

FORD MOTOR CO  
Form 10-Q  
July 26, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2018

or

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 38-0549190  
(State of incorporation) (I.R.S. Employer Identification No.)

One American Road, Dearborn, Michigan 48126  
(Address of principal executive offices) (Zip Code)  
313-322-3000  
(Registrant's telephone number, including area code)

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  No

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  No

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

Edgar Filing: FORD MOTOR CO - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of July 20, 2018, Ford had outstanding 3,914,874,462 shares of Common Stock and 70,852,076 shares of Class B Stock.

Exhibit Index begins on page

68

---

FORD MOTOR COMPANY  
 QUARTERLY REPORT ON FORM 10-Q  
 For the Quarter Ended June 30, 2018

	Page
Table of Contents	
Part I - Financial Information	
Item 1 Financial Statements	<u>1</u>
Consolidated Income Statement	<u>1</u>
Consolidated Statement of Comprehensive Income	<u>1</u>
Consolidated Balance Sheet	<u>2</u>
Condensed Consolidated Statement of Cash Flows	<u>3</u>
Consolidated Statement of Equity	<u>4</u>
Notes to the Financial Statements	<u>5</u>
Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>29</u>
Overview	<u>29</u>
Results of Operations	<u>31</u>
Automotive Segment	<u>33</u>
Mobility Segment	<u>42</u>
Ford Credit Segment	<u>43</u>
Corporate Other	<u>46</u>
Interest on Debt	<u>46</u>
Special Items	<u>46</u>
Taxes	<u>47</u>
Liquidity and Capital Resources	<u>48</u>
Credit Ratings	<u>56</u>
Outlook	<u>57</u>
Non-GAAP Financial Measure Reconciliations	<u>58</u>
Supplemental Information	<u>61</u>
Cautionary Note on Forward-Looking Statements	<u>65</u>
Accounting Standards Issued But Not Yet Adopted	<u>66</u>
Item 3 Quantitative and Qualitative Disclosures About Market Risk	<u>66</u>
Item 4 Controls and Procedures	<u>66</u>
Part II - Other Information	
Item 1 Legal Proceedings	<u>67</u>
Item 1A Risk Factors	<u>67</u>
Item 6 Exhibits	<u>68</u>
Signature	<u>69</u>

## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements.

FORD MOTOR COMPANY AND SUBSIDIARIES  
CONSOLIDATED INCOME STATEMENT

(in millions, except per share amounts)

	For the periods ended June 30,			
	2017	2018	2017	2018
	Second Quarter		First Half	
	(unaudited)			
Revenues				
Automotive	\$37,113	\$35,905	\$73,588	\$74,917
Ford Credit	2,738	3,009	5,407	5,952
Mobility	2	6	4	10
Total revenues (Note 3)	39,853	38,920	78,999	80,879
Costs and expenses				
Cost of sales	33,342	33,194	66,042	68,947
Selling, administrative, and other expenses	2,756	2,778	5,520	5,525
Ford Credit interest, operating, and other expenses	2,203	2,362	4,421	4,700
Total costs and expenses	38,301	38,334	75,983	79,172
Interest expense on Automotive debt	277	287	556	562
Interest expense on Other debt	14	14	28	28
Other income/(loss), net (Note 4)	732	1,004	1,466	1,867
Equity in net income of affiliated companies	273	60	619	284
Income before income taxes	2,266	1,349	4,517	3,268
Provision for/(Benefit from) income taxes	211	280	863	454
Net income	2,055	1,069	3,654	2,814
Less: Income/(Loss) attributable to noncontrolling interests	8	3	15	12
Net income attributable to Ford Motor Company	\$2,047	\$1,066	\$3,639	\$2,802
<b>EARNINGS PER SHARE ATTRIBUTABLE TO FORD MOTOR COMPANY COMMON AND CLASS B STOCK (Note 6)</b>				
Basic income	\$0.51	\$0.27	\$0.92	\$0.70
Diluted income	0.51	0.27	0.91	0.70
Cash dividends declared	0.15	0.15	0.35	0.43

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(in millions)

	For the periods ended June 30,			
	2017	2018	2017	2018
	Second Quarter		First Half	
	(unaudited)			
Net income	\$2,055	\$1,069	\$3,654	\$2,814
Other comprehensive income/(loss), net of tax (Note 16)				
Foreign currency translation	84	(595 )	326	(300 )
Marketable securities	4	(8 )	3	(55 )

Edgar Filing: FORD MOTOR CO - Form 10-Q

Derivative instruments	137	52	(31	) 85
Pension and other postretirement benefits	(12	) 17	(3	) 25
Total other comprehensive income/(loss), net of tax	213	(534	) 295	(245 )
Comprehensive income	2,268	535	3,949	2,569
Less: Comprehensive income/(loss) attributable to noncontrolling interests	8	4	13	12
Comprehensive income attributable to Ford Motor Company	\$2,260	\$531	\$3,936	\$2,557

The accompanying notes are part of the financial statements.

1

---

## Item 1. Financial Statements (Continued)

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

	December 31, 2017	June 30, 2018
	(unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents (Note 7)	\$ 18,492	\$ 16,828
Marketable securities (Note 7)	20,435	19,648
Ford Credit finance receivables, net (Note 8)	52,210	51,354
Trade and other receivables, less allowances of \$392 and \$395	10,599	11,026
Inventories (Note 10)	11,176	12,565
Other assets	3,889	3,604
Total current assets	116,801	115,025
Ford Credit finance receivables, net (Note 8)	56,182	56,351
Net investment in operating leases	28,235	29,365
Net property	35,327	35,580
Equity in net assets of affiliated companies	3,085	3,087
Deferred income taxes	10,762	10,371
Other assets	8,104	8,300
Total assets	\$ 258,496	\$ 258,079
<b>LIABILITIES</b>		
Payables	\$ 23,282	\$ 22,743
Other liabilities and deferred revenue (Note 12)	19,697	21,234
Automotive debt payable within one year (Note 14)	3,356	3,968
Ford Credit debt payable within one year (Note 14)	48,265	46,916
Total current liabilities	94,600	94,861
Other liabilities and deferred revenue (Note 12)	24,711	24,107
Automotive long-term debt (Note 14)	12,575	11,642
Ford Credit long-term debt (Note 14)	89,492	89,718
Other long-term debt (Note 14)	599	599
Deferred income taxes	815	584
Total liabilities	222,792	221,511
Redeemable noncontrolling interest	98	99
<b>EQUITY</b>		
Common Stock, par value \$.01 per share (3,999 million shares issued of 6 billion authorized)	40	40
Class B Stock, par value \$.01 per share (71 million shares issued of 530 million authorized)	1	1
Capital in excess of par value of stock	21,843	21,953
Retained earnings	21,906	22,993
Accumulated other comprehensive income/(loss) (Note 16)	(6,959 )	(7,204 )
Treasury stock	(1,253 )	(1,342 )
Total equity attributable to Ford Motor Company	35,578	36,441
Equity attributable to noncontrolling interests	28	28
Total equity	35,606	36,469

Total liabilities and equity \$258,496 \$258,079

The following table includes assets to be used to settle liabilities of the consolidated variable interest entities (“VIEs”). These assets and liabilities are included in the consolidated balance sheet above.

	December 31,	
	2017	2018
	(unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents	\$3,479	\$ 3,079
Ford Credit finance receivables, net	56,250	55,600
Net investment in operating leases	11,503	12,207
Other assets	64	55
<b>LIABILITIES</b>		
Other liabilities and deferred revenue	\$2	\$ 6
Debt	46,437	50,012

The accompanying notes are part of the financial statements.

## Item 1. Financial Statements (Continued)

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

	For the periods ended June 30, 2017      2018 First Half (unaudited)	
Cash flows from operating activities		
Net cash provided by/(used in) operating activities	\$9,951	\$8,486
Cash flows from investing activities		
Capital spending	(3,264 )	(3,688 )
Acquisitions of finance receivables and operating leases	(27,379 )	(32,273 )
Collections of finance receivables and operating leases	21,636	25,980
Purchases of marketable and other securities	(16,931 )	(11,725 )
Sales and maturities of marketable and other securities	16,906	12,756
Settlements of derivatives	154	109
Other	16	(181 )
Net cash provided by/(used in) investing activities	(8,862 )	(9,022 )
Cash flows from financing activities		
Cash dividends	(1,392 )	(1,711 )
Purchases of common stock	(131 )	(89 )
Net changes in short-term debt	72	(1,735 )
Proceeds from issuance of long-term debt	20,467	28,135
Principal payments on long-term debt	(19,952 )	(25,299 )
Other	(102 )	(93 )
Net cash provided by/(used in) financing activities	(1,038 )	(792 )
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	267	(289 )
Net increase/(decrease) in cash, cash equivalents, and restricted cash	\$318	\$(1,617 )
Cash, cash equivalents, and restricted cash at January 1 (Note 7)	\$16,019	\$18,638
Net increase/(decrease) in cash, cash equivalents, and restricted cash	318	(1,617 )
Cash, cash equivalents, and restricted cash at June 30 (Note 7)	\$16,337	\$17,021

The accompanying notes are part of the financial statements.



