



FORD UNIVERSITY
Stuart Rowley
Vice President and Controller



March 13, 2015



FORD UNIVERSITY

Agenda for today's discussion:

- **Warranty Reserves**
- **China JV Equity Earnings**
- **Venezuela Accounting Change**
- **Cash Drivers -- Working Capital and Timing Differences**
- **Taxes**

Appendix

- **Reference materials**
- **Reconciliations to GAAP**

Also posted on the Investor Relations website are the 2015 Ford Credit University and the 2014 Ford University materials

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WARRANTY OVERVIEW

Elements	Description
Base Coverage	<ul style="list-style-type: none">• Full vehicle coverage• Extended coverage for selected components -- e.g., Powertrain
Field Service Action	<ul style="list-style-type: none">• Safety Recalls• Emission Recalls• Other Product Campaigns
Customer Satisfaction Action	<ul style="list-style-type: none">• Roadside Assistance• Transportation Assistance

Warranty Costs Are Accrued At Wholesale And Adjusted Following A Proven Set Of Guidelines

BASE COVERAGES

History	Accrual	Reserve Adequacy
<ul style="list-style-type: none"> • Historical warranty claims are used in the development of lifetime warranty cost per unit estimates • The cost per unit calculation transitions to reflect actual data as vehicle time in service matures 	<ul style="list-style-type: none"> • Initial Accrual <div data-bbox="806 513 1314 912" style="border: 1px solid black; border-radius: 15px; padding: 10px; text-align: center; background-color: #e0f0f0;"> <p>Cost Per Unit \times Wholesale Volume $=$ Initial Accrual (Mils.)</p> </div> <ul style="list-style-type: none"> • Reserve adjustments based on adequacy reviews 	<ul style="list-style-type: none"> • Conduct quarterly reserve reviews to: <ul style="list-style-type: none"> – Ensure lifetime Cost Per Unit are aligned with actual claims experience – Adjust reserve up or down, as required • Actual experience also impacts future accrual rates

The Lifetime Cost Per Unit Evolves As The Model Year Matures

FIELD SERVICE ACTIONS

History	Accrual	Reserve Adequacy
<ul style="list-style-type: none"> • Average seven model years of history to develop Cost Per Unit • 2015 Model Year Cost Per Unit is an average of 2005 MY -- 2011 MY 	<ul style="list-style-type: none"> • Initial Accrual <div style="border: 1px solid black; border-radius: 15px; padding: 10px; text-align: center; margin: 10px 0;"> <p>Cost Per Unit \times Wholesale Volume $=$ Initial Accrual (Mils.)</p> </div> • Approved actions charged to accrual, exceptions: <ul style="list-style-type: none"> - Large actions above a pre-defined threshold - Older model years • Reserve adjustments based on adequacy reviews 	<ul style="list-style-type: none"> • Conduct review of approved Field Service Action programs • Evaluate reserve levels relative to historical performance • Adjust reserve up or down, as required • Actual experience can also impact future accrual rates

**The Field Service Action Initial Accrual
Creates A Reserve For Future Recall Decisions**



GLOBAL WARRANTY -- 2014 10-K

	Global Full Year	
	2013	2014
	(Mils.)	(Mils.)
Beginning Balance	\$ 3,657	\$ 3,927
Payments made during the period	(2,302)	(2,850) ↑ \$ (548)
Changes in accrual related to warranties issued during the period	2,025	2,108
Changes in accrual related to pre-existing warranties and other adjustments	625	1,746 ↑ \$ 1,121
Foreign currency translation and other	<u>(78)</u>	<u>(145)</u>
Ending Balance *	<u>\$ 3,927</u>	<u>\$ 4,785</u>

*excludes customer satisfaction actions

**We Have A Proven Set Of Guidelines And
Do Not Anticipate Any Changes To Our Processes**



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FORD IN CHINA

Ford "Joint Ventures" in China

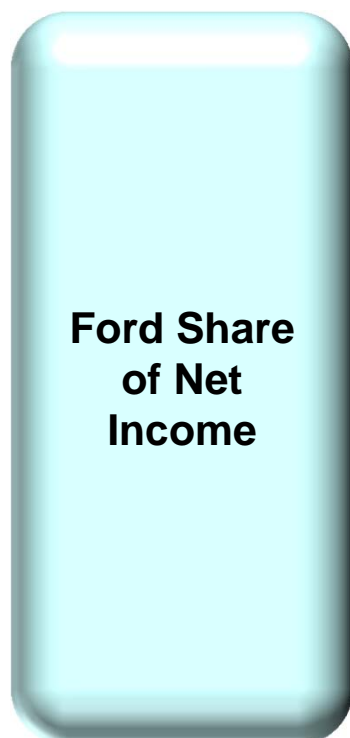
CAF	JMC	CFME	Ford	Lincoln
Non-Premium Passenger	Trucks and Commercial	Engine Production	Non-Premium Passenger	Premium Passenger
Local Manufacture	Local Manufacture	Local Manufacture	Import	Import
Equity Investment (50%)	Equity Investment (32%)	Equity Investment (25%)	100% Ford	100% Ford

