Profitable Growth for All

Ford Motor Company 2012 Annual Report

Operating Highlights

Revenues		2012		2011
Worldwide wholesale unit volumes by automotive segment (in thousands)				
Ford North America		**2,784**		2,686
Ford South America		**498**		506
Ford Europe		**1,353**		1,602
Ford Asia Pacific Africa		**1,033**		901
Total		**5,668**		5,695
Revenues (in millions)				
Automotive	**$**	**126,567**	$	128,168
Financial Services		**7,685**		8,096
Total	**$**	**134,252**	$	136,264
Financial Results				
Income before income taxes (in millions)				
Automotive	**$**	**6,010**	$	6,250
Financial Services		**1,710**		2,431
Total	**$**	**7,720**	$	8,681
Amounts Attributable to Ford Motor Company				
Net income (in millions)	**$**	**5,665**	$	20,213
Diluted net income per share of Common and Class B Stock	**$**	**1.42**	$	4.94
Cash and Spending				
Automotive capital expenditures				
Amount (in billions)	**$**	**5.5**	$	4.3
As a percentage of Automotive sales		**4.3%**		3.3%
Automotive cash at year end (in billions)				
Automotive gross cash (a)	**$**	**24.3**	$	22.9
– Cash net of Automotive debt		**10.0**		9.8
Shareholder Value				
Dividends paid per share	**$**	**0.20**	$	0.00
Total shareholder returns % (b)		**23%**		(36)%

(a) Automotive gross cash includes cash and cash equivalents and net marketable securities.
(b) Source: Standard & Poor's, a division of the McGraw Hill Companies, Inc.

Content

On the Cover

The One Ford plan enables accelerated development of products that customers truly want and value, resulting in a full-line of cars, utilities and trucks that meet and exceed owner expectations across global markets. The upper photo includes the stylish Ford Focus hatchback, the sporty subcompact Fiesta ST and the distinctive Escape utility vehicle. From left to right, lower photos illustrate the innovative new Lincoln MKZ, the family-friendly Ford B-MAX and the iconic F-150 pickup truck.

More Products People Want

Ford designs, builds and sells cars, utilities and trucks of all sizes to meet the needs of a diverse global customer base. From small cars such as the Ka and Fiesta to large trucks like the venerable F-150 and Super Duty, Ford Motor Company vehicles cover the full spectrum of global automobile requirements.

CARS

Fiesta

Small
Sporting a refreshed look, the Fiesta boasts the three-cylinder 1-liter EcoBoost engine providing better power and fuel efficiency than previous models. The Ka and Figo round out a global lineup that offers premium features in smaller packages.

C-MAX

Medium
The C-MAX Hybrid and C-MAX Energi plug-in hybrid, two ecofriendly yet practical vehicles large enough to fit a family, debuted in 2012. In the same segment, the redesigned Ford Focus is one of the top-selling vehicles in the world.

Mondeo

Large
The Mondeo, known as the Fusion in North America, will debut its striking new look next year in Europe. Both offer a wide array of driver assist technologies. Fusion offers a Hybrid and Energi plug-in hybrid, providing enhanced fuel economy in a stylish package.

UTILITIES

EcoSport

Small
The EcoSport, a market leader in South America, debuted globally. This SUV is specifically designed for the urban environment in South America, India and Thailand and is now offered in China.

Kuga

Medium
The redesigned Kuga offers class-leading technology, fuel efficiency, safety, and comfort in Europe, South America and Asia. Known as Escape in North America, three robust engine options provide strong fuel economy and technological features.

Explorer

Large
The redesigned, sleeker Explorer combines enhanced fuel economy with new safety features such as Curve Control, which can slow the vehicle by up to 10 mph if it senses a curve is being taken too fast.

TRUCKS

Transit Connect

Small
The Transit Connect provides highly configurable interiors, generous cargo space, easy loading and unloading, and exceptional maneuverability with car-like driving dynamics and safety features.

Ranger

Medium
The new Ranger is the truck for work and play in Europe, South America, Asia and Africa; offered in three versatile cab bodystyles. It comes with a choice of two powerful and economical diesel engines, and with a 4x2 or 4x4 drivetrain.

F-Series

Large
F-Series Trucks are the ultimate work tool for various industries. The dependable F-150 is the top-selling light-duty pickup in the U.S. and the F-Series Super Duty is the most popular heavy-duty truck.

LINCOLN

Lincoln MKZ

The new Lincoln brand will be defined by great new luxury vehicles, such as the new MKZ, that feature unique style and innovative technology. These elements enable Lincoln to appeal to today's new luxury customer.

Lincoln MKC Concept

Lincoln introduced the MKC Concept, a vision of how Lincoln will enter the industry's fastest-growing segment – small luxury utilities. The MKC Concept builds on the foundation of the Lincoln design DNA found in the new MKZ.

For detailed product and financial information, view our full online annual report at:

www.annualreport.ford.com

A Message from the Executive Chairman

In 2012 Ford Motor Company continued to go further to meet the needs of our customers, the challenges of our industry and the issues confronting our world. Our efforts produced strong financial results and our fourth year in a row of positive net income.

We expect 2013 to be another strong year for our company.

We anticipate our outstanding performance in North America will continue, with higher pre-tax profits than in 2012. We are refreshing our entire product line in South America and continuing to invest for growth in Asia Pacific Africa. The transformation of our European operations, which is aimed at achieving profitability under difficult economic conditions, is on track and ongoing.

We will continue to focus on producing vehicles with best-in-class quality, fuel efficiency, safety, smart design and value – built on global platforms. They will help us toward our goal of increased global sales and market share, as well as support our ongoing commitment to reducing the environmental impact of our vehicles and operations.

Our strong showing in the electrified vehicle market is a good example of how great products can help build a strong business as well as a better world. In 2012 we introduced six new electrified vehicles in North America, including hybrid, plug-in hybrid and pure battery electric models. By offering a variety of vehicles, we make it easier for customers to embrace fuel-saving technologies.

As a result of our aggressive move into this growing segment we sold more hybrids in the U.S. in the fourth quarter of 2012 than in any other quarter in our history, and that strong momentum has continued in 2013.

Looking further ahead, we are anticipating new challenges and opportunities that are emerging, specifically those around the future of transportation. Currently there are a billion vehicles on the road worldwide, a number that is expected to double by 2020 and double again by mid-century. As the number of vehicles on the road continues to grow, mobility issues are expected to emerge in many major urban areas, potentially presenting a serious challenge to economic, social and environmental progress.

To help address this issue, we are committed to being the automotive leader in wireless communication technology, developing vehicles that communicate with each other and the world around them to improve safety and reduce traffic congestion.

As we move forward, our employees around the world continue to work together as a global team. We have a great plan, outstanding leadership and positive momentum. We are determined to keep going further so that we can continue rewarding our shareholders and all of our stakeholders.

Thank you for your continued support of our efforts.

William Clay Ford, Jr.
Executive Chairman
March 14, 2013

A Message from the President and CEO

Ford Motor Company continued on our path to deliver profitable growth in 2012 by following our proven One Ford plan, despite the ongoing challenges in the global market.

Along the way, we achieved several important milestones, including restoring Ford's investment grade status and reclaiming the Ford Blue Oval, resuming regular dividend payments to our shareholders and achieving 14 straight quarters of operating profit.

In a strong North America market, we set full year records for pre-tax profit and operating margins. In South America, we are in the middle of launching a new global product lineup. In Europe, we responded to challenging economic conditions by beginning a transformation plan to aggressively accelerate our new product rollouts, strengthen our brand and restructure our manufacturing operations. In Asia Pacific Africa, we are undertaking an unprecedented investment program to grow our business in what is now the world's largest automotive market.

The success of our One Ford plan to date gives us confidence that it will continue to create profitable growth for us in the future. We remain laser focused on the key aspects of our plan, which remain unchanged:

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

By following this plan, we will continue to build great products, a strong business and a better world.

Great Products

The great products that we build at Ford drive our success. We launched 25 vehicles and 31 powertrains globally in 2012, a testament to our ongoing commitment to product development. We also announced plans to revitalize our Lincoln brand as the Lincoln Motor Company, which will introduce an exciting new lineup of great luxury vehicles.

Our plan is centered on serving customers in all markets around the world with a full family of vehicles – small, medium and large; cars, utilities and trucks – that offer the very best quality, fuel efficiency, safety, smart design and value.

The best way to measure the success of our products is sales, and 2012 was a strong year. We sold 2.3 million vehicles in the United States in 2012. Ford is the only brand to top the 2 million mark in the United States since 2007, and it has topped 2 million for 2 years in a row. In Asia Pacific Africa, we sold more than 1 million vehicles for the first time, including record sales in China.

Our strong global performance was led by Focus, which was the best-selling nameplate in the world in 2012, and Fiesta, which was the best-selling B-Car in the world based on the latest global data. Ford also was the only brand to have three vehicles among the top 10 best-sellers worldwide, with the F-Series truck coming in as the fourth best-selling global nameplate.

Leveraging key new technologies across multiple regions and on global platforms helps drive tremendous scale and efficiency savings that can be reinvested, enabling us to have one of the freshest showrooms in the industry. Our outstanding product lineup, which we are continually transforming and improving, is the foundation on which we have built our strong business.

Ford's Senior Management Team

The senior management team continues to successfully advance the company's One Ford global plan. Pictured with the Ford Escape, all-new Transit Connect and Fiesta ST from left to right: Bob Shanks, Jim Farley, Ray Day, Tony Brown, Nick Smither, Felicia Fields, David Schoch, Stephen Odell, Mark Fields, Alan Mulally, Bernard Silverstone, Joe Hinrichs, Ziad Ojakli, Robert Brown, David Leitch, Bennie Fowler, Raj Nair and John Fleming.

Strong Business

Our 2012 full year pre-tax operating profit, excluding special items, was $8 billion, or $1.41 per share. We delivered record results of $8.3 billion in North America, continued solid performance from Ford Credit of $1.7 billion, positive results in South America, continued investment in Asia Pacific Africa and began a challenging transition in Europe.

We remain committed to strengthening our balance sheet. We ended 2012 with Automotive gross cash of $24.3 billion, exceeding debt by $10 billion. We also have a strong liquidity position of $34.5 billion, an increase of $2.1 billion over 2011.

We also worked to de-risk our pension obligations, contributing $3.4 billion in cash contributions to our worldwide funded plans.

With an eye to the future, we continued our largest and fastest manufacturing expansion in more than 50 years, adding capacity to support growth plans in North America and Asia Pacific Africa.

In 2012, we added more than 8,100 hourly and salaried jobs in the U.S. as we increased production capacity and expanded other areas to meet the growing demand for our fuel-efficient, high-tech vehicles.

In Europe, we are moving quickly to carry out our transformation plan. As we did in North America, we are making tough choices and intelligent investments now to transform our European business for profitable growth in the future.

Additionally, we further strengthened and developed our leadership team by announcing the appointment of our chief operating officer, a new chief financial officer, a new Global Product Development leader and senior leadership changes for the Americas, Europe, Asia Pacific, Ford Credit and our Lincoln Brand.

Better World

Even as we strive to improve our products and enhance our business, we recognize that doing our part to contribute to a better world is at the core of our business. In addition to economic goals, we also pursue environmental and social objectives.

Ford is going further than our competitors by offering an industry-best seven Ford-brand vehicles in the U.S. that deliver 40 or more miles per gallon.

We reached this milestone by developing the best conventional and alternative powertrains. In 2012, we produced our 500,000th fuel-saving EcoBoost engine just three years after its launch. We also introduced six new electrified vehicles, including hybrids, plug-in hybrids and a pure battery electric vehicle.

We are giving customers the power of choice among a range of powertrains that generate fewer emissions and consume less gasoline.

Serving in our communities is another important part of building a better world. In 2012, 25,000 Ford employees and retirees volunteered more than 115,000 hours at 1,350 projects to help people in their local communities. As part of that effort, our seventh annual Global Week of Caring featured 12,000 employees, retirees and dealers working on more than 300 community projects on six continents.

Go Further

ONE FORD

ONE TEAM • ONE PLAN • ONE GOAL

ONE FORD:

ONE Ford expands on the company's four-point business plan for achieving success globally. It encourages focus, teamwork and a single global approach, aligning employee efforts toward a common definition of success and optimizing their collective strengths worldwide. The elements of ONE Ford are:

ONE TEAM:

ONE Ford emphasizes the importance of working together as one team to achieve automotive leadership, which is measured by the satisfaction of our customers, employees and essential business partners, such as our dealers, investors, suppliers, unions/councils and communities.

ONE PLAN:

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

ONE GOAL:

The goal of ONE Ford is to create an exciting and viable company delivering profitable growth for all.


Nine hundred Ford employees formed a human Ford logo outside Ford World Headquarters to celebrate the return of the "Blue Oval" and other assets that had been used as collateral to secure Ford's revolving credit facility. The celebration took place on May 22, 2012 after Fitch and Moody's Investor Service restored Ford's credit rating to investment grade.

Going Further

In the coming year, we expect global growth to continue, despite ongoing challenges in the external environment. We anticipate global economic growth in the 2 to 3 percent range, and global industry sales of 80 million to 85 million units.

In North America, we expect our strong performance to continue, and we anticipate higher pre-tax profits than 2012, due to our strong Ford brand and products, the growing industry, a lean cost structure and our continued success in matching production with demand.

Conditions in South America will be uneven, with some countries experiencing growth while others face increasing economic and political risks. We expect results in the region to be about breakeven in 2013, as the benefits of new global products will be tempered by the competitive environment and currency risks across the region that are expected to affect our profits adversely.

Asia Pacific Africa also is expected to be about breakeven in 2013, as growing volume and revenue are offset by continued strong investment across the region. This investment will pay off as we look even further forward, and our goal is to have a full third of our global sales in Asia Pacific Africa by 2020.

In Europe, we are working to deliver our European transformation plan, but we expect weak economic conditions in several markets to extend into 2013 and industry volume to be lower in 2013 than 2012. As a result, we expect to incur another substantial loss in Europe in 2013. We believe that 2013 is likely the trough for European industry sales volume, and we expect industry sales volume and our results to begin to improve in 2014.

Overall, we expect 2013 will be another strong year for the Ford Motor Company with pre-tax operating profit about equal to 2012, Automotive operating-related cash flow to be higher than 2012, and pre-tax profit for Ford Credit to be about the same as 2012.

Our proven One Ford plan put us on the path to profitable growth, and we are confident it will keep us on that path going forward.

As always, we thank you for your support of our efforts.

Alan Mulally

Alan R. Mulally
President and Chief Executive Officer
March 14, 2013

Board of Directors and Executives*

Board of Directors

Stephen G. Butler (1,5)

Kimberly A. Casiano (1,3,5)

Anthony F. Earley, Jr. (2,3,5)

Edsel B. Ford II (3,4)

William Clay Ford, Jr. (3,4)

Richard A. Gephardt (3,5)

James H. Hance, Jr. (1,4,5)

William W. Helman IV (3,4,5)

Irvine O. Hockaday, Jr. (1,5)

Jon M. Huntsman, Jr. (2,3,5)

Richard A. Manoogian (2,5)

Ellen R. Marram (2,3,5)

Alan R. Mulally (4)

Homer A. Neal (3,4,5)

Gerald L. Shaheen (1,5)

John L. Thornton (2,4,5)

William Clay Ford
(Director Emeritus)

Committee Membership
(1) Audit
(2) Compensation
(3) Sustainability
(4) Finance
(5) Nominating and Governance

Executive Officer Group

William Clay Ford, Jr.
Executive Chairman and
Chairman of the Board

Alan R. Mulally
President and Chief Executive Officer

Mark Fields
Chief Operating Officer

James D. Farley, Jr.
Executive Vice President, Global
Marketing, Sales and Service and Lincoln

John Fleming
Executive Vice President, Global
Manufacturing and Labor Affairs

Joseph R. Hinrichs
Executive Vice President and
President, The Americas

Stephen T. Odell
Executive Vice President and
President, Europe, Middle East and Africa

Robert L. Shanks
Executive Vice President and
Chief Financial Officer

Thomas K. Brown
Group Vice President, Global Purchasing

Raymond F. Day
Group Vice President, Communications

Felicia J. Fields
Group Vice President, Human Resources
and Corporate Services

Bennie W. Fowler
Group Vice President,
Quality and New Model Launch

David G. Leitch
Group Vice President and
General Counsel

J Mays
Group Vice President and
Chief Creative Officer, Design

Raj Nair
Group Vice President,
Global Product Development

Stuart J. Rowley
Vice President and Controller

Ziad S. Ojakli
Group Vice President,
Government and Community Relations

David L. Schoch
Group Vice President and
President, Asia Pacific

Bernard B. Silverstone
Group Vice President,
Chairman and Chief Executive Officer,
Ford Motor Credit Company

Nicholas J. Smither
Group Vice President and
Chief Information Officer

Other Vice Presidents

Joseph Bakaj
Powertrain Engineering

Stephen E. Biegun
International Governmental Affairs

Marin A. Burela
President, Changan Ford Automobile
Corporation, Ltd.

