSSES *(Continued)*

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

	2013				
	Finance Receivables			Net Investment in Operating Leases	Total Allowance
	Consumer	Non-Consumer	Total		
Allowance for credit losses					
Beginning balance	$ 360	$ 29	$ 389	$ 23	$ 412
Charge-offs	(289)	(15)	(304)	(68)	(372)
Recoveries	144	5	149	47	196
Provision for credit losses	112	12	124	22	146
Other (a)	—	(1)	(1)	(1)	(2)
Ending balance	$ 327	$ 30	$ 357	$ 23	$ 380
Analysis of ending balance of allowance for credit losses					
Collective impairment allowance	$ 304	$ 28	$ 332	$ 23	$ 355
Specific impairment allowance	23	2	25	—	25
Ending balance	327	30	357	23	$ 380
Analysis of ending balance of finance receivables and net investment in operating leases					
Collectively evaluated for impairment	49,762	30,905	80,667	18,623	
Specifically evaluated for impairment	435	71	506	—	
Recorded investment	50,197	30,976	81,173	18,623	
Ending balance, net of allowance for credit losses	$ 49,870	$ 30,946	$ 80,816	$ 18,600	

(a) Represents amounts related to translation adjustments.

	2012				
	Finance Receivables			Net Investment in Operating Leases	Total Allowance
	Consumer	Non-Consumer	Total		
Allowance for credit losses					
Beginning balance	$ 457	$ 44	$ 501	$ 40	$ 541
Charge-offs	(316)	(8)	(324)	(47)	(371)
Recoveries	171	12	183	49	232
Provision for credit losses	45	(19)	26	(19)	7
Other (a)	3	—	3	—	3
Ending balance	$ 360	$ 29	$ 389	$ 23	$ 412
Analysis of ending balance of allowance for credit losses					
Collective impairment allowance	$ 341	$ 27	$ 368	$ 23	$ 391
Specific impairment allowance	19	2	21	—	21
Ending balance	360	29	389	23	$ 412
Analysis of ending balance of finance receivables and net investment in operating leases					
Collectively evaluated for impairment	47,991	27,699	75,690	13,911	
Specifically evaluated for impairment	422	47	469	—	
Recorded investment	48,413	27,746	76,159	13,911	
Ending balance, net of allowance for credit losses	$ 48,053	$ 27,717	$ 75,770	$ 13,888	

(a) Represents amounts related to translation adjustments.

NOTE 9. INVENTORIES

All inventories are stated at the lower of cost or market. Cost for a substantial portion of U.S. inventories is determined on a last-in, first-out ("LIFO") basis. LIFO was used for 20% and 18% of total inventories at December 31, 2013 and 2012, respectively. Cost of other inventories is determined by costing methods that approximate a first-in, first-out ("FIFO") basis.

Inventories were as follows (in millions):

	December 31, 2013	December 31, 2012
Raw materials, work-in-process, and supplies	$ 3,613	$ 3,697
Finished products	5,058	4,614
Total inventories under FIFO	8,671	8,311
Less: LIFO adjustment	(963)	(949)
Total inventories	$ 7,708	$ 7,362

NOTE 10. EQUITY IN NET ASSETS OF AFFILIATED COMPANIES

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

Ownership Percentages and Investment Balances

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

	Ownership Percentage	Investment Balance	
Automotive Sector	December 31, 2013	December 31, 2013	December 31, 2012
Changan Ford Automobile Corporation, Ltd ("CAF")	50.0%	$ 1,429	$ 990
Jiangling Motors Corporation, Ltd ("JMC") (a)	32.0	535	419
FordSollers Netherlands B.V. ("FordSollers")	50.0	376	407
Ford Otomotiv Sanayi Anonim Sirketi ("Ford Otosan")	41.0	336	394
AutoAlliance (Thailand) Co., Ltd.	50.0	395	391
Getrag Ford Transmissions GmbH ("GFT")	50.0	249	242
Tenedora Nemak, S.A. de C.V.	6.8	79	73
Ford Romania S.A. ("Ford Romania") (a)	100.0	—	63
Changan Ford Mazda Engine Company, Ltd.	25.0	59	50
DealerDirect LLC	97.7	25	25
OEConnection LLC	50.0	28	20
Blue Diamond Truck, S. de R.L. de C.V.	25.0	8	11
Percepta, LLC	45.0	9	9
Ford Performance Vehicles Pty Ltd.	49.0	—	5
Automotive Fuel Cell Cooperation Corporation	49.9	8	5
Blue Diamond Parts, LLC	25.0	3	4
Other	Various	7	4
Total Automotive sector		3,546	3,112
Financial Services Sector			
Forso Nordic AB	50.0	72	71
FFS Finance South Africa (Pty) Limited	50.0	43	39
RouteOne LLC	30.0	14	20
CNF-Administradora de Consorcio Nacional Ltda.	33.3	4	4
Total Financial Services sector		133	134
Total Company		$ 3,679	$ 3,246

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(a) See Note 23 for additional information.

We received $529 million, $610 million, and $316 million of dividends from these affiliated companies for the years ended December 31, 2013, 2012, and 2011, respectively.

NOTE 10. EQUITY IN NET ASSETS OF AFFILIATED COMPANIES *(Continued)*

Summarized Financial Results of Unconsolidated Affiliates

A summary of 100% of the financial results of our equity method investees in the aggregate is as follows (in millions):

Summarized Balance Sheet	December 31, 2013	December 31, 2012
Current assets	$ 10,424	$ 9,561
Non-current assets	13,872	12,059
Total assets	$ 24,296	$ 21,620
Current liabilities	$ 11,130	$ 10,172
Non-current liabilities	4,986	4,662
Total liabilities	$ 16,116	$ 14,834
Equity attributable to non-controlling interests	$ 6	$ 24

	For the years ended December 31,		
Summarized Income Statement	2013	2012	2011
Total revenue	$ 38,736	$ 33,051	$ 31,178
Income before income taxes	2,815	1,896	1,822
Net income	2,587	1,616	1,512

Related Party Transactions

In the ordinary course of business we buy/sell various products and services including vehicles, parts, and components to/from our equity method investees. In addition, we receive royalty income.

Transactions with equity method investees reported on our consolidated income statement and balance sheet were as follows (in millions):

	For the years ended December 31,		
Income Statement	2013	2012	2011
Sales	$ 6,421	$ 5,491	$ 4,957
Purchases	10,536	10,007	9,907
Royalty income	526	369	224

Balance Sheet	December 31, 2013	December 31, 2012
Receivables	$ 953	$ 1,179
Payables	724	707

NOTE 11. VARIABLE INTEREST ENTITIES

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

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

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

Automotive Sector

VIEs of Which We are Not the Primary Beneficiary

GFT is a joint venture that constitutes a significant VIE of which we are not the primary beneficiary as we do not have the power to direct its economically-significant activities. As a result, GFT was not consolidated. GFT is a 50/50 joint venture with Getrag International GmbH. Ford and its related parties purchase a majority of the joint venture's output.

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

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

	December 31, 2013	December 31, 2012	Change in Maximum Exposure
Investments	$ 264	$ 242	$ 22
Supplier and dealer arrangements	7	5	2
Total maximum exposure	$ 271	$ 247	$ 24

Financial Services Sector

VIEs of Which We are the Primary Beneficiary

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

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

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

NOTE 11. VARIABLE INTEREST ENTITIES *(Continued)*

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

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

Although not contractually required, we regularly support our wholesale securitization programs by repurchasing receivables of a dealer from a VIE when the dealer's performance is at risk, which transfers the corresponding risk of loss from the VIE to us. In order to continue to fund the wholesale receivables, we also may contribute additional cash or wholesale receivables if the collateral falls below required levels. The balances of cash related to these contributions were $0 and $0 at December 31, 2013 and 2012, respectively, and ranged from $0 to $177 million during 2013 and $0 to $373 million during 2012. In addition, while not contractually required, we may purchase the commercial paper issued by Ford Credit's FCAR Owner Trust asset-backed commercial paper program ("FCAR").

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

	December 31, 2013		
	Cash and Cash Equivalents	Finance Receivables, Net and Net Investment in Operating Leases	Debt
Finance receivables			
Retail	$ 1.9	$ 22.9	$ 20.3
Wholesale	1.9	22.9	14.8
Total finance receivables	3.8	45.8	35.1
Net investment in operating leases	0.4	8.1	5.6
Total	$ 4.2	$ 53.9	$ 40.7

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

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

NOTE 11. VARIABLE INTEREST ENTITIES *(Continued)*

Interest expense on securitization debt related to consolidated VIEs was $563 million, $760 million, and $994 million in 2013, 2012, and 2011, respectively.

VIEs that are exposed to interest rate or currency risk have reduced their risks by entering into derivative transactions. In certain instances, we have entered into offsetting derivative transactions with the VIE to protect the VIE from the risks that are not mitigated through the derivative transactions between the VIE and its external counterparty. In other instances, we have entered into derivative transactions with the counterparty to protect the counterparty from risks absorbed through derivative transactions with the VIEs. See Note 16 for additional information regarding the accounting for derivatives.

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

	December 31, 2013		December 31, 2012	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
Derivatives of the VIEs	$ 5	$ 88	$ 4	$ 134
Derivatives related to the VIEs	23	30	74	63
Total exposures related to the VIEs	$ 28	$ 118	$ 78	$ 197

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

	2013	2012	2011
VIEs	$ 3	$ 227	$ 31
Related to the VIEs	16	(5)	11
Total derivative expense/(income) related to the VIEs	$ 19	$ 222	$ 42

VIEs of Which We are Not the Primary Beneficiary

We have an investment in Forso Nordic AB, a joint venture determined to be a VIE of which we are not the primary beneficiary. The joint venture provides retail and dealer financing in its local markets and is financed by external debt and additional subordinated debt provided by the joint venture partner. The operating agreement indicates that the power to direct economically significant activities is shared with the joint venture partner, and the obligation to absorb losses or right to receive benefits resides primarily with the joint venture partner. Our investment in the joint venture is accounted for as an equity method investment and is included in *Equity in net assets of affiliated companies*. Our maximum exposure to any potential losses associated with this VIE is limited to our equity investment, and amounted to $72 million and $71 million at December 31, 2013 and 2012, respectively.

NOTE 12. NET PROPERTY AND LEASE COMMITMENTS

Net Property

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

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

Net property was as follows (in millions):

Automotive Sector	**December 31, 2013**	**December 31, 2012**
Land	$ 440	$ 423
Buildings and land improvements	10,325	10,249
Machinery, equipment and other	34,830	35,040
Software	2,069	1,813
Construction in progress	2,110	1,783
Total land, plant and equipment and other	49,774	49,308
Accumulated depreciation	(31,476)	(32,835)
Net land, plant and equipment and other	18,298	16,473
Tooling, net of amortization	9,194	8,340
Total Automotive sector	27,492	24,813
Financial Services sector (a)	124	129
Total Company	$ 27,616	$ 24,942

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

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

	2013	**2012**	**2011**
Depreciation and other amortization	$ 2,110	$ 1,794	$ 1,759
Tooling amortization	1,954	1,861	1,774
Total	$ 4,064	$ 3,655	$ 3,533
Maintenance and rearrangement	$ 1,422	$ 1,352	$ 1,431

Conditional Asset Retirement Obligations

We accrue for costs related to legal obligations to perform certain activities in connection with the retirement, abandonment, or disposal of our assets for which the fair value can be reasonably estimated. These conditional asset retirement obligations relate to the estimated costs for asbestos abatement and the removal of other regulated building materials.

NOTE 12. NET PROPERTY AND LEASE COMMITMENTS *(Continued)*

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

	December 31, 2013	December 31, 2012
Beginning balance	$ 267	$ 266
Liabilities settled	(5)	(8)
Revisions to estimates	(16)	9
Ending balance	$ 246	$ 267

Lease Commitments

We lease land, buildings, and equipment under agreements that expire over various contractual periods. Minimum non-cancellable operating lease commitments at December 31, 2013 were as follows (in millions):

	2014	2015	2016	2017	2018	Thereafter	Total
Automotive sector	$ 199	$ 168	$ 128	$ 95	$ 58	$ 134	$ 782
Financial Services sector	47	43	38	28	17	18	191
Total Company	$ 246	$ 211	$ 166	$ 123	$ 75	$ 152	$ 973

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

	2013	2012	2011
Automotive sector	$ 411	$ 404	$ 416
Financial Services sector	105	106	124
Total Company	$ 516	$ 510	$ 540

NOTE 13. OTHER LIABILITIES AND DEFERRED REVENUE

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

	December 31, 2013	December 31, 2012
Automotive Sector		
Current		
Dealer and dealers' customer allowances and claims	$ 7,730	$ 6,779
Deferred revenue	2,817	2,796
Employee benefit plans	1,706	1,504
Accrued interest	262	277
Other postretirement employee benefits ("OPEB")	387	409
Pension	327	387
Other	3,308	3,206
Total Automotive other liabilities and deferred revenue	16,537	15,358
Non-current		
Pension	9,288	18,400
OPEB	5,502	6,398
Dealer and dealers' customer allowances and claims	2,028	2,036
Deferred revenue	2,534	2,044
Employee benefit plans	789	767
Other	1,524	904
Total Automotive other liabilities and deferred revenue	21,665	30,549
Total Automotive sector	38,202	45,907
Financial Services Sector	2,260	2,352
Total Company	$ 40,462	$ 48,259

NOTE 14. RETIREMENT BENEFITS

We, and certain of our subsidiaries, provide retirement benefits including the following:

Defined Benefit Pension Plans. We have defined benefit pension plans in the United States, Canada, United Kingdom, Germany and other locations covering hourly and salaried employees. The largest portion of our worldwide obligation is associated with our U.S. plans. The vast majority of our worldwide defined benefit plans are closed to new participants.