Ford's other activities in China include its Asia Pacific Regional Headquarters, Ford Auto Financing China, and a growing engineering center

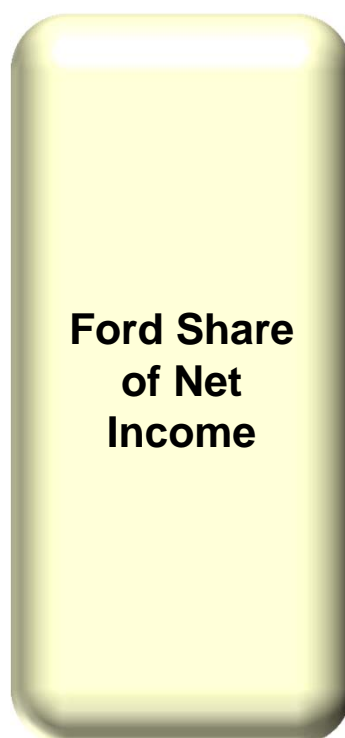
Ford Business In China Consists Of Five Primary Elements

FORD “JOINT VENTURES” IN CHINA

CAF



JMC

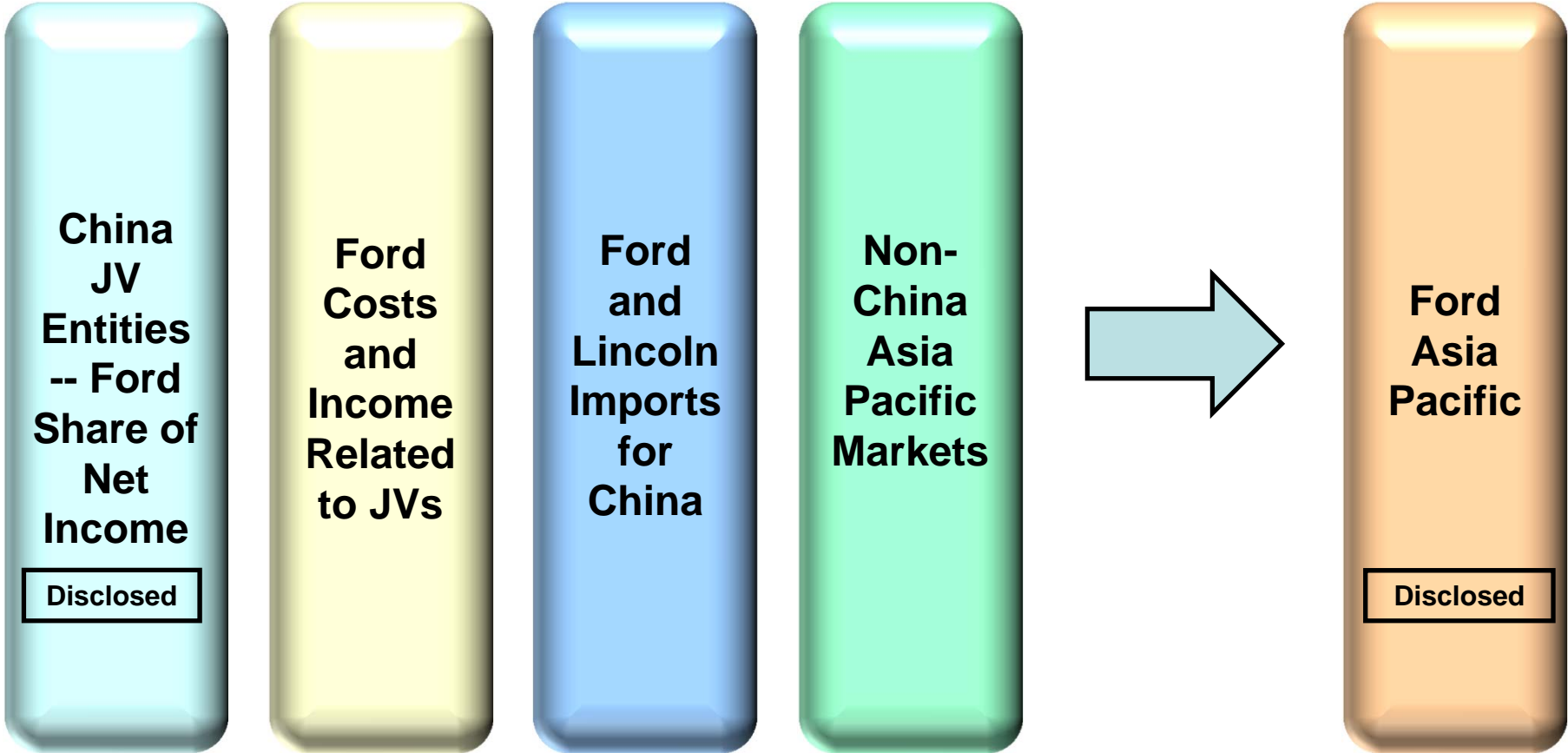


CFME



Starting With 2014 Results, Ford Began Disclosing The Aggregate Net Income of Our Chinese Joint Ventures; For Full Year 2014, It Was \$1.3 Billion

FORD ASIA PACIFIC FINANCIAL RESULTS



Ford Asia Pacific Profit Includes China Joint Venture Entities, Ford Costs Related To JVs, Ford And Lincoln Imports, And Non-China Markets

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VENEZUELA ACCOUNTING CHANGE

- **Venezuelan exchange control regulations have resulted in a lack of exchangeability between the Venezuelan bolivar and the U.S. dollar**
- **Dividend payments have been restricted for many years**
- **Combined with other Venezuelan regulations, parts availability has been constrained and are now limiting the ability to maintain normal production**
- **As a result, we changed the method of accounting used to report the results of our Venezuelan operations**
- **Our Automotive operations in Venezuela remain unchanged. We will continue to produce vehicles to the extent we can manage production based on the availability of foreign currency**

**Effective December 31, 2014, We Began Reporting The Results
Of Venezuela Using The Cost Method Of Accounting**

VENEZUELA ACCOUNTING CHANGE

Prior Accounting	One-Time Change	Present Accounting
<p>Consolidation Method of Accounting</p> <ul style="list-style-type: none"> • Used until year-end 2014 • All Venezuelan revenues, expenses, gains, and losses included in Ford's operating results • All Venezuelan assets and liabilities appear on Ford's consolidated balance sheet 	<p>Change in Method of Accounting</p> <ul style="list-style-type: none"> • Effective