FORD MOTOR CO
Form 10-K
February 19, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

R	Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
	For the fiscal year ended December 31, 2012
	or
o	Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
	For the transition period from __________ to __________
	Commission file number 1-3950

Ford Motor Company
(Exact name of Registrant as specified in its charter)

Delaware (State of incorporation)	38-0549190 (I.R.S. Employer Identification No.)
One American Road, Dearborn, Michigan (Address of principal executive offices)	48126 (Zip Code)

313-322-3000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered*
Common Stock, par value $.01 per share	New York Stock Exchange

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* In addition, shares of Common Stock of Ford are listed on certain stock exchanges in Europe.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes R No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No R

Indicate by check mark if the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. R

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer R Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No R

As of June 29, 2012, Ford had outstanding 3,742,926,268 shares of Common Stock and 70,852,076 shares of Class B Stock. Based on the New York Stock Exchange Composite Transaction closing price of the Common Stock on that date ($9.59 per share), the aggregate market value of such Common Stock was $35,894,662,910. Although there is no quoted market for our Class B Stock, shares of Class B Stock may be converted at any time into an equal number of shares of Common Stock for the purpose of effecting the sale or other disposition of such shares of Common Stock. The shares of Common Stock and Class B Stock outstanding at June 29, 2012 included shares owned by persons who may be deemed to be "affiliates" of Ford. We do not believe, however, that any such person should be considered to be an affiliate. For information concerning ownership of outstanding Common Stock and Class B Stock, see the Proxy Statement for Ford's Annual Meeting of Stockholders currently scheduled to be held on May 9, 2013 (our "Proxy Statement"), which is incorporated by reference under various Items of this Report as indicated below.

As of February 1, 2013, Ford had outstanding 3,851,395,591 shares of Common Stock and 70,852,076 shares of Class B Stock. Based on the New York Stock Exchange Composite Transaction closing price of the Common Stock on that date ($13.02 per share), the aggregate market value of such Common Stock was $50,145,170,595.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated
Proxy Statement*	Part III (Items 10, 11, 12, 13 and 14)

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* As stated under various Items of this Report, only certain specified portions of such document are incorporated by reference in this Report.

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FORD MOTOR COMPANY
ANNUAL REPORT ON FORM 10-K
For the Year Ended December 31, 2012

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PART I.
ITEM 1. Business.

Ford Motor Company (referred to herein as "Ford," the "Company," "we," "our," or "us") was incorporated in Delaware in 1919. We acquired the business of a Michigan company, also known as Ford Motor Company, which had been incorporated in 1903 to produce and sell automobiles designed and engineered by Henry Ford. We are one of the world's largest producers of automobiles. We and our subsidiaries also engage in other businesses, including financing vehicles.

In addition to the information about Ford and our subsidiaries contained in this Annual Report on Form 10-K for the year ended December 31, 2012 ("2012 Form 10-K Report" or "Report"), extensive information about our Company can be found at www.corporate.ford.com, including information about our management team, our brands and products, and our corporate governance principles.

The corporate governance information on our website includes our Corporate Governance Principles, Code of Ethics for Senior Financial Personnel, Code of Ethics for the Board of Directors, Code of Corporate Conduct for all employees, and the Charters for each of the Committees of our Board of Directors. In addition, any amendments to our Code of Ethics or waivers granted to our directors and executive officers will be posted in this area of our website. All of these documents may be accessed by going to our corporate website and clicking on "Our Company," then "Corporate Governance," and then "Corporate Governance Policies," or may be obtained free of charge by writing to our Shareholder Relations Department, Ford Motor Company, One American Road, P.O. Box 1899, Dearborn, Michigan 48126-1899.

In addition, all of our recent periodic report filings with the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge through our website. This includes recent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, as well as any amendments to those Reports. Recent Section 16 filings made with the SEC by the Company or any of our executive officers or directors with respect to our Common Stock also are made available free of charge through our website. We post each of these documents on our website as soon as reasonably practicable after it is electronically filed with the SEC.

To access our SEC reports or amendments or the Section 16 filings, go to our corporate website and click "Our Company," then "Investor Relations," then "Reports and SEC Filings," and then "SEC Filings," which links to a list of reports filed with the SEC. Our reports filed with the SEC also may be found on the SEC's website at www.sec.gov.

The foregoing information regarding our website and its content is for convenience only and not deemed to be incorporated by reference into this Report nor filed with the SEC.

ITEM 1. Business (Continued)

OVERVIEW

Segments. We review and present our business results in two sectors: Automotive and Financial Services. Within these sectors, our business is divided into reportable segments based on the organizational structure that 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.

The reportable segments within our Automotive and Financial Services sectors at December 31, 2012 were as described in the table below:

Business Sector	Reportable Segments (a)	Description
Automotive:	Ford North America	Primarily includes the sale of Ford- and Lincoln-brand vehicles, service parts, and accessories in North America (the United States, Canada, and Mexico), together with the associated costs to develop, manufacture, distribute, and service the vehicles, parts, and accessories. (b)
	Ford South America	Primarily includes the sale of Ford-brand vehicles, service parts, and accessories in South America, together with the associated costs to develop, manufacture, distribute, and service the vehicles, parts, and accessories.
	Ford Europe	Primarily includes the sale of Ford-brand vehicles, components, service parts, and accessories in Europe, Turkey, and Russia, together with the associated costs to develop, manufacture, distribute, and service the vehicles, parts, and accessories.
	Ford Asia Pacific Africa	Primarily includes the sale of Ford-brand vehicles, service parts, and accessories in the Asia Pacific region and South Africa, together with the associated costs to develop, manufacture, distribute, and service the vehicles, parts, and accessories.
Financial Services:	Ford Motor Credit Company	Primarily includes vehicle-related financing, leasing, and insurance.
	Other Financial Services	Includes a variety of businesses including holding companies and real estate.

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(a) We have experienced a number of changes to our reportable segments within the last five years, including the following:

- We discontinued the Mercury brand as of the end of 2010.
- We sold our Volvo operations on August 2, 2010.
- Based on significant reductions in our stock ownership, beginning with the fourth quarter of 2008 we have accounted for our interest in Mazda Motor Corporation ("Mazda") as a marketable security (instead of as an operating segment).
- We sold our Jaguar Land Rover operations on June 2, 2008.
- We sold Aston Martin on May 31, 2007.

(b) For periods prior to January 1, 2009, this segment also included the sale of Mazda6 vehicles produced by our then-consolidated affiliate AutoAlliance International, Inc. ("AAI"). AAI was an unconsolidated affiliate in 2009 - 2011, but was restructured in 2012 and consolidated.

ITEM 1. Business (Continued)

AUTOMOTIVE SECTOR

General

Our vehicle brands are Ford and Lincoln. In 2012, we sold approximately 5,668,000 vehicles at wholesale throughout the world. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" ("Item 7") for discussion of our calculation of wholesale unit volumes.

Substantially all of our vehicles, parts, and accessories are marketed through retail dealers in North America, and through distributors and dealers outside of North America (collectively, "dealerships"), the substantial majority of which are independently owned. At December 31, 2012, the approximate number of dealerships worldwide distributing our vehicle brands was as follows:

Brand	Number of Dealerships at December 31, 2012
Ford	10,537
Ford-Lincoln (combined)	876
Lincoln	206
Total	11,619

We do not depend on any single customer or small group of customers to the extent that the loss of such customer or group of customers would have a material adverse effect on our business.

In addition to the products we sell to our dealerships for retail sale, we also sell vehicles to our dealerships for sale to fleet customers, including commercial fleet customers, daily rental car companies, and governments. We also sell parts and accessories, primarily to our dealerships (which in turn sell these products to retail customers) and to authorized parts distributors (which in turn primarily sell these products to retailers). Through our dealerships, we also offer extended service contracts to retail customers.

The worldwide automotive industry, Ford included, is affected significantly by general economic conditions, among other factors, over which we have little control. This is especially so because vehicles are durable goods, which provide consumers latitude in determining whether and when to replace an existing vehicle. The decision whether to purchase a vehicle may be affected significantly by slowing economic growth, geopolitical events, and other factors (including the cost of purchasing and operating cars and trucks and the availability and cost of credit and fuel). As we recently have seen in the United States and Europe, in particular, the number of cars and trucks sold may vary substantially from year to year. Further, the automotive industry is a highly competitive business that has a wide and growing variety of product offerings from a growing number of manufacturers.

Our wholesale unit volumes vary with the level of total industry demand and our share of that industry demand. In the short term, our wholesale unit volumes also are influenced by the level of dealer inventory. Our share is influenced by how our products are perceived in comparison to those offered by other manufacturers based on many factors, including price, quality, styling, reliability, safety, fuel efficiency, functionality, and reputation. Our share also is affected by the timing and frequency of new model introductions. Our ability to satisfy changing consumer preferences with respect to type or size of vehicle, as well as design and performance characteristics, impacts our sales and earnings significantly.

As with other manufacturers, the profitability of our business is affected by many factors, including:

- Wholesale unit volumes
- Margin of profit on each vehicle sold - which in turn is affected by many factors, such as:
  - Market factors - volume and mix of vehicles and options sold, and net pricing (reflecting, among other factors, incentive programs)
  - Costs of components and raw materials necessary for production of vehicles
  - Costs for customer warranty claims and additional service actions
  - Costs for safety, emissions, and fuel economy technology and equipment
- A high proportion of relatively fixed structural costs, so that small changes in wholesale unit volumes can significantly affect overall profitability

Our industry has a very competitive pricing environment, driven in part by industry excess capacity, particularly in mature markets such as North America and Europe. For the past several decades, manufacturers typically have given price discounts and other marketing incentives to maintain market share and production levels. A discussion of our strategies to compete in this pricing environment is set forth in the "Overview" section in Item 7.

Competitive Position. The worldwide automotive industry consists of many producers, with no single dominant producer. Certain manufacturers, however, account for the major percentage of total sales within particular countries, especially their countries of origin. Key competitors with global presence include Fiat-Chrysler, General Motors Company, Honda Motor Company, Hyundai-Kia Automotive Group, PSA Peugeot Citroen, Renault-Nissan B.V., Suzuki Motor Corporation, Toyota Motor Corporation, and Volkswagen AG Group.

Seasonality. We generally record the sale of a vehicle (and recognize revenue) when it is produced and shipped or delivered to our customer (i.e., the dealership). See the "Overview" section in Item 7 for additional discussion of revenue recognition practices.

We manage our vehicle production schedule based on a number of factors, including retail sales (i.e., units sold by our dealerships to their customers at retail) and dealer stock levels (i.e., the number of units held in inventory by our dealerships for sale to their customers). In the past, we have experienced some seasonal fluctuation in the business, with production in many markets tending to be higher in the first half of the year to meet demand in the spring and summer (typically the strongest sales months of the year).

Raw Materials. We purchase a wide variety of raw materials from numerous suppliers around the world for use in production of our vehicles. These materials include 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 plastics/resins (e.g., polypropylene). We believe that we have adequate supplies or sources of availability of raw materials necessary to meet our needs. There always are risks and uncertainties with respect to the supply of raw materials, however, which could impact availability in sufficient quantities to meet our needs. See the "Overview" section of Item 7 for a discussion of commodity and energy price trends, and "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" ("Item 7A") for a discussion of commodity price risks.

Backlog Orders. We generally produce and ship our products on average within approximately 20 days after an order is deemed to become firm. Therefore, no significant amount of backlog orders accumulates during any period.

Intellectual Property. We own or hold licenses to use numerous patents, copyrights, and trademarks on a global basis. Our policy is to protect our competitive position by, among other methods, filing U.S. and international patent applications to protect technology and improvements that we consider important to the development of our business. We have generated a large number of patents, and expect this portfolio to continue to grow as we actively pursue additional technological innovation. We currently have approximately 20,600 active patents and pending patent applications globally, with an average age for patents in our active patent portfolio of just under five and a half years. In addition to this intellectual property, we also rely on our proprietary knowledge and ongoing technological innovation to develop and maintain our competitive position. Although we believe that these patents, patent applications, and know-how, in the aggregate, are important to the conduct of our business, and we obtain licenses to use certain intellectual property owned by others, none is individually considered material to our business. We also own numerous trademarks and service marks that contribute to the identity and recognition of our Company and its products and services globally. Certain of these marks are integral to the conduct of our business, a loss of any of which could have a material adverse effect on our business.

Warranty Coverage and Additional Service Actions. We currently provide warranties on vehicles we sell. Warranties are offered for specific periods of time and/or mileage, and vary depending upon the type of product, usage of the product, and the geographic location of its sale. In compliance with regulatory requirements, we also provide emissions-defects and emissions-performance warranty coverage. Pursuant to these warranties, we will repair, replace, or adjust all parts on a vehicle that are defective in factory-supplied materials or workmanship during the specified warranty period. In addition to the costs associated with this warranty coverage provided on our vehicles, we also incur costs as a result of additional service actions, including product recalls and customer satisfaction actions.