In general, our defined benefit pension plans are funded (i.e., have restricted assets from which benefits are paid). Our unfunded defined benefit pension plans are treated on a “pay as you go” basis with benefit payments from general Company cash. These unfunded plans primarily include certain plans in Germany and U.S. defined benefit plans for senior management.

OPEB. We have defined benefit OPEB plans, primarily certain health care and life insurance benefits, in the United States, Canada, and other locations covering hourly and salaried employees. The largest portion of our worldwide obligation is associated with our U.S. plans. Our OPEB plans are unfunded and the benefits are paid from general Company cash.

Defined Contribution and Savings Plans. We have also established defined contribution and savings plans in the United States and other locations for hourly and salaried employees. Contributions to these plans, if any, are made from general Company cash and are expensed as incurred. The expense for our worldwide defined contribution and savings plans was $238 million, $181 million, and $135 million for the years ended December 31, 2013, 2012, and 2011, respectively. This includes the expense for Company-matching contributions to our primary employee savings plan in the United States of $99 million, $70 million, and $54 million for the years ended December 31, 2013, 2012, and 2011, respectively.

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

The net periodic benefit costs associated with the Company's defined benefit pension and OPEB plans are determined using assumptions regarding the benefit obligation and the market-related value of plan assets (where applicable) as of the beginning of each year. We have elected to use a market-related value of plan assets to calculate the expected return on assets in net periodic benefit costs. The market-related value recognizes changes in the fair value of plan assets in a systematic manner over five years. Net periodic benefit costs are recorded in *Automotive cost of sales* and *Selling, administrative, and other expenses*. The funded status of the benefit plans, which represents the difference between the benefit obligation and fair value of plan assets, is calculated on a plan-by-plan basis. The benefit obligation and related funded status are determined using assumptions as of the end of each year. The impact of plan amendments and actuarial gains and losses are recorded in *Accumulated other comprehensive income/(loss)*, and generally are amortized as a component of net periodic cost over the remaining service period of our active employees. 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 benefit obligation of the respective plan (i.e., outside of corridor).

Curtailment gains or losses are recorded when an event occurs that significantly reduces the expected years of future service or eliminates the accrual of defined benefits for the future services of a significant number of employees. We record a curtailment gain when the employees who are entitled to the benefits terminate their employment; we record a curtailment loss when it becomes probable a loss will occur. Upon a settlement, we recognize the proportionate amount of the unamortized gains and losses if the cost of all settlements during the year exceeds the interest component of net periodic cost for the affected plan. Expense from curtailments and settlements is recorded in *Automotive cost of sales* and *Selling, administrative, and other expenses*.

NOTE 14. RETIREMENT BENEFITS *(Continued)*

Defined Benefit Plans – Expense and Status

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

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		U.S. OPEB	
	2013	2012	2013	2012	2013	2012
Weighted Average Assumptions at December 31						
Discount rate	4.74%	3.84%	4.07%	3.92%	4.65%	3.80%
Expected long-term rate of return on assets	6.89	7.38	6.63	6.74	—	—
Average rate of increase in compensation	3.80	3.80	3.41	3.41	3.80	3.80
Assumptions Used to Determine Net Benefit Cost for the Year Ended December 31						
Discount rate	3.84%	4.64%	3.92%	4.84%	3.80%	4.60%
Expected long-term rate of return on assets	7.38	7.50	6.74	6.77	—	—
Average rate of increase in compensation	3.80	3.80	3.41	3.39	3.80	3.80

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

	Pension Benefits								
	U.S. Plans			Non-U.S. Plans			Worldwide OPEB		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Service cost	$ 581	$ 521	$ 467	$ 484	$ 372	$ 327	$ 64	$ 67	$ 63
Interest cost	1,914	2,208	2,374	1,137	1,189	1,227	256	290	327
Expected return on assets	(2,816)	(2,873)	(3,028)	(1,382)	(1,340)	(1,404)	—	—	—
Amortization of:									
Prior service costs/(credits)	174	220	343	66	72	72	(283)	(545)	(612)
(Gains)/Losses	655	425	194	686	412	301	158	129	94
Separation programs/other	10	7	1	242	162	170	—	2	10
(Gains)/Losses from curtailments and settlements	594	250	—	5	—	111	(2)	(11)	(26)
Net expense/(income)	$ 1,112	$ 758	$ 351	$ 1,238	$ 867	$ 804	$ 193	$ (68)	$ (144)

NOTE 14. RETIREMENT BENEFITS *(Continued)*

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

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Worldwide OPEB	
	2013	2012	2013	2012	2013	2012
Change in Benefit Obligation						
Benefit obligation at January 1	$ 52,125	$ 48,816	$ 30,702	$ 25,163	$ 6,810	$ 6,593
Service cost	581	521	484	372	64	67
Interest cost	1,914	2,208	1,137	1,189	256	290
Amendments	—	(39)	(1)	222	—	(156)
Separation programs and other	(75)	(40)	141	202	(11)	3
Curtailments	—	—	—	—	—	—
Settlements	(3,089)	(1,123)	(51)	—	—	—
Plan participant contributions	26	27	25	36	27	29
Benefits paid	(3,120)	(3,427)	(1,416)	(1,420)	(421)	(454)
Foreign exchange translation	—	—	229	803	(131)	47
Divestiture	—	—	—	—	—	—
Actuarial (gain)/loss	(5,180)	5,182	(399)	4,135	(705)	391
Benefit obligation at December 31	43,182	52,125	30,851	30,702	5,889	6,810
Change in Plan Assets						
Fair value of plan assets at January 1	42,395	39,414	21,713	19,198	—	—
Actual return on plan assets	1,539	5,455	1,689	1,637	—	—
Company contributions	3,535	2,134	1,852	1,629	—	—
Plan participant contributions	26	27	25	36	—	—
Benefits paid	(3,120)	(3,427)	(1,416)	(1,420)	—	—
Settlements	(3,089)	(1,123)	(51)	—	—	—
Foreign exchange translation	—	—	49	641	—	—
Divestiture	—	—	—	—	—	—
Other	(69)	(85)	(18)	(8)	—	—
Fair value of plan assets at December 31	41,217	42,395	23,843	21,713	—	—
Funded status at December 31	$ (1,965)	$ (9,730)	$ (7,008)	$ (8,989)	$ (5,889)	$ (6,810)
Amounts Recognized on the Balance Sheet						
Prepaid assets	$ 443	$ —	$ 219	$ 85	$ —	$ —
Other liabilities	(2,408)	(9,730)	(7,227)	(9,074)	(5,889)	(6,810)
Total	$ (1,965)	$ (9,730)	$ (7,008)	$ (8,989)	$ (5,889)	$ (6,810)
Amounts Recognized in Accumulated Other Comprehensive Loss (pre-tax)						
Unamortized prior service costs/(credits)	$ 764	$ 938	$ 417	$ 487	$ (959)	$ (1,263)
Unamortized net (gains)/losses	6,179	11,349	9,902	11,375	1,701	2,594
Total	$ 6,943	$ 12,287	$ 10,319	$ 11,862	$ 742	$ 1,331
Pension Plans in which Accumulated Benefit Obligation Exceeds Plan Assets at December 31						
Accumulated benefit obligation	$ 25,828	$ 50,821	$ 15,393	$ 21,653		
Fair value of plan assets	23,498	42,395	9,518	14,625		
Accumulated Benefit Obligation at December 31	$ 42,078	$ 50,821	$ 28,312	$ 28,136		
Pension Plans in which Projected Benefit Obligation Exceeds Plan Assets at December 31						
Projected benefit obligation	$ 25,906	$ 52,125	$ 23,653	$ 29,984		
Fair value of plan assets	23,498	42,395	16,426	20,910		
Projected Benefit Obligation at December 31	$ 43,182	$ 52,125	$ 30,851	$ 30,702		

NOTE 14. RETIREMENT BENEFITS *(Continued)*

Pension Plan Contributions

Our policy for funded pension plans is to contribute annually, at a minimum, amounts required by applicable laws and regulations. We may make contributions beyond those legally required.

In 2013, we contributed $5 billion to our worldwide funded pension plans (including $3.4 billion in discretionary contributions to our U.S. plans) and made $400 million of benefit payments to participants in unfunded plans. During 2014, we expect to contribute about $1.5 billion from Automotive cash and cash equivalents to our worldwide funded plans (most of which are mandatory contributions) and to make $400 million of benefit payments to participants in unfunded plans, for a total of about $1.9 billion. Based on current assumptions and regulations, we do not expect to have a legal requirement to fund our major U.S. pension plans in 2014.

Curtailments and Settlements

In April 2012, we announced a program to offer voluntary lump-sum pension payout options to eligible salaried U.S. retirees and former salaried employees that, if accepted, would settle our obligation to them. The program provided participants with a one-time choice of electing to receive a lump-sum settlement of their remaining pension benefit. As part of this voluntary lump-sum program, the Company settled $4.2 billion of its pension obligations for U.S. salaried retirees ($1.2 billion in 2012 and $3 billion in 2013) with an equal amount paid from plan assets. As a result, we recorded settlement losses of $844 million ($250 million in 2012 and $594 million in 2013) reflecting the accelerated recognition of unamortized losses in the salaried plan proportionate to the obligation that was settled. These settlement charges were recorded in *Automotive cost of sales* and *Selling, administrative, and other expenses* with a corresponding balance sheet reduction in *Accumulated other comprehensive income/(loss)*.

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

Business Restructurings

In October 2012, we announced a plan to restructure our European manufacturing operations as discussed in Note 21. In 2013, we recognized pension-related employee separation costs of $180 million which are recorded in *Automotive cost of sales* and *Selling, administrative, and other expenses*.

Estimated Future Benefit Payments and Amortization

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

	Gross Benefit Payments		
	Pension		
	U.S. Plans	Non-U.S. Plans	Worldwide OPEB
2014	$ 3,190	$ 1,380	$ 420
2015	3,150	1,380	380
2016	3,110	1,390	380
2017	3,060	1,430	370
2018	3,030	1,450	370
2019 - 2023	14,810	7,820	1,850

The amounts in *Accumulated other comprehensive income/(loss)* that are expected to be recognized as components of net expense/(income) during 2014 are as follows (in millions):

	Pension Benefits			
	U.S. Plans	Non-U.S. Plans	Worldwide OPEB	Total
Prior service cost/(credit)	$ 155	$ 56	$ (231)	$ (20)
(Gains)/Losses	207	598	98	903

NOTE 14. RETIREMENT BENEFITS *(Continued)*

Pension Plan Asset Information

Investment Objective and Strategies. Our investment objectives for the U.S. plans are to minimize the volatility of the value of our U.S. pension assets relative to U.S. pension liabilities and to ensure assets are sufficient to pay plan benefits. As disclosed previously, in 2012 we adopted a broad global pension de-risking strategy, including a U.S. investment strategy that increases the matching characteristics of our assets relative to our liabilities. Our U.S. target asset allocations, which we expect to reach over the next few years as the plans achieve full funding, are 80% fixed income and 20% growth assets (primarily alternative investments, which include hedge funds, real estate, private equity, and public equity). Our largest non-U.S. plans (Ford U.K. and Ford Canada) have similar investment objectives to the U.S. plans. We expect to reach similar target asset allocations for these plans as they achieve full funding over the next few years, subject to legal requirements in each country.

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

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

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

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

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

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

At year-end 2013, Ford securities comprised less than 1% of our plan assets.

NOTE 14. RETIREMENT BENEFITS *(Continued)*

Expected Long-Term Rate of Return on Assets. The long-term return assumption at year-end 2013 is 6.89% for the U.S. plans, 7.25% for the U.K. plans, and 6.31% for the Canadian plans, and averages 6.63% for all non-U.S. plans. A generally consistent approach is used worldwide to develop this assumption. This approach considers various sources, primarily inputs from a range of advisors for long-term capital market returns, inflation, bond yields, and other variables, adjusted for specific aspects of our investment strategy by plan. Historical returns also are considered where appropriate.

At December 31, 2013, our actual 10-year annual rate of return on pension plan assets was 9% for the U.S. plans, 7.7% for the U.K. plans, and 5.8% for the Canadian plans. At December 31, 2012, our actual 10-year annual rate of return on pension plan assets was 11.1% for the U.S. plans, 8.7% for the U.K. plans, and 6.4% for the Canadian plans.