Dec. 31, 2014 • \$800 million pre-tax special item charge included in Ford's results • Cash balance of \$477 million no longer reported in Automotive gross cash 	<p>Cost Method of Accounting</p> <ul style="list-style-type: none"> • Used in 2015 and beyond • Ford's financial results will not include the operating results of Venezuela • Cash and income will be recorded to the extent we are paid for parts we sell to Venezuela or we receive dividends

Further Devaluations Of The Venezuelan Bolivar Will Not Have An Impact On Our Financial Results

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2014 AUTOMOTIVE CASH FLOW*



	<u>Full Year</u> (Bils.)
Gross cash at end of period	\$ 21.7
Gross cash at beginning of period	<u>24.8</u>
Change in gross cash	<u>\$ (3.1)</u>
Automotive pre-tax profits**	\$ 4.5
Capital spending	(7.4)
Depreciation and tooling amortization	4.3
Changes in working capital	(0.3)
Other / Timing differences	<u>2.5</u>
Automotive operating-related cash flow	\$ 3.6
Separation payments	(0.2)
Net receipts from Financial Services sector	0.6
Other (mainly Venezuela accounting change)	<u>(0.8)</u>
Cash flow before other actions	\$ 3.2
Changes in debt	(0.9)
Funded pension contributions	(1.5)
Dividends / Other items	<u>(3.9)</u>
Change in gross cash	<u>\$ (3.1)</u>

* See Appendix for reconciliation to GAAP

** Excludes special items; see Appendix for detail and reconciliation to GAAP



2014 AUTOMOTIVE OPERATING-RELATED CASH FLOW

	Quarter				Full Year*
	First (Bils.)	Second (Bils.)	Third (Bils.)	Fourth* (Bils.)	
Automotive pre-tax profits**	\$ 0.9	\$ 2.2	\$ 0.7	\$ 0.7	\$ 4.5
Capital spending	\$ (1.5)	\$ (1.9)	\$ (1.8)	\$ (2.2)	\$ (7.4)
Depreciation and amortization	1.0	1.0	1.1	1.2	4.3
Net spending	\$ (0.5)	\$ (0.9)	\$ (0.7)	\$ (1.0)	\$ (3.1)
Changes in working capital	1.7	(0.7)	(1.5)	0.2	(0.3)
Other / Timing differences	(0.9)	2.0	0.8	0.6	2.5
Operating-related cash flow	\$ 1.2	\$ 2.6	\$ (0.7)	\$ 0.5	\$ 3.6