Robert D. Brown
Sustainability, Environment and
Safety Engineering

Kenneth M. Czubay
U.S. Marketing, Sales and Service

Roelant de Waard
Marketing, Sales and Service,
Ford of Europe

Elena A. Ford
Global Dealer and Consumer Experience

Kumar A. Galhotra
Product Development, Asia Pacific
and Africa

Gary A. Johnson
Manufacturing, Asia Pacific and Africa

John T. Lawler
Chairman and Chief Executive Officer,
Ford Motor China

Paul A. Mascarenas
Chief Technical Officer, Research and
Advanced Engineering

Martin J. Mulloy
Labor Affairs

Barb J. Samardzich
Product Development, Ford of Europe

Neil M. Schloss
Treasurer

James P. Tetreault
North America Manufacturing

Hau Thai-Tang
Engineering

Frederiek Toney
President, Global Ford Customer
Service Division

Jeffery C. Wood
Manufacturing, Ford of Europe

*As of March 14, 2013

Shareholder Information

Corporate Headquarters

Ford Motor Company
One American Road
Dearborn, MI 48126
(313) 322-3000

Shareholder Account Assistance

Computershare Trust Company, our transfer agent, maintains the records for our registered stockholders and can help you with a variety of stockholder-related services. Computershare offers the DirectSERVICE Investment and Stock Purchase Program. This shareholder-paid program provides an alternative to traditional retail brokerage methods of purchasing, holding and selling Ford Common Stock. You can contact Computershare through the following methods:

Ford Motor Company
c/o Computershare Trust Company, N.A.
P.O. Box 43087
Providence, RI 02940-3087
Telephone: (800) 279-1237 (U.S. and Canada)
(781) 575-2732 (International)
E-mail: fordteam@computershare.com
Website: www.computershare.com

Stock Exchanges

Ford Common Stock is listed and traded on the New York Stock Exchange in the United States and on stock exchanges in Belgium and France.

The NYSE trading symbol is:

F Listed NYSE THE NEW YORK STOCK EXCHANGE

F Common Stock

Investor Information

Investor information including this report, quarterly financial results, press releases and various other reports are available online at www.shareholder.ford.com.

Alternatively, individual investors may contact us at:

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Shareholder Relations
One American Road
Dearborn, MI 48126

Telephone: (800) 555-5259 (U.S. and Canada)
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Security analysts and institutional investors may contact:

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Annual Meeting

The 2013 Annual Meeting of Shareholders will be held in Wilmington, Delaware on May 9, 2013. A notice of the meeting and instructions for voting will be mailed to shareholders in advance.

Financial Content*

* Financial information contained herein (pages 10-159) is excerpted from the Annual Report on Form 10-K for the year ended December 31, 2012 of Ford Motor Company (referred to herein as "Ford", the "Company", "we", "our" or "us"), which is available on our website at www.shareholder.ford.com.

OVERVIEW

Revenue

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

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

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

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

Costs and Expenses

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

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

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

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

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

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

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

Key Economic Factors and Trends Affecting the Automotive Industry

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

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

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

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

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

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

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

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

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

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

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

Trends and Strategies

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

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

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

Aggressively Restructure to Operate Profitably

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Finance Our Plan and Strengthen Our Balance Sheet

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

Work Together Effectively as One Team

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

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

RESULTS OF OPERATIONS

TOTAL COMPANY

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

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

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

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

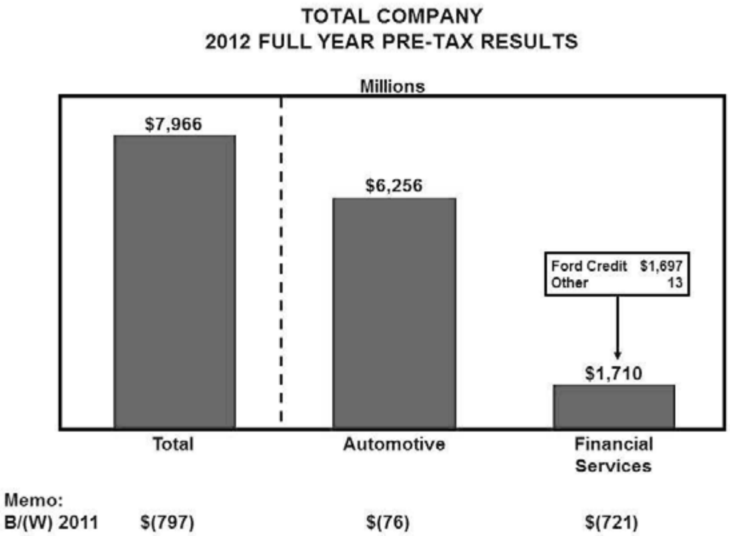
The following table details Automotive sector special items in each category:

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

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

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

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



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

AUTOMOTIVE SECTOR

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

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

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

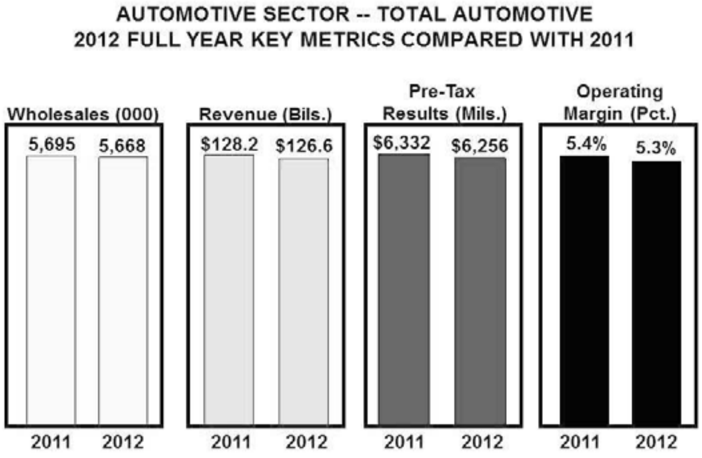
- *Other Costs* - Primarily measures profit variance driven by absolute change in cost categories that typically do not have a directly proportionate relationship to production volume. These include mainly structural costs, described below, as well as all other costs, which include items such as litigation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

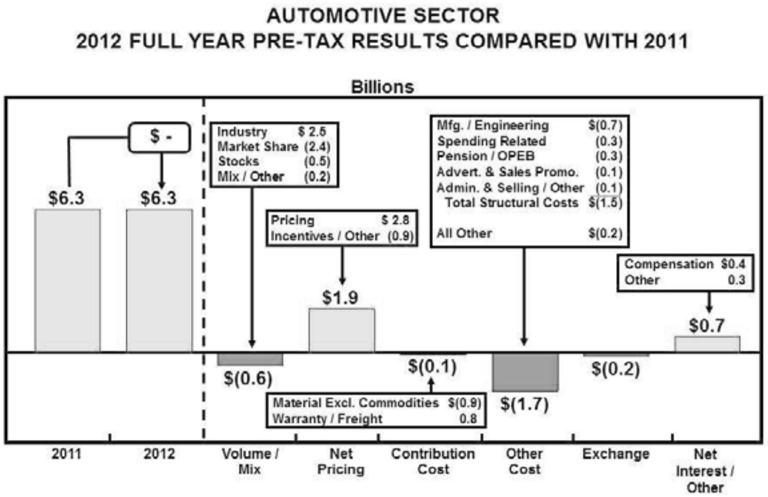
- *Exchange* - Primarily measures profit variance driven by one or more of the following: (i) impact of gains or losses arising from transactions denominated in currencies other than the functional currency of the locations, including currency transactions, (ii) effect of remeasuring income, assets,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

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

2012 Compared with 2011

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





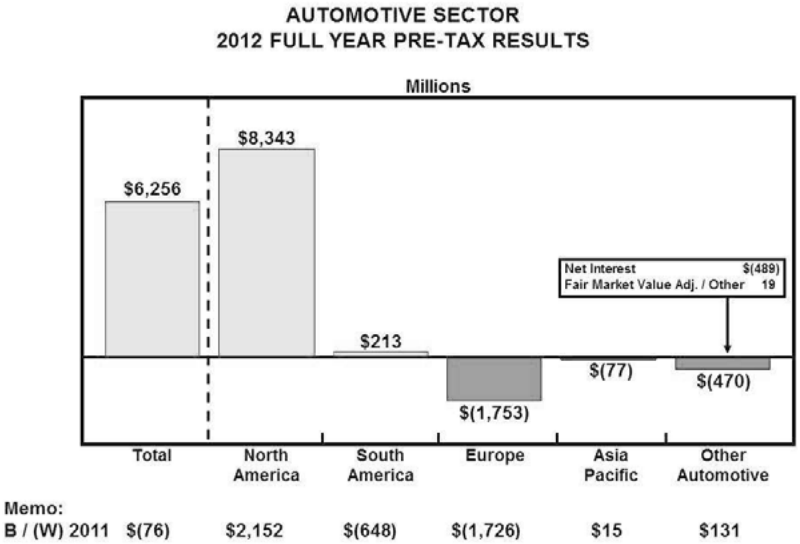
As shown above, all four key metrics were about equal for 2012 compared with 2011, with pre-tax profit primarily reflecting higher net pricing and lower compensation costs (primarily the non-repeat of 2011 UAW ratification bonuses), offset by higher costs, mainly structural, and unfavorable volume and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

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

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

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

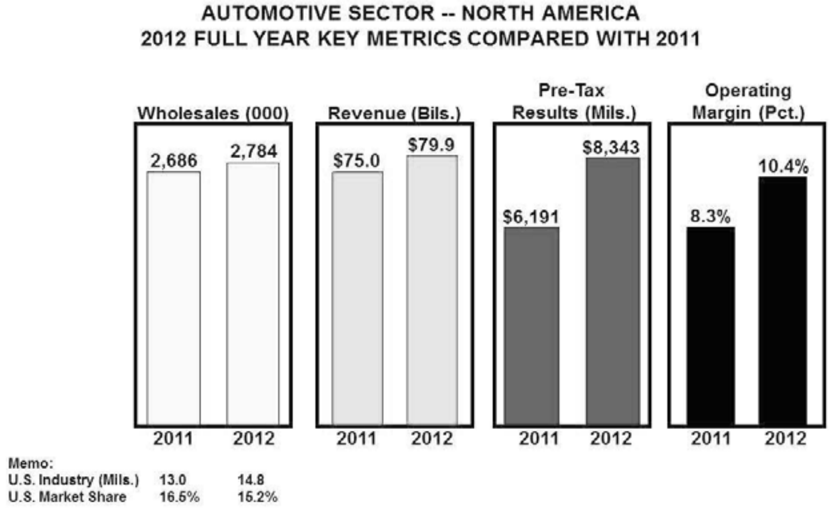
Results by Automotive Segment. Details by segment of *Income before income taxes* are shown below for 2012.

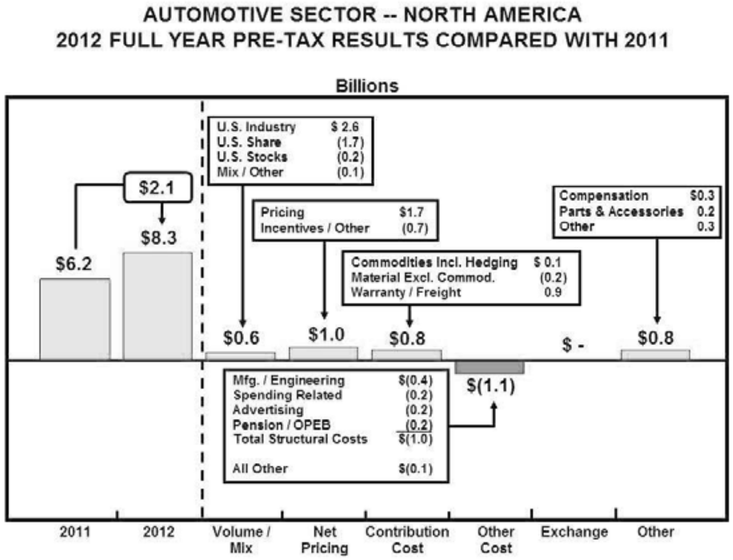


Total Automotive pre-tax profit in 2012 was more than explained by profit from Ford North America. Ford South America was profitable and Ford Asia Pacific Africa incurred a small loss, while Ford Europe reported a substantial loss. The loss in Other Automotive was more than explained by net interest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

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

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



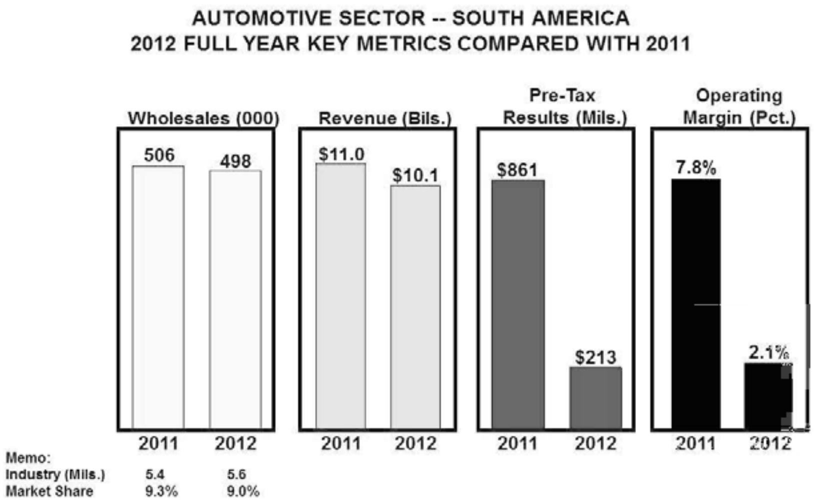


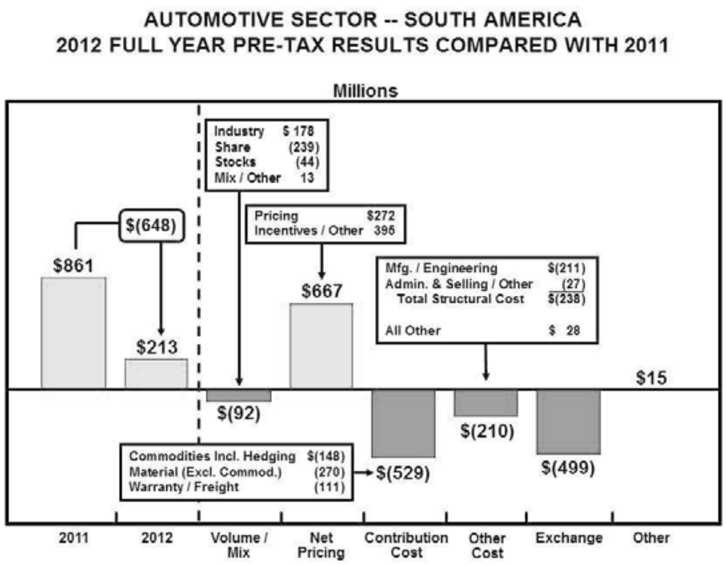
As shown above, all four key metrics increased for 2012 compared with 2011. The increase in pre-tax profit for 2012 compared with 2011 primarily reflected favorable market factors, lower contribution costs, and lower compensation costs (primarily the non-repeat of 2011 UAW ratification bonuses), offset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

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

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

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



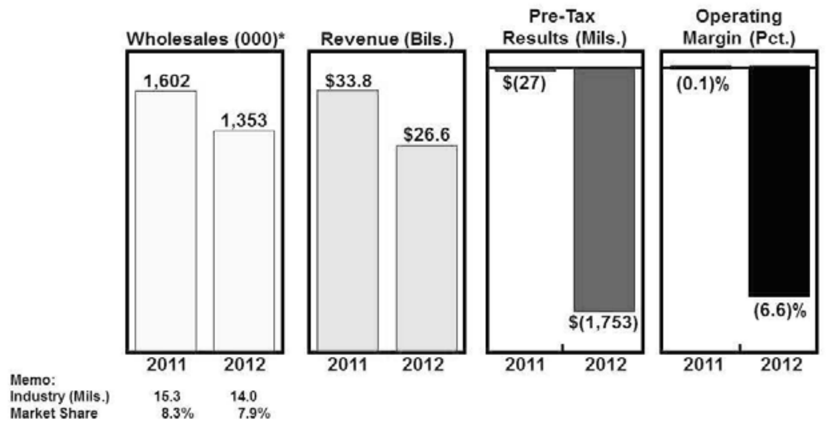


As shown above, all four key metrics decreased for 2012 compared with 2011. The decrease in pre-tax profit for 2012 compared with 2011 primarily reflects higher costs and unfavorable exchange, primarily in Brazil, offset partially by higher net pricing.