## Item 1. Financial Statements (Continued)

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

	Equity Attributable to Ford Motor Company					Total	Equity Attributable to Non-controlling Interests	Total Equity
	Capital Stock	Cap. in Excess of Par Value of Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss) (Note 16)	Treasury Stock			
Balance at December 31, 2016	\$41	\$21,630	\$16,193	\$ (7,013 )	\$(1,122)	\$29,729	\$ 17	\$29,746
Adoption of accounting standards	—	6	566	—	—	572	—	572
Net income	—	—	3,639	—	—	3,639	15	3,654
Other comprehensive income/(loss), net of tax	—	—	—	297	—	297	(2 )	295
Common stock issued (including share-based compensation impacts)	—	99	—	—	—	99	—	99
Treasury stock/other	—	—	—	—	(131 )	(131 )	(1 )	(132 )
Cash dividends declared	—	—	(1,392 )	—	—	(1,392 )	(11 )	(1,403 )
Balance at June 30, 2017	\$41	\$21,735	\$19,006	\$ (6,716 )	\$(1,253)	\$32,813	\$ 18	\$32,831
Balance at December 31, 2017	\$41	\$21,843	\$21,906	\$ (6,959 )	\$(1,253)	\$35,578	\$ 28	\$35,606
Net income	—	—	2,802	—	—	2,802	12	2,814
Other comprehensive income/(loss), net of tax	—	—	—	(245 )	—	(245 )	—	(245 )
Common stock issued (including share-based compensation impacts)	—	110	—	—	—	110	—	110
Treasury stock/other	—	—	—	—	(89 )	(89 )	—	(89 )
Dividends and dividend equivalents declared	—	—	(1,715 )	—	—	(1,715 )	(12 )	(1,727 )
Balance at June 30, 2018	\$41	\$21,953	\$22,993	\$ (7,204 )	\$(1,342)	\$36,441	\$ 28	\$36,469

The accompanying notes are part of the financial statements.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## Table of Contents

	Page
Footnote	
Note 1 Presentation	<u>6</u>
Note 2 New Accounting Standards	<u>7</u>
Note 3 Revenue	<u>8</u>
Note 4 Other Income/(Loss)	<u>10</u>
Note 5 Income Taxes	<u>11</u>
Note 6 Capital Stock and Earnings Per Share	<u>11</u>
Note 7 Cash, Cash Equivalents, and Marketable Securities	<u>12</u>
Note 8 Ford Credit Finance Receivables	<u>15</u>
Note 9 Ford Credit Allowance for Credit Losses	<u>18</u>
Note 10 Inventories	<u>19</u>
Note 11 Goodwill	<u>19</u>
Note 12 Other Liabilities and Deferred Revenue	<u>19</u>
Note 13 Retirement Benefits	<u>20</u>
Note 14 Debt	<u>21</u>
Note 15 Derivative Financial Instruments and Hedging Activities	<u>22</u>
Note 16 Accumulated Other Comprehensive Income/(Loss)	<u>24</u>
Note 17 Commitments and Contingencies	<u>25</u>
Note 18 Segment Information	<u>27</u>

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1. PRESENTATION

For purposes of this report, “Ford,” the “Company,” “we,” “our,” “us,” or similar references mean Ford Motor Company, our consolidated subsidiaries, and our consolidated VIEs of which we are the primary beneficiary, unless the context requires otherwise. We also make reference to Ford Motor Credit Company LLC, herein referenced to as Ford Credit. Our financial statements are presented in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information, instructions to Quarterly Report on Form 10-Q, and Rule 10-01 of Regulation S-X.

In the opinion of management, these unaudited financial statements reflect a fair statement of our results of operations and financial condition for the periods, and at the dates, presented. The results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. Reference should be made to the financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2017 (“2017 Form 10-K Report”). We reclassified certain prior year amounts in our consolidated financial statements to conform to the current year presentation.

## Change in Presentation

Effective January 1, 2018, we changed our reportable segments to reflect the manner in which we now manage our business. Based on recent changes to our organization structure and how our Chief Operating Decision Maker (“CODM”) reviews operating results and makes decisions about resource allocation, we now have three reportable segments that represent the primary businesses reported in our consolidated financial statements: Automotive, Mobility, and Ford Credit. See Note 18 for a description of our new segment presentation.

## Change in Accounting

We carry inventory on our consolidated balance sheet that is comprised of finished products, raw materials, work-in-process, and supplies. As of January 1, 2018, we changed our accounting method for U.S. inventories to a first-in, first-out basis from a last-in, first-out basis. We believe this change in accounting method is preferable as it is consistent with how we manage our business, results in a uniform method to value our inventory across all regions in our business, and improves comparability with our peers. The effect of this change was immaterial on our consolidated income statement, balance sheet, and statement of cash flow amounts for the interim period ended June 30, 2018.

We have retrospectively applied this change in accounting method to all prior periods. As of December 31, 2016, the cumulative effect of the change increased Retained earnings by \$559 million.

The effect of this change on our consolidated financial statements was as follows (in millions except for per share amounts):

	For the periods ended June 30, 2017					
	Second Quarter		First Half			
	Previously Reported	As Revised	Effect of Change Higher/(Lower)	Previously Reported	As Revised	Effect of Change Higher/(Lower)
Income Statement						
Cost of Sales	\$33,349	\$33,342	\$ (7 )	\$66,057	\$66,042	\$ (15 )

Edgar Filing: FORD MOTOR CO - Form 10-Q

Income before income taxes	2,259	2,266	7	4,502	4,517	15
Provision for/ (Benefit from) income taxes	209	211	2	858	863	5
Net income	2,050	2,055	5	3,644	3,654	10
Net income attributable to Ford Motor Company	2,042	2,047	5	3,629	3,639	10
Basic earning per share attributable to Ford Motor Company	0.51	0.51	—	0.91	0.92	0.01
Diluted earning per share attributable to Ford Motor Company	0.51	0.51	—	0.91	0.91	—

December 31, 2017

Previously Reported	As Revised	Effect of Change Higher/(Lower)
---------------------	------------	---------------------------------

Balance Sheet

Inventories	\$10,277	\$11,176	\$ 899
Deferred income taxes (assets)	10,973	10,762	(211 )
Retained earnings	21,218	21,906	688

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1. PRESENTATION (Continued)

## Argentina

In June 2018, as a result of the three-year cumulative consumer price index exceeding 100%, Argentina was classified as having a highly inflationary economy. We are presently evaluating the impact of accounting for our Argentina operations as highly inflationary beginning on July 1, 2018.

## NOTE 2. NEW ACCOUNTING STANDARDS

## Adoption of New Accounting Standards

Accounting Standards Update (“ASU”) 2017-12, Derivatives and Hedging. On January 1, 2018, we adopted the amendments to Accounting Standards Codification 815 which aligns hedge accounting with risk management activities and simplifies the requirements to qualify for hedge accounting. Adoption did not have a material impact on our financial statements. We continue to assess opportunities enabled by the new standard to expand our risk management strategies.

ASU 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities.

On January 1, 2018, we adopted ASU 2016-01 and the related amendments. This standard amends various aspects of the recognition, measurement, presentation, and disclosure of financial instruments. We adopted the measurement alternative for equity investments without readily determinable fair values (often referred to as cost method investments) on a prospective basis. As a result, these investments will be revalued upon occurrence of an observable price change for similar investments and for impairments. We anticipate adoption may increase the volatility on our consolidated income statement.

We also adopted the following standards during 2018, none of which had a material impact to our financial statements or financial statement disclosures:

Standard	Effective Date
2017-08 Nonrefundable Fees and Other Costs - Premium Amortization on Purchased Callable Debt Securities	January 1, 2018
2016-18 Statement of Cash Flows - Restricted Cash	January 1, 2018
2016-16 Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory	January 1, 2018
2016-15 Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments	January 1, 2018

## Accounting Standards Issued But Not Yet Adopted

The following represent the standards that will, or are expected to, result in a significant change in practice and/or have a significant financial impact to Ford.

ASU 2016-13, Credit Losses - Measurement of Credit Losses on Financial Instruments. In June 2016, the Financial Accounting Standards Board (“FASB”) issued a new accounting standard which replaces the current incurred loss impairment method with a method that reflects expected credit losses. The new standard is effective as of January 1, 2020, and early adoption is permitted as of January 1, 2019. We will adopt the new credit loss guidance by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of Retained earnings. We anticipate adoption will increase the amount of expected credit losses reported in Ford Credit

finance receivables, net on our consolidated balance sheet and do not expect a material impact to our consolidated income statement.