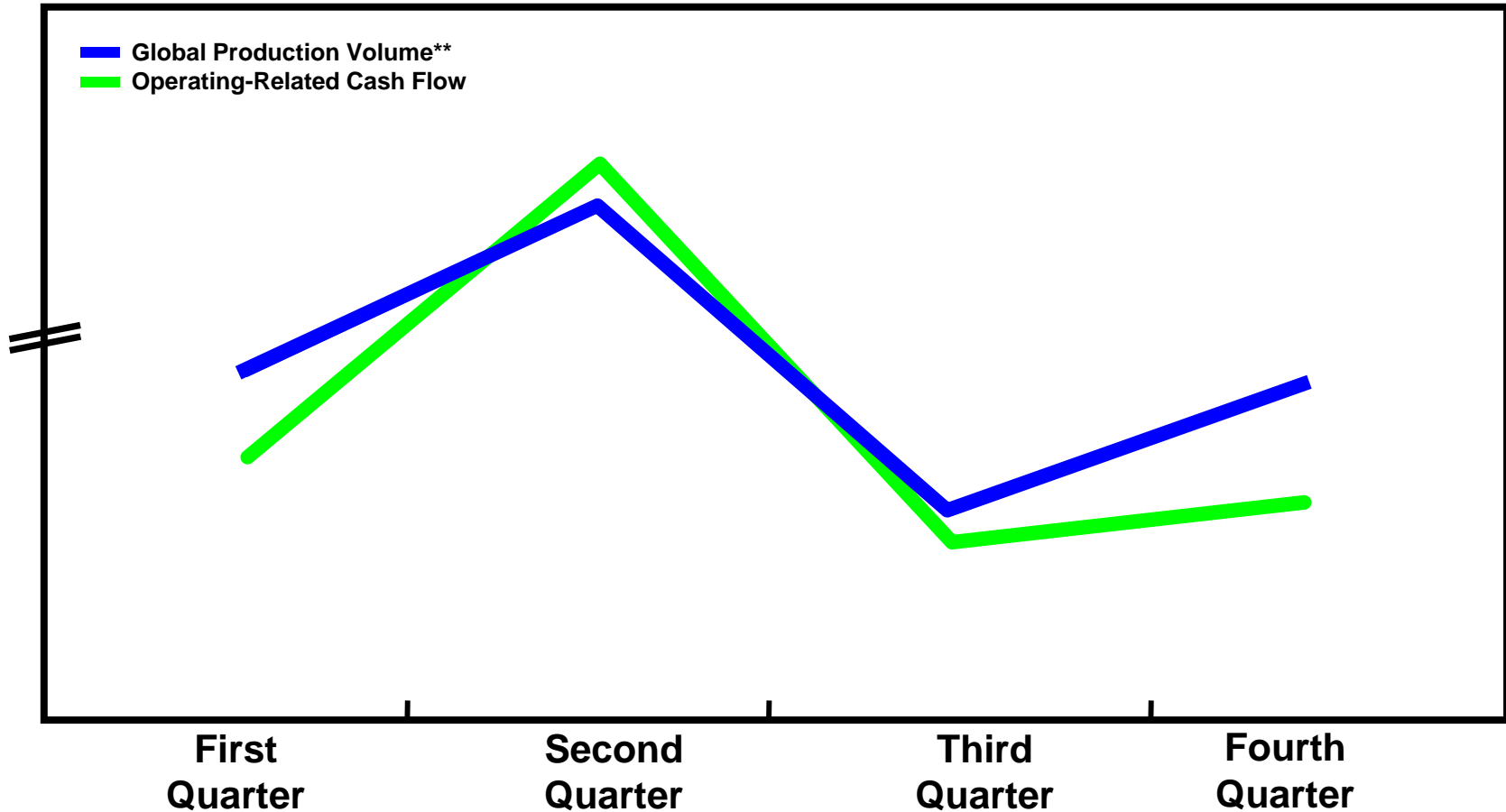
Includes differences due to warranty, marketing, and compensation