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

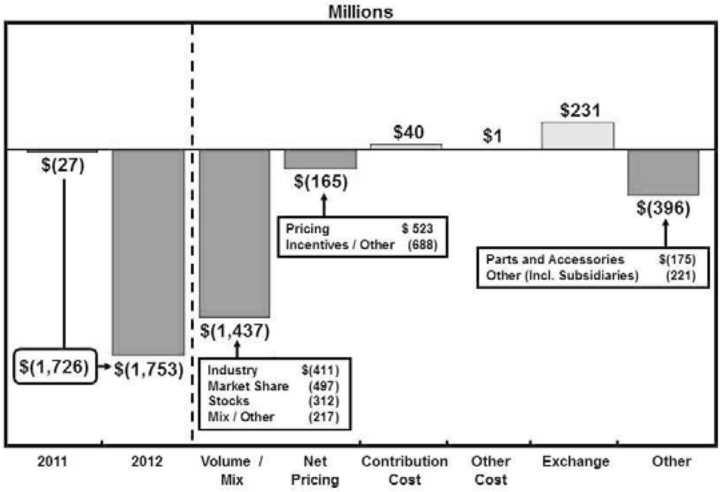
Ford Europe Segment. The charts below detail key metrics, and the change in 2012 pre-tax results compared with 2011 by causal factor.

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



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

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

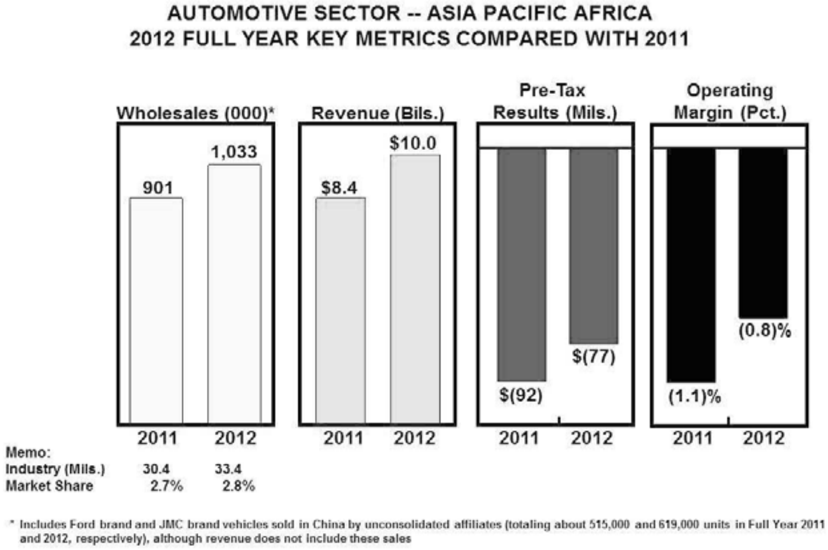


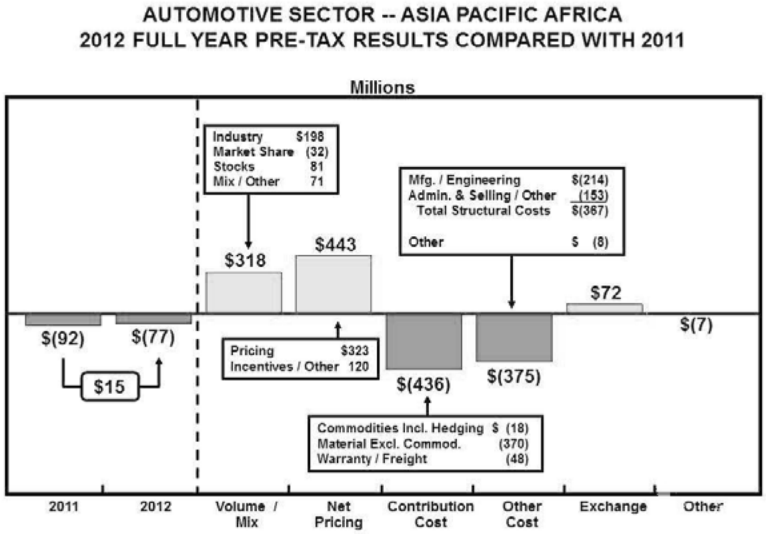
All four key metrics declined for 2012 compared with 2011. The decline in wholesales and revenue primarily reflected lower industry sales and market share, and reductions in dealer stocks. Exchange was also a contributing factor adversely affecting net revenue. The decline in 2012 pre-tax results compared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

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

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

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





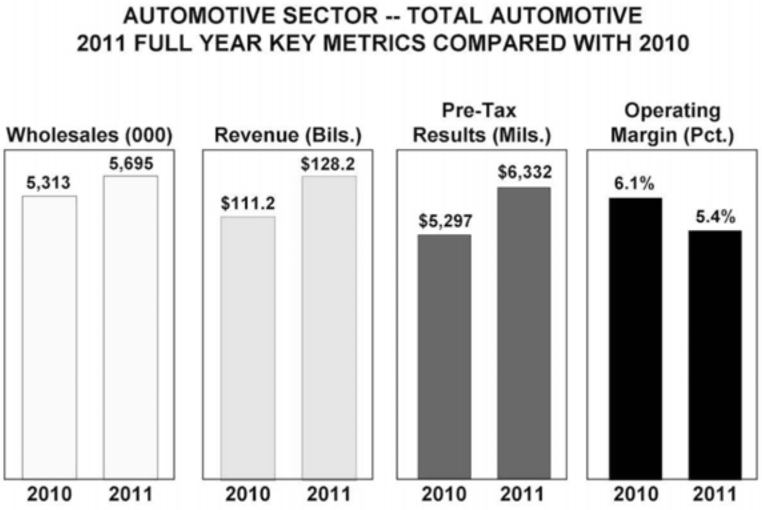
As shown above, all four key metrics improved for 2012 compared with 2011. The improvement in 2012 pre-tax results compared with 2011 is more than explained by higher net pricing, favorable volume and mix, and favorable exchange, offset partially by higher costs associated with new products and investments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

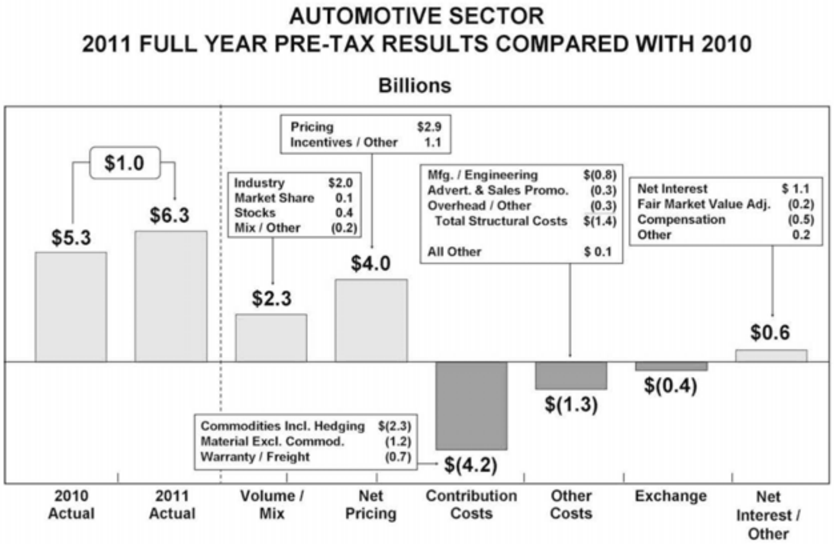
Our market share in the region increased sequentially each quarter during 2012, with fourth quarter 2012 market share at 3.4%, as we continued to benefit from increased capacity and new products. Further demonstrating the growth we are experiencing in Asia Pacific Africa, since 2009, wholesale volume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

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

2011 Compared with 2010

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





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

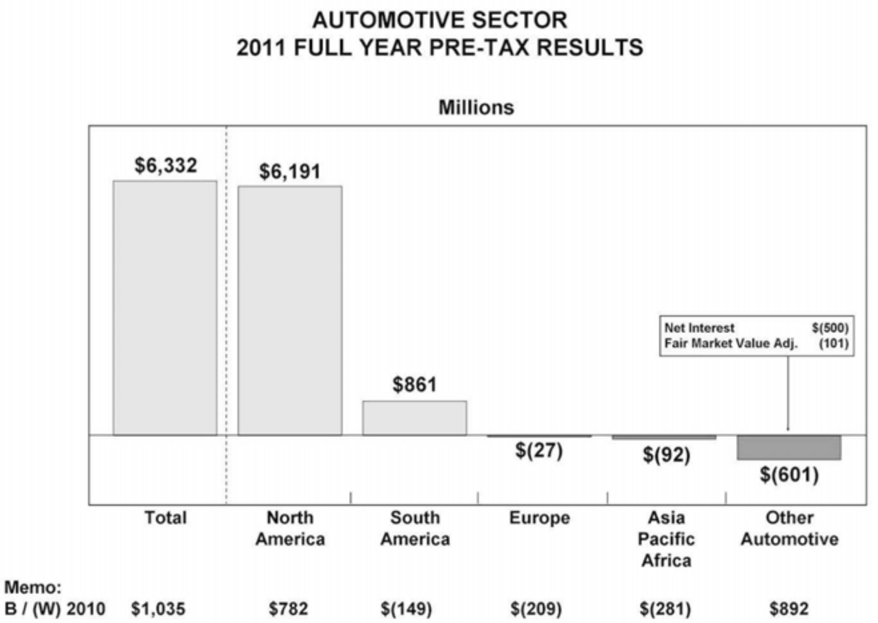
Total Automotive pre-tax operating profit in 2011 was $6.3 billion, an increase of $1 billion from 2010. The increase in earnings is explained by strong performance in market factors, and lower interest expense net of interest income (due primarily to lower debt levels). This was offset partially by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

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

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

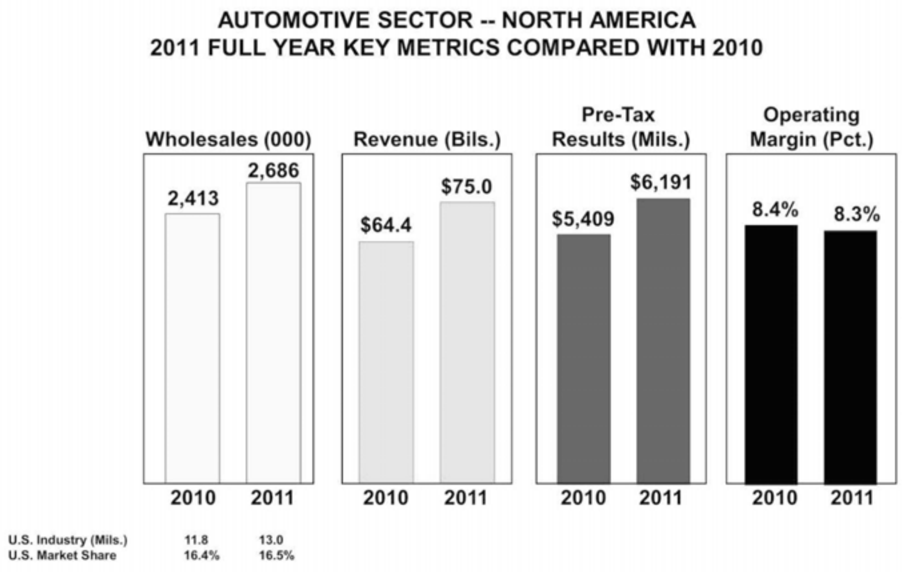
(a) Our key cost change elements are measured primarily at present-year exchange; in addition, costs that vary directly with volume, such as material, freight and warranty costs, are measured at present-year volume and mix. Excludes special items.
(b) Special items primarily reflect the non-recurrence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

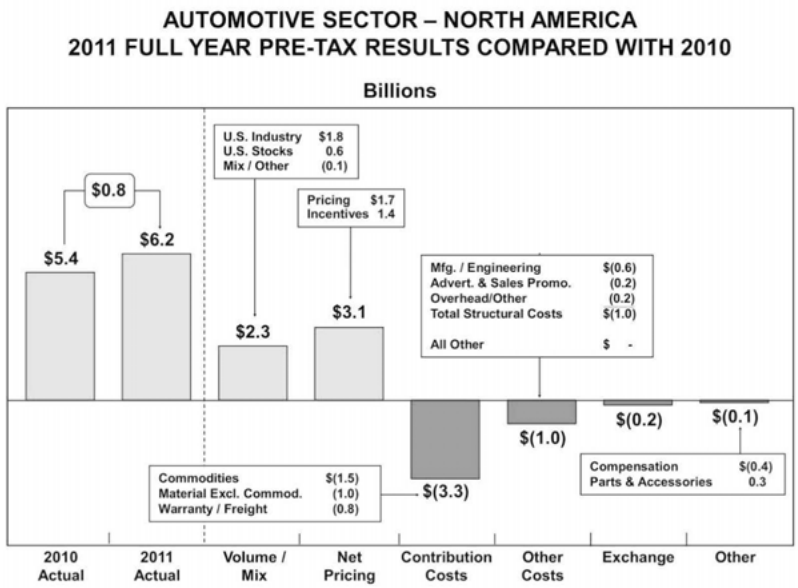
Results by Automotive Segment. Details by segment of *Income before income taxes* are shown below for 2011.



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

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

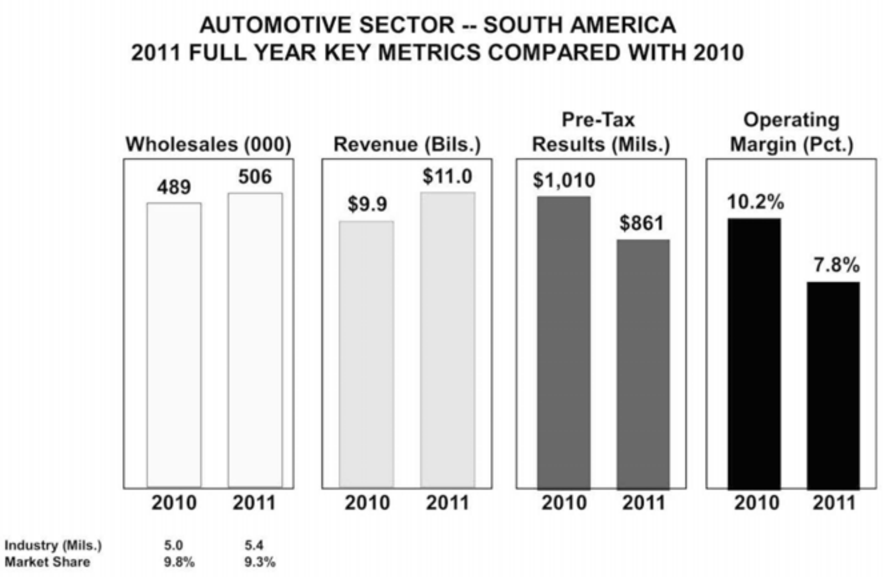


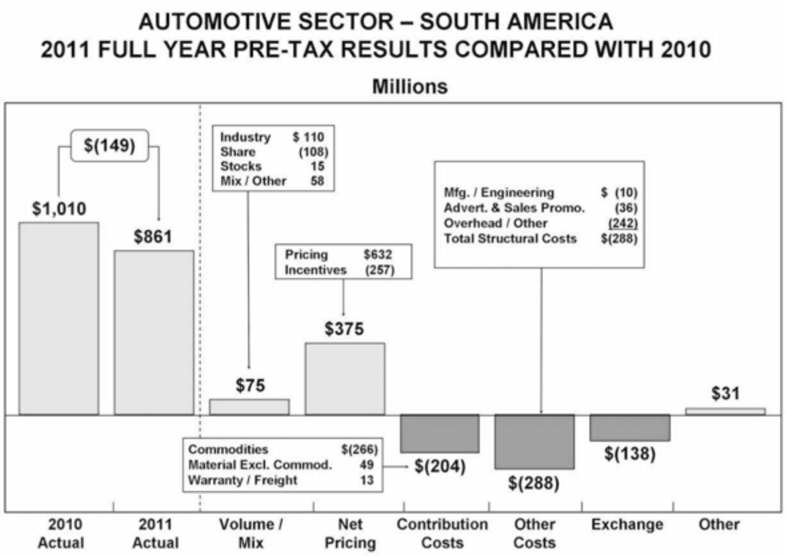


As shown above, full-year wholesale volume and revenue improved in 2011 compared with the prior year. Operating margin declined one-tenth of a percentage point; this includes an adverse impact of 2 points due to higher commodity costs.