ASU 2016-02, Leases. In February 2016, the FASB issued a new accounting standard which provides guidance on the recognition, measurement, presentation, and disclosure of leases. The new standard supersedes the present U.S. GAAP standard on leases and requires substantially all leases to be reported on the balance sheet as right-of-use assets and lease obligations. We plan to adopt the new standard on its effective date of January 1, 2019. We anticipate adoption of the standard will add between \$1.5 billion and \$2 billion in right-of-use assets and lease obligations to our consolidated balance sheet and will not significantly impact results. We plan to elect the practical expedients upon transition that will retain the lease classification and initial direct costs for any leases that exist prior to adoption of the standard. We will not reassess whether any contracts entered into prior to adoption are leases. We are in the process of cataloging our existing lease contracts and implementing changes to our systems.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 3. REVENUE

The following tables disaggregate our revenue by major source for the periods ended June 30 (in millions):

	Second Quarter 2017			
	Automotive	Mobility	Ford Credit	Consolidated
Vehicles, parts, and accessories	\$35,746	\$ —	\$—	\$ 35,746
Used vehicles	708	—	—	708
Extended service contracts	332	—	—	332
Other revenue	202	2	55	259
Revenues from sales and services	36,988	2	55	37,045
Leasing income	125	—	1,381	1,506
Financing income	—	—	1,260	1,260
Insurance income	—	—	42	42
Total revenues	\$37,113	\$ 2	\$2,738	\$ 39,853

	Second Quarter 2018			
	Automotive	Mobility	Ford Credit	Consolidated
Vehicles, parts, and accessories	\$34,569	\$ —	\$—	\$ 34,569
Used vehicles	655	—	—	655
Extended service contracts	328	—	—	328
Other revenue	210	6	58	274
Revenues from sales and services	35,762	6	58	35,826
Leasing income	143	—	1,443	1,586
Financing income	—	—	1,465	1,465
Insurance income	—	—	43	43
Total revenues	\$35,905	\$ 6	\$3,009	\$ 38,920

	First Half 2017			
	Automotive	Mobility	Ford Credit	Consolidated
Vehicles, parts, and accessories	\$70,742	\$ —	\$—	\$ 70,742
Used vehicles	1,581	—	—	1,581
Extended service contracts	607	—	—	607
Other revenue	426	4	104	534
Revenues from sales and services	73,356	4	104	73,464
Leasing income	232	—	2,747	2,979
Financing income	—	—	2,474	2,474
Insurance income	—	—	82	82
Total revenues	\$73,588	\$ 4	\$5,407	\$ 78,999

## First Half 2018

Edgar Filing: FORD MOTOR CO - Form 10-Q

	Automotive	Mobility	Ford Credit	Consolidated
Vehicles, parts, and accessories	\$71,986	\$ —	\$—	\$ 71,986
Used vehicles	1,583	—	—	1,583
Extended service contracts	657	—	—	657
Other revenue	429	10	113	552
Revenues from sales and services	74,655	10	113	74,778
Leasing income	262	—	2,858	3,120
Financing income	—	—	2,897	2,897
Insurance income	—	—	84	84
Total revenues	\$74,917	\$ 10	\$5,952	\$ 80,879

8

---



Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. REVENUE (Continued)

Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally this occurs with the transfer of control of our vehicles, parts, accessories, or services. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The expected costs associated with our base warranties continue to be recognized as expense when the products are sold. We recognize revenue for vehicle service contracts that extend mechanical and maintenance coverages beyond our base warranties over the life of the contract. We do not have any material significant payment terms as payment is received at or shortly after the point of sale.

Automotive Segment

**Vehicles, Parts, and Accessories.** For the majority of vehicles, parts, and accessories, we transfer control and recognize a sale when we ship the product from our manufacturing facility to our customer (dealers and distributors). We receive cash equal to the invoice price for most vehicle sales at the time of wholesale. When the vehicle sale is financed by our wholly-owned subsidiary Ford Credit, the dealer pays Ford Credit when it sells the vehicle to the retail customer. Payment terms on part sales to dealers, distributors, and retailers range from 30 days to 120 days. The amount of consideration we receive and revenue we recognize varies with changes in marketing incentives and returns we offer to our customers and their customers. When we give our dealers the right to return eligible parts and accessories, we estimate the expected returns based on an analysis of historical experience. We adjust our estimate of revenue at the earlier of when the most likely amount of consideration we expect to receive changes or when the consideration becomes fixed. As a result, we recorded a decrease to revenue recognized in prior periods of \$510 million and \$220 million in the second quarter of 2017 and 2018, respectively.

Depending on the terms of the arrangement, we may also defer the recognition of a portion of the consideration received because we have to satisfy a future obligation (e.g., free extended service contracts). We use an observable price to determine the stand-alone selling price for separate performance obligations or a cost plus margin approach when one is not available. We have elected to recognize the cost for freight and shipping when control over vehicles, parts, or accessories have transferred to the customer as an expense in Cost of sales.

We sell vehicles to daily rental companies and guarantee that we will pay them the difference between an agreed amount and the value they are able to realize upon resale. At the time of transfer of vehicles to the daily rental companies, we record the probable amount we will pay under the guarantee to Other liabilities and deferred revenue.

**Used Vehicles.** We sell used vehicles both at auction and through our consolidated dealerships. Proceeds from the sale of these vehicles are recognized in Automotive revenues upon transfer of control of the vehicle to the customer and the related vehicle carrying value is recognized in Cost of sales.

**Extended Service Contracts.** We sell separately-priced service contracts that extend mechanical and maintenance coverages beyond our base warranty agreements to vehicle owners. The separately priced service contracts range from 12 months to 120 months. We receive payment at contract inception and recognize revenue over the term of the agreement in proportion to the costs we expect to incur in satisfying the contract obligations. At January 1, 2017 and December 31, 2017, \$3.5 billion and \$3.8 billion, respectively, of unearned revenue associated with outstanding contracts was reported in Other Liabilities and deferred revenue. We recognized \$271 million and \$269 million of the unearned amounts as revenue during the second quarter of 2017 and 2018, respectively, and \$541 million and \$567

million in the first half of 2017 and 2018, respectively. At June 30, 2018, the unearned amount was \$3.9 billion. We expect to recognize approximately \$600 million of the unearned amount in the remainder of 2018, \$1 billion in 2019, and \$2.3 billion thereafter.

We record a premium deficiency reserve to the extent we estimate the future costs associated with these contracts exceed the unrecognized revenue. Amounts paid to dealers to obtain these contracts are deferred and recorded as Other assets. These costs are amortized to expense consistent with how the related revenue is recognized. We had a balance of \$232 million and \$242 million in deferred costs as of December 31, 2017 and June 30, 2018, respectively. Amortization of \$14 million and \$19 million was recognized during the second quarter of 2017 and 2018, respectively, and \$29 million and \$37 million in the first half of 2017 and 2018, respectively.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 3. REVENUE (Continued)

**Other Revenue.** Other revenue consists primarily of net commissions received for serving as the agent in facilitating the sale of a third party's products or services to our customers and payments for vehicle-related design and testing services we perform for others. We have applied the practical expedient to recognize Automotive revenues for vehicle-related design and testing services over the two to three year term of these agreements in proportion to the amount we have the right to invoice.

**Leasing Income.** We sell vehicles to daily rental companies with an obligation to repurchase the vehicles for a guaranteed amount, exercisable at the option of the customer. The transactions are accounted for as operating leases. Upon the transfer of vehicles to the daily rental companies, we record proceeds received in Other liabilities and deferred revenue. The difference between the proceeds received and the guaranteed repurchase amount is recorded in Automotive revenues over the term of the lease using a straight-line method. The cost of the vehicle is recorded in Net investment in operating leases on our consolidated balance sheet and the difference between the cost of the vehicle and the estimated auction value is depreciated in Cost of sales over the term of the lease.

## Ford Credit Segment

**Leasing Income.** Ford Credit offers leasing plans to retail consumers through Ford and Lincoln brand dealers who originate the leases. Ford Credit records an operating lease upon purchase of a vehicle subject to a lease from the dealer. The retail consumer makes lease payments representing the difference between Ford Credit's purchase price of the vehicle and the contractual residual value of the vehicle, plus lease fees that we recognize on a straight-line basis over the term of the lease agreement. Depreciation and the gain or loss upon disposition of the vehicle is recorded in Ford Credit interest, operating, and other expenses.

**Financing Income.** Ford Credit originates and purchases finance installment contracts. Financing income represents interest earned on the finance receivables (including direct financing leases). Interest is recognized using the interest method, and includes the amortization of certain direct origination costs.

**Insurance Income.** Income from insurance contracts is recognized evenly over the term of the agreement. Insurance commission revenue is recognized on a net basis at the time of sale of the third party's product or service to our customer.

## NOTE 4. OTHER INCOME/(LOSS)

The amounts included in other income/(loss), net for the periods ended June 30 were as follows (in millions):

	Second Quarter		First Half	
	2017	2018	2017	2018
Net periodic pension and OPEB income/(cost), excluding service cost	\$389	\$429	\$779	\$906
Investment-related interest income	109	167	201	313
Interest income/(expense) on income taxes	—	32	1	33
Realized and unrealized gains/(losses) on cash equivalents, marketable securities, and other securities	(24 )	217	27	212
Gains/(Losses) on changes in investments in affiliates	(1 )	—	(2 )	58
Royalty income	150	129	304	272

Edgar Filing: FORD MOTOR CO - Form 10-Q

Other	109	30	156	73
Total	\$732	\$1,004	\$1,466	\$1,867

10

---

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5. INCOME TAXES

For interim tax reporting, we estimate one single effective tax rate for tax jurisdictions not subject to a valuation allowance, which is applied to the year-to-date ordinary income/(loss). Tax effects of significant unusual or infrequently occurring items are excluded from the estimated annual effective tax rate calculation and recognized in the interim period in which they occur.

For the second quarter and first half of 2018, our effective tax rates were 20.8% and 13.9%, respectively. During the first quarter of 2018, we recognized \$235 million of benefit for non-U.S. capital loss carryforwards expected to be realized in the foreseeable future.