Comprised of changes in receivables, inventory, and trade payables

* See Appendix for reconciliation to GAAP

** Excludes special items; see Appendix for detail and reconciliation to GAAP

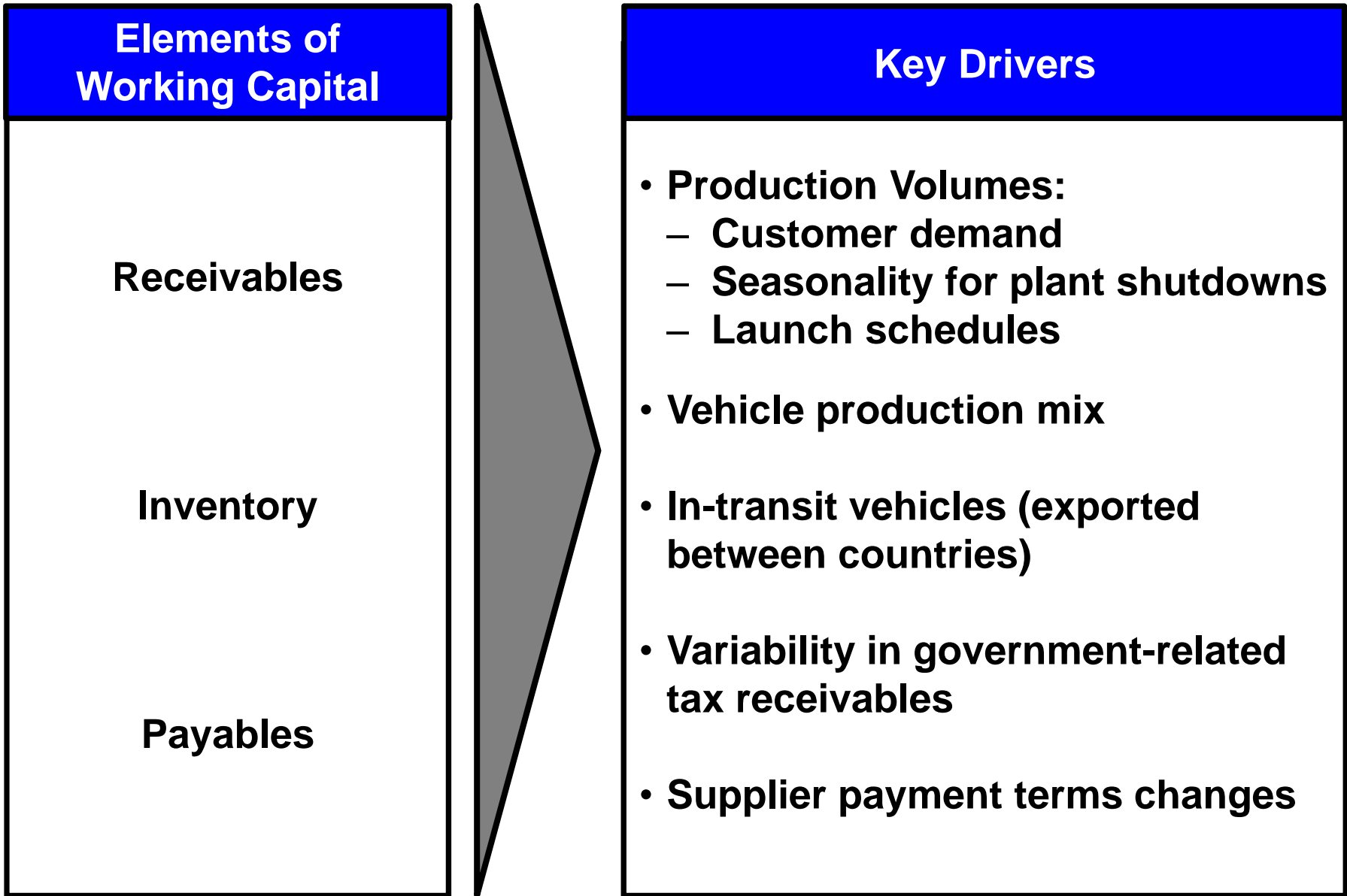
CALENDARIZATION FACTORS -- PRODUCTION AND CASH FLOW SEASONALITY*



* Based on average data from the past five years
** Scale adjusted to highlight quarterly seasonality

Generally, Operating-Related Cash Flow Seasonality Is Aligned With Production Volumes

KEY DRIVERS OF CHANGES TO WORKING CAPITAL



KEY DRIVERS OF TIMING DIFFERENCES

Drivers	Effects	
	Profit	Cash Flow
<ul style="list-style-type: none"> • Warranty <ul style="list-style-type: none"> – Base Coverage 	Wholesale or reserve adjustment	Upon service of vehicle (e.g., 2 - 3 years or longer)
<ul style="list-style-type: none"> – Field Service Action 	Wholesale or upon approval	Upon service of vehicle
<ul style="list-style-type: none"> • Marketing -- incentive, rebates, etc. 	Wholesale	Retail sale (60 - 90 days)
<ul style="list-style-type: none"> • Performance compensation 	Throughout year	First Quarter of following year
<ul style="list-style-type: none"> • Joint venture impacts 	Quarterly JV financial reporting	JV dividends (e.g., semi-annually, annually)