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

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

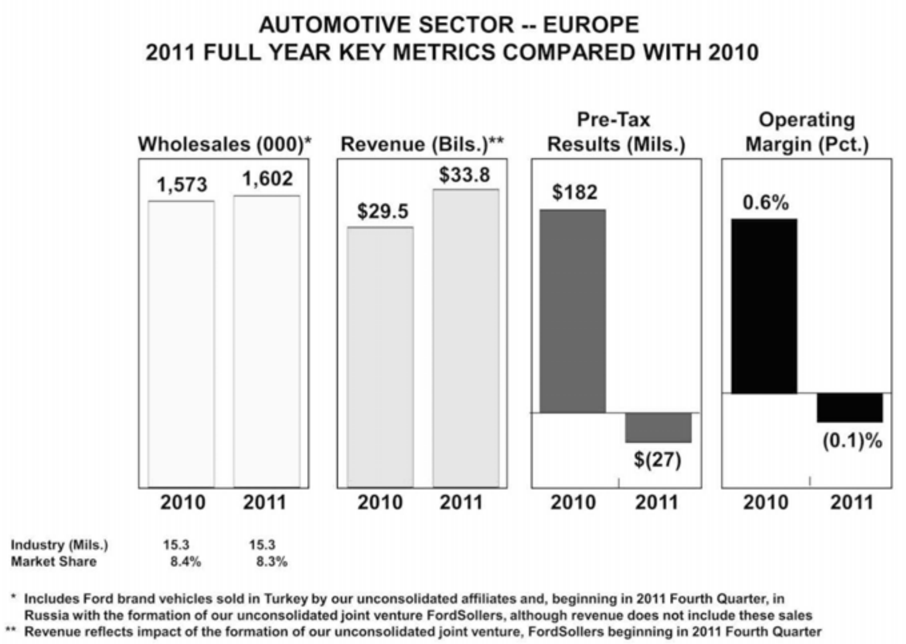


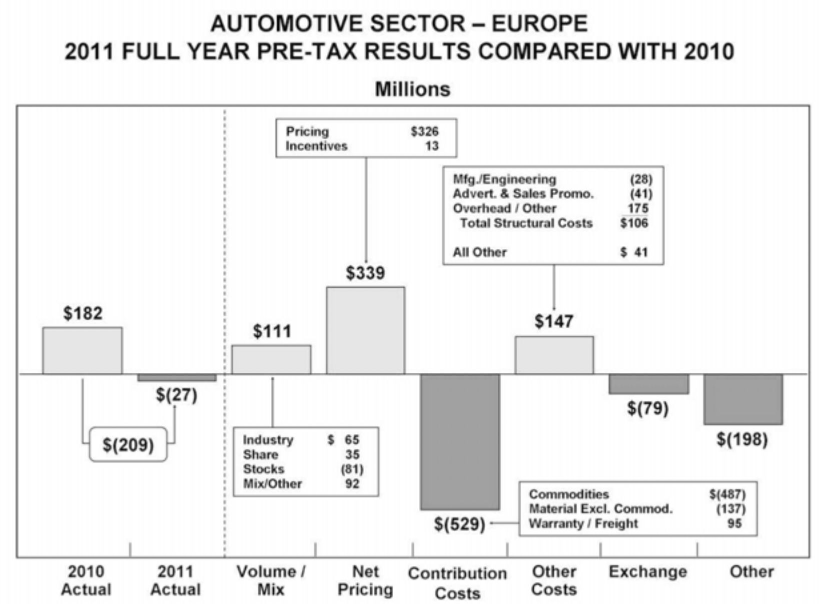


As shown above, full-year wholesales and revenue increased compared with a year ago, while operating margin declined.

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

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

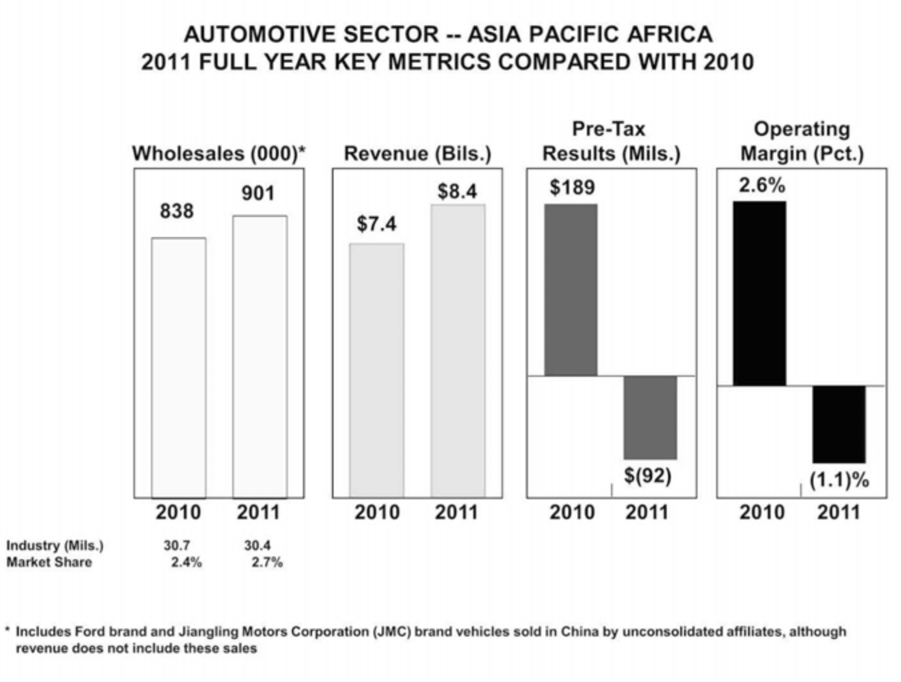


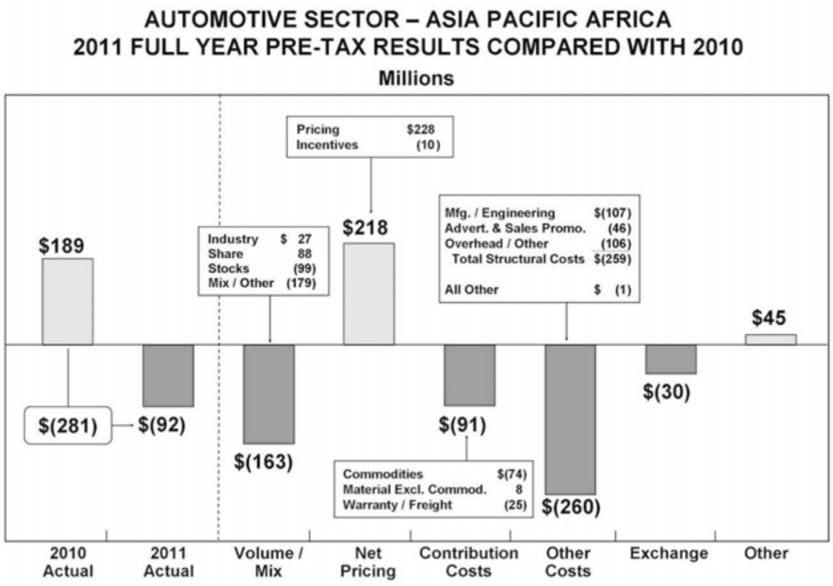


As shown above, full-year wholesale volume and revenue improved in 2011 compared with the prior year. Operating margin declined in 2011, with higher commodity costs contributing a negative 1.5 points to Europe's full-year margin.

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

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





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

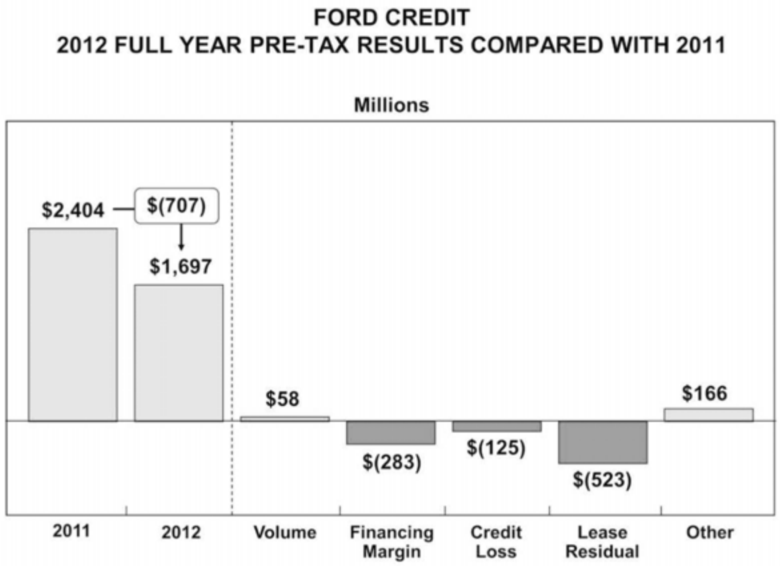
Ford Asia Pacific Africa reported a pre-tax operating loss of $92 million, compared with a profit of $189 million a year ago. The decline in results reflects higher costs (primarily structural costs in support of Ford Asia Pacific Africa growth plans), unfavorable volume and mix (which includes the impact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

FINANCIAL SERVICES SECTOR

2012 Compared with 2011

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

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



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

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

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

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

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

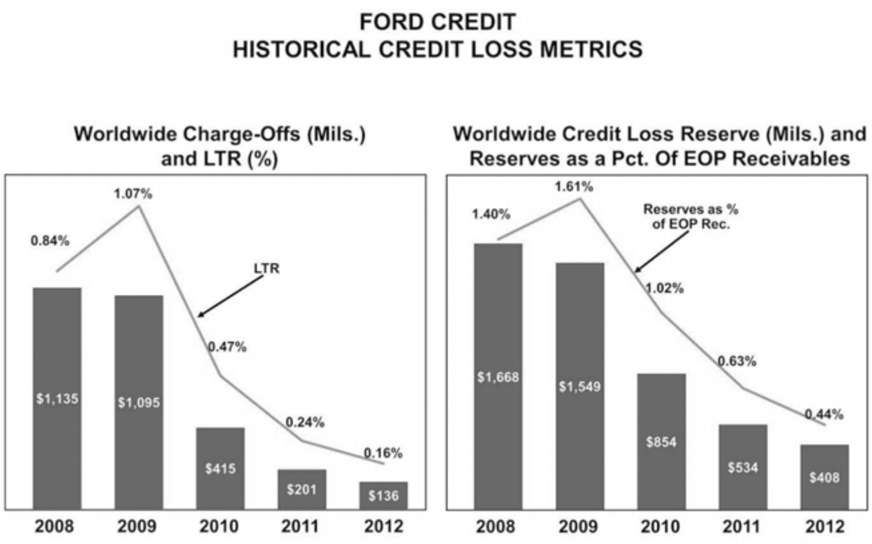
Ford Credit's receivables, including finance receivables and operating leases at December 31 were as follows (in billions):

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

(a) At December 31, 2012, 2011 and 2010, includes consumer receivables before allowance for credit losses of $29.3 billion, $36 billion, and $35.8 billion, respectively, and non-consumer receivables before allowance for credit losses of $21.6 billion, $19.8 billion, and $18.7 billion, respectively, that have been sold for legal purposes in securitization transactions but continue to be reported in Ford Credit's consolidated financial statements. In addition, at December 31, 2012, 2011, and 2010, includes net investment in operating leases before allowance for credit losses of $6.3 billion, $6.4 billion, and $6.2 billion, respectively, that have been included in securitization transactions but continue to be reported in Ford Credit's financial statements. The receivables are available only for payment of the debt and other obligations issued or arising in the securitization transactions; they are not available to pay Ford Credit's other obligations or the claims of its other creditors. Ford Credit holds the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of these securitization transactions. See Note 17 of the Notes to the Financial Statements for more information regarding securitization transactions.
(b) Includes allowance for credit losses of $408 million, $534 million, and $854 million at December 31, 2012, 2011 and 2010, respectively.
(c) Excludes unearned interest supplements related to finance receivables.

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

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



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

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

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

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

North America Retail Operating Lease Experience

Ford Credit uses various statistics to monitor its residual risk:

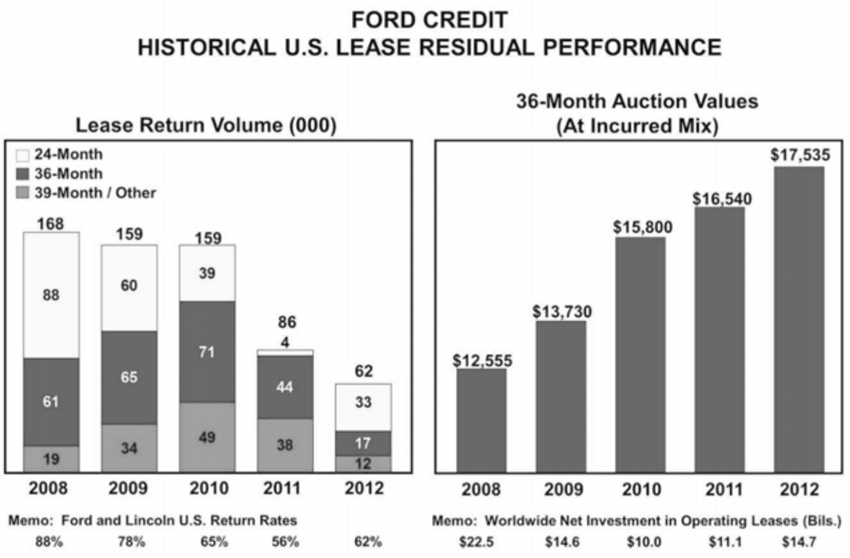
- Placement volume measures the number of leases Ford Credit purchases in a given period;
- Termination volume measures the number of vehicles for which the lease has ended in the given period; and
- Return volume reflects the number of vehicles returned to Ford Credit by customers at lease-end.

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

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

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

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



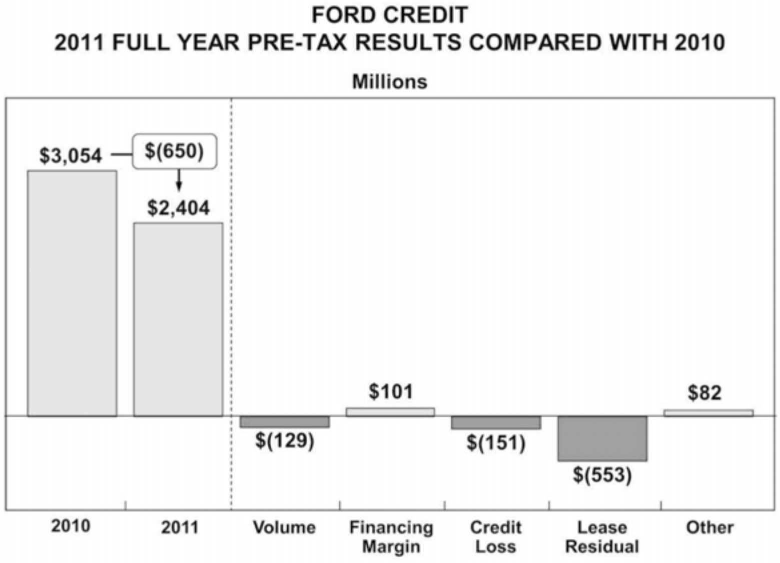
Ford Credit's lease return volumes in 2012 were about 30% lower than 2011, reflecting primarily the lower lease placements in 2009. Its 2012 lease return rate was 62%, up 6 percentage points compared with 2011, reflecting a higher mix of 24 month contracts.

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

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

2011 Compared with 2010

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



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

LIQUIDITY AND CAPITAL RESOURCES

Automotive Sector

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

U.S. Department of Energy ("DOE") Advanced Technology Vehicle Manufacturer ("ATVM") Incentive Program. In September 2009, we entered into a Loan Arrangement and Reimbursement Agreement ("Arrangement Agreement") with the DOE, pursuant to which the DOE agreed to (i) arrange a 13-year multi-draw term loan facility (the "Facility") under the ATVM Program in the aggregate principal amount of up to $5.9 billion, (ii) designate us as a borrower under the ATVM Program and (iii) cause the Federal Financing Bank to enter into a Note Purchase Agreement for the purchase of notes to be issued by us evidencing such loans. In August 2012, the Facility was fully drawn with $5.9 billion outstanding. We began repayment in September 2012 and at December 31, 2012, an aggregate of $5.6 billion was outstanding. The proceeds of the ATVM loan have been used to finance certain costs for fuel-efficient, advanced-technology vehicles. The principal amount of the ATVM loan bears interest at a blended rate based on the U.S. Treasury yield curve at the time each draw was made (with the weighted-average interest rate on all such draws being about 2.3% per annum). The ATVM loan is repayable in equal quarterly installments of $148 million, which began in September 2012 and will end in June 2022.