For additional information regarding warranty and related costs, see "Critical Accounting Estimates" in Item 7 and Note 31 of the Notes to the Financial Statements.

ITEM 1. Business (Continued)

Industry Sales Volume

Industry sales volume is an internal estimate based on publicly-available data collected from various government, private, and public sources around the globe. The following chart shows industry sales volume for the last five years for certain key markets in each region, and for the total we track within each of our Ford North America, Ford South America, Ford Europe, and Ford Asia Pacific Africa regions (in millions of units):

	Industry Sales Volume (a)				
	2012	2011	2010	2009	2008
United States	14.8	13.0	11.8	10.6	13.5
Canada	1.7	1.6	1.6	1.5	1.7
Mexico	1.0	0.9	0.8	0.8	1.1
Ford North America	17.5	15.5	14.2	12.9	16.3
Brazil	3.8	3.6	3.5	3.1	2.8
Argentina	0.8	0.8	0.7	0.5	0.6
Ford South America (b)	5.6	5.4	5.0	4.2	4.3
Britain	2.3	2.2	2.3	2.2	2.5
Germany	3.4	3.5	3.2	4.0	3.4
Ford Europe (c)	14.0	15.3	15.3	15.9	16.6
Turkey	0.8	0.9	0.8	0.6	0.5
Russia	3.0	2.7	2.0	1.5	3.1
China	18.9	18.4	18.3	14.1	9.9
India	3.6	3.3	3.1	2.3	2.0
Australia	1.1	1.0	1.0	0.9	1.0
South Africa	0.5	0.5	0.4	0.4	0.5
ASEAN (d)	3.4	2.6	2.4	1.9	2.0
Ford Asia Pacific Africa (e)	33.4	30.4	30.7	24.5	20.9

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(a) Throughout this Report, industry sales volume and wholesale unit volumes include sales of medium and heavy trucks.

(b) Ford South America industry sales volume and market share are based, in part, on estimated vehicle registrations for the six markets we track in the region (i.e., Argentina, Brazil, Chile, Colombia, Ecuador, and Venezuela).

(c) Ford Europe industry sales volume and market share are based, in part, on estimated vehicle registrations for the 19 markets we track (i.e., Austria, Belgium, Britain, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Spain, Sweden, and Switzerland); sales of Ford-brand vehicles in Turkey and Russia by our unconsolidated affiliates Ford Otomotiv Sanayi Anonim Sirketi ("Ford Otosan") and Ford Sollers Netherlands B.V. ("FordSollers"), respectively, contribute to Ford Europe's wholesale unit volumes, but are not reflected in industry sales volume or market share for the region.

(d) ASEAN includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

(e) Ford Asia Pacific Africa industry sales volume and market share are based, in part, on estimated vehicle sales for the 12 markets we track (i.e., Australia, China, Japan, India, Indonesia, Malaysia, New Zealand, Philippines, South Africa, Taiwan, Thailand, and Vietnam); market share data for 2008 to the present include Ford and local-brand vehicles produced by our unconsolidated affiliates, including our Chinese joint venture Jiangling Motors Corporation, Ltd. ("JMC").

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ITEM 1. Business (Continued)

Ford North America

The following tables show our wholesales and market share by market in North America:

	Wholesales (a) (in thousands)				
	2012	2011	2010	2009	2008
United States	2,302	2,224	1,947	1,563	1,825
Canada	281	273	278	223	198
Mexico	83	88	88	80	134
Ford North America (b)	2,784	2,686	2,413	1,927	2,329

(a) Throughout this Report, wholesale unit volumes include all Ford-badged units (whether produced by Ford or by an unconsolidated affiliate), units manufactured by Ford that are sold to other manufacturers and units distributed for other manufacturers, and JMC-brand vehicles produced by our unconsolidated affiliate. Revenue from certain vehicles in wholesale unit volumes (specifically, Ford-badged vehicles produced and distributed by our unconsolidated affiliates, and JMC-brand vehicles produced by our unconsolidated affiliate) are not included in our revenue. Vehicles sold to daily rental car companies that are subject to a guaranteed repurchase option, as well as other sales of finished vehicles for which the recognition of revenue is deferred (e.g., consignments), are included in wholesale unit volumes.
(b) Throughout this Report, regional wholesale unit volumes include wholesales to various export markets.

	Market Share (a)				
	2012	2011	2010	2009	2008
United States	15.2 %	16.5 %	16.4 %	15.3 %	14.2 %
Canada	16.1	17.1	16.9	15.2	12.6
Mexico	8.2	9.4	10.5	11.8	12.1

(a) Throughout this Report, market share represents reported retail sales of our brands as a percent of total industry sales volume in the relevant market (as opposed to wholesale unit volumes reflecting sales directly by us to our customers, generally our dealers).

United States. The competitive environment in the United States continues to intensify as foreign manufacturers continue to increase both imports to the United States and production capacity in North America. During 2012, Japanese manufacturers fully recovered from the production disruptions caused by natural disasters the previous year, production capacity expanded, and post-recessionary new product cadence strengthened among most manufacturers.

Overall, we see a long-term industry trend toward smaller and more fuel-efficient vehicles; the small car segment has increased its share from 14% in 2004 to nearly 21% in 2012 - one of the most significant segment shifts in the industry. Sales of small cars showed the strongest expansion of any vehicle segment in 2012, posting a 23% increase compared with overall industry expansion of just 13%. At the same time, our sales of small cars were up 29% in 2012, giving us just over 10% of the small car segment, more than a full percentage point increase compared to 2010, and our best share of the U.S. small car segment since 2003.

Mid-size cars were the fastest-growing segment of the U.S. industry following small cars. In 2012, this segment grew 21%, to represent just over 17% of U.S. industry - the segment's largest share in more than a decade. This growth can be attributed largely to the strong launch cadence of new products in the segment during 2012. Since many of the all-new high-volume mid-size cars were launched in the second half of 2012 - including our 2013 Fusion launched in September 2012 - this segment of industry should continue to benefit from last year's launch activity.

Small car-based utilities grew at a slightly slower rate during 2012, at 12%, with segment share of the U.S. industry flat compared with the prior year at about 13%. This segment likely will continue to grow in the years to come, as the number of "baby boomers" moving toward "empty nester" status continues to multiply. Our Escape small utility produced another record sales year in 2012, with more than 260,000 vehicles sold - its best sales since launch of the vehicle in 2000. In 2012, Ford was the number-one selling brand of utility in America for the second straight year.

Although the full-size pickup segment has begun to grow, its share of total U.S. industry has remained flat over the last three years at approximately 11.5%. We will need to see a continued and sustainable recovery in the construction industry (including new housing starts) in order to see the full-size pickup segment increase significantly as a percentage of total industry sales. Another factor that could positively influence full-size pickup truck sales in the years to come is the unusually high average age of the truck population, which is now at 10 years. Within the full-size pickup truck segment, our F-Series retains strong market leadership, marking its 36^{th} straight year as America's best-selling pickup and its 31^{st} straight year as America's best-selling vehicle. With a total of more than 645,000 pickups sold, F-Series grabbed 39% share of the full-size pickup segment during 2012, its highest share since 2001.

ITEM 1. Business (Continued)

Our strong U.S. vehicle sales in 2012 reflected our balanced portfolio of fuel-efficient vehicles, as our passenger cars, utilities, and trucks each reported gains last year.

The data above include both retail and fleet sales. Fleet sales include sales to commercial fleet customers, daily rental car companies, and governments; in general, fleet sales tend to be less profitable than retail sales. In 2012, fleet sales were 30% of our total sales, compared with 32% in 2011; the majority was with commercial and government customers, which are more profitable than daily rentals. In 2012, our daily rental business was 12% of total sales, equal to a year ago and to industry average. As the leading manufacturer of commercial vehicles in the United States, commercial buyers are increasingly choosing Ford cars and crossovers because of our improved resale values, and continue to favor Ford trucks and vans.

Canada. Industry sales volume in Canada grew 6% in 2012. Within that total, car sales increased by 1.7 percentage points to 45% of overall industry vehicle sales, while truck sales decreased to 55% of industry sales volume. Our sales performance in the market earned Ford Canada the sales leadership title for the third year in a row. In 2012, Ford Canada earned segment leadership with Mustang, Escape, Explorer, F-150, and Super Duty. F-Series maintained truck leadership for the 47^{th} straight year, achieving record sales of more than 106,000 units.

Mexico. Industry sales volume in Mexico grew 9% during 2012. The sales performance of our Fiesta and Ikon in the B-car segment - which is the fastest growing segment in the industry - favorably impacted our market share, although the improvement was limited by production availability. The main contributors to share decline were discontinuation of Courier, balance-out of the EcoSport in advance of introduction of the new model, limited availability of the new Escape, and suspension of the free trade agreement with Argentina that affected import of Ranger pickups. Our plans for near-term market share growth include continuing to pursue volume opportunities in the core B- and C-car segments and small SUVs by leveraging new product launches.

Ford South America

As indicated, we track industry sales and market share for six markets in South America - Argentina, Brazil, Chile, Colombia, Ecuador, and Venezuela. Ford South America's wholesales data are more inclusive, tracking Ford-brand vehicles in nearly every market in the region. Brazil and Argentina are our highest-volume South American markets. In particular, Brazil's economy and demographics, with growing per capita income, low vehicle ownership rates, and a young population, have allowed its automotive market to more than double since 2002. These favorable factors are expected to continue to contribute to growth in vehicle sales in Brazil. The following tables show our wholesales and market share in the largest markets and in total:

	Wholesales (in thousands)				
	2012	2011	2010	2009	2008
Brazil	336	346	358	336	297
Argentina	107	105	85	66	77
Ford South America	498	506	489	443	435

	Market Share				
	2012	2011	2010	2009	2008
Brazil	9.1 %	9.5 %	10.4 %	10.3 %	10.0 %
Argentina	12.3	12.9	12.4	13.3	12.4
Ford South America	9.0	9.3	9.8	10.2	9.7

The competition in Brazil continues to intensify, as a number of automotive manufacturers bring online substantial capacity increases in the market. The intensifying competitive environment is putting pressure on industry net pricing; in the second half of 2012, we successfully initiated efforts to leverage our One Ford plan by introducing global products (e.g., EcoSport small utility and Ranger pickup), with additional global products to come that will continue to benefit us in this market. The competitive environment, including new trade barriers and currency risks across the region, especially in Venezuela, may limit our growth in certain countries.

Ford Europe

The automotive industry in Europe is intensely competitive, and expected to intensify further as Japanese and Korean manufacturers increase production capacity in the region and manufacturers of premium brands (e.g., BMW, Mercedes-Benz and Audi) continue to broaden product offerings.

ITEM 1. Business (Continued)

As indicated, our industry and market share measures focus on the following traditional 19 markets in Europe: Austria, Belgium, Britain, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Spain, Sweden, and Switzerland. Ford Europe's wholesales are more inclusive, tracking Ford-brand vehicles in every market in the region, including wholesales in Turkey and Russia from our unconsolidated affiliates Ford Otosan and FordSollers.

The nearly ten percent decline in industry sales volume for the 19 markets we track in Europe in 2012 compared with 2011 largely reflected the impact of the continuing Eurozone crisis and associated issues, and was heavily affected by the economic environment in Italy and Spain.

	Wholesales (in thousands)				
	2012	2011	2010	2009	2008
Ford Europe	1,353	1,602	1,573	1,568	1,820

	Market Share				
	2012	2011	2010	2009	2008
Ford Europe	7.9 %	8.3 %	8.4 %	9.1 %	8.6 %

Ford was again the second best-selling car brand in our traditional 19 markets in 2012 - a position we have maintained for the past five years. Our continued market strength reflects the strong momentum of our new vehicles, including the B-MAX recently launched in October 2012.

Within the 19 markets we track, Britain and Germany are our highest-volume markets. Any change in the British or German market has a significant effect on the results of Ford Europe. The following tables show our wholesales and market share for Britain and Germany (which are included within the traditional 19 markets data above):

	Wholesales (in thousands)				
	2012	2011	2010	2009	2008
Britain	337	342	341	354	415
Germany	208	250	216	286	250

	Market Share				
	2012	2011	2010	2009	2008
Britain	14.9 %	15.0 %	15.0 %	16.8 %	16.4 %
Germany	6.8	7.4	6.9	7.6	7.0

Britain. Industry sales volume in Britain began to decline in 2008 with the global financial crisis, and since 2009 has remained in the 2.2 million - 2.3 million unit range (compared with 2.8 million units in 2007). Britain was the only market among our traditional 19 markets in Europe that experienced an increase in industry sales volume in 2012, increasing 3.8% compared with the prior year. We had a slight decrease in our market share in 2012 compared with the prior year, with Ford continuing as the market share leader in Britain. Unusually high market share in 2009 was driven by the launch of the popular Ford Ka and Fiesta small cars, coincident with the implementation of a government vehicle scrappage program designed to stimulate vehicle sales.