Timing Differences Largely Reflect Differences Between Profit And Cash Impacts

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OPERATING EFFECTIVE TAX RATE

	2014					Reference
	1Q	2Q	3Q	4Q	FY	
	(Mils.)	(Mils.)	(Mils.)	(Mils.)	(Mils.)	
<u>Operating results*</u>						
Pre-tax results	\$ 1,381	\$ 2,599	\$ 1,181	\$ 1,121	\$ 6,282	A
Less: Equity in net income of affiliated companies	419	396	388	401	1,604	B
Adjusted pre-tax results	\$ 962	\$ 2,203	\$ 793	\$ 720	\$ 4,678	C
(Provision for) / Benefit from income taxes	\$ (362)	\$ (965)	\$ (247)	\$ (76)	\$ (1,650)	D
<u>Effective tax rate*</u>						
Excluding Equity Earnings	37.7%	43.8%	31.1%	10.6%	35.3%	E
Including Equity Earnings	26.2%	37.1%	20.9%	6.8%	26.3%	

* Excludes special items

A/ See page 37 - 2014 Form 10-K

B/ See Appendix 5 for reconciliation to GAAP

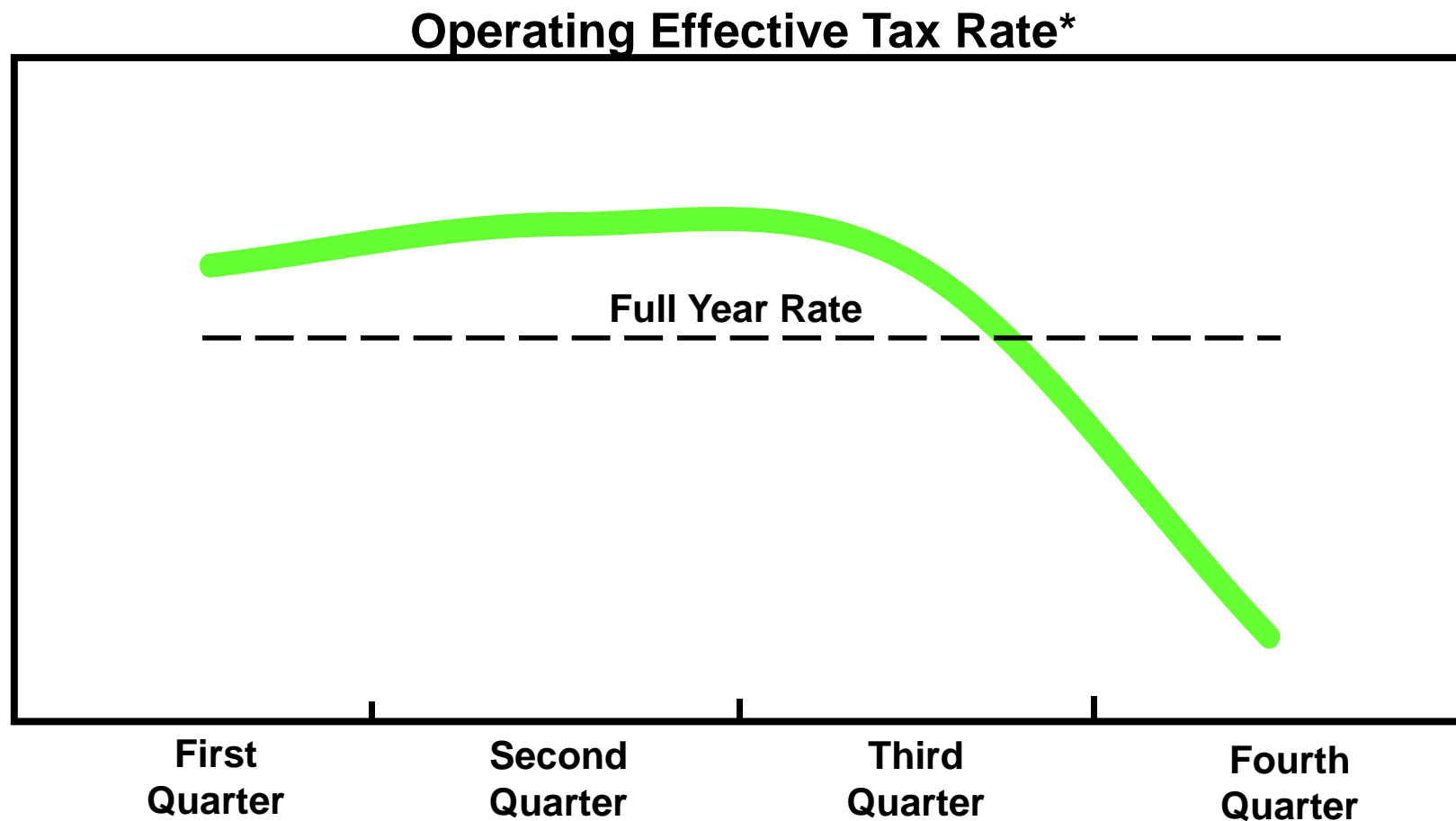
D/ See Appendix 2 in the 2014 Fourth Quarter and Full Year Earnings Review and 2015 Outlook presentation