## NOTE 6. CAPITAL STOCK AND EARNINGS PER SHARE

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

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

	Second Quarter		First Half	
	2017	2018	2017	2018
Basic and Diluted Income Attributable to Ford Motor Company				
Basic income	\$2,047	\$1,066	\$3,639	\$2,802
Diluted income	2,047	1,066	3,639	2,802
Basic and Diluted Shares				
Basic shares (average shares outstanding)	3,977	3,977	3,977	3,976
Net dilutive options, unvested restricted stock units, and restricted stock	19	22	21	22
Diluted shares	3,996	3,999	3,998	3,998

## Item 1. Financial Statements (Continued)

 FORD MOTOR COMPANY AND SUBSIDIARIES  
 NOTES TO THE FINANCIAL STATEMENTS

## NOTE 7. CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES

The fair values of cash, cash equivalents, and marketable securities measured at fair value on a recurring basis on our balance sheet were as follows (in millions):

	December 31, 2017				
	Fair Value Level	Automotive	Mobility	Ford Credit	Consolidated
Cash and cash equivalents					
U.S. government	1	\$913	\$ —	\$—	\$ 913
U.S. government agencies	2	433	—	300	733
Non-U.S. government and agencies	2	—	—	703	703
Corporate debt	2	55	—	25	80
Total marketable securities classified as cash equivalents		1,401	—	1,028	2,429
Cash, time deposits, and money market funds		7,529	4	8,530	16,063
Total cash and cash equivalents		\$8,930	\$ 4	\$9,558	\$ 18,492

Marketable securities					
U.S. government	1	\$5,580	\$ —	\$966	\$ 6,546
U.S. government agencies	2	2,484	—	384	2,868
Non-U.S. government and agencies	2	5,270	—	660	5,930
Corporate debt	2	4,031	—	848	4,879
Equities (a)	1	138	—	—	138
Other marketable securities	2	51	—	23	74
Total marketable securities		\$17,554	\$ —	\$2,881	\$ 20,435

	June 30, 2018				
	Fair Value Level	Automotive	Mobility	Ford Credit	Consolidated
Cash and cash equivalents					
U.S. government	1	\$8	\$ —	\$10	\$ 18
U.S. government agencies	2	3	—	—	3
Non-U.S. government and agencies	2	210	—	587	797
Corporate debt	2	225	—	460	685
Total marketable securities classified as cash equivalents		446	—	1,057	1,503
Cash, time deposits, and money market funds		7,284	19	8,022	15,325
Total cash and cash equivalents		\$7,730	\$ 19	\$9,079	\$ 16,828

Marketable securities					
U.S. government	1	\$2,949	\$ —	\$404	\$ 3,353
U.S. government agencies	2	1,992	—	164	2,156
Non-U.S. government and agencies	2	6,322	—	1,045	7,367
Corporate debt	2	5,306	—	516	5,822
Equities (a)	1	558	—	—	558
Other marketable securities	2	235	—	157	392

Total marketable securities \$17,362 \$ — \$2,286 \$ 19,648

(a) Net unrealized gains/losses on equities were a \$27 million loss and a \$158 million gain at December 31, 2017 and June 30, 2018, respectively.

12

---

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 7. CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES (Continued)

The cash equivalents and marketable securities accounted for as available-for-sale (“AFS”) debt securities on our balance sheet were as follows (in millions):

	December 31, 2017				Fair Value of Securities with Contractual Maturities		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Within 1 Year	After 1 Year through 5 Years	After 5 Years
Automotive							
U.S. government	\$3,669	\$ —	\$ (18 )	\$3,651	\$1,377	\$2,274	\$ —
U.S. government agencies	1,915	—	(15 )	1,900	265	1,620	15
Non-U.S. government and agencies	4,021	—	(28 )	3,993	197	3,771	25
Corporate debt	1,716	1	(8 )	1,709	194	1,509	6
Other marketable securities	17	—	—	17	—	16	1
Total	\$11,338	\$ 1	\$ (69 )	\$11,270	\$2,033	\$9,190	\$ 47

	June 30, 2018				Fair Value of Securities with Contractual Maturities		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Within 1 Year	After 1 Year through 5 Years	After 5 Years
Automotive							
U.S. government	\$2,634	\$ —	\$ (21 )	\$2,613	\$1,777	\$836	\$ —
U.S. government agencies	1,871	—	(26 )	1,845	309	1,518	18
Non-U.S. government and agencies	4,178	—	(63 )	4,115	6	4,109	—
Corporate debt	2,628	1	(33 )	2,596	190	2,404	2
Other marketable securities	200	—	(1 )	199	—	140	59
Total	\$11,511	\$ 1	\$ (144 )	\$11,368	\$2,282	\$9,007	\$ 79

Sales proceeds and gross realized gains/(losses) from the sale of AFS debt securities prior to maturity, recorded in the income statement for the periods ended June 30 were as follows (in millions):

	Second Quarter		First Half	
	2017	2018	2017	2018
Automotive				
Sales proceeds	\$1,315	\$1,507	\$2,616	\$2,846
Gross realized gains	2	1	3	1
Gross realized losses	6	5	8	11





## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 7. CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES (Continued)

The present fair values and gross unrealized losses for cash equivalents and marketable securities accounted for as AFS debt securities that were in an unrealized loss position, aggregated by investment category and the length of time that individual securities have been in a continuous loss position, were as follows (in millions):

	December 31, 2017					
	Less than 1 year		1 Year or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Automotive						
U.S. government	\$2,382	\$ (9 )	\$903	\$ (9 )	\$3,285	\$ (18 )
U.S. government agencies	1,625	(12 )	260	(3 )	1,885	(15 )
Non-U.S. government and agencies	3,148	(20 )	510	(8 )	3,658	(28 )
Corporate debt	1,396	(8 )	—	—	1,396	(8 )
Total	\$8,551	\$ (49 )	\$1,673	\$ (20 )	\$10,224	\$ (69 )
	June 30, 2018					
	Less than 1 year		1 Year or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Automotive						
U.S. government	\$544	\$ (5 )	\$1,968	\$ (16 )	\$2,512	\$ (21 )
U.S. government agencies	966	(14 )	848	(12 )	1,814	(26 )
Non-U.S. government and agencies	2,450	(43 )	1,120	(20 )	3,570	(63 )
Corporate debt	2,033	(29 )	190	(4 )	2,223	(33 )
Other marketable securities	156	(1 )	—	—	156	(1 )
Total	\$6,149	\$ (92 )	\$4,126	\$ (52 )	\$10,275	\$ (144 )

We determine other-than-temporary impairments on cash equivalents and marketable securities using a specific identification method. During the six months ended June 30, 2017 and 2018, we did not recognize any other-than-temporary impairment loss.

## Cash, Cash Equivalents, and Restricted Cash

Cash, cash equivalents, and restricted cash as reported in the consolidated statement of cash flows are presented separately on our consolidated balance sheet as follows (in millions):

	December 31, June 30,	
	2017	2018
Cash and cash equivalents	\$ 18,492	\$16,828
Restricted cash (a)	146	193
Total cash, cash equivalents, and restricted cash	\$ 18,638	\$17,021

(a)Included in Other assets in the non-current assets section of our consolidated balance sheet.

## Other Securities

We have investments in entities for which we do not have the ability to exercise significant influence and fair values are not readily available. We have elected to record these investments at cost (less impairment, if any), adjusted for observable price changes in orderly transactions for the identical or a similar investment of the same issuer. We report the carrying value of these investments in Other assets in the non-current assets section of our consolidated balance sheet. These investments were \$363 million and \$188 million at December 31, 2017 and June 30, 2018, respectively. There were no material adjustments to the fair values of these investments held at June 30, 2018.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 8. FORD CREDIT FINANCE RECEIVABLES

Ford Credit manages finance receivables as “consumer” and “non-consumer” portfolios. The receivables are generally secured by the vehicles, inventory, or other property being financed.

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

	December 31, 2017	June 30, 2018
Consumer		
Retail financing, gross	\$ 78,331	\$78,826
Unearned interest supplements	(3,280 )	(3,245 )
Consumer finance receivables	75,051	75,581
Non-Consumer		
Dealer financing	33,938	32,711
Non-Consumer finance receivables	33,938	32,711
Total recorded investment	\$ 108,989	\$108,292
Recorded investment in finance receivables	\$ 108,989	\$108,292
Allowance for credit losses	(597 )	(587 )
Finance receivables, net	\$ 108,392	\$107,705
Current portion	\$ 52,210	\$51,354
Non-current portion	56,182	56,351
Finance receivables, net	\$ 108,392	\$107,705
Net finance receivables subject to fair value (a)	\$ 105,106	\$104,145
Fair value	104,521	103,517

At December 31, 2017 and June 30, 2018, Finance receivables, net includes \$3.3 billion and \$3.6 billion, (a) respectively, of direct financing leases that are not subject to fair value disclosure requirements. The fair value of finance receivables is categorized within Level 3 of the fair value hierarchy.

Excluded from finance receivables at December 31, 2017 and June 30, 2018, was \$240 million and \$242 million, respectively, of accrued uncollected interest, which is reported as Other assets in the current assets section of our consolidated balance sheet.