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

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

Other Automotive Credit Facilities. At December 31, 2012, we had $901 million of local credit facilities available to non-U.S. Automotive affiliates, of which $140 million had been utilized. Of the $901 million of committed credit facilities, $345 million expires in 2013, $196 million expires in 2014, $318 million expires in 2015, and $42 million thereafter.

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

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

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

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

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

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

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

In 2012, we contributed $3.4 billion to our worldwide funded pension plans, an increase of $2.3 billion compared with 2011. During 2013, we expect to contribute from Automotive cash and cash equivalents about $5 billion to our worldwide funded plans (including discretionary contributions of about $3.4 billion, largely to our U.S. plans) and to make $400 million of benefit payments to participants in unfunded plans, for a total of about $5.4 billion.

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

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

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

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

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

Financial Services Sector

Ford Credit

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

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

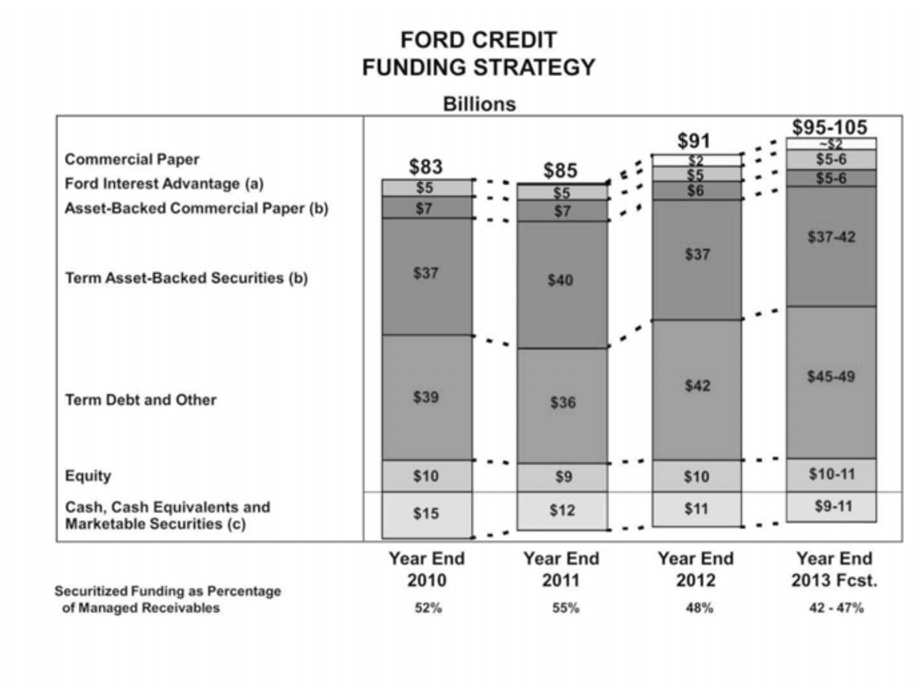
Ford Credit's funding plan is subject to risks and uncertainties, many of which are beyond its control, including disruption in the capital markets that could impact both unsecured debt and asset-backed securities issuance and the effects of regulatory reform efforts on the financial markets. Potential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

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

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

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

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



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

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

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

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

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

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(a) Includes Rule 144A offerings.

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

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

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

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

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

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

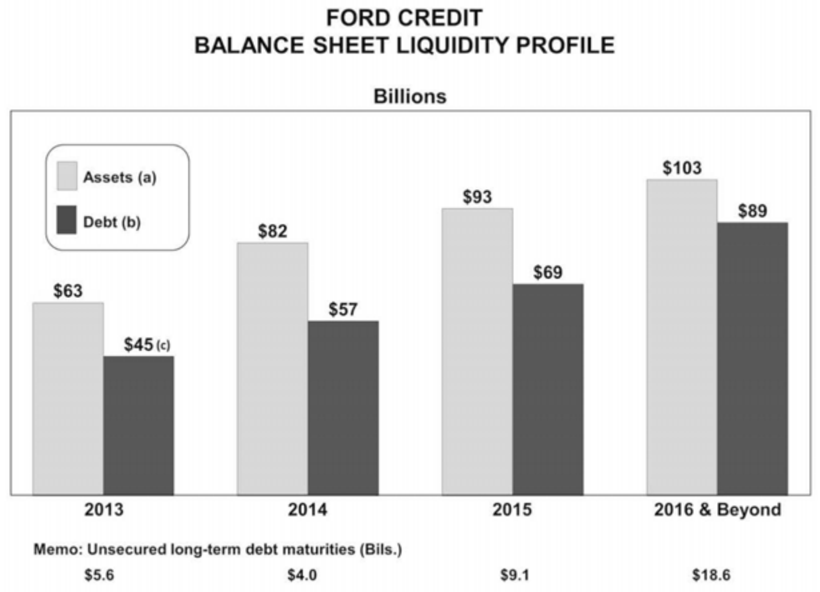
Ford Credit ended 2012 with gross liquidity of $21.2 billion. Capacity in excess of eligible receivables decreased to $1.5 billion. This provides a funding source for future originations and flexibility to transfer capacity among markets and asset classes where most needed. Total liquidity available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

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

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

Credit Facilities and Committed Liquidity Programs. See Note 17 of the Notes to the Financial Statements for more information regarding credit facilities and committed liquidity programs for Ford Credit. While there is a risk of non-renewal of some of Ford Credit's committed liquidity programs, which could lead to a reduction in the size of these programs and/or higher costs, Ford Credit's capacity in excess of eligible receivables would enable it to absorb some reductions. Ford Credit's ability to obtain funding under these programs is subject to having a sufficient amount of assets eligible for these programs as well as its ability to obtain interest rate hedging arrangements for certain securitization transactions.

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



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

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

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

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

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

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

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

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

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

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

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

Total Company

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

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

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

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

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

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

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

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

OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk Factors

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

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

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Warranty and Product Recalls

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

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

Pensions

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

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

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

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

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

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

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

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

Other Postretirement Employee Benefits

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

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

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

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

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

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

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

Income Taxes

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

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

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

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

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

Allowance for Credit Losses

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

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

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

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

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

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

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

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

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

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

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

Accumulated Depreciation on Vehicles Subject to Operating Leases

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

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

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

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

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

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

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

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

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

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

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

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

Automotive Sector Long-Lived Asset Impairment Testing

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

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

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

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

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

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

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

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

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

ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

AGGREGATE CONTRACTUAL OBLIGATIONS

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

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

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

(a) Amount includes, prior to adjustment noted above, $902 million for the Automotive sector and $19,631 million for the Financial Services sector for the current portion of long-term debt. See Note 17 of the Notes to the Financial Statements for additional discussion.

(b) Automotive sector excludes unamortized debt discounts of $(249) million. Financial Services sector excludes unamortized debt discounts of $(134) million and adjustments of $791 million related to designated fair value hedges of the debt.

(c) Excludes amortization of debt discounts/premiums.

(d) Amounts represent our estimate of contractually obligated deficit contributions to U.K. plans. See Note 16 for further information regarding our expected 2013 pension contributions and funded status.

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

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

Quantitative and Qualitative Disclosures About Market Risk

OVERVIEW

We are exposed to a variety of market and other risks, including the effects of changes in foreign currency exchange rates, commodity prices, interest rates, as well as risks to availability of funding sources, hazard events, and specific asset risks.

These risks affect our Automotive and Financial Services sectors differently. We monitor and manage these exposures as an integral part of our overall risk management program, which includes regular reports to a central management committee, the Global Risk Management Committee ("GRMC"). The GRMC is chaired by our Chief Financial Officer, and its members include our Treasurer, our Corporate Controller, and other members of senior management.

Our Automotive and Financial Services sectors are exposed to liquidity risk, or the possibility of having to curtail their businesses or being unable to meet present and future financial obligations as they come due because funding sources may be reduced or become unavailable. We maintain plans for sources of funding to ensure liquidity through a variety of economic or business cycles. As discussed in greater detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations" our funding sources include sales of receivables in securitizations and other structured financings, unsecured debt issuances, equity and equity-linked issuances, and bank borrowings.

We are exposed to a variety of insurable risks, such as loss or damage to property, liability claims, and employee injury. We protect against these risks through a combination of self-insurance and the purchase of commercial insurance designed to protect against events that could generate significant losses.

Direct responsibility for the execution of our market risk management strategies resides with our Treasurer's Office and is governed by written policies and procedures. Separation of duties is maintained between the development and authorization of derivative trades, the transaction of derivatives, and the settlement of cash flows. Regular audits are conducted to ensure that appropriate controls are in place and that they remain effective. In addition, our market risk exposures and our use of derivatives to manage these exposures are approved by the GRMC, and reviewed by the Audit Committee of our Board of Directors.

In accordance with corporate risk management policies, we use derivative instruments, when available, such as forward contracts, swaps and options that economically hedge certain exposures (foreign currency, commodity, and interest rates). Derivative positions, when available, are used to hedge underlying exposures; we do not use derivative contracts for trading, market-making or speculative purposes. In certain instances, we forgo hedge accounting, and, in certain other instances, our derivatives do not qualify for hedge accounting. Either situation results in unrealized gains and losses that are recognized currently in net income. For additional information on our derivatives, see Note 18 of the Notes to the Financial Statements.

The market and counterparty risks of our Automotive sector and Ford Credit are discussed and quantified below.

AUTOMOTIVE MARKET AND COUNTERPARTY RISK

Our Automotive sector frequently has expenditures and receipts denominated in foreign currencies, including the following: purchases and sales of finished vehicles and production parts, debt and other payables, subsidiary dividends, and investments in foreign operations. These expenditures and receipts create exposures to changes in exchange rates. We also are exposed to changes in prices of commodities used in our Automotive sector and changes in interest rates.

Foreign currency risk and commodity risk are measured and quantified using a model to evaluate the sensitivity of the fair value of currency and commodity derivative instruments with exposure to market risk that assumes instantaneous, parallel shifts in rates and/or prices. For options and instruments with non-linear returns, appropriate models are utilized to determine the impact of shifts in rates and prices.

Foreign Currency Risk. Foreign currency risk is the possibility that our financial results could be better or worse than planned because of changes in currency exchange rates. Accordingly, our normal practice is to use derivative instruments, when available, to hedge our economic exposure with respect to forecasted revenues and costs, assets, liabilities, investments in foreign operations, and firm commitments denominated in foreign currencies. In our hedging actions, we use primarily instruments commonly used by corporations to reduce foreign exchange risk (e.g., forward contracts).

Quantitative and Qualitative Disclosures About Market Risk

The net fair value of foreign exchange forward contracts (including adjustments for credit risk) as of December 31, 2012 was a liability of $268 million compared to a liability of $236 million as of December 31, 2011. The potential decrease in fair value from a 10% adverse change in the underlying exchange rates, in U.S. dollar terms, would be about $2 billion at December 31, 2012 compared with a decrease of about $1.7 billion as of December 31, 2011. The increase in potential market risk from the end of last year primarily results from an increase in the amount of foreign currencies hedged during 2012.

Commodity Price Risk. Commodity price risk is the possibility that our financial results could be better or worse than planned because of changes in the prices of commodities used in the production of motor vehicles, such as ferrous metals (e.g., steel and iron castings), non-ferrous metals (e.g., aluminum), precious metals (e.g., palladium), energy (e.g., natural gas and electricity), and plastics/resins (e.g., polypropylene). Steel and resins are two of our largest commodity exposures and are among the most difficult to hedge.

Our normal practice is to use derivative instruments, when available, to hedge the price risk associated with the purchase of those commodities that we can economically hedge (primarily non-ferrous metals and precious metals). In our hedging actions, we use derivative instruments commonly used by corporations to reduce commodity price risk (e.g., financially settled forward contracts, swaps, and options).

The net fair value of commodity forward and option contracts (including adjustments for credit risk) as of December 31, 2012 was a liability of $101 million (which reflects the cumulative mark to market net loss on our hedging contracts for full year 2012), compared to a liability of $370 million as of December 31, 2011. The potential decrease in fair value from a 10% adverse change in the underlying commodity prices, in U.S. dollar terms, would be about $103 million at December 31, 2012, compared with a decrease of about $203 million at December 31, 2011. The decrease in potential market risk from the end of last year primarily results from a decrease in the amount of commodities hedged during 2012 with forward contracts (partially offset by an increase in the amount of commodities hedged with option contracts).

In addition, our purchasing organization (with guidance from the GRMC as appropriate) negotiates contracts to ensure continuous supply of raw materials. In some cases, these contracts stipulate minimum purchase amounts and specific prices, and as such, play a role in managing price risk.

Interest Rate Risk. Interest rate risk relates to the gain or loss we could incur in our Automotive investment portfolios due to a change in interest rates. Our interest rate sensitivity analysis on the investment portfolios includes cash and cash equivalents and net marketable securities. At December 31, 2012, we had $24.3 billion in our Automotive investment portfolios, compared to $22.9 billion at December 31, 2011. We invest the portfolios in securities of various types and maturities, the value of which are subject to fluctuations in interest rates. The portfolios are classified as trading portfolios and gains and losses (unrealized and realized) are reported in the income statement. The investment strategy is based on clearly defined risk and liquidity guidelines to maintain liquidity, minimize risk, and earn a reasonable return on the short-term investments. In investing our Automotive cash, safety of principal is the primary objective and risk-adjusted return is the secondary objective.

At any time, a rise in interest rates could have a material adverse impact on the fair value of our portfolios. Assuming a hypothetical increase in interest rates of one percentage point, the value of our portfolios would be reduced by about $185 million. This compares to $95 million, as calculated as of December 31, 2011. While these are our best estimates of the impact of the specified interest rate scenario, actual results could differ from those projected. The sensitivity analysis presented assumes interest rate changes are instantaneous, parallel shifts in the yield curve. In reality, interest rate changes of this magnitude are rarely instantaneous or parallel.

Counterparty Risk. Counterparty risk relates to the loss we could incur if an obligor or counterparty defaulted on an investment or a derivative contract. We enter into master agreements with counterparties that allow netting of certain exposures in order to manage this risk. Exposures primarily relate to investments in fixed income instruments and derivative contracts used for managing interest rate, foreign currency exchange rate and commodity price risk. We, together with Ford Credit, establish exposure limits for each counterparty to minimize risk and provide counterparty diversification.

Our approach to managing counterparty risk is forward-looking and proactive, allowing us to take risk mitigation actions before risks become losses. Exposure limits are established based on our overall risk tolerance and estimated loss projections which are calculated from ratings-based historical default probabilities. The exposure limits are lower for lower-rated counterparties and for longer-dated exposures. Our exposures are monitored on a regular basis and included in periodic reports to our Treasurer.

Substantially all of our counterparty exposures are with counterparties that have an investment grade rating. Investment grade is our guideline for counterparty minimum long-term ratings.

For additional information about derivative notional amount and fair value of derivatives, please refer to Note 18 of the Notes to the Financial Statements.

FORD CREDIT MARKET RISK

Overview. Ford Credit is exposed to a variety of risks in the normal course of its business activities. In addition to counterparty risk discussed above, Ford Credit is subject to the following additional types of risks that it seeks to identify, assess, monitor, and manage, in accordance with defined policies and procedures:

- *Market risk* - the possibility that changes in interest and currency exchange rates will adversely affect cash flow and economic value;
- *Credit risk* - the possibility of loss from a customer's failure to make payments according to contract terms;
- *Residual risk* - the possibility that the actual proceeds received at lease termination will be lower than projections or return volumes will be higher than projections; and
- *Liquidity risk* - the possibility that Ford Credit may be unable to meet all of its current and future obligations in a timely manner.

Each form of risk is uniquely managed in the context of its contribution to Ford Credit's overall global risk. Business decisions are evaluated on a risk-adjusted basis and services are priced consistent with these risks. Credit and residual risks, as well as liquidity risk, are discussed above in "Management's Discussion and Analysis of Financial Condition and Results of Operations." A discussion of Ford Credit's market risks (interest rate risk and foreign currency risk) is included below.

Interest Rate Risk. Ford Credit is exposed to interest rate risk to the extent that its assets and the related debt have different re-pricing periods, and consequently, respond differently to changes in interest rates.

Ford Credit's assets consist primarily of fixed-rate retail installment sale and lease contracts and floating-rate wholesale receivables. Fixed-rate retail installment sale and lease contracts are originated principally with maturities ranging between two and six years and generally require customers to make equal monthly payments over the life of the contract. Wholesale receivables are originated to finance new and used vehicles held in dealers' inventory and generally require dealers to pay a floating rate.