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

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

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

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

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

Alternative Assets. Hedge funds generally hold liquid and readily-priced securities, such as public equities, exchange-traded derivatives, and corporate bonds. Since hedge funds do not have readily-available market quotations, they are valued using the NAV provided by the investment sponsor or third party administrator. Hedge fund assets typically are categorized as Level 3 in the fair value hierarchy due to the inherent restrictions on redemptions that may affect our ability to sell the investment at its NAV in the near term. Valuations may be lagged 1 month to 3 months. For 2013 and 2012, we made adjustments of $(10) million and $33 million, respectively, to adjust for hedge fund-lagged valuations.

NOTE 14. RETIREMENT BENEFITS *(Continued)*

Private equity and real estate investments are less liquid. External investment managers typically report valuations reflecting initial cost or updated appraisals, which are adjusted for cash flows, and realized and unrealized gains/losses. Private equity and real estate funds do not have readily available market quotations, and therefore are valued using the NAV provided by the investment sponsor or third party administrator. These assets typically are categorized as Level 3 in the fair value hierarchy, due to the inherent restrictions on redemptions that may affect our ability to sell the investment at its NAV in the near term. Valuations may be lagged 1 month - 6 months. The NAV will be adjusted for cash flows (additional investments or contributions, and distributions) through year-end. We may make further adjustments for any known substantive valuation changes not reflected in the NAV. For 2013 and 2012, we made adjustments of $123 million and $56 million, respectively, to adjust for private equity-lagged valuations. For 2013 and 2012, we made adjustments of $0 and $24 million, respectively, to adjust for real estate-lagged valuations.

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

NOTE 14. RETIREMENT BENEFITS *(Continued)*

The fair value of our pension benefits plan assets (including dividends and interest receivables of $349 million and $99 million for U.S. and non-U.S. plans, respectively) by asset category was as follows (in millions):

	December 31, 2013							
	U.S. Plans				Non-U.S. Plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Category								
Equity								
U.S. companies	$ 3,724	$ 22	$ 3	$ 3,749	$ 2,711	$ 229	$ —	$ 2,940
International companies	2,288	76	1	2,365	2,983	214	2	3,199
Derivative financial instruments (a)	—	—	—	—	—	—	—	—
Total equity	6,012	98	4	6,114	5,694	443	2	6,139
Fixed Income								
U.S. government	3,610	—	—	3,610	30	—	—	30
U.S. government-sponsored enterprises (b)	—	4,127	—	4,127	—	11	—	11
Non-U.S. government	—	2,115	—	2,115	—	6,880	67	6,947
Corporate bonds (c)								
Investment grade	—	15,058	—	15,058	—	1,229	55	1,284
High yield	—	1,254	—	1,254	—	337	21	358
Other credit	—	48	—	48	—	37	13	50
Mortgage/other asset-backed	—	1,287	33	1,320	—	238	14	252
Commingled funds	—	304	—	304	—	471	—	471
Derivative financial instruments (a)	(23)	41	—	18	—	(5)	—	(5)
Total fixed income	3,587	24,234	33	27,854	30	9,198	170	9,398
Alternatives								
Hedge funds (d)	—	—	2,778	2,778	—	—	1,657	1,657
Private equity (e)	—	—	2,626	2,626	—	—	352	352
Real estate (f)	—	—	610	610	—	—	601	601
Total alternatives	—	—	6,014	6,014	—	—	2,610	2,610
Cash and cash equivalents (g)	—	1,477	—	1,477	—	950	—	950
Other (h)	(273)	30	1	(242)	(465)	13	5,198	4,746
Total assets at fair value	$ 9,326	$ 25,839	$ 6,052	$ 41,217	$ 5,259	$ 10,604	$ 7,980	$ 23,843

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(a) Net derivative position.
(b) Debt securities primarily issued by U.S. government-sponsored enterprises ("GSEs").
(c) "Investment grade" bonds are those rated Baa3/BBB- or higher by at least two rating agencies; "High yield" bonds are those rated below investment grade; "Other credit" refers to non-rated bonds.
(d) For U.S. Plans, funds investing in diverse hedge fund strategies with the following composition of underlying hedge fund investments within the U.S. pension plans at December 31, 2013: global macro (32%), event-driven (26%), equity long/short (22%), multi-strategy (11%) and relative value (9%). For non-U.S. Plans, funds investing in diversified portfolio of underlying hedge funds. At December 31, 2013, the composition of underlying hedge fund investments (within the U.K. and Canada pension plans) was: event-driven (35%), equity long/short (35%), multi-strategy (12%), global macro (12%) and relative value (6%).
(e) For U.S. Plans, diversified investments in private equity funds with the following strategies: buyout (61%), venture capital (26%), mezzanine/distressed (7%), and other (6%). Allocations are estimated based on latest available data for managers reflecting June 30, 2013 holdings. For non-U.S. Plans, investments in private investment funds (funds of funds) pursuing strategies broadly classified as venture capital and buyouts.
(f) For investment in private property funds broadly classified as core (49%), value-added and opportunistic (51%). For non-U.S. Plans, investment in private property funds broadly classified as core (40%), value-added and opportunistic (60%). Also includes investment in real assets.
(g) Primarily short-term investment funds to provide liquidity to plan investment managers and cash held to pay benefits.
(h) For U.S. Plans, primarily cash related to net pending security (purchases)/sales and net pending foreign currency purchases/(sales). For non-U.S. Plans, primarily Ford-Werke, plan assets (insurance contract valued at $4,077 million) and cash related to net pending security (purchases)/sales and net pending foreign currency purchases/(sales).

NOTE 14. RETIREMENT BENEFITS *(Continued)*

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

	December 31, 2012							
	U.S. Plans				Non-U.S.Plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Category								
Equity								
U.S. companies	$ 7,544	$ 48	$ 15	$ 7,607	$ 3,221	$ 223	$ —	$ 3,444
International companies	4,971	133	3	5,107	3,424	188	1	3,613
Derivative financial instruments (a)	—	—	—	—	—	—	—	—
Total equity	12,515	181	18	12,714	6,645	411	1	7,057
Fixed Income								
U.S. government	2,523	—	—	2,523	99	—	—	99
U.S. government-sponsored enterprises (b)	—	3,236	3	3,239	—	6	—	6
Non-U.S. government	—	2,884	32	2,916	—	5,841	41	5,882
Corporate bonds (c)								
Investment grade	—	10,581	80	10,661	—	1,147	22	1,169
High yield	—	1,386	14	1,400	—	268	1	269
Other credit	—	28	50	78	—	13	6	19
Mortgage/other asset-backed	—	1,183	115	1,298	—	168	28	196
Commingled funds	—	477	—	477	—	504	—	504
Derivative financial instruments (a)	(31)	(105)	—	(136)	—	3	(1)	2
Total fixed income	2,492	19,670	294	22,456	99	7,950	97	8,146
Alternatives								
Hedge funds (d)	—	—	3,121	3,121	—	—	1,142	1,142
Private equity (e)	—	—	2,412	2,412	—	—	236	236
Real estate (f)	—	—	457	457	—	1	329	330
Total alternatives	—	—	5,990	5,990	—	1	1,707	1,708
Cash and cash equivalents (g)	—	1,844	57	1,901	—	867	—	867
Other (h)	(681)	15	—	(666)	(751)	16	4,670	3,935
Total assets at fair value	$ 14,326	$ 21,710	$ 6,359	$ 42,395	$ 5,993	$ 9,245	$ 6,475	$ 21,713

(a) Net derivative position.
(b) Debt securities primarily issued by GSEs.
(c) "Investment grade" bonds are those rated Baa3/BBB- or higher by at least two rating agencies; "High yield" bonds are those rated below investment grade; "Other credit" refers to non-rated bonds.
(d) For U.S. Plans, funds investing in diverse hedge fund strategies (primarily commingled fund of funds) with the following composition of underlying hedge fund investments within the U.S. pension plans at December 31, 2012: global macro (39%), event-driven (21%), equity long/short (17%), relative value (13%), and multi-strategy (10%). For non-U.S. Plans, funds investing in diversified portfolio of underlying hedge funds (commingled fund of funds). At December 31, 2012, the composition of underlying hedge fund investments (within the U.K. and Canada pension plans) was: event-driven (36%), equity long/short (26%), multi-strategy (14%), global macro (13%) and relative value (11%).
(e) For U.S. Plans, diversified investments in private equity funds with the following strategies: buyout (60%), venture capital (25%), mezzanine/distressed (8%), and other (7%). Allocations are estimated based on latest available data for managers reflecting June 30, 2012 holdings. For non-U.S. Plans, investments in private investment funds (funds of funds) pursuing strategies broadly classified as venture capital and buyouts.
(f) For U.S. Plans, Investment in private property funds broadly classified as core (54%), value-added and opportunistic (46%). For non-U.S. Plans, investment in private property funds broadly classified as core (31%), value-added and opportunistic (69%). Also includes investment in real assets.
(g) Primarily short-term investment funds to provide liquidity to plan investment managers and cash held to pay benefits.
(h) For U.S. Plans, primarily cash related to net pending trade purchases/sales and net pending foreign exchange purchases/sales. For non-U.S. Plans, primarily Ford-Werke, plan assets (insurance contract valued at $3,609 million) and cash related to net pending trade purchases/sales and net pending foreign exchange purchases/sales.

NOTE 14. RETIREMENT BENEFITS *(Continued)*

The following table summarizes the changes in Level 3 pension benefits plan assets measured at fair value on a recurring basis for the year ended December 31, 2013 (in millions):

	2013					
		Return on plan assets				
U.S. Plans:	Fair Value at January 1, 2013	Attributable to Assets Held at December 31, 2013	Attributable to Assets Sold	Net Purchases/ (Settlements)	Transfers Into/ (Out of) Level 3	Fair Value at December 31, 2013
Asset Category						
Equity						
U.S. companies	$ 15	$ —	$ —	$ —	$ (12)	$ 3
International companies	3	—	—	(2)	—	1
Total equity	18	—	—	(2)	(12)	4
Fixed Income						
U.S. government	—	—	—	—	—	—
U.S. government-sponsored enterprises	3	—	—	—	(3)	—
Non-U.S. government	32	—	(1)	(28)	(3)	—
Corporate bonds						
Investment grade	80	—	(4)	(33)	(43)	—
High yield	14	—	(1)	(12)	(1)	—
Other credit	50	—	(7)	(26)	(17)	—
Mortgage/other asset-backed	115	—	7	7	(96)	33
Derivative financial instruments	—	—	—	—	—	—
Total fixed income	294	—	(6)	(92)	(163)	33
Alternatives						
Hedge funds	3,121	295	(40)	(598)	—	2,778
Private equity	2,412	345	—	(131)	—	2,626
Real estate	457	45	—	108	—	610
Total alternatives	5,990	685	(40)	(621)	—	6,014
Other	57	1	2	(55)	(4)	1
Total Level 3 fair value	$ 6,359	$ 686	$ (44)	$ (770)	$ (179)	$ 6,052
Non-U.S. Plans:						
Asset Category						
Equity						
U.S. companies	$ —	$ —	$ —	$ —	$ —	$ —
International companies	1	—	—	—	1	2
Total equity	1	—	—	—	1	2
Fixed Income						
U.S. government	—	—	—	—	—	—
U.S. government-sponsored enterprises	—	—	—	—	—	—
Non-U.S. government	41	(7)	—	33	—	67
Corporate bonds						
Investment grade	22	(1)	(1)	32	3	55
High yield	1	—	—	19	1	21
Other credit	6	—	—	7	—	13
Mortgage/other asset-backed	28	—	2	1	(17)	14
Derivative financial instruments	(1)	—	—	1	—	—
Total fixed income	97	(8)	1	93	(13)	170
Alternatives						
Hedge funds	1,142	114	10	391	—	1,657
Private equity	236	34	—	82	—	352
Real estate	329	42	—	230	—	601
Total alternatives	1,707	190	10	703	—	2,610
Other (a)	4,670	528	—	—	—	5,198
Total Level 3 fair value	$ 6,475	$ 710	$ 11	$ 796	$ (12)	$ 7,980

(a) Primarily Ford-Werke plan assets (insurance contract valued at $4,077 million).