Included in the recorded investment in finance receivables at December 31, 2017 and June 30, 2018, were consumer receivables of \$38.9 billion and \$39.3 billion, respectively, and non-consumer receivables of \$24.5 billion and \$22.3 billion, respectively, that have been sold for legal purposes in securitization transactions but continue to be reported in our consolidated financial statements. The receivables are available only for payment of the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions; they are not available to pay the other obligations or the claims of Ford Credit’s other creditors. Ford Credit holds the right to receive the excess cash flows not needed to pay the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions.



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 8. FORD CREDIT FINANCE RECEIVABLES (Continued)

## Aging

For all finance receivables, we define “past due” as any payment, including principal and interest, that is at least 31 days past the contractual due date. The recorded investment of consumer receivables greater than 90 days past due and still accruing interest was \$24 million and \$27 million at December 31, 2017 and June 30, 2018, respectively. The recorded investment of non-consumer receivables greater than 90 days past due and still accruing interest was \$1 million and de minimis at December 31, 2017 and June 30, 2018, respectively.

The aging analysis of our finance receivables balances was as follows (in millions):

	December 31, 2017	June 30, 2018
Consumer		
31-60 days past due	\$ 748	\$730
61-90 days past due	113	120
91-120 days past due	36	37
Greater than 120 days past due	37	40
Total past due	934	927
Current	74,117	74,654
Consumer finance receivables	75,051	75,581
Non-Consumer		
Total past due	122	70
Current	33,816	32,641
Non-Consumer finance receivables	33,938	32,711
Total recorded investment	\$ 108,989	\$108,292

## Credit Quality

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

Consumer receivables credit quality ratings are as follows:

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

Non-Consumer Portfolio. Dealers are assigned to one of four groups according to risk ratings as follows:

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



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 8. FORD CREDIT FINANCE RECEIVABLES (Continued)

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

	December 31, June 30,	
	2017	2018
Dealer Financing		
Group I	\$ 26,252	\$25,441
Group II	5,908	5,695
Group III	1,640	1,479
Group IV	138	96
Total recorded investment	\$ 33,938	\$32,711

Impaired Receivables. Impaired consumer receivables include accounts that have been rewritten or modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code that are considered to be Troubled Debt Restructurings (“TDRs”), as well as all accounts greater than 120 days past due. Impaired non-consumer receivables represent accounts with dealers that have weak or poor financial metrics or dealer financing that has been modified in TDRs. The recorded investment of consumer receivables that were impaired at December 31, 2017 and June 30, 2018 was \$386 million, or 0.5% of consumer receivables, and \$378 million, or 0.5% of consumer receivables, respectively. The recorded investment of non-consumer receivables that were impaired at December 31, 2017 and June 30, 2018 was \$138 million, or 0.4% of non-consumer receivables, and \$96 million, or 0.3% of non-consumer receivables, respectively. Impaired finance receivables are evaluated both collectively and specifically.



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 9. FORD CREDIT ALLOWANCE FOR CREDIT LOSSES

An analysis of the allowance for credit losses related to finance receivables for the periods ended June 30 was as follows (in millions):

	Second Quarter 2017			First Half 2017		
	Consumer	Non-Consumer	Total	Consumer	Non-Consumer	Total
Allowance for credit losses						
Beginning balance	\$504	\$ 13	\$517	\$469	\$ 15	\$484
Charge-offs	(110 )	(2 )	(112 )	(233 )	(4 )	(237 )
Recoveries	35	3	38	69	3	72
Provision for credit losses	73	—	73	194	—	194
Other (a)	5	1	6	8	1	9
Ending balance (b)	\$507	\$ 15	\$522	\$507	\$ 15	\$522
Analysis of ending balance of allowance for credit losses						
Collective impairment allowance				\$487	\$ 13	\$500
Specific impairment allowance				20	2	22
Ending balance (b)				507	15	522
Analysis of ending balance of finance receivables						
Collectively evaluated for impairment				67,772	33,627	101,399
Specifically evaluated for impairment				381	181	562
Recorded investment				68,153	33,808	101,961
Ending balance, net of allowance for credit losses				\$67,646	\$ 33,793	\$101,439

(a) Primarily represents amounts related to translation adjustments.

(b) Total allowance, including reserves for operating leases, was \$588 million.

	Second Quarter 2018			First Half 2018		
	Consumer	Non-Consumer	Total	Consumer	Non-Consumer	Total
Allowance for credit losses						
Beginning balance	\$584	\$ 16	\$600	\$582	\$ 15	\$597
Charge-offs	(123 )	(1 )	(124 )	(254 )	(3 )	(257 )
Recoveries	47	1	48	86	2	88
Provision for credit losses	72	(2 )	70	164	—	164
Other (a)	(7 )	—	(7 )	(5 )	—	(5 )
Ending balance (b)	\$573	\$ 14	\$587	\$573	\$ 14	\$587
Analysis of ending balance of allowance for credit losses						
Collective impairment allowance				\$552	\$ 13	\$565
Specific impairment allowance				21	1	22
Ending balance (b)				573	14	587
Analysis of ending balance of finance receivables						
Collectively evaluated for impairment				75,203	32,615	107,818
Specifically evaluated for impairment				378	96	474

Edgar Filing: FORD MOTOR CO - Form 10-Q

Recorded investment	75,581	32,711	108,292
Ending balance, net of allowance for credit losses	\$75,008	\$ 32,697	\$107,705

            
(a) Primarily represents amounts related to translation adjustments.

(b) Total allowance, including reserves for operating leases, was \$659 million.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 10. INVENTORIES

Inventories were as follows (in millions):

	December 31, June 30,	
	2017	2018
Raw materials, work-in-process, and supplies	\$ 4,397	\$4,446
Finished products	6,779	8,119
Total inventories	\$ 11,176	\$12,565

## NOTE 11. GOODWILL

The net carrying amount of goodwill was \$75 million and \$273 million at December 31, 2017 and June 30, 2018, respectively, and is reported in Other Assets in the non-current section of our consolidated balance sheet. In the first quarter of 2018, Mobility completed the acquisition of Autonomic and TransLoc which resulted in \$199 million of goodwill.

## NOTE 12. OTHER LIABILITIES AND DEFERRED REVENUE

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

	December 31, June 30,	
	2017	2018
Current		
Dealer and dealers' customer allowances and claims	\$ 10,902	\$11,697
Deferred revenue	2,107	2,854
Employee benefit plans	1,661	1,400
Accrued interest	1,057	1,003
OPEB (a)	348	345
Pension (a)	229	223
Other	3,393	3,712
Total current other liabilities and deferred revenue	\$ 19,697	\$21,234
Non-current		
Pension (a)	\$ 9,932	\$9,450
OPEB (a)	5,821	5,684
Dealer and dealers' customer allowances and claims	2,471	2,189
Deferred revenue	3,829	3,937
Employee benefit plans	1,139	1,155
Other	1,519	1,692
Total non-current other liabilities and deferred revenue	\$ 24,711	\$24,107

Balances at June 30, 2018 reflect pension and OPEB liabilities at December 31, 2017, updated (where applicable) for service and interest cost, expected return on assets, separation expense, interim remeasurement expense, actual (a) benefit payments, and cash contributions. The discount rate and rate of expected return assumptions are unchanged from year-end 2017. Included in Other assets are pension assets of \$3.5 billion and \$3.9 billion at December 31, 2017 and June 30, 2018, respectively.



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 13. RETIREMENT BENEFITS

## Defined Benefit Plans - Expense

The pre-tax net periodic benefit cost/(income) for our defined benefit pension and OPEB plans for the periods ended June 30 was as follows (in millions):

	Second Quarter					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Worldwide OPEB	
	2017	2018	2017	2018	2017	2018
Service cost	\$134	\$136	\$125	\$151	\$12	\$13
Interest cost	381	366	173	173	49	49
Expected return on assets	(684 )	(722 )	(335 )	(329 )	—	—
Amortization of prior service costs/(credits)	35	35	9	7	(29 )	(28 )
Net remeasurement (gain)/loss	—	—	—	—	—	—
Separation programs/other	9	3	3	16	—	1
Settlements and curtailments	—	—	—	—	—	—
Net periodic benefit cost/(income)	\$(125)	\$(182)	\$(25 )	\$18	\$32	\$35

	First Half					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Worldwide OPEB	
	2017	2018	2017	2018	2017	2018
Service cost	\$267	\$272	\$259	\$303	\$24	\$27
Interest cost	762	733	332	349	98	98
Expected return on assets	(1,367)	(1,444)	(665 )	(663 )	—	—
Amortization of prior service costs/(credits)	71	71	18	13	(59 )	(55 )
Net remeasurement (gain)/loss	—	(26 )	—	—	—	—
Separation programs/other	12	14	19	18	—	1
Settlements and curtailments	—	(15 )	—	—	—	—
Net periodic benefit cost/(income)	\$(255)	\$(395)	\$(37 )	\$20	\$63	\$71

The service cost component is included in Cost of sales and Selling, administrative, and other expenses. Other components of net periodic benefit cost/(income) are included in Other income/(loss), net of our consolidated income statement.

In the first quarter of 2018, we recognized both a remeasurement gain and a curtailment gain related to amendments to our U.S. defined benefit plans for senior management. Effective December 31, 2019, the plans will have a 35-year limit for service and pay for purposes of determining the pension benefits.