Germany. With 3.4 million new vehicle registrations in 2012, Germany's industry sales volume remained almost unchanged compared with the prior year. Germany remains the largest vehicle market in the European Union. Our decrease in market share in 2012 compared with the prior year primarily reflected competitive market pressures, as well as our reduced participation in low-margin business such as daily rental and demonstration vehicles.

Turkey and Russia. Although not included in results for the 19 European markets discussed above, Turkey and Russia also contribute to our Ford Europe segment results. The following tables show our wholesales and market share for the last five years:

	Wholesales (in thousands)				
	2012	2011	2010	2009	2008
Turkey	108	140	130	79	78
Russia	134	124	93	74	183

ITEM 1. Business (Continued)

	Market Share									
	2012		2011		2010		2009		2008	
Turkey	13.8	%	15.8	%	15.8	%	15.1	%	14.7	%
Russia	4.3		4.3		4.6		5.5		6.1	

Turkey. Industry growth slowed in 2008 as a result of the global financial crisis. Beginning in 2009, industry vehicle sales accelerated due to government incentives put in place, with significant continuous increase in 2010 and 2011. In 2012, however, industry decreased by 10% compared with the prior year, largely driven by increased consumption and gasoline taxes. Our wholesales were affected by this industry downturn, and we experienced a share drop compared with the prior year, although Ford remains the leading automotive company for the 11th consecutive year.

Russia. Following a 50% contraction in 2009 as a result of the impact of the global financial crisis reaching Russia, industry sales volume has returned almost to pre-crisis levels, with industry sales volume of 3 million units in 2012. Russia is the second-largest market for vehicle sales in Europe, and is expected to become the largest over the next several years. Our sales grew by 8% in 2012, led by strong Transit sales. As previously reported, our Russian operations became part of the new FordSollers joint venture which began operations in October 2011. We expect this joint venture to contribute to our ability to continue to grow profitably in this rapidly expanding market.

Ford Asia Pacific Africa

Ford Asia Pacific Africa industry sales and market share data focus on our 12 major markets in the region; wholesales are more inclusive, tracking every market in the region. Of the markets we track in this region, ASEAN, Australia, China, India, and South Africa are our principal markets.

Small cars account for 60% of Asia Pacific Africa industry sales volume, and are anticipated to continue to benefit from government policy. We anticipate that the ongoing relaxation of import restrictions (including duty reductions) will continue to intensify competition in the region, particularly around small, ultra-affordable passenger cars. The highly successful launch of our all-new Focus small car once again demonstrates our ability to successfully compete in key growth segments in the region. We anticipate further success with the introduction of the all-new EcoSport small utility in 2013. The following tables show our wholesales and market share for key markets and in total for the last five years:

	Wholesales (in thousands)				
	2012	2011	2010	2009	2008
China	627	519	483	345	251
India	87	96	84	30	29
Australia	94	83	104	92	102
South Africa	49	49	45	38	51
ASEAN	95	74	51	38	36
Ford Asia Pacific Africa	1,033	901	838	604	532

	Market Share									
	2012		2011		2010		2009		2008	
China	3.2	%	2.7	%	2.5	%	2.5	%	2.6	%
India	2.4		2.9		2.6		1.3		1.4	
Australia	8.1		9.0		9.2		10.3		10.3	
South Africa	7.8		8.4		7.7		7.6		6.9	
ASEAN	2.6		2.7		1.5		1.6		1.5	
Ford Asia Pacific Africa	2.8		2.7		2.4		2.3		2.3	

China and India are burgeoning markets that are expected to continue to experience rapid and substantial growth in the next ten years, driving new economic growth in the Asia Pacific Africa region. Accordingly, we have increased and are planning to increase further our dealer networks and manufacturing capacity in the region. We and our unconsolidated joint venture affiliates completed construction of two new plants in the region in the last year, announced significant expansions of existing facilities, and currently are building seven additional plants in the region - five in China and two in India - all as part of our plan to reach production capacity of 2.7 million vehicles by mid-decade. These new state-of-the-art highly-flexible manufacturing facilities will help us reach the goal of increasing worldwide sales to about 8 million vehicles per year by mid-decade.

ITEM 1. Business (Continued)

FINANCIAL SERVICES SECTOR

Ford Motor Credit Company LLC

Our wholly-owned subsidiary Ford Motor Credit Company LLC ("Ford Credit") offers a wide variety of automotive financing products to and through automotive dealers throughout the world. The predominant share of Ford Credit's business consists of financing our vehicles and supporting our dealers. Ford Credit earns its revenue primarily from:

- Payments made under retail installment sale and lease contracts that it originates and purchases;
- Interest supplements and other support payments from us and our subsidiaries on special-rate financing programs; and
- Payments made under wholesale and other dealer loan financing programs.

As a result of these financing activities, Ford Credit has a large portfolio of finance receivables and leases which it classifies into two segments – "consumer" and "non-consumer." Finance receivables and leases in the consumer segment relate to products offered to individuals and to businesses that finance the acquisition of vehicles from dealers for personal and commercial use. The financing products include retail installment sale contracts for new and used vehicles, and leases for new vehicles to retail customers, government entities, daily rental car companies, and fleet customers. Finance receivables in the non-consumer segment relate primarily to products offered to automotive dealers, including loans to finance the purchase of vehicle inventory (i.e., wholesale financing), for improvements to dealership facilities, for working capital, and for purchase of dealership real estate. Ford Credit also purchases receivables generated by us and our subsidiaries, primarily in connection with the sale of parts and accessories.

Ford Credit does business in the United States and Canada through regional business centers. Outside of the United States, FCE Bank plc ("FCE") is Ford Credit's largest operation; Europe is FCE's largest market. Within Europe, FCE's largest markets are Germany and the United Kingdom. About 70% of FCE's finance and lease receivables are from FCE's customers and Ford dealers in Germany, the United Kingdom, and France; about 15% are from FCE's customers and Ford dealers in Italy and Spain; and about 1% are from FCE's customers and Ford dealers in Greece, Ireland, and Portugal. FCE, through its Worldwide Trade Financing division, also provides financing to dealers in countries where typically we have no established local presence.

Ford Credit's share of retail financing for new Ford and Lincoln vehicles sold by dealers in the United States and new Ford vehicles sold by dealers in Europe, as well as its share of wholesale financing for new Ford and Lincoln vehicles acquired by dealers in the United States (excluding fleet) and new Ford vehicles acquired by dealers in Europe were:

United States	Years Ended December 31,					
Financing share – Ford and Lincoln	2012		2011		2010	
Retail installment and lease	38	%	36	%	32	%
Wholesale	78		80		81	
Europe						
Financing share – Ford						
Retail installment and lease	32	%	29	%	26	%
Wholesale	98		99		99	

See Item 7 and Notes 7, 8, and 9 of the Notes to the Financial Statements for a detailed discussion of Ford Credit's receivables, credit losses, allowance for credit losses, loss-to-receivables ratios, funding sources, and funding strategies. See Item 7A for discussion of how Ford Credit manages its financial market risks.

We routinely sponsor special retail and lease incentives to dealers' customers who choose to finance or lease our vehicles from Ford Credit. 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. These programs increase Ford Credit's financing volume and share of financing sales of our vehicles. See Note 2 of the Notes to the Financial Statements for information about our accounting for these programs.

In November 2008, we entered into an Amended and Restated Support Agreement with Ford Credit, pursuant to which, if its managed leverage for a calendar quarter were to be higher than 11.5 to 1 (as reported in its most recent periodic report), Ford Credit could require us to make or cause to be made a capital contribution to it in an amount sufficient to have caused such managed leverage to have been 11.5 to 1. No capital contributions have been made pursuant to this agreement. In addition, Ford Credit has an agreement to maintain FCE's net worth in excess of $500 million; no payments have been made pursuant to that agreement.

ITEM 1. Business (Continued)

GOVERNMENTAL STANDARDS

Many governmental standards and regulations relating to safety, fuel economy, emissions control, noise control, vehicle recycling, substances of concern, vehicle damage, and theft prevention are applicable to new motor vehicles, engines, and equipment manufactured for sale in the United States, Europe, and elsewhere. In addition, manufacturing and other automotive assembly facilities in the United States, Europe, and elsewhere are subject to stringent standards regulating air emissions, water discharges, and the handling and disposal of hazardous substances. The most significant of the standards and regulations affecting us are discussed below:

Mobile Source Emissions Control

U.S. Requirements - Federal Emissions Standards. The federal Clean Air Act imposes stringent limits on the amount of regulated pollutants that lawfully may be emitted by new vehicles and engines produced for sale in the United States. The current ("Tier 2") emissions regulations promulgated by the U.S. Environmental Protection Agency ("EPA") set standards for cars and light trucks. Tier 2 emissions standards also establish durability requirements for emissions components to 120,000 miles or 150,000 miles (depending on the specific standards to which the vehicle is certified). In 2013, EPA is expected to propose new "Tier 3" regulations, setting more stringent motor vehicle emissions standards for future model years.

EPA also has stringent emissions standards and requirements for EPA-defined "heavy duty" vehicles and engines (generally, those vehicles with a gross vehicle weight rating of 8,500 pounds to 14,000 pounds gross vehicle weight). In order to meet the standards for heavy duty diesel trucks, Ford and most other manufacturers use selective catalytic reduction ("SCR") systems, which require periodic customer maintenance. EPA has issued guidance calling for increasingly stringent warning systems to alert motorists to the need for maintenance of SCR systems. Development of the necessary warning systems is a challenging process, and obtaining certification of SCR-equipped diesel trucks by EPA and the California Air Resources Board ("CARB") is particularly challenging.

In 2011, EPA issued waivers under the Clean Air Act allowing the distribution and sale of gasoline containing 15% ethanol ("E15" fuel) for use in 2001 model year and later gasoline-powered vehicles. Virtually all of the vehicles affected by the waivers were designed to accommodate gasoline containing a maximum ethanol content of 10%. There are concerns that extensive use of E15 in these past model-year vehicles may lead to fuel system problems and other issues. Various petitioners, including the automotive industry, sought judicial review of the EPA waivers; the District of Columbia Circuit Court of Appeals has denied relief, and petitioners may seek review by the U.S. Supreme Court. If EPA's waivers are allowed to stand, Ford and other automotive manufacturers may face increased warranty claims and customer complaints, as well as the possibility of consumer litigation, due to the introduction of E15 into the market.

U.S. Requirements - California and Other State Emissions Standards. Pursuant to the Clean Air Act, California may seek a waiver from EPA to establish unique vehicle emissions control standards; each new or modified proposal requires a new waiver of preemption from EPA. California has received a waiver from EPA to establish its own unique emissions control standards for certain regulated pollutants. New vehicles and engines sold in California must be certified by CARB; CARB's current low-emission vehicle ("LEV II") emissions standards treat most light duty trucks the same as passenger cars, and require both types of vehicles to meet stringent new emissions requirements. Like EPA's Tier 2 emissions standards, CARB's LEV II emissions standards present a difficult engineering challenge. The California program includes requirements for manufacturers to produce and deliver for sale zero-emission vehicles ("ZEVs") that emit no regulated pollutants. The current ZEV regulations allow certain advanced-technology vehicles (e.g., hybrid electric vehicles or natural gas vehicles) with extremely low tailpipe emissions, to qualify for ZEV credits. The rules also give some ZEV credits for so-called "partial zero-emission vehicles" ("PZEVs"), which can be internal combustion engine vehicles certified to very low tailpipe emissions and zero evaporative emissions.

The current rules require increasing volumes of battery-electric and other advanced technology vehicles with each passing model year. We plan to comply with the ZEV regulations through the sale of a variety of battery-electric vehicles, hybrid vehicles, plug-in hybrid vehicles, and PZEVs. Our compliance plan entails significant costs, and has a variety of inherent risks, including potential component shortages that may make it difficult to produce vehicles in sufficient quantities.

The Clean Air Act also permits other states that do not meet National Ambient Air Quality Standards to adopt California's motor vehicle emissions standards no later than two years before the affected model year. In addition to California, thirteen states, primarily located in the Northeast and Northwest, have adopted the California standards for current and/or future model years (and ten of these states also have adopted the ZEV requirements). These states, together with California, account for more than 30% of our current U.S. light duty vehicle sales volume. It is possible that additional states may adopt the California standards in the future. The adoption of California standards by other states presents challenges for manufacturers, including: 1) managing fleet average emissions standards and ZEV mandate

ITEM 1. Business (Continued)

requirements on a state-by-state basis, which presents difficulties from the standpoint of planning and distribution; 2) market acceptance of some vehicles required by the ZEV program varies from state to state, depending on weather and other factors; and 3) states adopting the California program have not adopted California's clean fuel regulations, which may impair the ability of vehicles in other states to meet California's in-use standards.