NOTE 14. RETIREMENT BENEFITS *(Continued)*

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

	2012					
		Return on plan assets				
U.S. Plans	Fair Value at January 1, 2012	Attributable to Assets Held at December 31, 2012	Attributable to Assets Sold	Net Purchases/ (Settlements)	Transfers Into/ (Out of) Level 3	Fair Value at December 31, 2012
Asset Category						
Equity						
U.S. companies	$ 15	$ —	$ —	$ —	$ —	$ 15
International companies	3	—	3	(3)	—	3
Total equity	18	—	3	(3)	—	18
Fixed Income						
U.S. government	—	—	—	—	—	—
U.S. government-sponsored enterprises	8	—	—	(5)	—	3
Non-U.S. government	169	2	5	(137)	(7)	32
Corporate bonds						
Investment grade	33	5	(4)	14	32	80
High yield	11	1	1	4	(3)	14
Other credit	17	5	—	28	—	50
Mortgage/other asset-backed	54	1	3	43	14	115
Derivative financial instruments	6	(3)	(9)	10	(4)	—
Total fixed income	298	11	(4)	(43)	32	294
Alternatives						
Hedge funds	2,968	189	(6)	(30)	—	3,121
Private equity	2,085	201	—	126	—	2,412
Real estate	362	31	1	63	—	457
Total alternatives	5,415	421	(5)	159	—	5,990
Other	(2)	2	—	67	(10)	57
Total Level 3 fair value	$ 5,729	$ 434	$ (6)	$ 180	$ 22	$ 6,359
Non-U.S. Plan						
Asset Category						
Equity						
U.S. companies	$ —	$ —	$ —	$ —	$ —	$ —
International companies	1	—	—	—	—	1
Total equity	1	—	—	—	—	1
Fixed Income						
U.S. government	—	—	—	—	—	—
U.S. government-sponsored enterprises	—	—	—	—	—	—
Non-U.S. government	122	1	9	(31)	(60)	41
Corporate bonds						
Investment grade	11	1	1	4	5	22
High yield	—	—	—	1	—	1
Other credit	—	—	—	6	—	6
Mortgage/other asset-backed	6	—	—	14	8	28
Derivative financial instruments	(6)	—	(3)	—	8	(1)
Total fixed income	133	2	7	(6)	(39)	97
Alternatives						
Hedge funds	1,053	79	10	—	—	1,142
Private equity	123	14	—	99	—	236
Real estate	160	4	(1)	166	—	329
Total alternatives	1,336	97	9	265	—	1,707
Other (a)	4,358	312	—	—	—	4,670
Total Level 3 fair value	$ 5,828	$ 411	$ 16	$ 259	$ (39)	$ 6,475

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

NOTE 15. DEBT AND COMMITMENTS

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

Debt is recorded on our balance sheet at par value adjusted for unamortized discount or premium and adjustments related to designated fair value hedges (see Note 16 for policy detail). Discounts, premiums, and costs directly related to the issuance of debt are amortized over the life of the debt or to the put date and are recorded in *Interest expense* using the effective interest method. Gains and losses on the extinguishment of debt are recorded in *Automotive interest income and other income/(expense), net* and *Financial Services other income/(loss), net*.

NOTE 15. DEBT AND COMMITMENTS *(Continued)*

The carrying value of Total Company debt was $114.7 billion and $105.1 billion at December 31, 2013 and 2012, respectively. The following table details the carrying value of our debt by Automotive sector and Financial Services sector (in millions):

			Interest Rates			
			Average Contractual (a)		Average Effective (b)	
Automotive Sector	**December 31, 2013**	**December 31, 2012**	**December 31, 2013**	**December 31, 2012**	**December 31, 2013**	**December 31, 2012**
Debt payable within one year						
Short-term	$ 562	$ 484	1.5%	1.5%	1.5%	1.5%
Long-term payable within one year						
U.S. Department of Energy ("DOE") Advanced Technology Vehicles Manufacturing ("ATVM") Incentive	591	591				
Other debt	104	311				
Total debt payable within one year	1,257	1,386				
Long-term debt payable after one year						
Public unsecured debt securities (c)	6,799	5,420				
Unamortized (discount)/premium	(148)	(100)				
Convertible notes	908	908				
Unamortized (discount)/premium	(110)	(142)				
DOE ATVM Incentive Program	4,424	5,014				
EIB Credit Facilities (d)	1,295	729				
Other debt	1,255	1,048				
Unamortized (discount)/premium	3	(7)				
Total long-term debt payable after one year	14,426	12,870	4.4%	4.6%	4.7%	5.1%
Total Automotive sector	$ 15,683	$ 14,256				
Fair value of Automotive sector debt (e)	$ 17,301	$ 14,867				
Financial Services Sector						
Short-term debt						
Asset-backed commercial paper	$ 3,364	$ 5,752				
Other asset-backed short-term debt	1,963	3,762				
Floating rate demand notes	5,319	4,890				
Commercial paper	2,003	1,686				
Other short-term debt	2,345	1,655				
Total short-term debt	14,994	17,745	1.5%	1.1%	1.5%	1.1%
Long-term debt						
Unsecured debt						
Notes payable within one year	4,475	5,830				
Notes payable after one year	38,914	32,503				
Asset-backed debt						
Notes payable within one year	17,337	13,801				
Notes payable after one year	23,273	20,266				
Unamortized (discount)/premium	(91)	(134)				
Fair value adjustments (f)	103	791				
Total long-term debt	84,011	73,057	3.1%	3.8%	3.3%	4.1%
Total Financial Services sector	$ 99,005	$ 90,802				
Fair value of Financial Services sector debt (e)	$ 102,399	$ 94,578				

(a) Average contractual rates reflect the stated contractual interest rate with the exception of commercial paper, which is issued at a discount.
(b) Average effective rates reflect the average contractual interest rate plus amortization of discounts, premiums, and issuance fees.
(c) Public unsecured debt securities at December 31, 2013 increased by about $1.4 billion from December 31, 2012, primarily reflecting the issuance of $2 billion of 4.75% *Notes due January 15, 2043*, offset partially by the redemption of about $600 million of *7.5% Notes due June 10, 2043*.
(d) Includes debt of Ford Romania which was consolidated on January 1, 2013. See Note 23 for additional information.
(e) The fair value of debt includes $377 million and $484 million of Automotive sector short-term debt and $9.7 billion and $8.4 billion of Financial Services sector short-term debt at December 31, 2013 and 2012, respectively, carried at cost which approximates fair value. All debt is categorized within Level 2 of the fair value hierarchy. See Note 4 for additional information.
(f) Adjustments related to designated fair value hedges of unsecured debt.

NOTE 15. DEBT AND COMMITMENTS *(Continued)*

The fair value of debt presented above reflects interest accrued but not yet paid. Interest accrued on Automotive debt is reported in *Automotive other liabilities and deferred revenue* and was $195 million and $194 million at December 31, 2013 and 2012, respectively. Interest accrued on Financial Services debt is reported in *Financial Services other liabilities and deferred income* and was $633 million and $744 million at December 31, 2013 and 2012, respectively. See Note 4 for fair value methodology.

Maturities

The following table summarizes contractual maturities including capital leases at December 31, 2013 (in millions):

	2014	2015	2016	2017	2018	Thereafter	Total Debt Maturities
Automotive Sector							
Public unsecured debt securities	$ —	$ 165	$ —	$ —	$ 361	$ 6,273	$ 6,799
Convertible notes	—	—	883	—	—	25	908
DOE ATVM Incentive Program	591	591	591	591	591	2,060	5,015
Short-term and other debt (a)	666	1,772	289	73	71	345	3,216
Total (b)	1,257	2,528	1,763	664	1,023	8,703	15,938
Financial Services Sector							
Unsecured debt	14,142	9,048	8,955	7,445	5,612	7,854	53,056
Asset-backed debt	22,664	11,994	7,836	2,746	497	200	45,937
Total (b)	36,806	21,042	16,791	10,191	6,109	8,054	98,993
Total Company (b)	$ 38,063	$ 23,570	$ 18,554	$ 10,855	$ 7,132	$ 16,757	$ 114,931

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(a) Primarily non-U.S. affiliate debt and includes the EIB secured loans.
(b) Excludes discounts, premiums and adjustments, if any, related to designated fair value hedges of unsecured debt.

NOTE 15. DEBT AND COMMITMENTS *(Continued)*

Automotive Sector

Public Unsecured Debt Securities

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

Title of Security	Aggregate Principal Amount Outstanding December 31, 2013	Aggregate Principal Amount Outstanding December 31, 2012
4 7/8% Debentures due March 26, 2015	$ 165	$ 160
6 1/2% Debentures due August 1, 2018	361	361
8 7/8% Debentures due January 15, 2022	86	86
6.55% Debentures due October 3, 2022 (a) (e)	—	15
7 1/8% Debentures due November 15, 2025	209	209
7 1/2% Debentures due August 1, 2026	193	193
6 5/8% Debentures due February 15, 2028	104	104
6 5/8% Debentures due October 1, 2028 (b)	638	638
6 3/8% Debentures due February 1, 2029 (b)	260	260
5.95% Debentures due September 3, 2029 (a) (e)	—	8
6.15% Debentures due June 3, 2030 (a) (e)	—	10
7.45% GLOBLS due July 16, 2031 (b)	1,794	1,794
8.900% Debentures due January 15, 2032	151	151
9.95% Debentures due February 15, 2032	4	4
5.75% Debentures due April 2, 2035 (a)	40	40
7.50% Notes due June 10, 2043 (c)	—	593
7.75% Debentures due June 15, 2043	73	73
7.40% Debentures due November 1, 2046	398	398
9.980% Debentures due February 15, 2047	181	181
7.70% Debentures due May 15, 2097	142	142
4.75% Notes due January 15, 2043	2,000	—
Total public unsecured debt securities (d)	$ 6,799	$ 5,420

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(a) Unregistered industrial revenue bonds.
(b) Listed on the Luxembourg Exchange and on the Singapore Exchange.
(c) Listed on the New York Stock Exchange; this debt was redeemed as of February 4, 2013.
(d) Excludes 9.215% *Debentures due September 15, 2021* with an outstanding balance at December 31, 2013 of $180 million. The proceeds from these securities were on-lent by Ford to Ford Holdings to fund Financial Services activity and are reported as *Financial Services debt*.
(e) Redeemed as of November 25, 2013.

Convertible Notes

At December 31, 2013, we had outstanding $883 million and $25 million principal amount of 4.25% Senior Convertible Notes due November 15, 2016 (“2016 Convertible Notes”) and December 15, 2036 (“2036 Convertible Notes”), respectively.

Subject to certain limitations relating to the price of Ford Common Stock, the 2016 Convertible Notes are convertible into shares of Ford Common Stock, based on a conversion rate (subject to adjustment) of 112.8203 shares per $1,000 principal amount of 2016 Convertible Notes (which is equal to a conversion price of $8.86 per share). Upon conversion of the 2016 Convertible Notes, we have the right to deliver, in lieu of shares of Ford Common Stock, either cash or a combination of cash and Ford Common Stock. We may terminate the conversion rights of holders under the 2016 Convertible Notes at any time on or after November 20, 2014 if the closing price of Ford Common Stock exceeds 130% of the then-applicable conversion price for 20 trading days during the consecutive 30-trading-day period prior to notice of termination.

NOTE 15. DEBT AND COMMITMENTS *(Continued)*

In December 2013, we elected to terminate the conversion rights of holders under the 2036 Convertible Notes in accordance with their terms effective as of the close of business on January 21, 2014.

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

			Total Effective Interest Rate	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Liability component				
4.25% Debentures due November 15, 2016	$ 768	$ 768	9.2%	9.2%
4.25% Debentures due November 15, 2016 (underwriter option)	115	115	8.6%	8.6%
Subtotal Convertible Debt due November 15, 2016	883	883		
4.25% Debentures due December 15, 2036	25	25	10.5%	10.5%
Unamortized discount	(110)	(142)		
Net carrying amount	$ 798	$ 766		
Equity component of outstanding debt (a)	$ (225)	$ (225)		
Share value in excess of principal value, if converted (b)	673	384		

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(a) Recorded in *Capital in excess of par value of stock.*
(b) Based on share price of $15.43 and $12.95 as of December 31, 2013 and 2012, respectively.

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

	2013	2012	2011
Contractual interest coupon	$ 39	$ 38	$ 38
Amortization of discount	32	30	27
Total interest cost on Convertible Notes	$ 71	$ 68	$ 65

DOE ATVM Incentive Program

In September 2009, we entered into a Loan Arrangement and Reimbursement Agreement with the DOE, pursuant to which the DOE agreed to (i) arrange a 13-year multi-draw term loan 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 the Note Purchase Agreement for the purchase of notes to be issued by us evidencing such loans. 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 still outstanding being about 2.3% per annum).

NOTE 15. DEBT AND COMMITMENTS *(Continued)*

EIB Credit Facilities

On December 21, 2009, Ford Romania, our operating subsidiary in Romania, entered into a credit facility for an aggregate amount of €400 million (equivalent to $551 million at December 31, 2013) with the EIB (the "EIB Romania Facility"), and 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 $744 million at December 31, 2013) with the EIB (the "EIB United Kingdom Facility"). The facilities were fully drawn at December 31, 2013. Loans under the EIB Romania Facility and the EIB United Kingdom Facility bear interest at a fixed rate of 4.44% and 4% per annum, respectively. Proceeds of loans drawn under the EIB Romania Facility have been used to fund upgrades to a vehicle plant in Romania, and proceeds of loans drawn under the EIB United Kingdom Facility have been used to fund costs for the research and development of fuel-efficient engines and commercial vehicles with lower emissions, and upgrades to an engine manufacturing plant in the United Kingdom. The loans under each facility are five-year, non-amortizing loans secured by respective guarantees from the governments of Romania and the United Kingdom for approximately 80% and from us for approximately 20% of the outstanding principal amounts. Ford Romania and Ford of Britain have each pledged fixed assets, receivables, and/or inventory to the governments of Romania and the United Kingdom as collateral, and we have pledged 50% of the shares of Ford Romania to the government of Romania and guaranteed Ford of Britain's obligations to the government of the United Kingdom.