## Pension Plan Contributions

During 2018, we expect to contribute about \$500 million (most of which are mandatory contributions) from cash and cash equivalents to our global funded pension plans, and to make about \$350 million of benefit payments to

participants in unfunded plans, for a total of about \$850 million. In the first half of 2018, we contributed about \$150 million to our global funded pension plans and made about \$150 million of benefit payments to participants in unfunded plans.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 14. DEBT

The carrying value of Automotive, Ford Credit, and Other debt was as follows (in millions):

	December 31, 2017	June 30, 2018
Automotive		
Debt payable within one year		
Short-term	\$ 1,396	\$ 1,569
Long-term payable within one year		
Public unsecured debt securities	361	361
U.S. Department of Energy Advanced Technology Vehicles Manufacturing (“DOE ATVM”) Incentive Program	591	591
Other debt	1,031	1,467
Unamortized (discount)/premium	(23)	) (20 )
Total debt payable within one year	3,356	3,968
Long-term debt payable after one year		
Public unsecured debt securities	9,033	9,033
DOE ATVM Incentive Program	2,060	1,766
Other debt	1,848	1,178
Adjustments		
Unamortized (discount)/premium	(290)	) (261 )
Unamortized issuance costs	(76)	) (74 )
Total long-term debt payable after one year	12,575	11,642
Total Automotive	\$ 15,931	\$ 15,610
Fair value of Automotive debt (a)	\$ 17,976	\$ 16,405
Ford Credit		
Debt payable within one year		
Short-term	\$ 17,153	\$ 14,985
Long-term payable within one year		
Unsecured debt	13,298	12,636
Asset-backed debt	17,817	19,317
Adjustments		
Unamortized (discount)/premium	1	—
Unamortized issuance costs	(16)	) (19 )
Fair value adjustments (b)	12	(3 )
Total debt payable within one year	48,265	46,916
Long-term debt payable after one year		
Unsecured debt	55,687	55,755
Asset-backed debt	34,052	34,625
Adjustments		
Unamortized (discount)/premium	(2)	) —
Unamortized issuance costs	(212)	) (212 )
Fair value adjustments (b)	(33)	) (450 )
Total long-term debt payable after one year	89,492	89,718
Total Ford Credit	\$ 137,757	\$ 136,634

Fair value of Ford Credit debt (a)	\$ 139,605	\$ 138,616
Other		
Long-term debt payable after one year		
Unsecured debt	\$ 604	\$ 604
Adjustments		
Unamortized (discount)/premium	(3	) (3
Unamortized issuance costs	(2	) (2
Total Other	\$ 599	\$ 599
Fair value of Other debt	\$ 801	\$ 754

The fair value of debt includes \$1.1 billion and \$1.2 billion of Automotive segment short-term debt and \$16.4 billion and \$13.7 billion of Ford Credit segment short-term debt at December 31, 2017 and June 30, 2018, respectively, carried at cost, which approximates fair value. All other debt is categorized within Level 2 of the fair value hierarchy.

(a) These adjustments relate to designated fair value hedges. The carrying value of hedged debt was \$39 billion and \$37.5 billion at December 31, 2017 and June 30, 2018, respectively.



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 15. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

In the normal course of business, our operations are exposed to global market risks, including the effect of changes in foreign currency exchange rates, certain commodity prices, and interest rates. To manage these risks, we enter into highly effective derivative contracts. We have elected to apply hedge accounting to certain derivatives. Derivatives that are designated in hedging relationships are evaluated for effectiveness using regression analysis at the time they are designated and throughout the hedge period. Some derivatives do not qualify for hedge accounting; for others, we elect not to apply hedge accounting.

## Income Effect of Derivative Financial Instruments

The gains/(losses), by hedge designation, recorded in income for the periods ended June 30 were as follows (in millions):

	Second Quarter		First Half	
	2017	2018	2017	2018
Cash flow hedges (a)				
Reclassified from AOCI to Cost of sales	\$124	\$(12)	\$242	\$5
Fair value hedges				
Interest rate contracts				
Net interest settlements and accruals on hedging instruments	62	(2 )	132	24
Fair value changes on hedging instruments (b)	34	(90 )	(55 )	(429)
Fair value changes on hedged debt (b)	(30 )	82	55	411
Derivatives not designated as hedging instruments				
Foreign currency exchange contracts (c)	(218 )	416	(426 )	300
Cross-currency interest rate swap contracts	16	(125 )	74	(183)
Interest rate contracts	30	(20 )	37	(37 )
Commodity contracts	(10 )	8	32	(38 )
Total	\$8	\$257	\$91	\$53

For the second quarter and first half of 2017, a \$318 million gain and a \$206 million gain, respectively, were (a) recorded in Other comprehensive income. For the second quarter and first half of 2018, a \$60 million gain and a \$121 million gain, respectively, were recorded in Other comprehensive income.

For the first half of 2017, the fair value changes on hedging instruments and on hedged debt were recorded in (b) Other income/(loss), net; effective first quarter 2018, these amounts were recorded in Ford Credit interest, operating, and other expenses.

For the second quarter and first half of 2017, a \$61 million loss and a \$90 million loss were recorded in Other (c) income/(loss), net and a \$157 million loss and a \$336 million loss were recorded in Cost of sales, respectively. For the second quarter and first half of 2018, a \$110 million gain and a \$98 million gain were recorded in Other income/(loss), net and a \$306 million gain and a \$202 million gain were recorded in Cost of sales, respectively.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 15. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

## Balance Sheet Effect of Derivative Financial Instruments

Derivative assets and liabilities are recorded on our consolidated balance sheet at fair value and are presented on a gross basis. The notional amounts of the derivative instruments do not necessarily represent amounts exchanged by the parties and are not a direct measure of our financial exposure. We also enter into master agreements with counterparties that may allow for netting of exposures in the event of default or breach of the counterparty agreement. Collateral represents cash received or paid under reciprocal arrangements that we have entered into with our derivative counterparties which we do not use to offset our derivative assets and liabilities.

The fair value of our derivative instruments and the associated notional amounts, presented gross, were as follows (in millions):

	December 31, 2017			June 30, 2018		
	Notional	Fair Value of Assets	Fair Value of Liabilities	Notional	Fair Value of Assets	Fair Value of Liabilities
Cash flow hedges						
Foreign currency exchange contracts	\$19,595	\$407	\$ 306	\$17,640	\$309	\$ 111
Fair value hedges						
Interest rate contracts	28,008	248	135	26,033	137	441
Derivatives not designated as hedging instruments						
Foreign currency exchange contracts	20,679	172	302	19,644	297	103
Cross-currency interest rate swap contracts	4,006	408	28	5,852	270	143
Interest rate contracts	60,504	276	137	65,447	247	255
Commodity contracts	660	37	4	663	12	26
Total derivative financial instruments, gross (a) (b)	\$133,452	\$1,548	\$ 912	\$135,279	\$1,272	\$ 1,079
Current portion		\$802	\$ 568		\$766	\$ 460
Non-current portion		746	344		506	619
Total derivative financial instruments, gross		\$1,548	\$ 912		\$1,272	\$ 1,079

(a) At December 31, 2017 and June 30, 2018, we held collateral of \$15 million and \$9 million, and we posted collateral of \$38 million and \$56 million, respectively.

(b) At December 31, 2017 and June 30, 2018, the fair value of assets and liabilities available for counterparty netting was \$618 million and \$401 million, respectively. All derivatives are categorized within Level 2 of the fair value hierarchy.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 16. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The changes in the balances for each component of accumulated other comprehensive income/(loss) attributable to Ford Motor Company for the periods ended June 30 were as follows (in millions):

	Second Quarter		First Half	
	2017	2018	2017	2018
<b>Foreign currency translation</b>				
Beginning balance	\$ (4,350)	\$ (3,981)	\$ (4,593)	\$ (4,277)
Gains/(Losses) on foreign currency translation	(39 )	(527 )	150	(283 )
Less: Tax/(Tax benefit)	(123 )	69	(177 )	19
Net gains/(losses) on foreign currency translation	84	(596 )	327	(302 )
(Gains)/Losses reclassified from AOCI to net income (a)	—	—	—	2
Other comprehensive income/(loss), net of tax	84	(596 )	327	(300 )
Ending balance	\$ (4,266)	\$ (4,577)	\$ (4,266)	\$ (4,577)
<b>Marketable securities</b>				
Beginning balance	\$ (15 )	\$ (95 )	\$ (14 )	\$ (48 )
Gains/(Losses) on available for sale securities	2	(15 )	3	(84 )
Less: Tax/(Tax benefit)	2	(4 )	5	(21 )
Net gains/(losses) on available for sale securities	—	(11 )	(2 )	(63 )
(Gains)/Losses reclassified from AOCI to net income	4	4	5	10
Less: Tax/(Tax benefit)	—	1	—	2
Net (gains)/losses reclassified from AOCI to net income	4	3	5	8
Other comprehensive income/(loss), net of tax	4	(8 )	3	(55 )
Ending balance	\$ (11 )	\$ (103 )	\$ (11 )	\$ (103 )
<b>Derivative instruments</b>				
Beginning balance	\$ 116	\$ 51	\$ 283	\$ 18
Gains/(Losses) on derivative instruments	318	60	206	121
Less: Tax/(Tax benefit)	85	14	51	29
Net gains/(losses) on derivative instruments	233	46	155	92
(Gains)/Losses reclassified from AOCI to net income	(124 )	12	(242 )	(5 )
Less: Tax/(Tax benefit)	(28 )	6	(57 )	2
Net (gains)/losses reclassified from AOCI to net income (b)	(96 )	6	(185 )	(7 )
Other comprehensive income/(loss), net of tax	137	52	(30 )	85
Ending balance	\$ 253	\$ 103	\$ 253	\$ 103
<b>Pension and other postretirement benefits</b>				
Beginning balance	\$ (2,680)	\$ (2,644)	\$ (2,689)	\$ (2,652)
Amortization and recognition of prior service costs/(credits)	15	14	30	29
Less: Tax/(Tax benefit)	23	3	28	6
Net prior service costs/(credits) reclassified from AOCI to net income	(8 )	11	2	23
Translation impact on non-U.S. plans	(4 )	6	(5 )	2
Other comprehensive income/(loss), net of tax	(12 )	17	(3 )	25
Ending balance	\$ (2,692)	\$ (2,627)	\$ (2,692)	\$ (2,627)

Total AOCI ending balance at June 30	\$ (6,716)	\$ (7,204)	\$ (6,716)	\$ (7,204)
--------------------------------------	------------	------------	------------	------------

(a) Reclassified to Other income/(loss), net.