In 2012, CARB finalized revisions to its LEV and ZEV regulations. The new "LEV III" program begins to take effect with the 2015 model year and includes more stringent tailpipe and evaporative emissions standards for light and medium duty vehicles; extended durability requirements; and changes to the certification test procedures, requiring manufacturers to certify vehicles on fuel containing 10% ethanol. The amended ZEV regulations mandate substantial annual increases in the production and sale of battery-electric, fuel cell, and plug-in hybrid vehicles for the 2018 - 2025 model years. By the 2025 model year, approximately 15% of a manufacturer's total California sales volume will need to be made up of such vehicles.

The LEV III regulations will require automobile manufacturers to design and develop new emissions after-treatment systems, which presents an engineering challenge. The 2018 - 2025 model year ZEV rules pose an even greater obstacle that could have a substantial adverse effect on our sales volumes and profits. Compliance with the ZEV mandate involves intensive planning efforts and large capital investments in order to deliver the required number of advanced-technology vehicles. We are concerned that the market and infrastructure in California may not support the large volumes of advanced-technology vehicles that manufacturers will be required to produce, particularly in the 2018 - 2025 model years. We also are concerned about potential enforcement of the ZEV mandate in other states that have adopted California's ZEV program, where the existence of a market for such vehicles is even less certain. CARB conducts periodic reviews of its upcoming ZEV requirements, taking into account factors such as technology developments and market acceptance. Ford and the industry will be active participants in such reviews, with the goal of ensuring that ZEV requirements are feasible and not excessively burdensome.

European Requirements. European Union ("EU") directives and related legislation limit the amount of regulated pollutants that may be emitted by new motor vehicles and engines sold in the EU. Stringent new "Stage V" emissions standards took effect for vehicle registrations starting in January 2011; Stage VI requirements will apply from September 2014, with a second phase beginning in September 2017. Stage V particulate standards drove the deployment of particulate filters across diesels, and Stage VI further tightens the standard for oxides of nitrogen. This will drive the need for additional diesel exhaust after-treatment, which will add cost and potentially impact the diesel CO_2 advantage. These technology requirements add cost and further erode the fuel economy cost/benefit advantage of diesel vehicles. The additional requirements for the second phase of Stage VI will further increase stringency of particle emissions for direct injection gasoline vehicles, and apply more demanding on-board diagnostic thresholds for all vehicles. There are some additional test procedures still in development for application as part of the second phase of Stage VI.

Vehicles equipped with SCR systems require a driver inducement and warning system for maintenance or repair. The Stage V/VI emission legislation also mandated internet provision of all repair information (not just emissions-related), and provision of information to diagnostic tool manufacturers.

Other National Requirements. Many countries, in an effort to address air quality concerns, are adopting previous versions of European or United Nations Economic Commission for Europe ("UN-ECE") mobile source emissions regulations. Some countries have adopted more advanced regulations based on the most recent version of European or U.S. regulations; for example, China plans to adopt the most recent European standards, to be implemented starting from 2013 in large cities. Korea and Taiwan have adopted very stringent U.S.-based standards for gasoline vehicles, and European-based standards for diesel vehicles. Although these countries have adopted regulations based UN-ECE or U.S. standards, there may be some unique testing provisions that require emission-control systems to be redesigned for these markets.

Furthermore, not all countries have adopted appropriate fuel quality standards to accompany the stringent emissions standards adopted. This could lead to compliance problems, particularly if on-board diagnostic or in-use surveillance requirements are implemented. Japan has unique standards and test procedures, which may require unique emissions control systems be designed for the Japanese market. Canadian criteria emissions regulations are aligned with U.S. Tier 2 requirements discussed above; a new examination of mobile source emissions has commenced, and it is expected that any new regulation will align standards with the current U.S. regulations.

In South America, Brazil, Argentina, and Chile have introduced more stringent emissions standards. Brazil approved European Stage V emissions and on-board diagnostic standards for heavy trucks starting in 2012; more stringent light vehicle limits come into effect starting in 2012. Argentina also will apply Stage V standards beginning in 2014 (for new vehicle homologations) and 2016 (for new vehicle registrations). Chile approved a plan to introduce more stringent

ITEM 1. Business (Continued)

emission standards (i.e., European Stage IV and V or corresponding U.S. emissions standards) nationwide for light and medium duty vehicles, and progressive alignment with the Metropolitan Region (i.e., the capital city Santiago and surrounding area) by September 2014. Heavy duty vehicles will be required to meet Stage V (or corresponding U.S. emissions standards) by October 2014.

Motor Vehicle Fuel Economy

In addition to our own push for class-leading fuel efficiency for our vehicle line, we also face ever-increasing expectations from regulators, public interest groups, and consumers for improvements in motor vehicle fuel economy, for a variety of reasons including energy security and reduced GHG emissions. Our ability to comply with a given set of fuel economy standards (including GHG emissions standards, which are functionally equivalent to fuel economy standards) depends on a variety of factors, including: 1) prevailing economic conditions, including fluctuations in fuel prices; 2) alignment of standards with actual consumer demand for vehicles; and 3) adequate lead time to make necessary product changes. Consumer demand for vehicles tends to fluctuate based on a variety of external factors. Consumers are more likely to pay for vehicles with fuel-efficient technologies (such as hybrid-electric vehicles) when the economy is robust, and when fuel prices are relatively high. When the economy is in recession and/or fuel prices are relatively low, many consumers may put off new vehicle purchases altogether, and among those who do purchase vehicles, demand for higher-cost fuel technologies is not likely to be strong. If consumers demand vehicles that are relatively large and/or high-performance, while regulatory standards require production of vehicles that are smaller and more economical, the mismatch of supply and demand would have an adverse effect on both regulatory compliance and our profitability. Moreover, if regulatory requirements call for rapid, substantial increases in fleet average fuel economy (or decreases in fleet average GHG emissions), we may not have adequate resources and time to make major product changes across most or all of our vehicle fleet (assuming the necessary technology can be developed).

U.S. Requirements - Light Duty Vehicles. Federal law requires that light duty vehicles meet minimum corporate average fuel economy ("CAFE") standards set by the National Highway Traffic Safety Administration ("NHTSA"). A manufacturer is subject to potentially substantial civil penalties if it fails to meet the CAFE standard in any model year, after taking into account all available credits for the preceding three model years and expected credits for the five succeeding model years. The law requires NHTSA to promulgate and enforce separate CAFE standards applicable to each manufacturer's fleet of domestic passenger cars, imported passenger cars, and light trucks, respectively.

California also has asserted the right to regulate motor vehicle GHG emissions, and a 2007 U.S. Supreme Court decision paved the way for EPA to regulate motor vehicle GHG emissions under the Clean Air Act. The potential for three sets of overlapping and conflicting regulations led to the establishment of the federal "One National Program," pursuant to which EPA and NHTSA have promulgated regulations establishing a harmonized national program of CAFE and GHG regulations for light duty vehicles for the 2012 - 2016 model years. The 2012 - 2016 federal GHG and fuel economy standards are very challenging. They require new light duty vehicles to ramp up to an industry average fuel economy of approximately 35.5 miles per gallon ("mpg") by the 2016 model year, which amounts to the steepest rate of increase in fuel economy standards since the inception of the CAFE program. CARB has amended its regulations to provide that manufacturers who comply with One National Program regulations will be deemed to comply with California GHG regulations.

We believe that we will be able to comply with the harmonized federal CAFE/GHG standards for the 2012 - 2016 model years, as a result of aggressive actions to improve fuel economy that we built into our cycle plan, and through a variety of flexible compliance mechanisms. In contrast, we had projected that we would be unable to comply with the state GHG standards that had been in place for the 2012 - 2016 period without undertaking costly product restrictions in some states. Key differences that enable us to project compliance with the national program include: 1) One National Program standards, although very stringent, do not ramp up as steeply as the state standards they are replacing; and 2) One National Program allows us to determine compliance based on nationwide sales rather than state-by-state sales. The ability to average across the nation eliminates state-to-state sales variability and is a critical element for us and for the automotive industry. The 2012-2016 model year One National Program rules currently are being challenged in federal court by entities concerned about the ramifications of these rules on stationary source regulation. The automotive industry has intervened in the litigation with the goal of preventing adverse changes to the existing One National Program.

In 2012, EPA and NHTSA jointly promulgated regulations extending the One National Program framework through the 2025 model year. The new rules require manufacturers to achieve, across the industry, a light duty fleet average fuel economy of approximately 45 mpg by the 2021 model year, and approximately 54.5 mpg by the 2025 model year, assuming all of the CO_2 emissions reductions are achieved through the deployment of fuel economy technology. This represents a reduction of roughly 5% per year in CO_2 emissions from passenger cars for the 2017 - 2025 model years.

ITEM 1. Business (Continued)

For light trucks, the proposed standards represent a reduction in CO_2 emissions of about 3.5% per year for model years 2017 - 2021, and about 5% per year for model years 2022 - 2025.

It is important to note that EPA's 2022 - 2025 GHG standards are final rules; in contrast, NHTSA's 2022 - 2025 CAFE standards are conditional because, by statute, NHTSA may only set CAFE standards for up to five model years at a time. Each manufacturer's specific task would depend on the mix of vehicles it sells. The rules include the opportunity for manufacturers to earn credits for technologies that achieve real-world CO_2 reductions, and fuel economy improvements that are not captured by EPA fuel economy test procedures. Manufacturers also can earn credits for GHG reductions not specifically tied to fuel economy, such as improvements in air conditioning systems. The rules provide for a midterm evaluation process under which, by 2018, EPA will re-evaluate its standards for model years 2022 - 2025 in order to ensure that those standards are feasible and optimal in light of intervening events. In parallel, NHTSA will undertake a process to promulgate final CAFE standards for those model years. CARB has modified its GHG regulations to provide that compliance with the federal program satisfies compliance with California's requirements for the 2017 - 2025 model years. As with the 2012 - 2016 rules, the 2017 - 2025 rules have been challenged in federal court by entities whose primary concern appears to be the ramifications of the vehicle rules on stationary source regulation. The automotive industry has intervened in the litigation with the goal of avoiding adverse changes to the One National Program rules.

While the new rules are challenging, we believe they are feasible in light of our product plans and projected market conditions for the time period covered by our product planning process. We also believe the new rules are preferable to engaging in protracted disputes with California and other states that use the California standards over the right to enforce state-specific GHG standards.

Ford's ability to comply with the 2022 - 2025 model year standards remains unclear because of the many unknowns regarding technology development, market conditions, and other factors so far into the future. We intend to be an active participant in the midterm evaluation process for these standards. If the agencies seek to impose and enforce extreme fuel economy or GHG standards in spite of unfavorable market conditions or inadequate technology development, we likely would be forced to take various actions that could have substantial adverse effects on our sales volume and profits. Such actions likely would include restricting offerings of selected engines and popular options; increasing market support programs for our most fuel-efficient cars and light trucks; and ultimately curtailing the production and sale of certain vehicles such as high-performance cars, utilities, and/or full-size light trucks, in order to maintain compliance.

U.S. Requirements - Heavy Duty Vehicles. In 2011, EPA and NHTSA promulgated final regulations imposing, for the first time, GHG and fuel economy standards on heavy duty vehicles (generally, vehicles over 8,500 pounds gross vehicle weight rating). In our case, the standards primarily affect our heavy duty pickup trucks and vans, plus vocational vehicles such as shuttle buses and delivery trucks. These standards will be challenging, but we believe we will be able to comply. EPA and NHTSA are expected to issue a new round of standards for these vehicles covering the 2019 model year and beyond; as the standards increase in stringency, it may become more difficult to comply while continuing to offer a full lineup of heavy duty trucks. The 2014 - 2018 heavy duty GHG rules are being challenged in federal court by entities other than truck and engine manufacturers. Remand or rejection by the court could have a substantial adverse impact on our future production and sale of heavy duty vehicles, depending on the court's specific order and agencies' response.

European Requirements. In December 2008, the EU approved regulation of passenger car CO_2 emissions beginning in 2012 which limits the industry fleet average to a maximum of 130 grams per kilometer ("g/km"), using a sliding scale based on vehicle weight. This regulation provides different targets for each manufacturer based on the respective average vehicle weight for its fleet of vehicles. Limited credits are available for CO_2 off-cycle actions ("eco-innovations"), certain alternative fuels, and vehicles with CO_2 emissions below 50 g/km. A penalty system will apply for manufacturers failing to meet targets, with fees ranging from €5 to €95 per vehicle per g/km shortfall in the years 2012 - 2018, and €95 per g/km shortfall beginning in 2019. Manufacturers will be permitted to use a pooling agreement between wholly-owned brands to share the burden. Further pooling agreements between different manufacturers also are possible, although it is not clear that these will be of much practical benefit under the regulations. For 2020, an industry target of 95 g/km has been set. This target will be further detailed in a review in 2013. Other non-EU European countries are likely to follow with similar regulations. For example, Switzerland has introduced similar rules, which began phasing-in starting in July 2012 with the same targets (which likely also will include a 2020 target of 95 g/km), although the industry average emission target is significantly higher. We face the risk of advance premium payment requirements if, for example, unexpected market fluctuation within a quarter negatively impact our average fleet performance.