Automotive Credit Facilities

At December 31, 2013, lenders under our revolving credit facility had commitments totaling $10.7 billion, with a November 30, 2017 maturity date, and commitments totaling $50 million with a November 30, 2015 maturity date. The revolving credit facility is unsecured and 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 revolving credit facility contains a liquidity covenant that requires us to maintain a minimum of $4 billion in aggregate of domestic cash, cash equivalents, and loaned and marketable securities and/or availability under the revolving credit facility. If our senior, unsecured, long-term debt does not maintain at least two investment grade ratings from Fitch, Moody's, and S&P, the guarantees of certain subsidiaries will be required.

At December 31, 2013, the utilized portion of the revolving credit facility was $83 million, representing amounts utilized as letters of credit.

At December 31, 2013, we had $802 million of local credit facilities to foreign Automotive affiliates, of which $99 million has been utilized. Of the $802 million of committed credit facilities, $487 million expires in 2014, $277 million expires in 2015, and $38 million thereafter.

Financial Services Sector

Asset-Backed Debt

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

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

NOTE 15. DEBT AND COMMITMENTS *(Continued)*

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

	2013		
	Cash and Cash Equivalents	Finance Receivables, Net and Net Investment in Operating Leases	Related Debt
VIEs (a)			
Finance receivables	$ 3.8	$ 45.8	$ 35.1
Net investment in operating leases	0.4	8.1	5.6
Total	$ 4.2	$ 53.9	$ 40.7
Non-VIE			
Finance receivables (b)	$ 0.2	$ 5.6	$ 5.2
Total securitization transactions			
Finance receivables	$ 4.0	$ 51.4	$ 40.3
Net investment in operating leases	0.4	8.1	5.6
Total	$ 4.4	$ 59.5	$ 45.9

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

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(a) Includes assets to be used to settle liabilities of the consolidated VIEs. See Note 11 for additional information on Financial Services sector VIEs.
(b) Certain notes issued by the VIEs to affiliated companies served as collateral for accessing the ECB open market operations program. This external funding of $145 million at December 31, 2012 was not reflected as debt of the VIEs and is excluded from the table above, but was included on our consolidated debt. The finance receivables backing this external funding are included in the table above.

Financial Services sector asset-backed debt also included $0 and $64 million at December 31, 2013 and 2012, respectively, that is secured by property.

Credit Facilities

At December 31, 2013, Ford Credit and its majority-owned subsidiaries had $1.6 billion of contractually-committed unsecured credit facilities with financial institutions, including FCE Bank plc's ("FCE") £720 million (equivalent to $1.2 billion at December 31, 2013) which matures in 2016. At December 31, 2013, $1.2 billion was available for use. The FCE Credit Agreement contains certain covenants, including an obligation for FCE to maintain its ratio of regulatory capital to risk-weighted assets at no less than the applicable regulatory minimum, and for the support agreement between FCE and Ford Credit to remain in full force and effect (and enforced by FCE to ensure that its net worth is maintained at no less than $500 million). In addition to customary payment, representation, bankruptcy, and judgment defaults, the FCE Credit Agreement contains cross-payment and cross-acceleration defaults with respect to other debt.

NOTE 15. DEBT AND COMMITMENTS *(Continued)*

At December 31, 2013, FCAR's bank liquidity facilities available to support FCAR's asset-backed commercial paper, subordinated debt, or its purchase of Ford Credit's asset-backed securities was $3.5 billion, down from $6.3 billion at December 31, 2012. This reduction has been offset by increases in other committed liquidity programs, leaving Ford Credit's total sources of liquidity largely unchanged.

Committed Liquidity Programs

Ford Credit and its subsidiaries, including FCE, have entered into agreements with a number of bank-sponsored, asset-backed commercial paper conduits ("conduits") and other financial institutions. Such counterparties are contractually committed, at Ford Credit's option, to purchase from it eligible retail or wholesale assets or to purchase or make advances under asset-backed securities backed by retail, lease, or wholesale assets for proceeds of up to $29.4 billion ($18.4 billion retail, $5.7 billion wholesale, and $5.3 billion lease assets) at December 31, 2013, of which about $5.4 billion are commitments to FCE. These committed liquidity programs have varying maturity dates, with $24.5 billion (of which about $5 billion relates to FCE commitments) having maturities within the next twelve months and the remaining balance having maturities between January 2015 and December 2015. Ford Credit plans to achieve capacity renewals to protect its global funding needs, optimize capacity utilization, and maintain sufficient liquidity.

Ford Credit's ability to obtain funding under these programs is subject to having a sufficient amount of assets eligible for these programs as well as its ability to obtain interest rate hedging arrangements for certain securitization transactions. Ford Credit's capacity in excess of eligible receivables protects it against the risk of lower than planned renewal rates. At December 31, 2013, $14.7 billion of these commitments were in use. These programs are free of material adverse change clauses, restrictive financial covenants (for example, debt-to-equity limitations and minimum net worth requirements), and generally, credit rating triggers that could limit Ford Credit's ability to obtain funding. However, the unused portion of these commitments may be terminated if the performance of the underlying assets deteriorates beyond specified levels. Based on Ford Credit's experience and knowledge as servicer of the related assets, we do not expect any of these programs to be terminated due to such events.

NOTE 16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

Derivative Financial Instruments and Hedge Accounting. Derivatives are recorded on the balance sheet at fair value and presented on a gross basis.

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

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

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

NOTE 16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

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

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

Hedge ineffectiveness is the difference between the change in fair value of the derivative instrument and the change in fair value of the hedged item attributable to changes in the benchmark interest rate. Ineffectiveness is recorded directly to income.

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

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

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

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

NOTE 16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

Income Effect of Derivative Financial Instruments

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

	2013			2012			2011		
	Gains/ (Losses) Recorded in OCI	Gains/ (Losses) Reclassified from AOCI to Income	Gains/ (Losses) Recognized in Income	Gains/ (Losses) Recorded in OCI	Gains/ (Losses) Reclassified from AOCI to Income	Gains/ (Losses) Recognized in Income	Gains/ (Losses) Recorded in OCI	Gains/ (Losses) Reclassified from AOCI to Income	Gains/ (Losses) Recognized in Income
Automotive Sector									
Cash flow hedges									
Foreign currency exchange contracts	$ 317	$ (80)	$ (3)	$ (371)	$ (377)	$ 1	$ (100)	$ 119	$ (3)
Derivatives not designated as hedging instruments									
Foreign currency exchange contracts			$ (26)			$ (138)			$ 20
Commodity contracts			(84)			(65)			(423)
Other – warrants			—			(4)			(1)
Total			$ (110)			$ (207)			$ (404)
Financial Services Sector									
Fair value hedges									
Interest rate contracts									
Net interest settlements and accruals excluded from the assessment of hedge effectiveness			$ 254			$ 177			$ 217
Ineffectiveness (a)			(44)			16			(30)
Total			$ 210			$ 193			$ 187
Derivatives not designated as hedging instruments									
Interest rate contracts			$ (33)			$ (14)			$ (5)
Foreign currency exchange contracts			21			(70)			(48)
Cross-currency interest rate swap contracts			(88)			(150)			(3)
Other (b)			—			(81)			65
Total			$ (100)			$ (315)			$ 9

(a) For 2013, 2012, and 2011, hedge ineffectiveness reflects change in fair value on derivatives of $658 million loss, $228 million gain, and $433 million gain, respectively, and change in value on hedged debt attributable to the change in benchmark interest rate of $614 million gain, $212 million loss, and $463 million loss, respectively.

(b) Reflects gains/(losses) for derivative features included in the FUEL Notes (see Note 4).

NOTE 16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

Balance Sheet Effect of Derivative Financial Instruments

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

	December 31, 2013			December 31, 2012		
	Notional	Fair Value of Assets	Fair Value of Liabilities	Notional	Fair Value of Assets	Fair Value of Liabilities
Automotive Sector						
Cash flow hedges						
Foreign currency exchange contracts	$ 16,238	$ 413	$ 189	$ 17,663	$ 150	$ 357
Derivatives not designated as hedging instruments						
Foreign currency exchange contracts	11,599	144	210	9,225	68	129
Commodity contracts	3,006	23	19	1,854	23	124
Total derivatives not designated as hedging instruments	14,605	167	229	11,079	91	253
Total Automotive sector derivative financial instruments	$ 30,843	$ 580	$ 418	$ 28,742	$ 241	$ 610
Financial Services Sector						
Fair value hedges						
Interest rate contracts	$ 18,778	$ 360	$ 179	$ 16,754	$ 787	$ 8
Derivatives not designated as hedging instruments						
Interest rate contracts	69,863	224	126	68,919	504	248
Foreign currency exchange contracts	2,410	1	25	2,378	9	8
Cross-currency interest rate swap contracts	2,620	—	176	3,006	—	117
Total derivatives not designated as hedging instruments	74,893	225	327	74,303	513	373
Total Financial Services sector derivative financial instruments	$ 93,671	$ 585	$ 506	$ 91,057	$ 1,300	$ 381

Notional amounts are presented on a gross basis. The notional amounts of the derivative financial instruments do not represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, foreign currency exchange rates, or commodity volumes and prices.

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

NOTE 16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

Counterparty Risk and Collateral

The use of derivatives exposes us to the risk that a counterparty may default on a derivative contract. We establish exposure limits for each counterparty to minimize this risk and provide counterparty diversification. Substantially all of our derivative exposures are with counterparties that have an investment grade rating. The aggregate fair value of our derivative instruments in asset positions on December 31, 2013 was $1.2 billion, representing the maximum loss that we would recognize at that date if all counterparties failed to perform as contracted. We enter into master agreements with counterparties that may allow for netting of exposures in the event of default or termination of the counterparty agreement due to breach of contract.

The gross and net amounts of derivative assets and liabilities were as follows (in millions):

	December 31, 2013		December 31, 2012	
	Fair Value of Assets	Fair Value of Liabilities	Fair Value of Assets	Fair Value of Liabilities
Automotive Sector				
Gross derivative amounts recognized in balance sheet	$ 580	$ 418	$ 241	$ 610
Gross derivative amounts not offset in the balance sheet that are eligible for offsetting	(359)	(359)	(218)	(218)
Net amount	$ 221	$ 59	$ 23	$ 392
Financial Services Sector				
Gross derivative amounts recognized in balance sheet	$ 585	$ 506	$ 1,300	$ 381
Gross derivative amounts not offset in the balance sheet that are eligible for offsetting	(296)	(296)	(222)	(222)
Net amount	$ 289	$ 210	$ 1,078	$ 159

We may receive or pledge cash collateral with certain counterparties based on our net position with regard to foreign currency and commodity derivative contracts, which is reported in *Other Assets* or *Payables* on our consolidated balance sheet. As of December 31, 2013 and 2012, we did not receive or pledge any cash collateral.

We include an adjustment for non-performance risk in the measurement of fair value of derivative instruments. Our adjustment for non-performance risk is relative to a measure based on an unadjusted inter-bank deposit rate (e.g., LIBOR). For our Automotive sector, at December 31, 2013 and 2012, our adjustment decreased derivative assets by $1 million and $1 million, respectively, and decreased derivative liabilities by $1 million and $1 million, respectively. For our Financial Services sector, at December 31, 2013 and 2012, our adjustment increased derivative assets by $2 million and decreased derivative assets by $14 million, respectively, and decreased derivative liabilities by $25 million and $5 million, respectively. See Note 4 for more detail on valuation methodologies.

NOTE 17. REDEEMABLE NONCONTROLLING INTEREST

AutoAlliance International, Inc. ("AAI") is a 50/50 joint venture between Ford and Mazda Motor Corporation ("Mazda") that operates an automobile assembly plant in Flat Rock, Michigan. On September 1, 2012, we granted to Mazda a put option to sell and received a call option to purchase from Mazda the 50% equity interest in AAI that is held by Mazda ("the Option"). The Option is exercisable at a price of $339 million and is recorded as a redeemable noncontrolling interest in the mezzanine section of our balance sheet. Mazda's share in AAI is redeemable by Ford or Mazda for a three-year period commencing on September 1, 2015. The following table summarizes the change in our redeemable noncontrolling interest for the years ended December 31 (in millions):

	2013	2012
Beginning balance (a)	$ 322	$ 319
Accretion to the redemption value of noncontrolling interest (recognized in *Interest expense)*	9	3
Ending balance	$ 331	$ 322

(a) The 2012 beginning balance reflects the fair value of redeemable noncontrolling interest at September 1, 2012, the date of the AAI consolidation. See Note 23 for additional information.