(b) Reclassified to Cost of sales. During the next twelve months we expect to reclassify existing net gains on cash flow hedges of \$165 million. See Note 15 for additional information.

24

---

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 17. COMMITMENTS AND CONTINGENCIES

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

## Guarantees and Indemnifications

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

	December 31, June 30,	
	2017	2018
Maximum potential payments	\$ 1,397	\$ 1,673
Carrying value of recorded liabilities related to guarantees and limited indemnities	408	486

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

We guarantee the resale value of vehicles sold in certain arrangements to daily rental companies. The maximum potential payment of \$1.5 billion as of June 30, 2018 included in the table above represents the total proceeds we guarantee the rental company will receive on re-sale. Reflecting our present estimate of proceeds the rental companies will receive on resale from third parties, we have recorded \$465 million as our best estimate of the amount we will have to pay under the guarantee.

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

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

## Litigation and Claims

Various legal actions, proceedings, and claims (generally, “matters”) are pending or may be instituted or asserted against us. These include but are not limited to matters arising out of alleged defects in our products; product warranties;

governmental regulations relating to safety, emissions, and fuel economy or other matters; government incentives; tax matters; alleged illegal acts resulting in fines or penalties; financial services; employment-related matters; dealer, supplier, and other contractual relationships; intellectual property rights; environmental matters; shareholder or investor matters; and financial reporting matters. Certain of the pending legal actions are, or purport to be, class actions. Some of the matters involve or may involve claims for compensatory, punitive, or antitrust or other treble damages in very large amounts, or demands for field service actions, environmental remediation programs, sanctions, loss of government incentives, assessments, or other relief, which, if granted, would require very large expenditures.

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

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 17. COMMITMENTS AND CONTINGENCIES (Continued)

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

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

For the remaining matters, where our historical experience with similar matters is of more limited value (i.e., “non-pattern matters”), we evaluate the matters primarily based on the individual facts and circumstances. For non-pattern matters, we evaluate whether there is a reasonable possibility of a material loss in excess of any accrual that can be estimated. Our estimate of reasonably possible loss in excess of our accruals for all material matters currently reflects indirect tax and customs matters, for which we estimate the aggregate risk to be a range of up to about \$600 million.

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

## Warranty and Field Service Actions

We accrue an amount for estimated cost associated with warranty and field service actions (i.e., safety recalls, emission recalls, and customer satisfaction actions) at the time of sale using a patterned estimation model that includes historical information regarding the nature, frequency, and average cost of claims for each vehicle line by model year. Warranty and field service action obligations are reported in Other liabilities and deferred revenue. We reevaluate the adequacy of our accruals on a regular basis.

We recognize the benefit from a recovery of the costs associated with our warranty and field service actions when specifics of the recovery have been agreed with our supplier and the collection of the recovery is virtually certain. Recoveries are reported in Trade and other receivables and Other assets.

The estimate of our future warranty and field service action costs, net of supplier recoveries, for the periods ended June 30 was as follows (in millions):

	First Half	
	2017	2018
Beginning balance	\$4,960	\$5,296
Payments made during the period	(1,710 )	(1,911 )
Changes in accrual related to warranties issued during the period	1,272	1,252
Changes in accrual related to pre-existing warranties	582	337
Foreign currency translation and other	71	(96 )
Ending balance	\$5,175	\$4,878

Revisions to our estimated costs are reported as changes in accrual related to pre-existing warranties in the table above.



Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 18. SEGMENT INFORMATION

Effective January 1, 2018, we changed our reportable segments to reflect the manner in which we now manage our business. Based on recent changes to our organization structure and how our CODM reviews operating results and makes decisions about resource allocation, we now have three reportable segments that represent the primary businesses reported in our consolidated financial statements: Automotive, Mobility, and Ford Credit.

In addition to the change in reportable segments, consistent with how our CODM now assesses performance of the segments, we changed the measurement of our segment profits and losses as described below:

• Corporate governance costs, which were previously reported as part of our Automotive segment, are now reported as part of Corporate Other

• Autonomous vehicle development costs, which were previously reported as part of our Automotive segment, are now reported in Mobility

• Interest income and portfolio gains and losses, which were previously reported in our segment results, are now reported in Corporate Other. Interest expense (other than interest expense incurred by Ford Credit) is now reported as a separate reconciling item

Prior period amounts were adjusted retrospectively to reflect the segment and measurement changes.

Below is a description of our reportable segments and other activities.

Automotive Segment

Our Automotive segment primarily includes the sale of Ford and Lincoln vehicles, service parts, and accessories worldwide, together with the associated costs to develop, manufacture, distribute, and service the vehicles, parts, and accessories. This segment includes revenues and costs related to our electrification vehicle programs. The segment includes five regional business units: North America, South America, Europe, Middle East & Africa, and Asia Pacific.

Mobility Segment

Our Mobility segment primarily includes development costs related to our autonomous vehicles and our investment in emerging mobility services through Ford Smart Mobility LLC (“FSM”). FSM designs and builds mobility services on its own, and collaborates with start-ups and tech companies.

Ford Credit Segment

The Ford Credit segment is comprised of the Ford Credit business on a consolidated basis, which is primarily vehicle-related financing and leasing activities.

Corporate Other

Corporate Other primarily includes corporate governance costs, interest income (excluding interest earned on our extended service contract portfolio that is included in our Automotive segment) and portfolio gains and losses from our cash, cash equivalents, and marketable securities, and foreign exchange derivatives gains and losses associated with intercompany lending. Corporate governance costs are primarily administrative expenses supporting oversight or

stewardship on behalf of the global enterprise and not allocated to specific business units or segments. The underlying assets and liabilities associated with these financial results remain with the respective Automotive and Mobility segments.

#### Interest on Debt

Interest on Debt is presented as a separate reconciling item and consists of interest expense on Automotive and other debt. The underlying liability is reported in the Automotive segment and in Corporate Other.

27

---

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 18. SEGMENT INFORMATION (Continued)

## Special Items

Special Items are presented as a separate reconciling item. They consist of (i) pension and other postretirement employee benefits (“OPEB”) rereasurement gains and losses, (ii) significant personnel and dealer-related costs stemming from our efforts to match production capacity and cost structure to market demand and changing model mix, and (iii) other items that we do not necessarily consider to be indicative of earnings from ongoing operating activities. Our management excludes these items from its review of the results of the operating segments for purposes of measuring segment profitability and allocating resources. We also report these special items separately to help investors track amounts related to these activities and to allow investors analyzing our results to identify certain infrequent significant items that they may wish to exclude when considering the trend of ongoing operating results.

Key financial information for the periods ended or at June 30 was as follows (in millions):

	Automotive	Mobility	Ford Credit	Corporate Other	Interest on Debt	Special Items	Adjustments	Total
<b>Second Quarter 2017</b>								
Revenues	\$ 37,113	\$ 2	\$ 2,738	\$ —	\$ —	\$ —	\$ —	\$ 39,853
Income/(loss) before income taxes	2,395	(63 )	619	(146 )	(29)	(248)	—	2,266
Equity in net income/(loss) of affiliated companies	266	(1 )	8	—	—	—	—	273
Cash, cash equivalents, and marketable securities	28,428	4	10,677	—	—	—	—	39,109
Restricted cash	5	7	102	—	—	—	—	114
Total assets	104,151	80	151,047	—	—	—	(7,241)	(a)248,037
<b>Second Quarter 2018</b>								
Revenues	\$ 35,905	\$ 6	\$ 3,009	\$ —	\$ —	\$ —	\$ —	\$ 38,920
Income/(loss) before income taxes	1,157	(181 )	645	71	(30)	(42 )	—	1,349
Equity in net income/(loss) of affiliated companies	54	—	6	—	—	—	—	60
Cash, cash equivalents, and marketable securities	25,092	19	11,365	—	—	—	—	36,476
Restricted cash	16	31	146	—	—	—	—	193
Total assets	103,306	470	158,604	—	—	—	(4,301)	(a)258,079
<b>First Half 2017</b>								
Revenues	\$ 73,588	\$ 4	\$ 5,407	\$ —	\$ —	\$ —	\$ —	\$ 78,999
Income/(loss) before income taxes	4,570	(127 )	1,100	(218 )	(584)	(224)	—	4,517
Equity in net income/(loss) of affiliated companies	605	(1 )	15	—	—	—	—	619

Edgar Filing: FORD MOTOR CO - Form 10-Q

First Half 2018

Revenues	\$ 74,917	\$ 10	\$ 5,952	\$ —	\$ —	\$ —	\$ —	\$ 80,879
Income/(loss) before income taxes	2,889	(283 )	1,286	(15 )	(590)	(19)	—	3,268
Equity in net income/(loss) of affiliated companies	272	—	12	—	—	—	—	284

(a) Includes eliminations of intersegment transactions occurring in the ordinary course of business and deferred tax netting.