Debt consists primarily of securitizations and short- and long-term unsecured debt. In the case of unsecured term debt, and in an effort to have funds available throughout business cycles, Ford Credit may borrow at terms longer than the terms of their assets, in most instances with maturities up to ten years. These debt instruments are principally fixed-rate and require fixed and equal interest payments over the life of the instrument and a single principal payment at maturity.

Ford Credit's interest rate risk management objective is to reduce volatility in its cash flows and volatility in its economic value from changes in interest rates based on an established risk tolerance.

Ford Credit uses re-pricing gap analysis and economic value sensitivity analysis to evaluate potential long term effects of changes in interest rates. It then enters into interest rate swaps to convert portions of its floating-rate debt to fixed or its fixed-rate debt to floating to ensure that Ford Credit's exposure falls within the established tolerances. Ford Credit also uses pre-tax cash flow sensitivity analysis to monitor the level of near-term cash flow exposure. The pre-tax cash flow sensitivity analysis measures the changes in expected cash flows associated with Ford Credit's interest-rate-sensitive assets, liabilities, and derivative financial instruments from hypothetical changes in interest rates over a twelve-month horizon. Ford Credit's Asset-Liability Committee reviews the re-pricing mismatch and exposure every month and approves interest rate swaps required to maintain exposure within approved thresholds prior to execution.

To provide a quantitative measure of the sensitivity of its pre-tax cash flow to changes in interest rates, Ford Credit uses interest rate scenarios that assume a hypothetical, instantaneous increase or decrease of one percentage point in all interest rates, across all maturities (a "parallel shift"), as well as a base case that assumes that all interest rates remain constant at existing levels. In reality, interest rate changes are rarely instantaneous or parallel and rates could move more or less than the one percentage point assumed in Ford Credit's analysis. As a result, the actual impact to pre-tax cash flow could be higher or lower than the results detailed in the table below. These interest rate scenarios are purely hypothetical and do not represent Ford Credit's view of future interest rate movements.

Pre-tax cash flow sensitivity as of year-end 2012 and 2011 was as follows (in millions):

	Pre-Tax Cash Flow Sensitivity (given a one percentage point instantaneous *increase* in interest rates)	Pre-Tax Cash Flow Sensitivity (given a one percentage point instantaneous *decrease* in interest rates) (a)
December 31, 2012	$ 77	$ (77)
December 31, 2011	$ 60	$ (60)

(a) Pre-tax cash flow sensitivity given a one percentage point decrease in interest rates requires an assumption of negative interest rates in markets where existing interest rates are below one percent.

Ford Credit expects more assets than debt and liabilities to re-price in the next twelve months. Other things being equal, this means that during a period of rising interest rates, the interest earned on Ford Credit's assets will increase more than the interest paid on Ford Credit's debt, thereby initially increasing Ford Credit's pre-tax cash flow. During a period of falling interest rates, Ford Credit would expect its pre-tax cash flow to initially decrease. Ford Credit's pre-tax cash flow sensitivity to interest rate movement is highlighted in the table above.

While the sensitivity analysis presented is Ford Credit's best estimate of the impacts of the specified assumed interest rate scenarios, its actual results could differ from those projected. The model Ford Credit uses to conduct this analysis is heavily dependent on assumptions. Embedded in the model are assumptions regarding the reinvestment of maturing asset principal, refinancing of maturing debt, replacement of maturing derivatives, exercise of options embedded in debt and derivatives, and predicted repayment of retail installment sale and lease contracts ahead of contractual maturity. Ford Credit's repayment projections ahead of contractual maturity are based on historical experience. If interest rates or other factors change, Ford Credit's actual prepayment experience could be different than projected.

Foreign Currency Risk. Ford Credit's policy is to minimize exposure to changes in currency exchange rates. To meet funding objectives, Ford Credit borrows in a variety of currencies, principally U.S. dollars, Canadian dollars, Euros and Pound Sterling. Ford Credit faces exposure to currency exchange rates if a mismatch exists between the currency of receivables and the currency of the debt funding those receivables. When possible, receivables are funded with debt in the same currency, minimizing exposure to exchange rate movements. When a different currency is used, Ford Credit may use foreign currency swaps and foreign currency forwards to convert substantially all of its foreign currency debt obligations to the local country currency of the receivables:

As a result of this policy, Ford Credit believes its market risk exposure relating to changes in currency exchange rates is insignificant.

Derivative Fair Values. The net fair value of Ford Credit's derivative financial instruments as of December 31, 2012 was an asset of $856 million, compared to an asset of $1.1 billion as of December 31, 2011. For additional information regarding our Financial Services sector derivatives, see Note 18 of the Notes to the Financial Statements.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Ford Motor Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, equity and cash flows, including pages 64 through 155, present fairly, in all material respects, the financial position of Ford Motor Company and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting in this Annual Report. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying sector balance sheets and the related sector statements of income and of cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Detroit, Michigan
February 18, 2013

FORD MOTOR COMPANY AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
(in millions, except per share amounts)

	For the years ended December 31,		
	2012	2011	2010
Revenues			
Automotive	$ 126,567	$ 128,168	$ 119,280
Financial Services	7,685	8,096	9,674
Total revenues	134,252	136,264	128,954
Costs and expenses			
Automotive cost of sales	112,578	113,345	104,451
Selling, administrative, and other expenses	12,182	11,578	11,909
Financial Services interest expense	3,115	3,614	4,345
Financial Services provision for credit and insurance losses	86	(33)	(216)
Total costs and expenses	127,961	128,504	120,489
Automotive interest expense	713	817	1,807
Automotive interest income and other income/(loss), net (Note 21)	1,185	825	(362)
Financial Services other income/(loss), net (Note 21)	369	413	315
Equity in net income/(loss) of affiliated companies	588	500	538
Income before income taxes	7,720	8,681	7,149
Provision for/(Benefit from) income taxes (Note 24)	2,056	(11,541)	592
Net income	5,664	20,222	6,557
Less: Income/(Loss) attributable to noncontrolling interests	(1)	9	(4)
Net income attributable to Ford Motor Company	$ 5,665	$ 20,213	$ 6,561
AMOUNTS PER SHARE ATTRIBUTABLE TO FORD MOTOR COMPANY COMMON AND CLASS B STOCK (Note 26)			
Basic income	$ 1.48	$ 5.33	$ 1.90
Diluted income	$ 1.42	$ 4.94	$ 1.66
Cash dividends declared	$ 0.15	$ 0.05	$ —

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	For the years ended December 31,		
	2012	2011	2010
Net income	$ 5,664	$ 20,222	$ 6,557
Other comprehensive income/(loss), net of tax (Note 20)			
Foreign currency translation	142	(720)	(2,234)
Derivative instruments	6	(152)	(24)
Pension and other postretirement benefits	(4,268)	(3,553)	(1,190)
Net holding gain/(loss)	—	2	(2)
Total other comprehensive income/(loss), net of tax	(4,120)	(4,423)	(3,450)
Comprehensive income	1,544	15,799	3,107
Less: Comprehensive income/(loss) attributable to noncontrolling interests	(1)	7	(5)
Comprehensive income attributable to Ford Motor Company	$ 1,545	$ 15,792	$ 3,112

The accompanying notes are part of the financial statements.

FORD MOTOR COMPANY AND SUBSIDIARIES
SECTOR INCOME STATEMENT
(in millions)

	For the years ended December 31,		
	2012	2011	2010
AUTOMOTIVE			
Revenues	$ 126,567	$ 128,168	$ 119,280
Costs and expenses			
Cost of sales	112,578	113,345	104,451
Selling, administrative, and other expenses	9,006	9,060	9,040
Total costs and expenses	121,584	122,405	113,491
Interest expense	713	817	1,807
Interest income and other income/(loss), net (Note 21)	1,185	825	(362)
Equity in net income/(loss) of affiliated companies	555	479	526
Income before income taxes — Automotive	6,010	6,250	4,146
FINANCIAL SERVICES			
Revenues	7,685	8,096	9,674
Costs and expenses			
Interest expense	3,115	3,614	4,345
Depreciation	2,524	1,843	2,024
Operating and other expenses	652	675	845
Provision for credit and insurance losses	86	(33)	(216)
Total costs and expenses	6,377	6,099	6,998
Other income/(loss), net (Note 21)	369	413	315
Equity in net income/(loss) of affiliated companies	33	21	12
Income before income taxes — Financial Services	1,710	2,431	3,003
TOTAL COMPANY			
Income before income taxes	7,720	8,681	7,149
Provision for/(Benefit from) income taxes (Note 24)	2,056	(11,541)	592
Net income	5,664	20,222	6,557
Less: Income/(Loss) attributable to noncontrolling interests	(1)	9	(4)
Net income attributable to Ford Motor Company	$ 5,665	$ 20,213	$ 6,561

The accompanying notes are part of the financial statements.

FORD MOTOR COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(in millions)

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 15,659	$ 17,148
Marketable securities (Note 6)	20,284	18,618
Finance receivables, net (Note 7)	71,510	69,976
Other receivables, net	10,828	8,565
Net investment in operating leases (Note 8)	16,451	12,838
Inventories (Note 10)	7,362	5,901
Equity in net assets of affiliated companies (Note 11)	3,246	2,936
Net property (Note 13)	24,942	22,371
Deferred income taxes (Note 24)	15,185	15,125
Net intangible assets (Note 14)	87	100
Other assets	5,000	4,770
Total assets	$ 190,554	$ 178,348
LIABILITIES		
Payables	$ 19,308	$ 17,724
Accrued liabilities and deferred revenue (Note 15)	49,407	45,369
Debt (Note 17)	105,058	99,488
Deferred income taxes (Note 24)	470	696
Total liabilities	174,243	163,277
Redeemable noncontrolling interest (Note 19)	322	—
EQUITY		
Capital stock (Note 26)		
Common Stock, par value $.01 per share (3,875 million shares issued)	39	37
Class B Stock, par value $.01 per share (71 million shares issued)	1	1
Capital in excess of par value of stock	20,976	20,905
Retained earnings	18,077	12,985
Accumulated other comprehensive income/(loss) (Note 20)	(22,854)	(18,734)
Treasury stock	(292)	(166)
Total equity attributable to Ford Motor Company	15,947	15,028
Equity attributable to noncontrolling interests	42	43
Total equity	15,989	15,071
Total liabilities and equity	$ 190,554	$ 178,348

The following table includes assets to be used to settle liabilities of the consolidated variable interest entities ("VIEs"). These assets and liabilities are included in the consolidated balance sheet above. See Note 12 for additional information on our VIEs.

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 2,911	$ 3,402
Finance receivables, net	47,515	49,795
Net investment in operating leases	6,308	6,354
Other assets	4	157
LIABILITIES		
Accrued liabilities and deferred revenue	134	97
Debt	40,245	41,421

The accompanying notes are part of the financial statements.

FORD MOTOR COMPANY AND SUBSIDIARIES
SECTOR BALANCE SHEET (in millions)

	December 31, 2012	December 31, 2011
ASSETS		
Automotive		
Cash and cash equivalents	$ 6,247	$ 7,965
Marketable securities (Note 6)	18,178	14,984
Total cash and marketable securities	24,425	22,949
Receivables, less allowances of $115 and $126	5,361	4,219
Inventories (Note 10)	7,362	5,901
Deferred income taxes	3,488	1,791
Net investment in operating leases (Note 8)	1,415	1,356
Other current assets	1,124	1,053
Current receivable from Financial Services (Note 1)	—	878
Total current assets	43,175	38,147
Equity in net assets of affiliated companies (Note 11)	3,112	2,797
Net property (Note 13)	24,813	22,229
Deferred income taxes	13,325	13,932
Net intangible assets (Note 14)	87	100
Non-current receivable from Financial Services (Note 1)	—	32
Other assets	1,946	1,549
Total Automotive assets	86,458	78,786
Financial Services		
Cash and cash equivalents	9,412	9,183
Marketable securities (Note 6)	2,106	3,835
Finance receivables, net (Note 7)	75,770	73,330
Net investment in operating leases (Note 8)	15,036	11,482
Equity in net assets of affiliated companies (Note 11)	134	139
Other assets	3,450	3,605
Receivable from Automotive (Note 1)	252	—
Total Financial Services assets	106,160	101,574
Intersector elimination	(252)	(1,112)
Total assets	$ 192,366	$ 179,248
LIABILITIES		
Automotive		
Trade payables	$ 15,107	$ 14,015
Other payables	3,044	2,734
Accrued liabilities and deferred revenue (Note 15)	15,358	15,003
Deferred income taxes	81	40
Debt payable within one year (Note 17)	1,386	1,033
Current payable to Financial Services (Note 1)	252	—
Total current liabilities	35,228	32,825
Long-term debt (Note 17)	12,870	12,061
Other liabilities (Note 15)	30,549	26,910
Deferred income taxes	514	255
Total Automotive liabilities	79,161	72,051
Financial Services		
Payables	1,157	975
Debt (Note 17)	90,802	86,595
Deferred income taxes	1,687	1,301
Other liabilities and deferred income (Note 15)	3,500	3,457
Payable to Automotive (Note 1)	—	910
Total Financial Services liabilities	97,146	93,238
Intersector elimination	(252)	(1,112)
Total liabilities	176,055	164,177
Redeemable noncontrolling interest (Note 19)	322	—
EQUITY		
Capital stock (Note 26)		
Common Stock, par value $.01 per share (3,875 million shares issued)	39	37
Class B Stock, par value $.01 per share (71 million shares issued)	1	1
Capital in excess of par value of stock	20,976	20,905
Retained earnings	18,077	12,985
Accumulated other comprehensive income/(loss) (Note 20)	(22,854)	(18,734)
Treasury stock	(292)	(166)
Total equity attributable to Ford Motor Company	15,947	15,028
Equity attributable to noncontrolling interests	42	43
Total equity	15,989	15,071
Total liabilities and equity	$ 192,366	$ 179,248

The accompanying notes are part of the financial statements.

FORD MOTOR COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)

	For the years ended December 31,		
	2012	2011	2010
Cash flows from operating activities of continuing operations			
Net cash provided by/(used in) operating activities	$ 9,045	$ 9,784	$ 11,477
Cash flows from investing activities of continuing operations			
Capital expenditures	(5,488)	(4,293)	(4,092)
Acquisitions of retail and other finance receivables and operating leases	(39,208)	(35,866)	(28,873)
Collections of retail and other finance receivables and operating leases	32,333	33,964	37,757
Purchases of securities	(95,135)	(68,723)	(100,150)
Sales and maturities of securities	93,749	70,795	101,077
Cash change due to initial consolidation of businesses	191	—	94
Proceeds from sale of business	66	333	1,318
Settlements of derivatives	(737)	353	(37)
Elimination of cash balances upon disposition of discontinued/held-for-sale operations	—	(69)	(456)
Other	(61)	465	270
Net cash provided by/(used in) investing activities	(14,290)	(3,041)	6,908
Cash flows from financing activities of continuing operations			
Cash dividends	(763)	—	—
Purchases of Common Stock	(125)	—	—
Sales of Common Stock	—	—	1,339
Changes in short-term debt	1,208	2,841	(1,754)
Proceeds from issuance of other debt	32,436	35,921	30,821
Principal payments on other debt	(29,210)	(43,095)	(47,625)
Payments on notes/transfer of cash equivalents to the UAW Voluntary Employee Benefit Association ("VEBA") Trust	—	—	(7,302)
Other	159	92	100
Net cash provided by/(used in) financing activities	3,705	(4,241)	(24,421)
Effect of exchange rate changes on cash and cash equivalents	51	(159)	(53)
Net increase/(decrease) in cash and cash equivalents	$ (1,489)	$ 2,343	$ (6,089)
Cash and cash equivalents at January 1	$ 17,148	$ 14,805	$ 20,894
Net increase/(decrease) in cash and cash equivalents	(1,489)	2,343	(6,089)
Cash and cash equivalents at December 31	$ 15,659	$ 17,148	$ 14,805

The accompanying notes are part of the financial statements.