NOTE 18. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

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

	2013	2012	2011
Foreign currency translation			
Beginning balance	$ (1,241)	$ (1,383)	$ (665)
Net gains/(losses) on foreign currency translation (net of tax benefit of $53 and tax of $0 and $2)	(617)	157	(697)
Reclassifications to net income (a)	111	(15)	(21)
Other comprehensive income/(loss), net of tax (b)	(506)	142	(718)
Ending balance	$ (1,747)	$ (1,241)	$ (1,383)
Derivative instruments (c)			
Beginning balance	$ (175)	$ (181)	$ (29)
Net gains/(losses) on derivative instruments (net of tax of $141 and tax benefit of $115 and $29)	176	(256)	(71)
Reclassifications to net income (net of tax of $41 and $115 and tax benefit of $38) (d)	39	262	(81)
Other comprehensive income/(loss), net of tax	215	6	(152)
Ending balance	$ 40	$ (175)	$ (181)
Pension and other postretirement benefits			
Beginning balance	$ (21,438)	$ (17,170)	$ (13,617)
Prior service cost arising during the period (net of tax of $0 and tax benefit of $1 and $35)	2	(31)	56
Net gains/(losses) arising during the period (net of tax of $1,883 and tax benefit of $2,238 and $1,461)	3,521	(4,693)	(4,229)
Amortization of prior service costs/(credits) included in net income (net of tax benefit of $21, $100, and $183) (e)	(24)	(164)	(40)
Amortization of (gains)/losses included in net income (net of tax of $653, $404, and $69) (e)	1,445	812	631
Translation impact on non-U.S. plans	(30)	(192)	29
Other comprehensive income/(loss), net of tax	4,914	(4,268)	(3,553)
Ending balance	$ (16,524)	$ (21,438)	$ (17,170)
Net holding gains/(losses)			
Beginning balance	$ —	$ —	$ (2)
Reclassifications to net income	—	—	2
Ending balance	$ —	$ —	$ —
Total AOCI ending balance at December 31	$ (18,231)	$ (22,854)	$ (18,734)

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(a) The accumulated translation adjustments related to an investment in a foreign subsidiary are reclassified to net income upon sale or upon complete or substantially complete liquidation of the entity and are recognized in *Automotive interest income and other income/(loss), net* or *Financial Services other income/(loss), net.*
(b) There were losses of $2 million attributable to noncontrolling interests in 2011.
(c) We expect to reclassify existing net gains of $147 million from *Accumulated other comprehensive income/(loss)* to *Automotive cost of sales* during the next twelve months as the underlying exposures are realized.
(d) Gains/(losses) on cash flow hedges are reclassified from AOCI to income when the hedged item affects earnings and is recognized in *Automotive cost of sales.* See Note 16 for additional information.
(e) These AOCI components are included in the computation of net periodic pension cost. See Note 14 for additional information.

NOTE 19. OTHER INCOME/(LOSS)

Automotive Sector

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

	2013	2012	2011
Interest income	$ 163	$ 272	$ 387
Realized and unrealized gains/(losses) on cash equivalents and marketable securities	190	85	(77)
Gains/(Losses) on changes in investments in affiliates	(113)	594	436
Gains/(Losses) on extinguishment of debt	(18)	—	(60)
Royalty income	577	414	266
Other	175	234	139
Total	$ 974	$ 1,599	$ 1,091

Financial Services Sector

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

	2013	2012	2011
Interest income (investment-related)	$ 50	$ 70	$ 84
Realized and unrealized gains/(losses) on cash equivalents and marketable securities	—	16	15
Gains/(Losses) on changes in investments in affiliates	5	(8)	51
Gains/(Losses) on extinguishment of debt	(1)	(14)	(68)
Insurance premiums earned	119	105	100
Other	175	196	193
Total	$ 348	$ 365	$ 375

NOTE 20. SHARE-BASED COMPENSATION

At December 31, 2013, a variety of share-based compensation grants and awards were outstanding for employees (including officers). All share-based compensation plans are approved by the shareholders.

We have share-based compensation outstanding under two Long-Term Incentive Plans ("LTIP"): the 1998 LTIP and the 2008 LTIP. No further grants may be made under the 1998 LTIP. All outstanding share-based compensation under the 1998 LTIP continues to be governed by the terms and conditions of the existing agreements for those grants. Grants may continue to be made under the 2008 LTIP through April 2018. Under the 2008 LTIP, the number of shares of Common Stock that may be granted as share-based compensation in any year is limited to 2% of our issued and outstanding Common Stock as of December 31 of the prior calendar year. Any unused portion is available for later years. The limit may be increased up to 3% in any year, with a corresponding reduction in shares available for grants in future years. At December 31, 2013 the number of unused shares carried forward was 217 million shares.

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

We grant time-based and performance-based RSUs to our employees. RSUs provide the recipients with the right to shares of Common Stock after a restriction period. We measure the fair value using the closing price of our Common Stock on grant date.

Time-based RSUs generally have a graded vesting feature whereby one-third of each grant of RSUs vests after the first anniversary of the grant date, one-third after the second anniversary, and one-third after the third anniversary. Performance-based RSUs have a performance period (usually one year) followed by a restriction period (usually two years).

NOTE 20. SHARE-BASED COMPENSATION *(Continued)*

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

Stock options generally have a vesting feature whereby one-third of each grant of stock options are exercisable after the first anniversary of the grant date, one-third after the second anniversary, and one-third after the third anniversary. Stock options expire 10 years from the grant date.

Expense for RSUs and stock options is recorded in *Selling, administrative, and other expense* and is based on the fair value at grant date. RSU and stock option expense is recognized using the graded vesting method over the shorter of the vesting period or the time period an employee becomes eligible to retain the award at retirement. Performance-based RSU expense is recognized when it is probable and estimable as measured against the performance metrics over the performance and restriction periods, if any.

We measure the intrinsic value of RSUs and stock options by comparing the award price to the closing stock price at December 31.

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

Restricted Stock Units

RSU activity during 2013 was as follows (in millions, except for weighted average grant-date fair value):

	Shares	Weighted-Average Grant-Date Fair Value	Aggregate Intrinsic Value
Outstanding, beginning of year	18.2	$ 13.18	
Granted	10.8	12.77	
Vested	(7.7)	13.11	
Forfeited	(1.0)	12.52	
Outstanding, end of year	20.3	13.11	$ 313
RSU-stock expected to vest	20.0	N/A	309

The fair value and intrinsic value of RSUs was as follows (in millions, except RSU per unit amounts):

	2013	2012	2011
Fair value			
Granted	$ 138	$ 102	$ 123
Weighted average for multiple grant dates (per unit)	12.77	12.43	14.47
Vested	101	109	141
Intrinsic value			
Vested	$ 119	$ 329	$ 478

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

	2013	2012	2011
Compensation cost (a)	$ 81	$ 62	$ 84

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(a) Net of tax benefit of $48 million, $36 million, and $49 million in 2013, 2012, and 2011, respectively.

As of December 31, 2013, there was approximately $58 million in unrecognized compensation cost related to non-vested RSUs. This expense will be recognized over a weighted average period of 1.8 years.

NOTE 20. SHARE-BASED COMPENSATION *(Continued)*

Stock Options

Stock option activity was as follows (in millions, except for weighted average exercise price):

	2013		2012	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	108.0	$ 9.14	144.4	$ 10.63
Granted	5.9	12.76	6.4	12.43
Exercised (a)	(33.1)	9.76	(7.6)	5.70
Expired	(1.6)	8.26	(35.2)	16.59
Forfeited	(0.1)	12.80	—	—
Outstanding, end of year	79.1	9.17	108.0	9.14
Exercisable, end of year	67.6	8.53	96.5	8.67

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(a) Exercised at option prices ranging from $1.96 to $16.49 during 2013 and option prices ranging from $1.96 to $12.49 during 2012.

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

	2013	2012	2011
Fair value of vested options	$ 41	$ 37	$ 36

We have 67.6 million fully-vested stock options, with a weighted-average exercise price of $8.53 and average remaining term of 3.6 years. We expect 11.3 million stock options (after forfeitures), with a weighted-average exercise price of $12.89 and average remaining term of 8.6 years, to vest in the future. The intrinsic value for vested and unvested options was $466 million and $28 million, respectively, for the year ended December 31, 2013.

We received approximately $323 million in proceeds from the exercise of stock options in 2013. The tax benefit realized was $11 million. An equivalent of about $511 million in new issues were used to settle exercised options. For options exercised during the years ended December 31, 2013, 2012, and 2011, the difference between the fair value of the Common Stock issued and the respective exercise price was $188 million, $44 million, and $54 million, respectively.

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

	2013	2012	2011
Compensation cost (a)	$ 18	$ 26	$ 30

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(a) Net of tax benefit of $11 million, $16 million, and $17 million in 2013, 2012, and 2011, respectively.

As of December 31, 2013, there was about $10 million in unrecognized compensation cost related to non-vested stock options. This expense will be recognized over a weighted-average period of 1.7 years. A summary of the status of our non-vested shares and changes during 2013 follows (in millions, except for weighted average grant-date fair value):

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested, beginning of year	11.5	$ 6.79
Granted	5.9	5.03
Vested	(5.8)	7.04
Forfeited	(0.1)	5.30
Non-vested, end of year	11.5	5.78

NOTE 20. SHARE-BASED COMPENSATION *(Continued)*

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

	2013	2012	2011
Fair value per stock option	$ 5.03	$ 5.88	$ 8.48
Assumptions:			
Annualized dividend yield	3%	2%	—%
Expected volatility	52.2%	53.8%	53.2%
Risk-free interest rate	1.5%	1.6%	3.2%
Expected stock option term (in years)	7.7	7.2	7.1

Details on various stock option exercise price ranges as of December 31, 2013 were as follows (shares in millions):

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Shares	Weighted-Average Life (years)	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$1.96 – $2.84	15.5	5.2	$ 2.16	15.5	$ 2.16
$5.11 – $8.58	23.2	3.1	7.29	23.2	7.29
$10.11 – $12.98	29.1	5.3	12.58	19.1	12.56
$13.07 – $16.64	11.3	2.8	13.86	9.8	13.71
Total stock options	79.1			67.6	

NOTE 21. EMPLOYEE SEPARATION ACTIONS AND EXIT AND DISPOSAL ACTIVITIES

We record costs associated with voluntary separations at the time of employee acceptance, unless the acceptance requires explicit approval by the Company. We record costs associated with involuntary separation programs when management has approved the plan for separation, the affected employees are identified, and it is unlikely that actions required to complete the separation plan will change significantly. When a plan of separation requires approval by or consultation with the relevant labor organization or government, the costs are recorded after the required approval or consultation process is complete. Costs associated with benefits that are contingent on the employee continuing to provide service are accrued over the required service period.

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

Automotive Sector

Business Restructuring - Europe

In October 2012, we committed to commence a transformation plan for our Europe operations. As part of this plan, we closed two manufacturing facilities in the United Kingdom in 2013 and are in the process of closing our assembly plant in Genk, Belgium at the end of 2014. The Genk closure was subject to an information and consultation process with employee representatives, which was completed in June 2013.

NOTE 21. EMPLOYEE SEPARATION ACTIONS AND EXIT AND DISPOSAL ACTIVITIES *(Continued)*

Separation-related costs, recorded in *Automotive cost of sales* and *Selling, administrative and other expenses*, include both the costs associated with voluntary separation programs in the United Kingdom and involuntary employee actions at Genk, as well as payments to suppliers. The following table summarizes the separation-related activity (excluding $180 million of pension-related costs discussed in Note 14) recorded in *Other liabilities and deferred revenue*, for the year ended December 31 (in millions):

	2013
Beginning balance	$ —
Changes in accruals	607
Payments	(131)
Foreign Currency translation	21
Ending balance	$ 497

Our current estimate of total separation-related costs for the U.K. and Genk facilities is approximately $1 billion, excluding approximately $200 million of pension-related costs. The separation related costs not yet recorded will be expensed as the employees and suppliers continue to support Genk plant operations.

NOTE 22. INCOME TAXES

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

Valuation of Deferred Tax Assets and Liabilities

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

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

NOTE 22. INCOME TAXES *(Continued)*

Components of Income Taxes

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

	2013	2012	2011
Income before income taxes, excluding equity in net results of affiliated companies accounted for after-tax (in millions)			
U.S.	$ 6,523	$ 6,639	$ 6,043
Non-U.S.	(591)	493	2,138
Total	$ 5,932	$ 7,132	$ 8,181
Provision for/(Benefit from) income taxes (in millions)			
Current			
Federal	$ (19)	$ 4	$ (4)
Non-U.S.	302	270	298
State and local	(40)	3	(24)
Total current	243	277	270
Deferred			
Federal	(200)	2,076	(9,785)
Non-U.S.	321	(126)	(1,590)
State and local	(511)	(171)	(436)
Total deferred	(390)	1,779	(11,811)
Total	$ (147)	$ 2,056	$ (11,541)
Reconciliation of effective tax rate			
U.S. statutory rate	35.0 %	35.0%	35.0 %
Non-U.S. tax rates under U.S. rates	(1.5)	(1.6)	(1.5)
State and local income taxes	1.0	0.2	1.1
General business credits	(5.9)	0.3	(1.9)
Dispositions and restructurings	(26.0)	(1.7)	6.8
U.S. tax on non-U.S. earnings	(2.0)	(1.0)	(0.8)
Prior year settlements and claims	(0.2)	(1.8)	(0.2)
Tax-related interest	(0.2)	—	(0.9)
Tax-exempt income	(5.9)	(3.9)	(3.9)
Enacted change in tax rates	3.0	1.7	(0.1)
Valuation allowances	(0.8)	1.6	(172.3)
Other	1.0	—	(2.4)
Effective rate	(2.5)%	28.8%	(141.1)%

Included in “Dispositions and restructurings” is the recognition of deferred tax assets for investments in our European operations. Under GAAP, we do not recognize deferred tax assets related to stock investment in affiliates until it becomes apparent they will be realized in the foreseeable future. In the fourth quarter of 2013, we restructured certain of our European affiliates. We have made tax elections to include the operating results of these affiliates in our U.S. tax returns. As a result, we anticipate the realization of tax benefits related to stock investments in these European affiliates and have recorded deferred tax assets of $1.5 billion.