$$\text{Effective tax rate} = \frac{\text{(Provision for) / Benefit from income taxes}}{\text{Pre-tax operating results}}$$

2014	2015
<u>Calculation</u>	<u>Calculation</u>
$E = \frac{D}{C}$	$E = \frac{D}{A}$

Equity In Net Income Of Affiliated Companies Will Be Included In The Denominator In Future Calculations Of Effective Tax Rates

2015 CALENDARIZATION



* Illustrative only, excludes special items

Our Operating Effective Tax Rate Is Expected To Vary During The Year

APPENDIX

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SHARE COUNT -- 2016 CONVERTIBLE

Basic and Diluted Shares Related to 2016 Convertible (Mils.)

	<u>Full Year 2013</u>	<u>First Quarter 2014</u>	<u>Second Quarter 2014</u>	<u>Third Quarter 2014</u>	<u>Fourth Quarter 2014</u>	<u>First Quarter 2015</u>
Average net dilutive shares from 2016 Convertible	98	100	101	101	47	-
Average basic shares issued for 2016 Convertible	-	-	-	-	54	103
Average basic shares repurchased to offset dilution	-	-	(14)	(89)	(103)	(103)
Average diluted shares	<u>98</u>	<u>100</u>	<u>87</u>	<u>12</u>	<u>(2)</u>	<u>-</u>

- The convertible debt has been included in our dilutive share count since issuance in 2009. In anticipation of settlement, we repurchased shares in 2014, which offset this dilution
- \$882 million in 2016 convertibles were converted on a share settlement basis. This resulted in the issuance of 103 million shares which will be included in our average basic shares outstanding

**Shares Issued To Settle Conversions Of 2016 Convertible
Were Offset By 2014 Share Repurchases**



REFERENCE

AUTOMOTIVE COST DETAILS -- WHERE TO FIND THEM

	<u>Income Statement</u>	<u>Published</u>	<u>Statement</u>
Contribution Costs			
Material (including commodity costs)	Cost of Sales	2014 10-K P.29	Commodity / Material are about 2/3 of Total Automotive
Freight	Cost of Sales		Not disclosed separately
Warranty (costs for basic warranty coverages and field service actions)	Cost of Sales	2014 10-K P. FS-71	2014 cost \$3.85 Bils.
Customer service actions	Cost of Sales		Not disclosed separately
Structural			
Depreciation / Amortization	Cost of Sales	2014 10-K P. 68	2014 cost \$4.3 Bils.
Labor	Cost of Sales / S&A	2014 10-K P.13	Total number of employees was approximately 187,000; cost not disclosed separately
Engineering / R&D	Cost of Sales	2014 10-K P.13 and P. FS-15	2014 cost \$6.9 Bils.
Advertising	S&A	2014 10-K P. FS-15	2014 cost \$4.3 Bils.
Other	Cost of Sales / S&A		Not disclosed separately
Legal	Cost of Sales		Not disclosed separately



REFERENCE

AUTOMOTIVE COST DETAILS -- WHERE TO FIND THEM

	<u>Income Statement</u>	<u>Published</u>	<u>Statement</u>
Special Items			
Separation-related actions (primarily related to separation costs for personnel at the Genk and U.K. facilities)	Mixed	2014 10-K P. 37	\$(685) Mils. in 2014. Reduction actions attributable to hourly labor fall primarily into COS, salary-related reductions primarily fall into S&A
U.S. pension lump-sum program	Cost of Sales	2014 10-K P. 37	\$ - Mils. in 2014
FCTA -- subsidiary liquidation	Interest income and other income / (loss), net	2014 10-K P. 37	\$ - Mils. in 2014
Total Automotive Cost of Sales		2014 10-K P. FS-3	2014 cost \$123.5 Bils.
S&A		2014 10-K P. FS-3	2014 cost \$10.2 Bils.
Total Automotive Cost and Expense		2014 10-K P. 29 and P. FS-3	2014 cost \$133.8 Bils.
Summarized Financial Results of Unconsolidated Affiliates		2014 10-K P. FS-28	2014 Net Income \$4.1 Bils.
Unconsolidated affiliates Equity in net income		2014 10-K P. FS-66-FS-67	2014 Income \$1.275 Bils.
Royalty Income- Related Party		2014 10-K P. FS-28	2014 \$500 Mils.