In separate legislation, so-called "complementary measures" have been mandated (for example, tire-related and gearshift indicator requirements), and more mandates are expected. These include requirements related to fuel economy indicators, and more-efficient low-CO_2 mobile air conditioning systems. The EU Commission, Council and Parliament have approved a target for commercial light duty vehicles to be at an industry average of 175 g/km (with phase-in from

ITEM 1. Business (Continued)

2014 - 2017), and 147 g/km in 2020; it is likely that other European countries, like Switzerland, will implement similar rules but under even more difficult conditions. This regulation also provides different targets for each manufacturer based on its respective average vehicle weight in its fleet of vehicles. The final mass and CO_2 requirements for so-called "multi-stage vehicles" (e.g., our Transit chassis cabs) are fully allocated to the base manufacturer (e.g., Ford) so that the base manufacturer is fully responsible for the CO_2 performance of the final up-fitted vehicles. The EU proposal also includes a penalty system, "super-credits" for vehicles below 50 g/km, and limited credits for CO_2 off-cycle eco-innovations, pooling, etc., similar to the passenger car CO_2 regulation.

Some European countries have implemented or are considering other initiatives for reducing CO_2 vehicle emissions, including fiscal measures and CO_2 labeling. For example, the United Kingdom, France, Germany, Spain, Portugal, and the Netherlands, among others, have introduced taxation based on CO_2 emissions. The EU CO_2 requirements are likely to trigger further measures. To limit GHG emissions, the EU directive on mobile air conditioning currently requires the replacement of the current refrigerant with a lower "global warming potential" refrigerant for new vehicle types, and for all newly registered vehicles starting in January 2017. A refrigerant change adds considerable costs along the whole value chain.

Other National Requirements. The Canadian federal government has regulated vehicle GHG emissions under the Canadian Environmental Protection Act, beginning with the 2011 model year. The standards track the new U.S. CAFE standards for the 2011 model year and U.S. EPA GHG regulations for the 2012 - 2016 model years. The Canadian federal government now has published a draft regulation which maintains alignment with U.S. EPA vehicle GHG standards for the 2017 - 2025 model years. The final regulation for 2014 - 2018 heavy duty vehicles is expected in February 2013. In December 2009, Quebec also enacted province-specific regulations setting fleet average GHG standards for the 2010 - 2016 model years effective January 2010. Now that the Canadian federal regulation is in place, the Quebec government has amended the Quebec regulation to recognize equivalency with the federal standards; reporting of Quebec fleet performance still is required.

Mexico also is in the process of adopting fuel economy/CO_2 standards based on the U.S. One National Program framework, to take effect in 2014.

Many Asia Pacific countries (such as Australia, China, Japan, India, South Korea, Taiwan, and Vietnam) are also developing or enforcing fuel efficiency or labeling targets. For example, Japan has fuel efficiency targets for 2015 and is preparing to promulgate more stringent 2020 targets, with incentives for early adoption. China has been developing Stage III and Stage IV fuel economy targets for implementation for 2012 - 2015 and 2016 - 2020, respectively. All of these fuel efficiency targets will impact the cost of vehicle technology in the future.

In South America, Brazil introduced a voluntary vehicle energy-efficiency labeling program, indicating fuel consumption rates for light duty vehicles with a spark ignition engine. While the program is voluntary, Brazil also published a new automotive regime which requires participation in the fuel economy labeling program and a minimum 12% improvement in industry-wide fuel efficiency for 2017 light duty vehicles with a spark ignition engine in order to qualify for industrialized products tax reduction for customers. Additional tax reductions are available if further fuel efficiency improvements are achieved. Chile introduced requirements for fuel consumption and CO_2 emissions levels of light duty vehicles to be posted at sales locations and in owner manuals beginning in February 2013. In general, fuel efficiency targets may impact the cost of technology of our models in the future.

Motor Vehicle Safety

U.S. Requirements. The National Traffic and Motor Vehicle Safety Act of 1966 (the "Safety Act") regulates vehicles and vehicle equipment in two primary ways. First, the Safety Act prohibits the sale in the United States of any new vehicle or equipment that does not conform to applicable vehicle safety standards established by NHTSA. Meeting or exceeding many safety standards is costly, in part because the standards tend to conflict with the need to reduce vehicle weight in order to meet emissions and fuel economy standards. Second, the Safety Act requires that defects related to motor vehicle safety be remedied through safety recall campaigns. A manufacturer is obligated to recall vehicles if it determines the vehicles do not comply with a safety standard. Should we or NHTSA determine that either a safety defect or noncompliance exists with respect to any of our vehicles, the cost of such recall campaigns could be substantial.

Other National Requirements. The EU and many countries around the world have established vehicle safety standards and regulations, and are likely to adopt additional or more stringent requirements in the future. The European General Safety Regulation introduced UN-ECE regulations, which will be required for the European Type Approval process. EU regulators also are focusing on active safety features such as lane departure warning systems, electronic stability control, and automatic brake assist. These technologies have been implemented in Europe with final regulation

ITEM 1. Business (Continued)

and implementing measures having become available in late 2011. Globally, governments generally have been adopting UN-ECE based regulations with minor variations to address local concerns. Any difference between North American and UN-ECE based regulations can add complexity and costs to the development of global platform vehicles, and we continue to support efforts to harmonize regulations to reduce vehicle design complexity while providing a common level of safety performance; several recently launched bilateral negotiations on free trade can potentially contribute to this goal. New recall requirements in Asia Pacific Africa also may add substantial costs and complexity to our global recall practice.

Pollution Control Costs

During the period 2013 through 2017, we expect to spend about $125 million on our facilities in the Americas and Europe to comply with stationary source air and water pollution and hazardous waste control standards that are now in effect or are scheduled to come into effect during this period. Of this total, we currently estimate we will spend between $25 million and $30 million in each of 2013 and 2014. Specific environmental expenses are difficult to isolate because expenditures may be made for more than one purpose, making precise classification difficult.

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.

In 2012, we negotiated new collective bargaining agreements with labor unions in Argentina, Australia, Brazil, Britain, Canada, France, Germany, Mexico, Romania, Taiwan, and Turkey.

In 2013, we will negotiate full agreements with labor unions in Brazil, Italy, Mexico, New Zealand, Thailand, South Africa, and Venezuela. In addition, wage-only discussions will happen in numerous other locations across all regions.

ENGINEERING, RESEARCH, AND DEVELOPMENT

We engage in engineering, research, and development primarily to improve the performance (including fuel efficiency), safety, and customer satisfaction of our products, and to develop new products. Engineering, research, and development expenses for 2012, 2011, and 2010 were $5.5 billion, $5.3 billion, and $5 billion, respectively.

ITEM 1A. Risk Factors.

We have listed below (not necessarily in order of importance or probability of occurrence) the most significant risk factors applicable to us:

Decline in industry sales volume, particularly in the United States or Europe, due to financial crisis, recession, geopolitical events, or other factors. In the fall of 2008, the global economy entered a financial crisis and severe recession, putting significant pressure on both Ford and the automotive industry generally. These economic conditions dramatically reduced automotive industry sales volume in the United States and Europe, in particular, and began to slow growth in other markets around the world. U.S. automotive industry sales volume declined from 16.5 million units in 2007 to 13.5 million units in 2008 and 10.6 million units in 2009, before rebounding slightly to 11.8 million units in 2010 and growing to 13 million units in 2011 and 14.8 million units in 2012. For the 19 markets we track in Europe, automotive industry sales volume declined from 18 million units in 2007 to 16.6 million units in 2008, 15.9 million units in 2009, 15.3 million units in 2010 and 2011, and 14 million units in 2012, with further decline likely in 2013.

Because we, like other manufacturers, have a high proportion of relatively fixed structural costs, relatively small changes in industry sales volume can have a substantial effect on our cash flow and profitability. If industry vehicle sales were to decline to levels significantly below our planning assumption, particularly in the United States or Europe, due to financial crisis, recession, geopolitical events, or other factors, our financial condition and results of operations would be substantially adversely affected. For discussion of economic trends, see the "Overview" section of Item 7.

Decline in Ford's market share or failure to achieve growth. To maintain competitive economies of scale and grow our global market share, we must grow our market share in fast-growing newly-developed and emerging markets, particularly in Asia Pacific Africa, as well as maintain or grow market share in mature markets. Our market share in certain growing markets, such as China, is substantially lower than it is in our mature markets. A significant decline in our market share in mature markets or failure to achieve growth in newly-developing or emerging markets, whether due to capacity constraints, competitive pressures, protectionist trade policies, or other factors, could have a substantial adverse effect on our financial condition and results of operations.

Lower-than-anticipated market acceptance of Ford's new or existing products. Although we conduct extensive market research before launching new or refreshed vehicles, many factors both within and outside our control affect the success of new or existing products in the marketplace. Offering highly desirable vehicles that customers want and value can mitigate the risks of increasing price competition and declining demand, but vehicles that are perceived to be less desirable (whether in terms of price, quality, styling, safety, overall value, fuel efficiency, or other attributes) can exacerbate these risks. For example, if a new model were to experience quality issues at the time of launch, the vehicle's perceived quality could be affected even after the issues had been corrected, resulting in lower sales volumes, market share, and profitability. In addition, with increased consumer interconnectedness through the internet and other media, mere allegations relating to quality, safety, fuel efficiency, corporate social responsibility, or other key attributes can negatively impact market acceptance, even where such allegations prove to be inaccurate or unfounded.

Market shift away from sales of larger, more profitable vehicles beyond Ford's current planning assumption, particularly in the United States. A shift in consumer preferences away from larger, more profitable vehicles at levels beyond our current planning assumption could result in an immediate and substantial adverse impact on our financial condition and results of operations. For example, when gasoline prices in the United States spiked to more than $4.00 per gallon in 2008 and the construction industry suddenly slowed, consumer preferences quickly and dramatically shifted away from larger, more profitable vehicles and into smaller vehicles. We estimate that shifting consumer preferences across all vehicle segments adversely impacted our Automotive operating pre-tax earnings and cash flow in 2008 by about $1.3 billion. Although we now have a more balanced portfolio of small, medium, and large, cars, utilities, and trucks that generally are more fuel efficient and contribute higher margins than in 2008, as well as a lower cost structure, a shift in consumer preferences away from sales of larger, more profitable vehicles at levels greater than our current planning assumption - whether because of spiking fuel prices, a decline in the construction industry, government actions or incentives, or other reasons - still could have a substantial adverse effect on our financial condition and results of operations.

An increase in or continued volatility of fuel prices, or reduced availability of fuel. An increase in fuel prices, continued price volatility, or reduced availability of fuel, particularly in the United States, could result in further weakening of demand for relatively more-profitable large cars, utilities, and trucks, while increasing demand for relatively less-profitable small vehicles. Continuation or acceleration of such a trend beyond our current planning assumption, or volatility in demand across segments, could have a substantial adverse effect on our financial condition and results of operations.

Item 1A. Risk Factors (Continued)

Continued or increased price competition resulting from industry excess capacity, currency fluctuations, or other factors. The global automotive industry is intensely competitive, with manufacturing capacity far exceeding current demand. According to the January 2013 report issued by IHS Automotive, the global automotive industry is estimated to have had excess capacity of 26 million units in 2012. Industry overcapacity has resulted in many manufacturers offering marketing incentives on vehicles in an attempt to maintain and grow market share; these incentives historically have included a combination of subsidized financing or leasing programs, price rebates, and other incentives. As a result, we are not necessarily able to set our prices to offset higher costs of marketing incentives, commodity or other cost increases, or the impact of adverse currency fluctuations. Continuation of or increased excess capacity could have a substantial adverse effect on our financial condition and results of operations.

Fluctuations in foreign currency exchange rates, commodity prices, and interest rates. As a resource-intensive manufacturing operation, we are exposed to a variety of market and asset risks, including the effects of changes in foreign currency exchange rates, commodity prices, and interest rates. These risks affect our Automotive and Financial Services sectors. We monitor and manage these exposures as an integral part of our overall risk management program, which recognizes the unpredictability of markets and seeks to reduce potentially adverse effects on our business. Nevertheless, changes in currency exchange rates, commodity prices, and interest rates cannot always be predicted or hedged. In addition, because of intense price competition and our high level of fixed costs, we may not be able to address such changes even if foreseeable. As a result, substantial unfavorable changes in foreign currency exchange rates, commodity prices, or interest rates could have a substantial adverse effect on our financial condition and results of operations. See "Overview" to Item 7 and Item 7A for additional discussion of currency, commodity price, and interest rate risks.