FORD MOTOR COMPANY AND SUBSIDIARIES
CONDENSED SECTOR STATEMENT OF CASH FLOWS
(in millions)

	For the years ended December 31,					
	2012		2011		2010	
	Automotive	Financial Services	Automotive	Financial Services	Automotive	Financial Services
Cash flows from operating activities of continuing operations						
Net cash provided by/(used in) operating activities (Note 27)	$ 6,266	$ 3,957	$ 9,368	$ 2,405	$ 6,363	$ 3,798
Cash flows from investing activities of continuing operations						
Capital expenditures	(5,459)	(29)	(4,272)	(21)	(4,066)	(26)
Acquisitions of retail and other finance receivables and operating leases	—	(39,151)	—	(35,845)	—	(28,811)
Collections of retail and other finance receivables and operating leases	—	32,333	—	33,964	—	37,757
Net collections/(acquisitions) of wholesale receivables	—	(1,235)	—	(2,010)	—	(46)
Purchases of securities	(73,100)	(22,035)	(44,353)	(24,370)	(53,614)	(46,728)
Sales and maturities of securities	70,202	23,748	43,525	27,270	54,857	46,866
Cash change due to initial consolidation of businesses	191	—	—	—	94	—
Proceeds from sale of business	54	12	310	23	1,318	—
Settlements of derivatives	(788)	51	135	218	(196)	159
Investing activity (to)/from Financial Services	925	—	2,903	—	2,455	—
Elimination of cash balances upon disposition of discontinued/held-for-sale operations	—	—	(69)	—	(456)	—
Other	(49)	(12)	280	185	185	85
Net cash provided by/(used in) investing activities	(8,024)	(6,318)	(1,541)	(586)	577	9,256
Cash flows from financing activities of continuing operations						
Cash dividends	(763)	—	—	—	—	—
Purchases of Common Stock	(125)	—	—	—	—	—
Sales of Common Stock	—	—	—	—	1,339	—
Changes in short-term debt	154	1,054	(396)	3,237	391	(2,145)
Proceeds from issuance of other debt	1,553	30,883	2,452	33,469	2,648	28,173
Principal payments on other debt	(810)	(28,601)	(8,058)	(35,037)	(9,144)	(38,935)
Payments on notes/transfer of cash equivalents to the UAW VEBA Trust	—	—	—	—	(6,002)	—
Financing activity to/(from) Automotive	—	(925)	—	(2,903)	—	(2,455)
Other	31	128	70	22	292	(192)
Net cash provided by/(used in) financing activities	40	2,539	(5,932)	(1,212)	(10,476)	(15,554)
Effect of exchange rate changes on cash and cash equivalents	—	51	(231)	72	75	(128)
Net increase/(decrease) in cash and cash equivalents	$ (1,718)	$ 229	$ 1,664	$ 679	$ (3,461)	$ (2,628)
Cash and cash equivalents at January 1	$ 7,965	$ 9,183	$ 6,301	$ 8,504	$ 9,762	$ 11,132
Net increase/(decrease) in cash and cash equivalents	(1,718)	229	1,664	679	(3,461)	(2,628)
Cash and cash equivalents at December 31	$ 6,247	$ 9,412	$ 7,965	$ 9,183	$ 6,301	$ 8,504

The accompanying notes are part of the financial statements.

FORD MOTOR COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY
(in millions)

	Equity/(Deficit) Attributable to Ford Motor Company							
	Capital Stock	**Cap. in Excess of Par Value of Stock**	**Retained Earnings/ (Accumulated Deficit)**	**Accumulated Other Comprehensive Income/(Loss) (Note 20)**	**Treasury Stock**	**Total**	**Equity/ (Deficit) Attributable to Non-controlling Interests**	**Total Equity/ (Deficit)**
Balance at December 31, 2009	$ 34	$ 16,786	$ (13,599)	$ (10,864)	$ (177)	$ (7,820)	$ 38	$ (7,782)
Net income	—	—	6,561	—	—	6,561	(4)	6,557
Other comprehensive income/(loss), net of tax	—	—	—	(3,449)	—	(3,449)	(1)	(3,450)
Common stock issued (including share-based compensation impacts)	4	4,017	—	—	—	4,021	—	4,021
Treasury stock/other	—	—	—	—	14	14	—	14
Cash dividends declared	—	—	—	—	—	—	(2)	(2)
Balance at December 31, 2010	$ 38	$ 20,803	$ (7,038)	$ (14,313)	$ (163)	$ (673)	$ 31	$ (642)
Balance at December 31, 2010	$ 38	$ 20,803	$ (7,038)	$ (14,313)	$ (163)	$ (673)	$ 31	$ (642)
Net income	—	—	20,213	—	—	20,213	9	20,222
Other comprehensive income/(loss), net of tax	—	—	—	(4,421)	—	(4,421)	(2)	(4,423)
Common stock issued (including share-based compensation impacts)	—	102	—	—	—	102	—	102
Treasury stock/other	—	—	—	—	(3)	(3)	5	2
Cash dividends declared	—	—	(190)	—	—	(190)	—	(190)
Balance at December 31, 2011	$ 38	$ 20,905	$ 12,985	$ (18,734)	$ (166)	$ 15,028	$ 43	$ 15,071
Balance at December 31, 2011	$ 38	$ 20,905	$ 12,985	$ (18,734)	$ (166)	$ 15,028	$ 43	$ 15,071
Net income	—	—	5,665	—	—	5,665	(1)	5,664
Other comprehensive income/(loss), net of tax	—	—	—	(4,120)	—	(4,120)	—	(4,120)
Common stock issued (including share-based compensation impacts)	2	71	—	—	—	73	—	73
Treasury stock/other	—	—	—	—	(126)	(126)	—	(126)
Cash dividends declared	—	—	(573)	—	—	(573)	—	(573)
Balance at December 31, 2012	$ 40	$ 20,976	$ 18,077	$ (22,854)	$ (292)	$ 15,947	$ 42	$ 15,989

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

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

Adoption of New Accounting Standards

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

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

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

NOTE 1. PRESENTATION *(Continued)*

Reconciliations between Consolidated and Sector Financial Statements

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

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

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

NOTE 1. PRESENTATION *(Continued)*

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

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

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

NOTE 1. PRESENTATION *(Continued)*

Certain Transactions Between Automotive and Financial Services Sectors

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

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

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

Venezuelan Operations

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

NOTE 2. SUMMARY OF ACCOUNTING POLICIES

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

Use of Estimates

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

Foreign Currency Translation

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

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

Trade Receivables

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

Revenue Recognition — Automotive Sector

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

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

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

Revenue Recognition — Financial Services Sector

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

Retail and Lease Incentives

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

Sales and Marketing Incentives

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

Supplier Price Adjustments

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

Raw Material Arrangements

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

Government Grants and Loan Incentives

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

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

Bonus and Profit Sharing

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

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

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

Selected Other Costs

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

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

Presentation of Sales and Sales-Related Taxes

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

NOTE 3. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

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

NOTE 4. FAIR VALUE MEASUREMENTS

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

Fair Value Measurements

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

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

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

Valuation Methodologies

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

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

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

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

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

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

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

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

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

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

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

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

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

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

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

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

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

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

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

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

Reconciliation of Changes in Level 3 Balances

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

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

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

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

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

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

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

Nonrecurring Fair Value Changes

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

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

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

NOTE 4. FAIR VALUE MEASUREMENTS *(Continued)*

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

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

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

NOTE 5. RESTRICTED CASH

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

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

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

Restricted cash balances were as follows (in millions):

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

NOTE 6. MARKETABLE AND OTHER SECURITIES

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

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

Investments in Marketable Securities

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

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

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

Other Securities

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

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

NOTE 7. FINANCE RECEIVABLES

Finance receivable balances were as follows (in millions):

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

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

Automotive Sector

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

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

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

Financial Services Sector

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

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

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

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

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

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

NOTE 7. FINANCE RECEIVABLES *(Continued)*

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

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

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

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

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

NOTE 7. FINANCE RECEIVABLES *(Continued)*

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

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

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

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

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

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

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

NOTE 7. FINANCE RECEIVABLES *(Continued)*

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

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

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

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

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

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

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

NOTE 7. FINANCE RECEIVABLES *(Continued)*

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

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

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

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

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

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

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

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

NOTE 7. FINANCE RECEIVABLES *(Continued)*

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

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

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

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

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

NOTE 8. NET INVESTMENT IN OPERATING LEASES

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

Net Investment in Operating Leases

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

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

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

Automotive Sector

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

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

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

Financial Services Sector

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

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

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

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

NOTE 9. ALLOWANCE FOR CREDIT LOSSES

Automotive Sector

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

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

Financial Services Sector

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

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

Consumer

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

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

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

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

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

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

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

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

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

Non-Consumer

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

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

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

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

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

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

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

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

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

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

NOTE 10. INVENTORIES

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

Inventories were as follows (in millions):

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

NOTE 11. EQUITY IN NET ASSETS OF AFFILIATED COMPANIES

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

Ownership Percentages and Investment Balances

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

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

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

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

NOTE 12. VARIABLE INTEREST ENTITIES

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

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

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

Automotive Sector

VIEs of Which We are Not the Primary Beneficiary

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

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

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

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

Financial Services Sector

VIEs of Which We are the Primary Beneficiary

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

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

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

NOTE 12. VARIABLE INTEREST ENTITIES *(Continued)*

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

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

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

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

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

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

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

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

NOTE 12. VARIABLE INTEREST ENTITIES *(Continued)*

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

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

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

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

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

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

VIEs of Which We are Not the Primary Beneficiary

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

NOTE 13. NET PROPERTY AND LEASE COMMITMENTS

Net Property

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

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

Net property was as follows (in millions):

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

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

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

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

Conditional Asset Retirement Obligations

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

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

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

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

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

Lease Commitments

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

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

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

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

NOTE 14. NET INTANGIBLE ASSETS

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

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

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

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

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

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

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

NOTE 15. ACCRUED LIABILITIES AND DEFERRED REVENUE

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

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

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

NOTE 16. RETIREMENT BENEFITS

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

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

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

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

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

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

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

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

Benefit Plans – Expense and Status

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

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

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

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

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

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

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

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

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

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

Pension Plan Contributions

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

Estimated Future Benefit Payments

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

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

Pension Plan Asset Information

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

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

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

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

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

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

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

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

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

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

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

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

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

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

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

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

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

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

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

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

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

NOTE 16. RETIREMENT BENEFITS *(Continued)*

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

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

NOTE 17. DEBT AND COMMITMENTS

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

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

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

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

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

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

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

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

Maturities

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

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

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

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

Automotive Sector

Public Unsecured Debt Securities

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

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

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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, 2012 of $180 million. The proceeds from these securities were on-lent by Ford to Ford Holdings to fund Financial Services activity and are reported as *Financial Services debt*.

Convertible Notes

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

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

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

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

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

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

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

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

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

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

DOE ATVM Incentive Program

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

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

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

EIB Credit Facility

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

Automotive Credit Facilities

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

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

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

Financial Services Sector

Debt Repurchases and Calls

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

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

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

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

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

Asset-Backed Debt

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

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

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

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

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

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

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

NOTE 17. DEBT AND COMMITMENTS *(Continued)*

Credit Facilities

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

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

Committed Liquidity Programs

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

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

NOTE 18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Income Effect of Derivative Financial Instruments

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

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

(a) For 2012, 2011, and 2010, hedge ineffectiveness reflects change in fair value on derivatives of $228 million gain, $433 million gain, and $117 million gain, respectively, and change in value on hedged debt attributable to the change in benchmark interest rate of $212 million loss, $463 million loss, and $123 million loss, respectively.

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

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

Balance Sheet Effect of Derivative Financial Instruments

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

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

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

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

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

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

Counterparty Risk and Collateral

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

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

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

NOTE 19. REDEEMABLE NONCONTROLLING INTEREST

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

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

NOTE 20. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

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

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

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

NOTE 21. OTHER INCOME/(LOSS)

Automotive Sector

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

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

Financial Services Sector

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

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

NOTE 22. SHARE-BASED COMPENSATION

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

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

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

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

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

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

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

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

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

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

Restricted Stock Units

RSU activity during 2012 was as follows:

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

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

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

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

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

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

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

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

Stock Options

Stock option activity was as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Share-Based Awards

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

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

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

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

NOTE 23. EMPLOYEE SEPARATION ACTIONS

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

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

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

Automotive Sector

Transitional Benefits

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

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

Separation Actions

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

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

The charges above exclude costs for pension and OPEB.

Financial Services Sector

Separation Actions

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

NOTE 24. INCOME TAXES

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

Valuation of Deferred Tax Assets and Liabilities

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

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

Components of Income Taxes

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

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

NOTE 24. INCOME TAXES *(Continued)*

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

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

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

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

Components of Deferred Tax Assets and Liabilities

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

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

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

NOTE 24. INCOME TAXES *(Continued)*

Other

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

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

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

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

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

NOTE 25. DISPOSITIONS AND OTHER CHANGES IN INVESTMENTS IN AFFILIATES

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

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

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

Automotive Sector

Dispositions

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

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

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

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

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

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

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

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

Other Changes in Investments in Affiliates

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

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

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

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

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

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

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

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

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

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

Financial Services Sector

Dispositions

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

NOTE 26. CAPITAL STOCK AND AMOUNTS PER SHARE

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

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

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

Warrants

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

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

Dividend Declaration

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

Effect of Dividends on Convertible Notes

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

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

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

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

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

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

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

NOTE 27. OPERATING CASH FLOWS

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

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

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

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

NOTE 27. OPERATING CASH FLOWS *(Continued)*

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

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

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

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

NOTE 28. SEGMENT INFORMATION

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

Automotive Sector

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

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

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

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

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

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

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

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

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

NOTE 28. SEGMENT INFORMATION *(Continued)*

Financial Services Sector

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

Special Items

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

NOTE 28. SEGMENT INFORMATION *(Continued)*

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

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

NOTE 28. SEGMENT INFORMATION *(Continued)*

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

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

NOTE 29. GEOGRAPHIC INFORMATION

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

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

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

NOTE 30. SELECTED QUARTERLY FINANCIAL DATA (unaudited)

Selected financial data by calendar quarter were as follows (in millions, except per share amounts):

	2012				2011			
Automotive Sector	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 30,525	$ 31,328	$ 30,247	$ 34,467	$ 31,038	$ 33,476	$ 31,043	$ 32,611
Income before income taxes	1,582	1,148	1,858	1,422	2,070	2,004	1,241	935
Financial Services Sector								
Revenues	1,920	1,883	1,925	1,957	2,076	2,051	2,004	1,965
Income before income taxes	456	447	388	419	706	602	605	518
Total Company								
Income before income taxes	2,038	1,595	2,246	1,841	2,776	2,606	1,846	1,453
Amounts Attributable to Ford Motor Company Common and Class B Shareholders								
Net income	1,396	1,040	1,631	1,598	2,551	2,398	1,649	13,615
Common and Class B per share from income from continuing operations before cumulative effects of changes in accounting principles								
Basic	0.37	0.27	0.43	0.42	0.68	0.63	0.43	3.58
Diluted	0.35	0.26	0.41	0.40	0.61	0.59	0.41	3.40

Certain of the quarterly results identified above include material unusual or infrequently occurring items as follows:

The pre-tax income of $1.8 billion in the fourth quarter of 2012 includes 1) a $250 million unfavorable item related to the U.S. salaried lump sum pension buyout program (see Note 16), and 2) a $625 million gain related to the reorganization of our equity investment in CFMA (see Note 25).

The pre-tax income of $1.5 billion in the fourth quarter of 2011 includes a $401 million gain related to the sale of our Russian operations to the newly-created FordSollers joint venture, which began operations on October 1, 2011.

The net income attributable to Ford Motor Company of $13.6 billion in the fourth quarter of 2011 includes a $12.4 billion favorable item, reflecting the release of almost all of the valuation allowance against our net deferred tax assets.

NOTE 31. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies consist primarily of guarantees and indemnifications, litigation and claims, and warranty.

Guarantees are recorded at fair value at the inception of the guarantee. Litigation and claims are accrued when losses are deemed probable and reasonably estimable.

Estimated warranty costs and additional service actions are accrued for at the time the vehicle is sold to a dealer, including costs for basic warranty coverage on vehicles sold, product recalls, and other customer service actions. Fees or premiums for the issuance of extended service plans are recognized in income over the contract period in proportion to the costs expected to be incurred in performing services under the contract.

Guarantees

At December 31, 2012 and December 31, 2011, the following guarantees and indemnifications were issued and outstanding:

Guarantees related to affiliates and third parties. We guarantee debt and lease obligations of certain joint ventures, as well as certain financial obligations of outside third parties, including suppliers, to support our business and economic growth. Expiration dates vary through 2019, and guarantees will terminate on payment and/or cancellation of the obligation. A payment by us would be triggered by failure of the joint venture or other third party to fulfill its obligation covered by the guarantee. In some circumstances, we are entitled to recover from the third party amounts paid by us under the guarantee. However, our ability to enforce these rights is sometimes stayed until the guaranteed party is paid in full, and may be limited in the event of insolvency of the third party or other circumstances. The maximum potential payments under guarantees and the carrying value of recorded liabilities related to guarantees were as follows (in millions):

	December 31, 2012	December 31, 2011
Maximum potential payments	$ 409	$ 444
Carrying value of recorded liabilities related to guarantees	17	31

We regularly review our performance risk under these guarantees, which has resulted in no changes to our initial valuations.