SPECIAL ITEMS



	Fourth Quarter		Full Year	
	2013 (Mils.)	2014 (Mils.)	2013 (Mils.)	2014 (Mils.)
<u>Personnel-Related Items</u>				
Separation-related actions*	\$ (156)	\$ (251)	\$ (856)	\$ (685)
<u>Other Items</u>				
Venezuela accounting change	\$ -	\$ (800)	\$ -	\$ (800)
Ford Sollers equity impairment	-	-	-	(329)
2016 Convertible Notes settlement	-	(126)	-	(126)
U.S. pension lump sum program	(155)	-	(594)	-
FCTA -- subsidiary liquidation	-	-	(103)	-
Ford Romania consolidation loss	-	-	(15)	-
Total other items	<u>\$ (155)</u>	<u>\$ (926)</u>	<u>\$ (712)</u>	<u>\$ (1,255)</u>
Total special items	<u>\$ (311)</u>	<u>\$ (1,177)</u>	<u>\$ (1,568)</u>	<u>\$ (1,940)</u>
Tax special items	\$ 2,080	\$ 181	\$ 2,157	\$ 494
Memo:				
Special items impact on earnings per share**	\$ 0.43	\$ (0.25)	\$ 0.14	\$ (0.36)

* Primarily related to separation costs for personnel at the Genk and U.K. facilities

** Includes related tax effect on special items and tax special items

EQUITY IN NET INCOME OF AFFILIATED COMPANIES



	2014				
	1Q (Mils.)	2Q (Mils.)	3Q (Mils.)	4Q (Mils.)	FY (Mils.)
Equity in net income of affiliated companies *	\$ 419	\$ 67	\$ 388	\$ 401	\$ 1,275
<u>Less: Special items</u>					
Ford Sollers equity impairment **	-	(329)	-	-	(329)
Equity in net income of affiliated companies (excl. special items)	<u>\$ 419</u>	<u>\$ 396</u>	<u>\$ 388</u>	<u>\$ 401</u>	<u>\$ 1,604</u>

* See page FS-2 in 2014 Form 10-K

** See page 37 in 2014 Form 10-K



AUTOMOTIVE SECTOR -- GROSS CASH RECONCILIATION TO GAAP

	2013	2014	
	<u>Dec. 31</u>	<u>Sep. 30</u>	<u>Dec. 31</u>
	(Bils.)	(Bils.)	(Bils.)
Cash and cash equivalents	\$ 5.0	\$ 6.0	\$ 4.6
Marketable securities	<u>20.1</u>	<u>16.9</u>	<u>17.1</u>
Total cash and marketable securities (GAAP)	\$ 25.1	\$ 22.9	\$ 21.7
Securities in transit*	<u>(0.3)</u>	<u>(0.1)</u>	<u>-</u>
Gross cash	<u><u>\$ 24.8</u></u>	<u><u>\$ 22.8</u></u>	<u><u>\$ 21.7</u></u>

* The purchase or sale of marketable securities for which the cash settlement was not made by period end and the related payable or receivable remained on the balance sheet



AUTOMOTIVE SECTOR -- OPERATING-RELATED CASH FLOWS RECONCILIATION TO GAAP

	<u>Fourth Quarter</u>		<u>Full Year</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
	(Bils.)	(Bils.)	(Bils.)	(Bils.)
<u>Net cash provided by / (used in) operating activities (GAAP)</u>	\$ 1.3	\$ 2.1	\$ 7.7	\$ 8.8
<u>Items included in operating-related cash flows</u>				
Capital spending	(2.0)	(2.2)	(6.6)	(7.4)
Proceeds from the exercise of stock options	-	-	0.3	0.2
Net cash flows from non-designated derivatives	-	0.1	(0.3)	0.2
<u>Items not included in operating-related cash flows</u>				
Separation payments	0.1	0.1	0.3	0.2
Funded pension contributions	1.1	0.4	5.0	1.5
Tax refunds and tax payments from affiliates	-	-	(0.3)	(0.2)
Other	-	-	-	0.3
Operating-related cash flows	<u>\$ 0.5</u>	<u>\$ 0.5</u>	<u>\$ 6.1</u>	<u>\$ 3.6</u>



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, financial institutions, or other third parties 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. For additional discussion, see "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014, as updated by our subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.