Adverse effects resulting from economic, geopolitical, or other events. With the increasing interconnectedness of global economic and financial systems, a financial crisis, natural disaster, geopolitical crisis, or other significant event in one area of the world can have an immediate and devastating impact on markets around the world. For example, the financial crisis that began in the United States in 2008 quickly spread to other markets; natural disasters in Japan and Thailand during 2011 caused production interruptions and delays not just in Asia Pacific but other regions around the world; and episodes of increased geopolitical tensions or acts of terrorism in the Middle East or elsewhere have at times caused adverse reactions that may spread to economies around the globe.

In 2013, concerns persist regarding the debt burden of certain of the countries that have adopted the euro currency ("euro area countries") and the ability of these countries to meet future financial obligations, as well as concerns regarding the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances of individual euro area countries. If a country within the euro area were to default on its debt or withdraw from the euro currency, or - in a more extreme circumstance - the euro currency were to be dissolved entirely, the impact on markets around the world, and on Ford's global business, could be immediate and significant. Such a scenario - or the perception that such a development is imminent - could adversely affect the value of our euro-denominated assets and obligations. In addition, such a development could cause financial and capital markets within and outside Europe to constrict, thereby negatively impacting our ability to finance our business, and also could cause a substantial dip in consumer confidence and spending that could negatively impact sales of vehicles. Any one of these impacts could have a substantial adverse effect on our financial condition and results of operations.

In addition, we are pursuing growth opportunities in a number of newly-developed and emerging markets. These investments may expose us to heightened risks of economic, geopolitical, or other events, including governmental takeover (i.e., nationalization) of our manufacturing facilities or intellectual property, restrictive exchange controls, disruption of operations as a result of systemic political or economic instability, outbreak of war or expansion of hostilities, and acts of terrorism, each of which could have a substantial adverse effect on our financial condition and results of operations.

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. The automotive industry supply base experienced increased economic distress due to the sudden and substantial drop in industry sales volumes beginning in 2008. Dramatically lower industry sales volume made existing debt obligations and fixed cost levels difficult for many suppliers to manage, increasing pressure on the supply base. As a result, suppliers not only were less willing to reduce prices, but some requested direct or indirect price increases as well as new and shorter payment terms. At times, we have had to provide financial assistance to key suppliers to ensure an uninterrupted supply of materials and components. In addition, where suppliers have exited certain lines of business or closed facilities due to the economic downturn or other reasons, we generally experience additional costs associated with transitioning to new suppliers. Each of these factors could have a substantial adverse effect on our financial condition and results of operations.

Item 1A. Risk Factors (Continued)

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). A work stoppage or other limitation on production could occur at Ford or supplier facilities for any number of reasons, including as a result of disputes under existing collective bargaining agreements with labor unions or in connection with negotiation of new collective bargaining agreements, or as a result of supplier financial distress or other production constraints or difficulties, or for other reasons. Recent examples of situations that have affected industry production to varying degrees include: supplier financial distress due to reduced production volumes during the economic downturn in 2008 - 2009; capacity constraints as suppliers that restructured or downsized during the downturn work to satisfy growing industry volumes; short-term constraints on production as consumer preferences shift more fluidly across vehicle segments and features; and the impact on certain suppliers of natural disasters during 2011. As indicated, a work stoppage or other limitations on production at Ford or supplier facilities for any reason (including but not limited to labor disputes, natural or man-made disasters, tight credit markets or other financial distress, or production constraints or difficulties) could have a substantial adverse effect on our financial condition and results of operations.

Single-source supply of components or materials. Many components used in our vehicles are available only from a single supplier and cannot be re-sourced quickly or inexpensively to another supplier (due to long lead times, new contractual commitments that may be required by another supplier before ramping up to provide the components or materials, etc.). In addition to the general risks described above regarding interruption of supplies, which are exacerbated in the case of single-source suppliers, the exclusive supplier of a key component potentially could exert significant bargaining power over price, quality, warranty claims, or other terms relating to a component.

Labor or other constraints on Ford's ability to maintain competitive cost structure. Substantially all of the hourly employees in our Automotive operations in the United States and Canada are represented by unions and covered by collective bargaining agreements. We negotiated a four-year agreement with the UAW in 2011, and a new four-year agreement with the Canadian Auto Workers Union in 2012. Although we have negotiated transformational agreements in recent years, these agreements provide guaranteed wage and benefit levels throughout the contract term and some degree of employment security, subject to certain conditions. As a practical matter, these agreements may restrict our ability to close plants and divest businesses. A substantial number of our employees in other regions are represented by unions or government councils, and legislation or custom promoting retention of manufacturing or other employment in the state, country, or region may constrain as a practical matter our ability to sell or close manufacturing or other facilities. For example, in October 2012 we announced our European transformation plan to address structural industry overcapacity. 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.

Substantial pension and postretirement health care and life insurance liabilities impairing liquidity or financial condition. We have qualified defined benefit retirement plans in the United States that cover our hourly and salaried employees. We also provide pension benefits to non-U.S. employees and retirees, primarily in Europe. In addition, we and certain of our subsidiaries sponsor plans to provide other postretirement benefits ("OPEB") for retired employees (primarily health care and life insurance benefits). See Note 16 of the Notes to the Financial Statements for more information about these plans. These benefit plans impose significant liabilities on us that are not fully funded and will require additional cash contributions, which could impair our liquidity.

Our U.S. defined benefit pension plans are subject to Title IV of the Employee Retirement Income Security Act of 1974 ("ERISA"). Under Title IV of ERISA, the Pension Benefit Guaranty Corporation ("PBGC") has the authority under certain circumstances or upon the occurrence of certain events to terminate an underfunded pension plan. One such circumstance is the occurrence of an event that unreasonably increases the risk of unreasonably large losses to the PBGC. Although we believe it is unlikely that the PBGC would terminate any of our plans, in the event that our

U.S. pension plans were terminated at a time when the liabilities of the plans exceeded the assets of the plans we would incur a liability to the PBGC that could be equal to the entire amount of the underfunding.

At December 31, 2012, our U.S. and worldwide (including U.S.) defined benefit pension plans were underfunded by a total of $9.7 billion and $18.7 billion, respectively. If our cash flows and capital resources were insufficient to fund our pension or OPEB obligations, we could be forced to reduce or delay investments and capital expenditures, suspend dividend payments, seek additional capital, or restructure or refinance our indebtedness.

Worse-than-assumed economic and demographic experience for postretirement benefit plans (e.g., discount rates or investment returns). The measurement of our obligations, costs, and liabilities associated with benefits pursuant to our postretirement benefit plans requires that we estimate the present value of projected future payments to all participants. We use many assumptions in calculating these estimates, including assumptions related to discount rates, investment returns on designated plan assets, and demographic experience (e.g., mortality and retirement rates). To the extent actual results are less favorable than our assumptions, there could be a substantial adverse impact on our financial condition and results of operations. For discussion of our assumptions, see "Critical Accounting Estimates" in Item 7 and Note 16 of the Notes to the Financial Statements.

Restriction on use of tax attributes from tax law "ownership change." Section 382 of the U.S. Internal Revenue Code restricts the ability of a corporation that undergoes an ownership change to use its tax attributes, including net operating losses and tax credits ("Tax Attributes"). At December 31, 2012 we had Tax Attributes that would offset $14.7 billion of taxable income. For these purposes, an ownership change occurs if 5 percent shareholders of an issuer's outstanding common stock, collectively, increase their ownership percentage by more than 50 percentage points over a rolling three-year period. In 2012, we renewed for an additional three-year period our tax benefit preservation plan (the "Plan") to reduce the risk of an ownership change under Section 382. Under the Plan, shares held by any person who acquires, without the approval of our Board of Directors, beneficial ownership of 4.99% or more of our outstanding Common Stock could be subject to significant dilution. We intend to seek shareholder approval of the renewal at our annual meeting in May 2013.

The discovery of defects in vehicles resulting in delays in new model launches, recall campaigns, or increased warranty costs. Meeting or exceeding many government-mandated safety standards is costly and often technologically challenging, especially where standards may conflict with the need to reduce vehicle weight in order to meet government-mandated emissions and fuel-economy standards. Government safety standards also require manufacturers to remedy defects related to vehicle safety through safety recall campaigns, and a manufacturer is obligated to recall vehicles if it determines that the vehicles do not comply with a safety standard. Should we or government safety regulators determine that a safety or other defect or a noncompliance exists with respect to certain of our vehicles prior to the start of production, the launch of such vehicle could be delayed until such defect is remedied. The costs associated with any protracted delay in new model launches necessary to remedy such defects, or the cost of recall campaigns or warranty costs to remedy such defects in vehicles that have been sold, could be substantial.

Increased safety, emissions, fuel economy, or other regulations resulting in higher costs, cash expenditures, and/or sales restrictions. The worldwide automotive industry is governed by a substantial amount of government regulation, which often differs by state, region, and country. Government regulation has arisen, and proposals for additional regulation are advanced, primarily out of concern for the environment (including concerns about the possibility of global climate change and its impact), vehicle safety, and energy independence. In addition, many governments regulate local product content and/or impose import requirements as a means of creating jobs, protecting domestic producers, and influencing the balance of payments.

In recent years, we have made significant changes to our product cycle plan to improve the overall fuel economy of vehicles we produce, thereby reducing their GHG emissions. There are limits on our ability to achieve fuel economy improvements over a given timeframe, however, primarily relating to the cost and effectiveness of available technologies, consumer acceptance of new technologies and changes in vehicle mix, willingness of consumers to absorb the additional costs of new technologies, the appropriateness (or lack thereof) of certain technologies for use in particular vehicles, the widespread availability (or lack thereof) of supporting infrastructure for new technologies, and the human, engineering, and financial resources necessary to deploy new technologies across a wide range of products and powertrains in a short time. The cost to comply with existing government regulations is substantial, and future, additional regulations could have a substantial adverse impact on our financial condition and results of operations. For more discussion of the impact of such standards on our global business, see the "Governmental Standards" discussion in "Item 1. Business" ("Item 1") above. In addition to governmental regulations, a number of influential organizations conduct public domain testing. Even as we continue to evolve our product line, aggressive changes in public domain testing requirements could have a negative influence on future sales.

Unusual or significant litigation, governmental investigations, or adverse publicity arising out of alleged defects in products, perceived environmental impacts, or otherwise. We spend substantial resources ensuring that we comply with governmental safety regulations, mobile and stationary source emissions regulations, and other standards. Compliance with governmental standards, however, does not necessarily prevent individual or class actions, which can entail significant cost and risk. In certain circumstances, courts may permit tort claims even where our vehicles comply with federal and/or other applicable law. Furthermore, simply responding to actual or threatened litigation or government investigations of our compliance with regulatory standards, whether related to our products or business or commercial relationships, may require significant expenditures of time and other resources. Litigation also is inherently uncertain, and we could experience significant adverse results. In addition, adverse publicity surrounding an allegation may cause significant reputational harm that could have a significant adverse effect on our sales.

Item 1A. Risk Factors (Continued)

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). We have entered into a number of long-term supply contracts that require us to purchase a fixed quantity of parts to be used in the production of our vehicles. If our need for any of these parts were to lessen, we could still be required to purchase a specified quantity of the part or pay a minimum amount to the seller pursuant to the take-or-pay contract, which could have a substantial adverse effect on our financial condition or results of operations.

Adverse effects on results from a decrease in or cessation or clawback of government incentives related to investments. We receive economic benefits from national, state, and local governments in various regions of the world in the form of incentives designed to encourage manufacturers to establish, maintain, or increase investment, workforce, or production. These incentives may take various forms, including grants, loan subsidies, and tax abatements or credits. The impact of these incentives can be significant in a particular market during a reporting period. For example, most of our manufacturing facilities in South America are located in Brazil, where the state or federal governments have historically offered, and continue to offer, significant incentives to manufacturers to encourage capital investment, increase manufacturing production, and create jobs. As a result, the performance of our South American operations has been impacted favorably by government incentives to a substantial extent as we have increased our investment and manufacturing presence in Brazil, and we expect this favorable impact to continue for the next several years. A decrease in, expiration without renewal of, or other cessation or clawback of government incentives for any of our business units, as a result of administrative decision or otherwise, could have a substantial adverse impact on our financial condition and results of operations, as well as our ability to fund new investments. See Note 2 of the Notes to the Financial Statements for discussion of our accounting for government incentives, and "Item 3. Legal Proceedings" for discussion of administrative tax proceedings in Brazil.

Inherent limitations of internal controls impacting financial statements and safeguarding of assets. Our internal control over financial reporting and our operating internal controls may not prevent or detect misstatements or loss of assets because of inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Effective internal controls can provide only reasonable assurance with respect to financial statement accuracy 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. Interruptions, outages, or breaches of operational systems (including business, financial, accounting, data processing, in-vehicle, or manufacturing processes), security systems, or infrastructure, as a result of cyber incidents, could materially disrupt critical operations, disclose confidential intellectual property, and/or give rise to allegations of or result in a breach of data privacy or other regulations within or outside the United States.