Indemnifications. In the ordinary course of business, we execute contracts involving indemnifications standard in the industry and indemnifications specific to a transaction, such as the sale of a business. These indemnifications might include and are not limited to claims relating to any of the following: environmental, tax, and shareholder matters; intellectual property rights; power generation contracts; governmental regulations and employment-related matters; dealers, supplier, and other commercial contractual relationships; and financial matters, such as securitizations. Performance under these indemnities generally would be triggered by a breach of terms of the contract or by a third-party claim. We also are party to numerous indemnifications which do not limit potential payment; therefore, we are unable to estimate a maximum amount of potential future payments that could result from claims made under these indemnities.

Litigation and Claims

Various legal actions, proceedings, and claims (generally, "matters") are pending or may be instituted or asserted against us. These include but are not limited to matters arising out of alleged defects in our products; product warranties; governmental regulations relating to safety, emissions, and fuel economy or other matters; government incentives; tax matters; alleged illegal acts resulting in fines or penalties; financial services; employment-related matters; dealer, supplier, and other contractual relationships; intellectual property rights; environmental matters; shareholder or investor matters; and financial reporting matters. Certain of the pending legal actions are, or purport to be, class actions. Some of the matters involve or may involve claims for compensatory, punitive, or antitrust or other treble damages in very large amounts, or demands for recall campaigns, environmental remediation programs, sanctions, loss of government incentives, assessments, or other relief, which, if granted, would require very large expenditures.

The extent of our financial exposure to these matters is difficult to estimate. Many matters do not specify a dollar amount for damages, and many others specify only a jurisdictional minimum. To the extent an amount is asserted, our historical experience suggests that in most instances the amount asserted is not a reliable indicator of the ultimate outcome.

NOTE 31. COMMITMENTS AND CONTINGENCIES *(Continued)*

In evaluating for accrual and disclosure purposes matters filed against us, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, and the severity of any potential loss. We reevaluate and update our accruals as matters progress over time.

For the majority of matters, which generally arise out of alleged defects in our products, we establish an accrual based on our extensive historical experience with similar matters, and we do not believe that there is a reasonably possible outcome materially in excess of our accrual.

For the remaining matters, where our historical experience with similar matters is of more limited value (i.e., "non-pattern matters"), we evaluate matters primarily based on the individual facts and circumstances. For non-pattern matters, we evaluate whether there is a reasonable possibility of a material loss in excess of any accrual that can be estimated. Our estimate of reasonably possible loss in excess of our accruals for all material matters currently reflects non-U.S. indirect tax matters, for which we estimate this aggregate risk to be a range of up to about $2.3 billion.

As noted, the litigation process is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. Our assessments are based on our knowledge and experience, but the ultimate outcome of any matter could require payment substantially in excess of the amount that we have accrued and/or disclosed.

Warranty

Included in warranty cost accruals are the costs for basic warranty coverages and field service actions (i.e., product recalls and owner notification programs) on products sold. These costs are estimates based primarily on historical warranty claim experience. Warranty accruals accounted for in *Accrued liabilities and deferred revenue* for the years ended December 31 were as follows (in millions):

	2012	2011
Beginning balance	$ 3,915	$ 3,855
Payments made during the period	(2,254)	(2,799)
Changes in accrual related to warranties issued during the period	1,885	2,215
Changes in accrual related to pre-existing warranties	49	690
Foreign currency translation and other	61	(46)
Ending balance	$ 3,656	$ 3,915

Excluded from the table above are costs accrued for customer satisfaction actions.

Selected Financial Data

On January 1, 2010, we adopted the new accounting standard regarding consolidation of variable interest entities ("VIEs"). We have applied the standard retrospectively to periods covered in this Report, and present prior-year financial statement data on a basis that is revised for the application of this standard. The following table sets forth selected financial data for each of the last five years (dollar amounts in millions, except for per share amounts):

SUMMARY OF INCOME	2012	2011	2010	2009	2008
Total Company					
Revenues	$ 134,252	$ 136,264	$ 128,954	$ 116,283	$ 143,584
Income/(Loss) before income taxes	$ 7,720	$ 8,681	$ 7,149	$ 2,599	$ (14,895)
Provision for/(Benefit from) income taxes	2,056	(11,541)	592	(113)	(62)
Income/(Loss) from continuing operations	5,664	20,222	6,557	2,712	(14,833)
Income/(Loss) from discontinued operations	—	—	—	5	9
Net income/(loss)	5,664	20,222	6,557	2,717	(14,824)
Less: Income/(Loss) attributable to noncontrolling interests	(1)	9	(4)	—	(58)
Net income/(loss) attributable to Ford Motor Company	$ 5,665	$ 20,213	$ 6,561	$ 2,717	$ (14,766)
Automotive Sector					
Revenues	$ 126,567	$ 128,168	$ 119,280	$ 103,868	$ 127,635
Income/(Loss) before income taxes	6,010	6,250	4,146	785	(12,314)
Financial Services Sector					
Revenues	$ 7,685	$ 8,096	$ 9,674	$ 12,415	$ 15,949
Income/(Loss) before income taxes	1,710	2,431	3,003	1,814	(2,581)
Amounts Per Share Attributable to Ford Motor Company Common and Class B Stock					
Basic income/(loss)	$ 1.48	$ 5.33	$ 1.90	$ 0.91	$ (6.50)
Diluted income/(loss)	$ 1.42	$ 4.94	$ 1.66	$ 0.86	$ (6.50)
Cash dividends declared	$ 0.15	$ 0.05	$ —	$ —	$ —
Common Stock price range (NYSE Composite Intraday)					
High	$ 13.08	$ 18.97	$ 17.42	$ 10.37	$ 8.79
Low	8.82	9.05	9.75	1.50	1.01
Average number of shares of Ford Common and Class B Stock outstanding (in millions)	3,815	3,793	3,449	2,992	2,273
SECTOR BALANCE SHEET DATA AT YEAR-END					
Assets					
Automotive sector	$ 86,458	$ 78,786	$ 64,606	$ 79,118	$ 71,556
Financial Services sector	106,160	101,574	103,270	119,112	151,667
Intersector elimination	(252)	(1,112)	(2,083)	(3,224)	(2,535)
Total assets	$ 192,366	$ 179,248	$ 165,793	$ 195,006	$ 220,688
Debt					
Automotive sector	$ 14,256	$ 13,094	$ 19,077	$ 33,610	$ 23,319
Financial Services sector	90,802	86,595	85,112	98,671	128,842
Intersector elimination (a)	—	(201)	(201)	(646)	(492)
Total debt	$ 105,058	$ 99,488	$ 103,988	$ 131,635	$ 151,669
Total Equity/(Deficit)	$ 15,989	$ 15,071	$ (642)	$ (7,782)	$ (15,371)

(a) Debt related to Ford's acquisition of Ford Credit debt securities.

Employment Data

The approximate number of individuals employed by us and entities that we consolidated as of December 31, 2012 and 2011 was as follows (in thousands):

	2012	2011
Automotive		
Ford North America	80	75
Ford South America	17	16
Ford Europe	46	47
Ford Asia Pacific Africa	22	19
Financial Services		
Ford Credit	6	7
Total	171	164

The year-over-year increase in employment primarily reflects increases in North America and Asia Pacific Africa to support increased production, partially offset by the initiation of personnel-reduction programs in Europe.

Substantially all of the hourly employees in our Automotive operations are represented by unions and covered by collective bargaining agreements. In the United States, approximately 99% of these unionized hourly employees in our Automotive sector are represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW" or "United Auto Workers"). Approximately two percent of our U.S. salaried employees are represented by unions. Most hourly employees and many non-management salaried employees of our subsidiaries outside of the United States also are represented by unions.

In 2011, we entered into a four-year collective bargaining agreement with the UAW. The agreement covers approximately 41,000 employees, and maintains our progress on improving competitiveness in the United States. Excluding profit-sharing, compensation-related terms - including lump-sum payments (in lieu of general wage increases and cost of living increases) and continuation of an entry-level wage structure - are expected to increase U.S. hourly labor costs by less than 1% annually over the four-year contract period. We also expect this increase will be more than offset by more flexible work rules that will allow us to increase manufacturing utilization and efficiency.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2012. The assessment was based on criteria established in the framework *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report included herein.

New York Stock Exchange Required Disclosures

On June 1, 2012, Ford's Chief Executive Officer certified that he was not aware of any violation by the Company of the New York Stock Exchange Corporate Governance listing standards, other than has been notified to the Exchange pursuant to Section 303A.12(b), of which there was none.

Market for Common Equity and Related Stockholder Matters.

Our Common Stock is listed on the New York Stock Exchange in the United States, and on certain stock exchanges in Belgium and France.

The table below shows the high and low sales prices for our Common Stock, and the dividends we paid per share of Common and Class B Stock, for each quarterly period in 2011 and 2012:

	2011				2012			
Ford Common Stock price per share (a)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
High	$ 18.97	$ 16.18	$ 14.22	$ 12.65	$ 13.05	$ 12.95	$ 10.66	$ 13.08
Low	13.75	12.65	9.32	9.05	10.99	9.46	8.82	9.71
Dividends per share of Ford Common and Class B Stock	$ —	$ —	$ —	$ —	$ 0.05	$ 0.05	$ 0.05	$ 0.05

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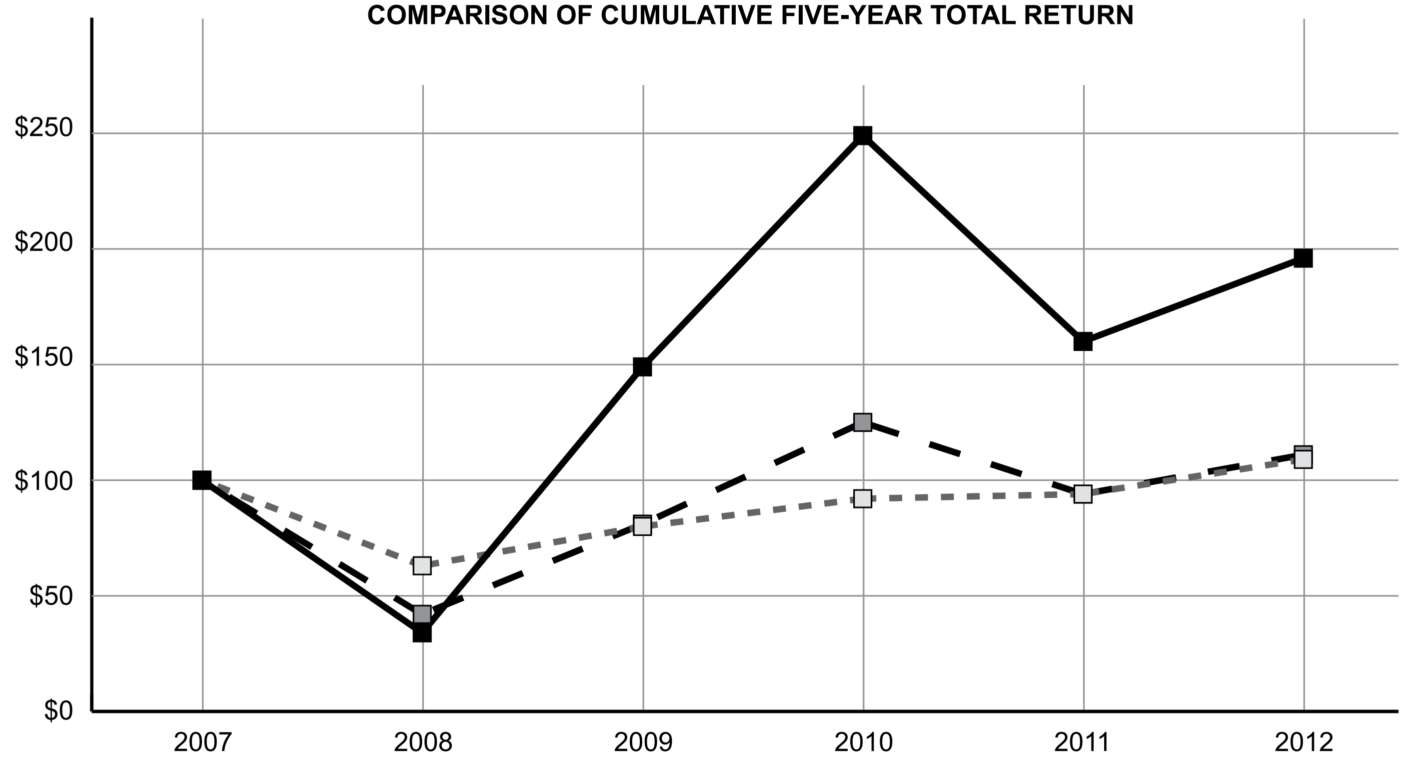
(a) New York Stock Exchange composite intraday prices as listed in the price history database available at www.NYSEnet.com.

As of February 1, 2013, stockholders of record of Ford included approximately 151,240 holders of Common Stock and 66 holders of Class B Stock.

Stock Performance Graph

The graph below shows over the past five years, the performance of our common stock against the Standard & Poor's 500 Stock Index and the Dow Jones Automobiles & Parts Titans 30 Index.



Total Return To Shareholders (Includes reinvestment of dividends)

	Base Period	Years Ending				
Company / Index	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012
FORD MOTOR COMPANY	100	34	149	249	160	196
S&P 500 INDEX	100	63	80	92	94	109
Dow Jones Automobiles & Parts Titans 30 Index	100	42	81	125	94	111

Global Overview

Automotive Brand	Customer Assistance
Ford	1.800.392.3673 Ford.com FordOwner.com Click on “contact us”

Automotive Brand	Customer Assistance
LINCOLN	1.800.521.4140 Lincoln.com LincolnOwner.com Click on “contact us”

Financial Services	Operations	Customer Assistance
Ford | FORD CREDIT LINCOLN AUTOMOTIVE FINANCIAL SERVICES	**Ford Motor Credit Company** · A leading automotive financial services company founded in 1959 · Provides a wide variety of dealer and customer financing products and services globally in support of Ford Motor Company vehicle sales · As of year-end 2012, Ford Credit was financing about 5,200 Ford and Lincoln dealers and more than 3.6 million retail customers around the world	1.800.727.7000 FordCredit.com 1.888.498.8801 LincolnAFS.com

Customer Services	Operations	Customer Assistance
Ford | FORD SERVICE LINCOLN SERVICE	**Service** A total service experience for Ford, Lincoln and Mercury owners available only at Ford and Lincoln stores — designed to deliver customer satisfaction and loyalty · Parts engineered to Ford Motor Company specifications · Technicians trained and certified specifically on Ford, Lincoln and Mercury vehicles · One-stop service for all vehicle maintenance and repair needs	Locate Ford and Lincoln Dealer Service at: FordOwner.com LincolnOwner.com Order Genuine Ford parts at: FordParts.com
Quick Lane TIRE & AUTO CENTER	**Quick Lane Tire and Auto Center** Ford Motor Company’s all-makes quick service brand, successfully occupies a unique niche in the marketplace by offering customers “convenience with confidence.” Convenience comes in the form of all-makes-all-models service capabilities, no-appointment-necessary, service while you wait, evening and weekend hours, and competitive prices. Confidence comes in the form of factory-trained technicians and quality Motorcraft parts	Locate Quick Lane Tire and Auto Centers at: Quicklane.com
Ford | FORD GENUINE PARTS Ford Motorcraft	**Motorcraft and Ford Genuine Parts** New and remanufactured parts recommended by Ford Motor Company and available in Ford and Lincoln stores, Ford authorized distributors and thousands of major retail and repair locations	Order Motorcraft and Ford Genuine Parts at: FordParts.com
custom accessories accessories.ford.com	**Genuine Ford Accessories** Wide variety of custom accessories are available, all designed to personalize Ford and Lincoln vehicles	Genuine Ford Accessories at: accessories.ford.com accessories.lincoln.com
Ford | LINCOLN Extended Service Plan	**Extended Service Business** Provides comprehensive vehicle service contracts and maintenance programs **Ford Extended Service Plan (ESP)** Customers include Ford, Lincoln and Mercury owners, commercial business owners and fleets of Ford Motor Company vehicles	ESP 1.800.521.4144 ford-esp.com

About the Company

Ford Motor Company, a global automotive industry leader based in Dearborn, Mich., manufactures or distributes automobiles across six continents. With about 171,000 employees and 65 plants worldwide, the company’s automotive brands include Ford and Lincoln. The company provides financial services through Ford Motor Credit Company. For more information regarding Ford and its products worldwide, please visit corporate.ford.com.

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Dearborn, MI 48126

www.corporate.ford.com