The American Taxpayer Relief Act of 2012 reinstated the U.S. federal research and development tax credit and U.S. tax deferral of certain foreign source income, retroactive to January 1, 2012. As a result, the tax provision for the period ended December 31, 2013 reflects a $233 million tax benefit related to the retroactive provisions of the Act.

NOTE 22. INCOME TAXES *(Continued)*

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

As of December 31, 2013, $7.5 billion of non-U.S. earnings are considered indefinitely reinvested in operations outside the United States, for which deferred taxes have not been provided. These earnings have been subject to significant non-U.S. taxes; repatriation in their entirety would result in a residual U.S. tax liability of about $1 billion.

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

Components of Deferred Tax Assets and Liabilities

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

	December 31, 2013	December 31, 2012
Deferred tax assets		
Employee benefit plans	$ 4,907	$ 8,079
Net operating loss carryforwards	2,364	2,417
Tax credit carryforwards	5,675	4,973
Research expenditures	2,236	2,321
Dealer and dealers' customer allowances and claims	2,106	1,820
Other foreign deferred tax assets	1,567	1,790
Allowance for credit losses	143	146
All other	2,736	1,176
Total gross deferred tax assets	21,734	22,722
Less: valuation allowances	(1,633)	(1,923)
Total net deferred tax assets	20,101	20,799
Deferred tax liabilities		
Leasing transactions	1,138	1,145
Deferred income	2,075	2,094
Depreciation and amortization (excluding leasing transactions)	2,430	1,561
Finance receivables	723	616
Other foreign deferred tax liabilities	311	379
All other	707	289
Total deferred tax liabilities	7,384	6,084
Net deferred tax assets/(liabilities)	$ 12,717	$ 14,715

At December 31, 2013, we have a valuation allowance of $1.6 billion primarily for deferred tax assets related to our South America operations.

Operating loss carryforwards for tax purposes were $7.6 billion at December 31, 2013, resulting in a deferred tax asset of $2.4 billion. There is no expiration date for $4.2 billion of these losses. The remaining losses begin to expire in 2016, though a substantial portion expire beyond 2020. Tax credits available to offset future tax liabilities are $5.7 billion. A substantial portion of these credits have a remaining carryforward period of 10 years or more. Tax benefits of operating loss and tax credit carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances.

NOTE 22. INCOME TAXES *(Continued)*

Other

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

	2013	2012
Beginning balance	$ 1,547	$ 1,721
Increase – tax positions in prior periods	128	84
Increase – tax positions in current period	45	19
Decrease – tax positions in prior periods	(24)	(246)
Settlements	(79)	(31)
Lapse of statute of limitations	(54)	(14)
Foreign currency translation adjustment	1	14
Ending balance	$ 1,564	$ 1,547

The amount of unrecognized tax benefits at December 31, 2013 and 2012 that would affect the effective tax rate if recognized was $1.2 billion and $1.2 billion, respectively.

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

We recorded on our consolidated income statement approximately $11 million, $9 million, and $77 million in tax-related interest income for the years ended December 31, 2013, 2012, and 2011. As of December 31, 2013 and 2012, we had recorded a net payable of $83 million and $137 million, respectively, for tax-related interest.

NOTE 23. DISPOSITIONS, CHANGES IN INVESTMENTS IN AFFILIATES, AND ASSETS HELD FOR SALE

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

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

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

Automotive Sector

Dispositions

Automotive Components Holdings, LLC ("ACH"). During the second quarter of 2012, ACH completed the sales of its automotive interior trim components business and automotive lighting business resulting in pre-tax losses of $96 million and $77 million, respectively, reported in *Automotive interest income and other income/(loss), net*, and contractual obligations of $182 million and $15 million, respectively, associated with the pricing of products to be purchased over the term of the related purchase and supply agreements.

NOTE 23. DISPOSITIONS, CHANGES IN INVESTMENTS IN AFFILIATES, AND ASSETS HELD FOR SALE *(Continued)*

Changes in Investments in Affiliates

JMC. During the fourth quarter of 2013, we completed the acquisition of an additional 2% stake in JMC, a publicly-traded company in China that assembles Ford and non-Ford vehicles for distribution in China and other export markets. As a result, we recorded a $48 million increase in *Equity in net assets of affiliated companies*.

Liquidation of a Foreign Subsidiary. During the third quarter of 2013, we completed the liquidation of a foreign subsidiary holding company, Ford LRH, and, as a result, reclassified a foreign currency translation loss of $103 million related to the investment from *Accumulated other comprehensive income/(loss)* to *Automotive interest income and other income/(loss), net.*

Ford Romania. Effective January 1, 2013, the Romanian government ceded control and participation in our operations in Romania. As a result of acquiring full management control, we consolidated Ford Romania under the acquisition method of accounting. Prior to consolidation, our ownership in Ford Romania had been reflected at 100% under the equity method of accounting.

We measured the fair value of Ford Romania using the income approach. We used cash flows that reflect our approved business plan for Ford Romania and align with assumptions a market participant would make. We assumed a discount rate of 8% based on an appropriate weighted-average cost of capital, adjusted for perceived business risks.

The fair value of 100% of Ford Romania's identifiable net assets was $48 million as shown below (in millions):

	January 1, 2013
Assets	
Cash and cash equivalents	$ 9
Receivables	119
Inventories	70
Net property	927
Other assets	112
Total assets of Ford Romania	$ 1,237
Liabilities	
Payables	$ 232
Other liabilities	76
Debt	881
Total liabilities of Ford Romania	$ 1,189

The excess of our previously recorded equity interest of $63 million over fair value of the net assets acquired resulted in a pre-tax loss of $15 million recorded in *Automotive interest income and other income/(loss), net.*

AAI. During the third quarter of 2012, we acquired full management control of AAI and consolidated it under the acquisition method of accounting. At September 1, 2012, the fair value of 100% of AAI's identifiable net assets was $868 million. As part of the business combination, we recorded a redeemable noncontrolling interest at the then fair value of $319 million (see Note 17). As a result, the fair value attributable to our investment in AAI at September 1, 2012 was $549 million. The excess of this fair value over the carrying value of our previously recorded 50% unconsolidated equity interest resulted in a third quarter 2012 pre-tax gain of $155 million in *Automotive interest income and other income/ (loss), net.*

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

NOTE 23. DISPOSITIONS, CHANGES IN INVESTMENTS IN AFFILIATES, AND ASSETS HELD FOR SALE *(Continued)*

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

Ford Russia. During the second quarter of 2011, we signed an agreement with Sollers OJSC establishing FordSollers, a 50/50 joint venture in Russia. On October 1, 2011, we contributed our wholly owned operations in Russia, consisting primarily of a manufacturing plant near St. Petersburg and access to our Russian dealership network, to the joint venture in exchange for a 50% interest. As a result, we deconsolidated Ford Russia's assets and liabilities, recorded an equity method investment in Ford Sollers at fair value, and recognized a pre-tax gain of $401 million reported in *Automotive interest income and other income/(loss), net*.

Financial Services Sector

Dispositions

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

Assets Held for Sale

Other Financial Services Segment. During April and August 2013, we executed agreements to sell certain Volvo-related retail financing receivables in tranches to a third-party financing company. We received cash proceeds of $495 million and recognized pre-tax gains of $6 million for receivables sold in 2013. The pre-tax gains are reported in *Financial Services other income(loss), net.* All servicing obligations were transferred to the third party upon sale of the receivables. As a consequence of the sale of receivables, we also recognized other expenses of $56 million. As of December 31, 2013, the remaining Volvo-related retail financing receivables of $3 million were considered assets held for sale as we have the intent to sell these receivables as part of future tranches under these same agreements. We determined a valuation allowance was not required, based on an analysis of the fair value of the remaining receivables. The receivables are included in *Other Assets.*

NOTE 24. CAPITAL STOCK AND AMOUNTS PER SHARE

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

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

We present both basic and diluted earnings per share ("EPS") amounts in our financial reporting. Basic EPS excludes dilution and is computed by dividing income available to Common and Class B Stock holders by the weighted-average number of Common and Class B Stock outstanding for the period. Diluted EPS reflects the maximum potential dilution that could occur from our share-based compensation, including "in-the-money" stock options and unvested restricted stock units, and conversion into Ford Common Stock of our outstanding convertible notes. Potential dilutive shares are excluded from the calculation if they have an anti-dilutive effect in the period.

NOTE 24. CAPITAL STOCK AND AMOUNTS PER SHARE *(Continued)*

Dividend Declaration

On January 9, 2014, our Board of Directors declared a first quarter 2014 dividend on our Common and Class B Stock of $0.125 per share payable on March 3, 2014 to stockholders of record on January 31, 2014.

Effect of Dividends on Convertible Notes

As a result of dividends totaling $0.40 per share ($0.10 per share in each quarter of 2013) paid on our Common Stock, the conversion rates for our outstanding convertible notes (see Note 15) have been adjusted pursuant to their terms as follows:

	Conversion Rate - Shares of Ford Common Stock for Each $1,000 Principal Amount		
Security	**In Effect At January 1, 2013**	**After Adjustment Effective May 3, 2013**	**After Adjustment Effective November 1, 2013**
4.25% Senior Convertible Notes Due November 15, 2016	109.8554 shares	111.5339 shares	112.8203 shares
	In Effect At January 1, 2013	**After Adjustment Effective May 3, 2013**	**After Adjustment Effective November 1, 2013**
4.25% Senior Convertible Notes Due November 15, 2036	111.0495 shares	112.7462 shares	114.0466 shares

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

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

	2013	2012	2011
Basic and Diluted Income Attributable to Ford Motor Company			
Basic income	$ 7,155	$ 5,665	$ 20,213
Effect of dilutive 2016 Convertible Notes (a)	45	46	64
Effect of dilutive 2036 Convertible Notes (a)	1	2	2
Effect of dilutive Trust Preferred Securities (a) (b)	—	—	40
Diluted income	$ 7,201	$ 5,713	$ 20,319
Basic and Diluted Shares (c)			
Basic shares (average shares outstanding)	3,935	3,815	3,793
Net dilutive options and warrants	51	101	187
Dilutive 2016 Convertible Notes	98	96	95
Dilutive 2036 Convertible Notes	3	3	3
Dilutive Trust Preferred Securities (b)	—	—	33
Diluted shares	4,087	4,015	4,111

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

NOTE 25. OPERATING CASH FLOWS

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

	2013		
	Automotive	Financial Services	Total (a)
Net income attributable to Ford Motor Company	$ 5,755	$ 1,400	$ 7,155
Depreciation and tooling amortization	4,064	2,440	6,504
Other amortization	110	(158)	(48)
Provision for credit and insurance losses	2	208	210
Net (gain)/loss on extinguishment of debt	18	1	19
Net (gain)/loss on investment securities	(190)	—	(190)
Loss on retiree lump-sum settlements	594	—	594
Equity investment earnings in excess of dividends received	(529)	—	(529)
Foreign currency adjustments	227	1	228
Net (gain)/loss on changes in investments in affiliates	113	—	113
Stock compensation	152	7	159
Provision for deferred income taxes	(494)	(367)	(861)
Decrease/(Increase) in intersector receivables/payables	(136)	136	—
Decrease/(Increase) in accounts receivable and other assets	(1,401)	(568)	(1,969)
Decrease/(Increase) in inventory	(572)	—	(572)
Increase/(Decrease) in accounts payable and other liabilities	(1,332)	737	(595)
Other	1,357	(485)	872
Net cash provided by/(used in) operating activities	$ 7,738	$ 3,352	$ 11,090