Failure of financial institutions to fulfill commitments under committed credit and liquidity facilities. Under our Credit Agreement dated December 15, 2006, as amended and restated on November 24, 2009 and as further amended ("Credit Agreement"), we are able to borrow, repay, and then re-borrow up to $9.6 billion until the facilities thereunder terminate, largely in 2015. If the financial institutions that provide these or other committed credit facilities were to default on their obligation to fund the commitments, these facilities would not be available to us, which could substantially adversely affect our liquidity and financial condition. For discussion of our Credit Agreement, see "Liquidity and Capital Resources" in Item 7 and Note 17 of the Notes to the Financial Statements.

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. Ford Credit's ability to obtain funding under its committed asset-backed liquidity programs and certain other asset-backed securitization transactions is subject to having a sufficient amount of assets eligible for these programs, as well as Ford Credit's ability to obtain appropriate credit ratings and, for certain committed programs, derivatives to manage the interest rate risk. Over time, and particularly in the event of any credit rating downgrades, market volatility, market disruption, or other factors, Ford Credit may reduce the amount of receivables it purchases or originates because of funding constraints. In addition, Ford Credit may reduce the amount of receivables it purchases or originates if there were a significant decline in the demand for the types of securities it offers or Ford Credit was unable to obtain derivatives to manage the interest rate risk associated with its securitization transactions. A significant reduction in the amount of receivables Ford Credit purchases or originates would significantly reduce its ongoing profits and could adversely affect its ability to support the sale of Ford vehicles.

Item 1A. Risk Factors (Continued)

Higher-than-expected credit losses, lower-than-anticipated residual values, or higher-than-expected return volumes for leased vehicles. Credit risk is the possibility of loss from a customer's or dealer's failure to make payments according to contract terms. Credit risk (which is heavily dependent upon economic factors including unemployment, consumer debt service burden, personal income growth, dealer profitability, and used car prices) has a significant impact on Ford Credit's business. The level of credit losses Ford Credit may experience could exceed its expectations and adversely affect its financial condition and results of operations. In addition, Ford Credit projects expected residual values (including residual value support payments from Ford) and return volumes for the vehicles it leases. Actual proceeds realized by Ford Credit upon the sale of returned leased vehicles at lease termination may be lower than the amount projected, which would reduce the profitability of the lease transaction. Among the factors that can affect the value of returned lease vehicles are the volume of vehicles returned, economic conditions, and quality or perceived quality, safety, fuel efficiency, or reliability of the vehicles. Actual return volumes may be higher than expected and can be influenced by contractual lease-end values relative to auction values, marketing programs for new vehicles, and general economic conditions. Each of these factors, alone or in combination, has the potential to adversely affect Ford Credit's profitability if actual results were to differ significantly from Ford Credit's projections. See "Critical Accounting Estimates" in Item 7 for additional discussion.

Increased competition from banks or other financial institutions seeking to increase their share of financing Ford vehicles. No single company is a dominant force in the automotive finance industry. Most of Ford Credit's bank competitors in the United States use credit aggregation systems that permit dealers to send, through standardized systems, retail credit applications to multiple finance sources to evaluate financing options offered by these sources. This process has resulted in greater competition based on financing rates. In addition, Ford Credit may face increased competition on wholesale financing for Ford dealers. Competition from such institutions with lower borrowing costs may increase, which could substantially adversely affect Ford Credit's profitability and the volume of its business.

New or increased credit, consumer, or data protection or other regulations resulting in higher costs and/or additional financing restrictions. As a finance company, Ford Credit is highly regulated by governmental authorities in the locations in which it operates, which can impose significant additional costs and/or restrictions on its business. In the United States, for example, Ford Credit's operations are subject to regulation, supervision, and licensing under various federal, state, and local laws and regulations, including the federal Truth-in-Lending Act, Equal Credit Opportunity Act, and Fair Credit Reporting Act.

Congress also passed the Dodd-Frank Wall Street Reform and Consumer Financial Protection Act ("Act") in 2010 to reform practices in the financial services industries, including automotive financing and securitizations. The Act directs federal agencies to adopt rules to regulate the consumer finance industry and the capital markets and, among other things, gives the new Consumer Financial Protection Bureau broad rule-making authority for a wide range of consumer protection laws that will regulate consumer finance businesses, such as Ford Credit's retail automotive financing business. The Act also creates an alternative liquidation framework under which the Federal Deposit Insurance Corporation ("FDIC") may be appointed as receiver of a non-bank financial company if the U.S. Treasury Secretary (in consultation with the President of the United States) determines that the company is in default or danger of default and the resolution of the company under other applicable law (e.g., U.S. bankruptcy law) would have serious adverse effects on the financial stability of the United States. The FDIC's powers under this framework may vary from those of a bankruptcy court under U.S. bankruptcy law, which could adversely impact securitization markets, including Ford Credit's funding activities, regardless of whether Ford Credit ever is determined to be subject to the Act's alternative liquidation framework.

Federal agencies are given significant discretion in drafting the rules and regulations necessary to implement the Act, and, consequently, the effects of the Act on the capital markets and the consumer finance industry may not be known for years. The Act and its implementing rules and regulations could impose additional costs on Ford Credit and adversely affect its ability to conduct its business.

In some countries outside the United States, Ford Credit's subsidiaries are regulated banking institutions and are required, among other things, to maintain minimum capital reserves. In many other locations, governmental authorities require companies to have licenses in order to conduct financing businesses. Efforts to comply with these laws and regulations impose significant costs on Ford Credit, and affect the conduct of its business. Additional regulation could add significant cost or operational constraints that might impair Ford Credit's profitability.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

Our principal properties include manufacturing and assembly facilities, distribution centers, warehouses, sales or administrative offices, and engineering centers.

We own substantially all of our U.S. manufacturing and assembly facilities. Our facilities are situated in various sections of the country and include assembly plants, engine plants, casting plants, metal stamping plants, transmission plants, and other component plants. About half of our distribution centers are leased (we own approximately 54% of the total square footage, and lease the balance). A substantial amount of our warehousing is provided by third-party providers under service contracts. Because the facilities provided pursuant to third-party service contracts need not be dedicated exclusively or even primarily to our use, these spaces are not included in the number of distribution centers/warehouses listed in the table below. The majority of the warehouses that we operate are leased, although many of our manufacturing and assembly facilities contain some warehousing space. Substantially all of our sales offices are leased space. Approximately 99% of the total square footage of our engineering centers and our supplementary research and development space is owned by us.

In addition, we maintain and operate manufacturing plants, assembly facilities, parts distribution centers, and engineering centers outside of the United States. We own substantially all of our non-U.S. manufacturing plants, assembly facilities, and engineering centers. The majority of our parts distribution centers outside of the United States are either leased or provided by vendors under service contracts. As in the United States, space provided by vendors under service contracts need not be dedicated exclusively or even primarily to our use, and is not included in the number of distribution centers/warehouses listed in the table below.

The total number of plants, distribution centers/warehouses, engineering, research, and development sites, and sales offices used by our Automotive segments as of December 31, 2012 are shown in the table below:

Segment	Plants		Distribution Centers/ Warehouses	Engineering, Research/ Development	Sales Offices
Ford North America	32	(a)	30	46	60
Ford South America	8		3	1	8
Ford Europe	15	(b)	6	4	26
Ford Asia Pacific Africa	12	(c)	1	7	19
Total	67		40	58	113

(a) The year-over-year change in the number of Ford North America plants reflects the closing of one U.S. engine plant, as well as the sale, lease, or other disposition of three facilities operated by Automotive Components Holdings, LLC ("ACH"), partially offset by consolidation of the AAI facility now known as Flat Rock Assembly Plant. The table continues to reflect one ACH plant (where we are transferring the primary business to a supplier over a period scheduled to end in the fourth quarter of 2014, at which point we plan to close the facility upon completion of transfer of the business).

(b) Included in this count are three Ford Europe plants that we have announced we intend to close, one of which is subject to an information and consultation process with employee representatives. See Item 7 for additional discussion of our European transformation plan. Also included in this table is Ford Romania S.A. ("Ford Romania"), which came under our full operational control as of January 1, 2013 upon cessation of the government's control and participation. Ford Romania produces engines and Ford B-MAX for distribution across Europe.

(c) During 2012, Ford Asia Pacific Africa closed one plant in the Philippines, and opened a new wholly-owned plant in Rayong, Thailand.

Included in the number of plants shown above are several plants that are not operated directly by us, but rather by consolidated joint ventures that operate plants that support our Automotive sector. As of December 31, 2012, the significant consolidated joint ventures and the number of plants each owns is as follows:

- AAI — a 50/50 joint venture with Mazda that operates an automobile assembly plant in Flat Rock, Michigan. As of 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 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 ("Option"). The Option is exercisable at a price to be determined by a formula based on AAI's final December 31, 2012 closing balance sheet. AAI currently produces the Ford Mustang, and production of the Ford Fusion is scheduled to begin in 2013. We supply all of the hourly and salaried personnel requirements to AAI, and AAI reimburses us for the cost.

- Ford Lio Ho Motor Company Ltd. ("FLH") — a joint venture in Taiwan among Ford (70% partner), the Lio Ho Group (25% partner), and individual shareholders (5% ownership in aggregate) that assembles a variety of Ford and Mazda vehicles sourced from Ford as well as Mazda. In addition to domestic assembly, FLH also has local product development capability to modify vehicle designs for local needs, and imports Ford-brand built-up vehicles from the Asia Pacific Africa region, Europe, and the United States. This joint venture operates one plant.

ITEM 2. Properties (Continued)

- Ford Vietnam Limited — a joint venture between Ford (75% partner) and Vietnam Engine and Agricultural Machinery Corporation ("VEAM"), a company owned by the Vietnamese Ministry of Industry and Trade (25% partner). Ford Vietnam Limited assembles and distributes a variety of Ford passenger and commercial vehicle models. This joint venture operates one plant.

In addition to the plants that we operate directly or that are operated by consolidated joint ventures, additional plants that support our Automotive sector are operated by unconsolidated joint ventures of which we are a partner. These plants are not included in the number of plants shown in the table above. The most significant of these joint ventures are as follows:

- AutoAlliance (Thailand) Co., Ltd. ("AAT") — a 50/50 joint venture between Ford and Mazda that owns and operates a manufacturing plant in Rayong, Thailand. AAT produces Ford and Mazda products for domestic and export sales, the latter in both built-up and kit form, with export of certain products to markets outside the Asia Pacific Africa region. The recently expanded Rayong production facility produces a number of vehicles, including Ford Everest SUV, and Ford Ranger and Mazda BT-50 pickup trucks, as well as Ford Fiesta, Mazda2, and Mazda3 small cars.

- Blue Diamond Parts, LLC ("Blue Diamond Parts") — a joint venture between Ford (25% partner) and Navistar International Corporation (formerly known as International Truck and Engine Corporation) ("Navistar") (75% partner), in which the two partners share equal voting rights. Blue Diamond Parts manages sourcing, merchandising, and distribution of certain service parts for trucks sold in North America. We will continue to collaborate on this joint venture.

- Blue Diamond Truck, S. de R.L. de C.V. ("Blue Diamond Truck") — a joint venture between Ford (25% partner) and Navistar (75% partner), in which the two partners share equal voting rights. Blue Diamond Truck develops and manufactures selected medium duty commercial trucks in Mexico and sells the vehicles to Ford and Navistar for distribution. We have given notice that we are terminating the Blue Diamond Truck joint venture effective December 2014, and will in-source production of F-650/750 trucks to our Ohio Assembly Plant.

- Changan Ford Automobile Corporation, Ltd. ("CAF") — a 50/50 joint venture between Ford and the Chongqing Changan Automobile Co., Ltd. ("Changan"). CAF, formerly known as Changan Ford Mazda Automobile Corporation, Ltd., was restructured as of November 30, 2012 into two independent companies — CAF, and Changan Mazda Automobile Corporation, Ltd. ("CAM"), a 50/50 joint venture between Mazda and Changan. CAF retained the facilities in the Chinese city of Chongqing, where it produces and distributes in China an expanding variety of Ford passenger vehicle models, as well as Volvo models. The facility in Nanjing was transferred to CAM. CAF currently has under construction two vehicle assembly plants, an engine plant, and a transmission plant to support further growth in the region.

- Changan Ford Mazda Engine Company, Ltd. ("CFME") — a joint venture among Ford (25% partner), Mazda (25% partner), and Changan (50% partner). CFME is located in Nanjing, and produces the Ford New I4, Ford Sigma, and Mazda BZ engines in support of Ford- and Mazda-brand vehicles manufactured in China.

- Ford Otosan — a joint venture in Turkey among Ford (41% partner), the Koc Group of Turkey (41% partner), and public investors (18%) that is a major supplier to Ford of the Transit Connect series and Transit Connect commercial vehicles and is our sole distributor of Ford-brand vehicles in Turkey. In addition, Ford Otosan recently signed an agreement with Ford for the development and supply of a new commercial vehicle, the Transit Courier. Ford Otosan also makes the the Cargo truck for the Turkish and export markets, and certain engines and transmissions, most of which are under license from Ford. This joint venture owns two plants, a parts distribution depot, and a product development center in Turkey.

- FordSollers — a 50/50 joint venture between Ford and Sollers OJSC ("Sollers"), to which we contributed our operations in Russia, consisting primarily of a manufacturing plant and access to our Russian dealership network. Sollers contributed two production facilities and supports the joint venture through its manufacturing capabilities, knowledge of the Russian market, experience in distribution, and work with the Russian supply base. In addition, the joint venture has an exclusive right to manufacture, assemble, and distribute certain Ford-brand vehicles in Russia through the licensing of certain trademarks and intellectual property rights. The joint venture primarily is engaged in manufacturing a range of Ford passenger cars and light commercial vehicles for sale in Russia. The joint venture has been approved to participate in Russia's new industrial assembly regime, which qualifies it for reduced import duties for parts imported into Russia.

ITEM 2. Properties (Continued)

- Getrag Ford Transmissions GmbH ("Getrag Ford") — a 50/50 joint venture with Getrag International GmbH, a German company, to which we transferred our European manual transmission operations, including plants, from Halewood, England; Cologne, Germany; and Bordeaux, France. In 2008, we added the Kechnec plant in Slovakia. Getrag Ford operates these four plants, producing, among other things, manual transmissions for Ford Europe and Volvo. We supply most of the hourly and salaried labor requirements of the operations transferred to this joint venture; in the event of surplus labor at the joint venture, our employees assigned to Getrag Ford may return to Ford. Getrag Ford reimburses us for the full cost of the hourly and salaried labor we supply.

- JMC — a publicly-traded company in China with Ford (30% shareholder) and Jiangling Holdings, Ltd. (41% shareholder) as its controlling shareholders. Jiangling Holdings, Ltd. is a 50/50 joint venture between Changan and Jiangling Motors Company Group. The public investors in JMC own 29% of its total outstanding shares. JMC assembles the Ford Transit van, Ford diesel engines, and non-Ford vehicles for distribution in China and in other export markets.

- Tenedora Nemak, S.A. de C.V. — a joint venture between Ford (6.75% partner) and a subsidiary of Mexican conglomerate Alfa S.A. de C.V. (93.25% partner), which supplies aluminum castings from plants located in each region in which we do business.

The facilities owned or leased by us or our subsidiaries and joint ventures described above are, in the opinion of management, suitable and more than adequate for the manufacture and assembly of our products.

The furniture, equipment and other physical property owned by our Financial Services operations are not material in relation to their total assets.

ITEM 3. Legal Proceedings.

The litigation process is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. See Note 31 of the Notes to the Financial Statements for discussion of loss contingencies. Following is a discussion of our significant pending legal proceedings:

PRODUCT LIABILITY MATTERS

We are a defendant in numerous actions in state and federal courts within and outside of the United States alleging damages from injuries resulting from (or aggravated by) alleged defects in our vehicle lines of various model years. In many, no dollar amount of damages is specified, or the specific amount alleged is the jurisdictional minimum. Our experience with litigation alleging a specific amount of damages suggests that such amounts, on average, bear little relation to the actual amount of damages, if any, that we will pay in resolving such matters. Any damages we pay in a negotiated settlement or as the result of a verdict generally have been, on average, substantially less than the amounts originally claimed.

Based on our knowledge of the facts and circumstances asserted, our historical experience with matters of a similar nature, and our assessment of the likelihood of prevailing and the severity of any potential loss, we establish litigation accruals. In addition to pending actions, we assess the likelihood of incidents that likely have occurred but not yet been reported to us; we also take into consideration specific matters that have been raised as claims but have not yet proceeded to litigation. Individual product liability matters which, if resolved unfavorably to the Company, likely would involve a significant cost would be described herein. Currently there are no such matters to report.

ASBESTOS MATTERS

Asbestos was used in some brakes, clutches, and other automotive components from the early 1900s. Along with other vehicle manufacturers, we have been the target of asbestos litigation and, as a result, are a defendant in various actions for injuries claimed to have resulted from alleged exposure to Ford parts and other products containing asbestos. Plaintiffs in these personal injury cases allege various health problems as a result of asbestos exposure, either from component parts found in older vehicles, insulation or other asbestos products in our facilities, or asbestos aboard our former maritime fleet. We believe that we are being targeted more aggressively in asbestos suits because many previously-targeted companies have filed for bankruptcy.

Most of the asbestos litigation we face involves individuals who claim to have worked on the brakes of our vehicles over the years. We are prepared to defend these cases, and believe that the scientific evidence confirms our long-standing position that there is no increased risk of asbestos-related disease as a result of exposure to the type of asbestos formerly used in the brakes on our vehicles. The extent of our financial exposure to asbestos litigation remains very difficult to estimate and could include both compensatory and punitive damage awards. The majority of our asbestos cases do not specify a dollar amount for damages; in many of the other cases the dollar amount specified is the jurisdictional minimum, and the vast majority of these cases involve multiple defendants, with the number in some cases exceeding one hundred. Many of these cases also involve multiple plaintiffs, and often we are unable to tell from the pleadings which plaintiffs are making claims against us (as opposed to other defendants). Annual payout and defense costs may become significant in the future.

ENVIRONMENTAL MATTERS

We have received notices under various federal and state environmental laws that we (along with others) are or may be a potentially responsible party for the costs associated with remediating numerous hazardous substance storage, recycling, or disposal sites in many states and, in some instances, for natural resource damages. We also may have been a generator of hazardous substances at a number of other sites. The amount of any such costs or damages for which we may be held responsible could be significant. At this time, we have no individual environmental legal proceedings to which a governmental authority is a party and in which we believe there is the possibility of monetary sanctions in excess of $100,000 to report.

CLASS ACTIONS

In light of the fact that very few of the purported class actions filed against us in the past ever have been certified by the courts as class actions, in general we list below those actions that (i) have been certified as a class action by a court of competent jurisdiction (and any additional purported class actions that raise allegations substantially similar to an existing and certified class), and (ii) likely would involve a significant cost if resolved unfavorably to the Company.

Medium/Heavy Truck Sales Procedure Class Action. This action pending in the Ohio state court system alleges that Ford breached its Sales and Service Agreement with Ford truck dealers by failing to publish to all Ford dealers all price concessions that were approved for any dealer. The trial court certified a nationwide class consisting of all Ford dealers who purchased from Ford any 600-series or higher truck from 1987 to 1997, and granted plaintiffs' motion for summary judgment on liability. During 2011, a jury awarded $4.5 million in damages to the named plaintiff dealer and the trial court applied the jury's findings with regard to the named plaintiff to all dealers in the class, entering a judgment of approximately $2 billion in damages. We appealed, and on May 3, 2012, the Ohio Court of Appeals reversed the trial court's grant of summary judgment to plaintiffs, vacated the damages award, and remanded the matter for a new trial.

OTHER MATTERS

Apartheid Litigation. Along with two other prominent multinational companies, we are a defendant in purported class action lawsuits seeking unspecified damages on behalf of South African citizens who suffered violence and oppression under South Africa's apartheid regime. The lawsuits allege that the defendant companies aided and abetted the apartheid regime and its human rights violations. These cases, collectively referred to as In re South African Apartheid Litigation, were initially filed in 2002 and 2003, and are being handled together as coordinated "multidistrict litigation" in the U.S. District Court for the Southern District of New York. The District Court dismissed these cases in 2004, but in 2007 the U.S. Court of Appeals for the Second Circuit reversed and remanded the cases to the District Court for further proceedings. Amended complaints were filed during 2008; motions to dismiss have been granted in part and denied in part, and defendants' appeal to the U.S. Court of Appeals is pending.
Brazilian State Tax Matters. Three Brazilian states have levied tax assessments against Ford Brazil claiming that certain state tax incentives from the state of Bahia did not receive formal approval from the organization of Brazilian state treasury offices. We have appealed the assessments to the administrative level in each state. If we do not prevail

at the administrative level, we plan to appeal to the relevant state judicial court, which likely would require us to post significant cash or other collateral in order to proceed. Our appeals remain at the administrative level in two states, but in one state our administrative appeal has been denied. We have initiated judicial court proceedings in that state and collateral likely will be required in the first quarter of 2013.

ITEM 4. Mine Safety Disclosures.

Not applicable.

ITEM 4A. Executive Officers of Ford.

Our executive officers are as follows, along with each executive officer's position and age at February 1, 2013:

Name	Position	Position Held Since	Age
William Clay Ford, Jr. (a)	Executive Chairman and Chairman of the Board	Sept. 2006	55
Alan Mulally (b)	President and Chief Executive Officer	Sept. 2006	67
Mark Fields	Chief Operating Officer	Dec. 2012	52
James D. Farley, Jr.	Executive Vice President – Global Marketing, Sales and Service and Lincoln	Dec. 2012	50
John Fleming	Executive Vice President – Global Manufacturing and Labor Affairs	Dec. 2009	62
Joseph R. Hinrichs	Executive Vice President – President, The Americas	Dec. 2012	46
Stephen T. Odell	Executive Vice President – President, Europe, Middle East and Africa	Dec. 2012	57
Bob Shanks	Executive Vice President and Chief Financial Officer	Apr. 2012	60
Tony Brown	Group Vice President – Purchasing	Apr. 2008	56
Felicia Fields	Group Vice President – Human Resources and Corporate Services	Apr. 2008	47
Bennie Fowler	Group Vice President – Quality	Apr. 2008	56
David G. Leitch	Group Vice President and General Counsel	Apr. 2005	52
J C. Mays	Group Vice President and Chief Creative Officer	Aug. 2003	58
Raj Nair	Group Vice President – Global Product Development	Apr. 2012	48
Ziad S. Ojakli	Group Vice President – Government and Community Relations	Jan. 2004	45
Dave Schoch	Group Vice President – President, Asia Pacific	Dec. 2012	61
Bernard Silverstone	Group Vice President – Chairman and Chief Executive Officer, Ford Motor Credit Co.	Jan. 2013	57
Nick Smither	Group Vice President – Chief Information Officer	Apr. 2008	54
Stuart Rowley	Vice President and Controller	Apr. 2012	45

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(a) Also a Director, Chair of the Office of the Chairman and Chief Executive, Chair of the Finance Committee and a member of the Sustainability Committee of the Board of Directors.

(b) Also a Director and member of the Office of the Chairman and Chief Executive and the Finance Committee of the Board of Directors.

Each of the officers listed above has been employed by Ford or its subsidiaries in one or more capacities during the past five years.

Under our by-laws, executive officers are elected by the Board of Directors at an annual meeting of the Board held for this purpose. Each officer is elected to hold office until a successor is chosen or as otherwise provided in the by-laws.

PART II.

ITEM 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

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.

As previously reported, we conducted a modest anti-dilutive share repurchase program during 2012, which authorized repurchases of our Common Stock in an appropriate amount up to the lower of $150 million or 11.7 million shares to offset the dilutive effect of share-based compensation. During the fourth quarter, we repurchased shares of Ford Common Stock as follows:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly-Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2012 through October 31, 2012	640,000	$9.92	640,000	3.2 million
November 1, 2012 through November 30, 2012	2,569,133	11.02	2,569,133	2.6 million
December 1, 2012 through December 31, 2012	—	—	—	—
Total/Average	3,209,133	$10.80	3,209,133	

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(a) In any given month, the difference between the total number of shares purchased and the number of shares purchased as part of the publicly-announced plan reflects shares that were acquired from our employees or directors related to certain exercises of stock options in accordance with our various compensation plans.

As shown above, our anti-dilutive share repurchase program concluded in the fourth quarter of 2012. In total, pursuant to this program we repurchased 11.7 million shares of Ford Common Stock at a cost of $125 million.

For discussion of our outstanding convertible notes, convertible and exercisable into our Common Stock, see Note 17 of the Notes to the Financial Statements.

ITEM 6. 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)

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(a) Debt related to Ford's acquisition of Ford Credit debt securities.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Accelerate Development of New Products Our Customers Want and Value

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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)

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(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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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

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(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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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

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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.

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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)

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(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.

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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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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)

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(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.

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

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

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

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

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

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

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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.

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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," 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

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(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,

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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)

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(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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

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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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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").

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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 2011 Results	Full-Year 2012 Plan	Full-Year 2012 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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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

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(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

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(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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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):

Assumption	Percentage Point Change	Increase/(Decrease) 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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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				