	2012		
	Automotive	Financial Services	Total (a)
Net income attributable to Ford Motor Company	$ 4,466	$ 1,199	$ 5,665
Depreciation and tooling amortization	3,655	1,831	5,486
Other amortization	43	(325)	(282)
Provision for credit and insurance losses	6	77	83
Net (gain)/loss on extinguishment of debt	—	14	14
Net (gain)/loss on investment securities	(89)	(16)	(105)
Dividends in excess of equity investment earnings	20	—	20
Foreign currency adjustments	(121)	5	(116)
Net (gain)/loss on sale of businesses	183	4	187
Gain on changes in investments in affiliates	(780)	—	(780)
Stock compensation	134	6	140
Provision for deferred income taxes	1,444	545	1,989
Decrease/(Increase) in intersector receivables/payables	899	(899)	—
Decrease/(Increase) in accounts receivable and other assets	(2,335)	(162)	(2,497)
Decrease/(Increase) in inventory	(1,401)	—	(1,401)
Increase/(Decrease) in accounts payable and other liabilities	(520)	(34)	(554)
Other	662	(202)	460
Net cash provided by/(used in) operating activities	$ 6,266	$ 2,043	$ 8,309

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

NOTE 25. OPERATING CASH FLOWS *(Continued)*

	2011		
	Automotive	Financial Services	Total (a)
Net income attributable to Ford Motor Company	$ 18,447	$ 1,766	$ 20,213
Depreciation and tooling amortization	3,533	1,184	4,717
Other amortization	80	(541)	(461)
Provision for credit and insurance losses	2	(36)	(34)
Net (gain)/loss on extinguishment of debt	60	68	128
Net (gain)/loss on investment securities	76	6	82
Equity investment earnings in excess of dividends received	(169)	—	(169)
Foreign currency adjustments	(35)	(2)	(37)
Net (gain)/loss on sale of businesses	(410)	(11)	(421)
Stock compensation	163	8	171
Provision for deferred income taxes	(11,566)	495	(11,071)
Decrease/(Increase) in intersector receivables/payables	642	(642)	—
Decrease/(Increase) in accounts receivable and other assets	(1,658)	(284)	(1,942)
Decrease/(Increase) in inventory	(367)	—	(367)
Increase/(Decrease) in accounts payable and other liabilities	(168)	(1,431)	(1,599)
Other	738	(162)	576
Net cash provided by/(used in) operating activities	$ 9,368	$ 418	$ 9,786

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

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

	2013	2012	2011
Interest			
Automotive sector	$ 746	$ 693	$ 1,012
Financial Services sector	2,755	3,003	3,357
Total interest paid	$ 3,501	$ 3,696	$ 4,369
Income taxes	$ 538	$ 344	$ 268

NOTE 26. SEGMENT INFORMATION

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

Automotive Sector

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

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

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

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

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

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

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

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

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

Financial Services Sector

The Financial Services sector includes the following segments: 1) Ford Credit, and 2) Other Financial Services. Ford Credit provides vehicle-related financing and leasing. Other Financial Services includes a variety of businesses including holding companies, real estate, and the financing of some Volvo vehicles in Europe. During 2013, we sold a substantial portion of our Volvo financing business, with the remaining Volvo-related retail financing receivables classified as assets held for sale in *Other assets*. See Note 23 for more information.

NOTE 26. SEGMENT INFORMATION *(Continued)*

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

	Automotive Sector						
	Operating Segments				Reconciling Items		
	North America	South America	Europe	Asia Pacific Africa	Other Automotive	Special Items	Total
2013							
Revenues	$ 88,907	$ 10,844	$ 27,882	$ 11,736	$ —	$ —	$ 139,369
Income/(loss) before income taxes	8,781	(34)	(1,609)	415	(656)	(1,568)	5,329
Other disclosures:							
Depreciation and tooling amortization	2,128	272	1,312	352	—	—	4,064
Amortization of intangibles	9	—	1	1	—	—	11
Interest expense	—	—	—	—	829	—	829
Interest income	100	—	6	4	53	—	163
Cash outflow for capital spending	3,754	756	1,277	779	—	—	6,566
Unconsolidated affiliates							
Equity in net income	127	—	125	794	—	—	1,046
Total assets at December 31	59,038	7,056	15,264	8,968	—	—	90,326
2012							
Revenues	$ 79,943	$ 10,080	$ 26,546	$ 9,998	$ —	$ —	$ 126,567
Income/(loss) before income taxes	8,343	213	(1,753)	(77)	(470)	(246)	6,010
Other disclosures:							
Depreciation and tooling amortization	1,964	256	1,132	303	—	—	3,655
Amortization of intangibles	9	—	—	1	—	—	10
Interest expense	—	—	—	—	713	—	713
Interest income	72	—	—	—	200	—	272
Cash outflow for capital spending	3,150	668	1,112	529	—	—	5,459
Unconsolidated affiliates							
Equity in net income	127	—	113	315	—	—	555
Total assets at December 31	51,699	6,819	20,305	7,635	—	—	86,458
2011							
Revenues	$ 75,022	$ 10,976	$ 33,758	$ 8,412	$ —	$ —	$ 128,168
Income/(loss) before income taxes	6,191	861	(27)	(92)	(601)	(82)	6,250
Other disclosures:							
Depreciation and tooling amortization	1,769	265	1,225	274	—	—	3,533
Amortization of intangibles	9	2	—	1	—	—	12
Interest expense	—	—	—	—	817	—	817
Interest income	60	—	—	—	327	—	387
Cash outflow for capital spending	2,164	581	1,034	493	—	—	4,272
Unconsolidated affiliates							
Equity in net income	179	—	61	239	—	—	479
Total assets at December 31	46,038	6,878	19,737	6,133	—	—	78,786

NOTE 26. SEGMENT INFORMATION *(Continued)*

	Financial Services Sector				Total Company	
	Operating Segments		Reconciling Item			
	Ford Credit (a)	Other Financial Services	Elims	Total	Elims (b)	Total
2013						
Revenues	$ 7,805	$ 192	$ (449)	$ 7,548	$ —	$ 146,917
Income/(loss) before income taxes	1,756	(84)	—	1,672	—	7,001
Other disclosures:						
Depreciation and tooling amortization	2,422	18	—	2,440	—	6,504
Amortization of intangibles	—	—	—	—	—	11
Interest expense	2,730	130	—	2,860	—	3,689
Interest income (c)	50	—	—	50	—	213
Cash outflow for capital spending	16	15	—	31	—	6,597
Unconsolidated affiliates						
Equity in net income	23	—	—	23	—	1,069
Total assets at December 31	115,608	5,679	(6,230)	115,057	(3,357)	202,026
2012						
Revenues	$ 7,189	$ 267	$ (464)	$ 6,992	$ —	$ 133,559
Income/(loss) before income taxes	1,697	13	—	1,710	—	7,720
Other disclosures:						
Depreciation and tooling amortization	1,806	25	—	1,831	—	5,486
Amortization of intangibles	—	—	—	—	—	10
Interest expense	3,027	88	—	3,115	—	3,828
Interest income (c)	69	1	—	70	—	342
Cash outflow for capital spending	18	11	—	29	—	5,488
Unconsolidated affiliates						
Equity in net income	33	—	—	33	—	588
Total assets at December 31	104,596	7,698	(7,282)	105,012	(2,064)	189,406
2011						
Revenues	$ 7,662	$ 337	$ (562)	$ 7,437	$ —	$ 135,605
Income/(loss) before income taxes	2,404	27	—	2,431	—	8,681
Other disclosures:						
Depreciation and tooling amortization	1,154	30	—	1,184	—	4,717
Amortization of intangibles	—	—	—	—	—	12
Interest expense	3,507	107	—	3,614	—	4,431
Interest income (c)	83	1	—	84	—	471
Cash outflow for capital spending	15	6	—	21	—	4,293
Unconsolidated affiliates						
Equity in net income	21	—	—	21	—	500
Total assets at December 31	99,280	8,634	(7,302)	100,612	(2,012)	177,386

(a) Prior-year revenues, depreciation, and total assets were reclassified to conform to current-year presentation.
(b) Includes intersector transactions occurring in the ordinary course of business and deferred tax netting.
(c) Interest income reflected on this line for Financial Services sector is non-financing related. Interest income in the normal course of business for Financial Services sector is reported in *Financial Services revenues*.

NOTE 27. GEOGRAPHIC INFORMATION

The following table shows Total Company revenues and long-lived assets, split geographically by our country of domicile, the United States, and other countries where our major subsidiaries are domiciled, for the years ended December 31 (in millions):

	2013		2012		2011	
	Revenues	Long-Lived Assets (a)	Revenues	Long-Lived Assets (a)	Revenues	Long-Lived Assets (a)
United States	$ 85,459	$ 28,276	$ 76,055	$ 22,986	$ 70,839	$ 18,514
United Kingdom	10,038	1,503	9,208	1,668	9,479	1,721
Canada	9,729	3,154	9,470	2,580	9,415	2,424
Germany	8,600	2,635	8,005	2,719	8,493	2,996
Mexico	1,992	1,910	1,818	1,990	1,920	1,419
All Other	31,099	8,738	29,003	6,887	35,459	5,817
Total Company	$ 146,917	$ 46,216	$ 133,559	$ 38,830	$ 135,605	$ 32,891

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

NOTE 28. SELECTED QUARTERLY FINANCIAL DATA (unaudited)

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

	2013				2012			
Automotive Sector	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 33,858	$ 36,079	$ 33,857	$ 35,575	$ 30,525	$ 31,328	$ 30,247	$ 34,467
Income before income taxes	1,620	1,368	1,728	613	1,582	1,148	1,858	1,422
Financial Services Sector								
Revenues	$ 1,791	$ 1,844	$ 1,918	$ 1,995	$ 1,758	$ 1,709	$ 1,744	$ 1,781
Income before income taxes	503	451	363	355	456	447	388	419
Total Company								
Income before income taxes	$ 2,123	$ 1,819	$ 2,091	$ 968	$ 2,038	$ 1,595	$ 2,246	$ 1,841
Amounts Attributable to Ford Motor Company Common and Class B Shareholders								
Net income	$ 1,611	$ 1,233	$ 1,272	$ 3,039	$ 1,396	$ 1,040	$ 1,631	$ 1,598
Common and Class B per share from income from continuing operations								
Basic	$ 0.41	$ 0.31	$ 0.32	$ 0.77	$ 0.37	$ 0.27	$ 0.43	$ 0.42
Diluted	0.40	0.30	0.31	0.74	0.35	0.26	0.41	0.40

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

Results in the second, third, and fourth quarters of 2013 each include an unfavorable item for separation-related actions in Europe to support the Company's transformation plan of $430 million, $215 million, and $113 million, respectively (see Note 21).

Results in the fourth quarter of 2012 and the second, third, and fourth quarters of 2013 each include an unfavorable item related to the U.S. salaried lump-sum pension buyout program of $250 million, $294 million, $145 million and $155 million, respectively (see Note 14).

The net income attributable to Ford Motor Company of $3 billion in the fourth quarter of 2013 includes favorable tax special items of $2.1 billion, including the impact of a one-time favorable increase in deferred tax assets related to investments in European operations and the release of valuation allowances held against other deferred tax assets (see Note 22).

The pre-tax income of $1.8 billion in the fourth quarter of 2012 includes a $625 million gain related to the reorganization of our equity investment in CFMA (see Note 23).

NOTE 29. COMMITMENTS AND CONTINGENCIES

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

Guarantees and Indemnifications

Guarantees and indemnifications are recorded at fair value at their inception. We regularly review our performance risk under these arrangements, and in the event it becomes probable we will be required to perform under the guarantee or indemnification, the amount of probable payment is recorded.

We guarantee debt and lease obligations of certain joint ventures, as well as certain financial obligations of outside third parties, including suppliers, to support our business and economic growth. Expiration dates vary through 2033, and guarantees will terminate on payment and/or cancellation of the obligation. A payment by us would be triggered by failure of the joint venture or other third party to fulfill its obligation covered by the guarantee. In some circumstances, we are entitled to recover from the third party amounts paid by us under the guarantee. However, our ability to enforce these rights is sometimes stayed until the guaranteed party is paid in full, and may be limited in the event of insolvency of the third party or other circumstances.

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

The maximum potential payments and the carrying value of recorded liabilities related to guarantees and limited indemnities were as follows (in millions):

	December 31, 2013	December 31, 2012
Maximum potential payments	$ 659	$ 1,073
Carrying value of recorded liabilities related to guarantees and limited indemnities	5	17

Litigation and Claims

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

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

Litigation and claims are accrued when losses are deemed probable and reasonably estimable. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, and the severity of any potential loss. We reevaluate and update our accruals as matters progress over time.

NOTE 29. COMMITMENTS AND CONTINGENCIES *(Continued)*

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

For the remaining matters, where our historical experience with similar matters is of more limited value (i.e., "non-pattern matters"), we evaluate matters primarily based on the individual facts and circumstances. For non-pattern matters, we evaluate whether there is a reasonable possibility of a material loss in excess of any accrual that can be estimated. Our estimate of reasonably possible loss in excess of our accruals for all material matters currently reflects indirect tax and customs matters, for which we estimate the aggregate risk to be a range of up to about $2.9 billion.

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

Warranty

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

	2013	2012
Beginning balance	$ 3,656	$ 3,915
Payments made during the period	(2,302)	(2,254)
Changes in accrual related to warranties issued during the period	2,025	1,885
Changes in accrual related to pre-existing warranties	625	49
Foreign currency translation and other	(77)	61
Ending balance	$ 3,927	$ 3,656

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