28

---

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### OVERVIEW

#### Non-GAAP Financial Measures That Supplement GAAP Measures

We use both generally accepted accounting principles ("GAAP") and non-GAAP financial measures for operational and financial decision making, and to assess Company and segment business performance. The non-GAAP measures listed below are intended to be considered by users as supplemental information to their equivalent GAAP measures, to aid investors in better understanding our financial results. We believe that these non-GAAP measures provide useful perspective on underlying business results and trends, and a means to assess our period-over-period results. These non-GAAP measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. These non-GAAP measures may not be the same as similarly titled measures used by other companies due to possible differences in method and in items or events being adjusted.

**Company Adjusted EBIT (Most Comparable GAAP Measure: Net Income Attributable to Ford) – Earnings before interest and taxes (EBIT) includes non-controlling interests and excludes interest on debt (excl. Ford Credit Debt), taxes, and pre-tax special items. This non-GAAP measure is useful to management and investors because it allows users to evaluate our operating results aligned with industry reporting. Pre-tax special items consist of (i) pension and OPEB remeasurement gains and losses, (ii) significant restructuring actions related to our efforts to match production capacity and cost structure to market demand and changing model mix, and (iii) other items that we do not necessarily consider to be indicative of earnings from ongoing operating activities. When we provide guidance for adjusted EBIT, we do not provide guidance on a net income basis because the GAAP measure will include potentially significant special items that have not yet occurred and are difficult to predict with reasonable certainty prior to year-end, including pension and OPEB remeasurement gains and losses.**

**Company Adjusted EBIT Margin (Most Comparable GAAP Measure: Company Net Income Margin) – Company Adjusted EBIT margin is Company adjusted EBIT divided by Company revenue. This non-GAAP measure is useful to management and investors because it allows users to evaluate our operating results aligned with industry reporting.**

**Adjusted Earnings Per Share (Most Comparable GAAP Measure: Earnings Per Share) – Measure of Company's diluted net earnings per share adjusted for impact of pre-tax special items (described above) and tax special items. The measure provides investors with useful information to evaluate performance of our business excluding items not indicative of the underlying run rate of our business. When we provide guidance for adjusted earnings per share, we do not provide guidance on an earnings per share basis because the GAAP measure will include potentially significant special items that have not yet occurred and are difficult to predict with reasonable certainty prior to year-end, including pension and OPEB remeasurement gains and losses.**

**Adjusted Effective Tax Rate (Most Comparable GAAP Measure: Effective Tax Rate) – Measure of Company's tax rate excluding pre-tax special items (described above) and tax special items. The measure provides an ongoing effective rate which investors find useful for historical comparisons and for forecasting. When we provide guidance for adjusted effective tax rate, we do not provide guidance on an effective tax rate basis because the GAAP measure will include potentially significant special items that have not yet occurred and are difficult to predict with reasonable certainty prior to year-end, including pension and OPEB remeasurement gains and losses.**

**Company Adjusted Operating Cash Flow (Most Comparable GAAP Measure: Net Cash Provided By / (Used In) Operating Activities) – Measure of Company's operating cash flow excluding Ford Credit's operating cash flows. The measure contains elements management considers operating activities, including Automotive and Mobility capital spending, Ford Credit distributions to its parent, and settlement of derivatives. The measure excludes cash outflows for funded pension contributions, separation payments, and other items that are considered operating cash outflows**

under U.S. GAAP. This measure is useful to management and investors because it is consistent with management's assessment of the Company's operating cash flow performance. When we provide guidance for Company adjusted operating cash flow, we do not provide guidance for net cash provided by/(used in) operating activities because the GAAP measure will include items that are difficult to quantify or predict with reasonable certainty, including cash flows related to the Company's exposures to foreign currency exchange rates and certain commodity prices (separate from any related hedges), Ford Credit's operating cash flows, and cash flows related to special items, including separation payments, each of which individually or in the aggregate could have a significant impact to our net cash provided by/(used in) our operating activities.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Ford Credit Managed Receivables (Most Comparable GAAP Measure: Net Finance Receivables plus Net Investment in Operating Leases) – Measure of Ford Credit's total net receivables, excluding unearned interest supplements and residual support, allowance for credit losses, and other (primarily accumulated supplemental depreciation). The measure is useful to management and investors as it closely approximates the customer's outstanding balance on the receivables, which is the basis for earning revenue.

Ford Credit Managed Leverage (Most Comparable GAAP Measure: Financial Statement Leverage) – Ford Credit's debt-to-equity ratio adjusted (i) to exclude cash, cash equivalents, and marketable securities (other than amounts related to insurance activities), and (ii) for derivative accounting. The measure is useful to investors because it reflects the way Ford Credit manages its business. Cash, cash equivalents, and marketable securities are deducted because they generally correspond to excess debt beyond the amount required to support operations and on-balance sheet securitization transactions. Derivative accounting adjustments are made to asset, debt, and equity positions to reflect the impact of interest rate instruments used with Ford Credit's term-debt issuances and securitization transactions. Ford Credit generally repays its debt obligations as they mature, so the interim effects of changes in market interest rates are excluded in the calculation of managed leverage.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

RESULTS OF OPERATIONS

Company

The chart below shows our second quarter and year-to-date 2018 key metrics for the Company, compared to a year ago.

Company revenue in the second quarter of 2018 was \$38.9 billion, down 2% from a year ago, more than explained by lower wholesale volumes, which were at 1.5 million units, down 10% compared with the second quarter of 2017. The lower volume is fully explained by North America (i.e., the production disruption caused by the fire at our supplier Meridian's facility) and Asia Pacific (i.e., mainly our China consolidated operations) while the other factors contributing to revenue improved. All of the Company key metrics for the quarter were lower than a year ago primarily driven by lower volume of high-margin products in our North America business due to the production disruptions caused by Meridian, along with performance issues in our China operations.

Net income in the second quarter of 2018 was \$1.1 billion or \$0.27 diluted earnings per share of Common and Class B stock, a decrease of \$900 million or \$0.24 per share from a year ago. Company adjusted EBIT for the second quarter of 2018 was \$1.7 billion, down \$1.1 billion year over year. Adjusted EPS in the quarter was \$0.27, down \$0.29 from a year ago. The year-over-year decrease in both net income and Company adjusted EBIT is more than explained by our Automotive segment.

Net income margin was 2.7% and Company adjusted EBIT margin was 4.3% in the second quarter of 2018, down 2.4 percentage points and 2.7 percentage points, respectively, from a year ago, reflecting mainly Asia Pacific, principally China, and North America performance.



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The chart below shows our second quarter 2018 net income attributable to Ford and Company adjusted EBIT by segment.

Our Automotive segment's EBIT in the second quarter of 2018 was \$1.2 billion, driven by a \$1.8 billion EBIT in North America. This was offset, in part, by a combined EBIT loss of about \$600 million in operations outside North America, with each region in a loss position except Middle East & Africa, which delivered a record second quarter EBIT. North America and Asia Pacific accounted for nearly all of the year-over-year \$1.2 billion decline in Automotive EBIT.

Our Mobility segment, including mobility services as well as autonomous vehicles, incurred an EBIT loss of \$181 million, split about equally between mobility services and autonomous vehicles.

Our Ford Credit segment had another strong quarter with growth in receivables, an EBT of \$645 million, up \$26 million, and strong consumer credit metrics. Auction values in the second quarter of 2018 were up 4% from a year ago, and we now expect full year average auction values to be up 1% to 2% at constant mix.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Automotive Segment

The chart below shows our second quarter 2018 Automotive segment EBIT by region.

In our Automotive segment, North America earned \$1.8 billion in the second quarter of 2018 with an EBIT margin of 7.4% despite the adverse impact of Meridian. Effectively, the entire \$579 million year-over-year decline in North America's EBIT was due to the Meridian disruption.

In South America, we had an EBIT loss in the second quarter of \$178 million, unchanged from a year ago. While overall industry conditions improved and we held cost essentially flat excluding inflationary effects, this was completely offset by the significant weakening of local currencies, particularly the Argentine peso, and very high levels of inflation, especially in Argentina.

In Europe, we incurred a loss of \$73 million in the second quarter, compared to a profit of \$122 million a year ago. The decline in EBIT was driven by higher cost, primarily regulatory related, and unfavorable exchange, mainly sterling. While market factors were slightly positive, we expected a stronger boost from the top line in volume and net pricing.

In Asia Pacific, we had major year-over-year declines across all metrics, almost entirely driven by China. Asia Pacific's second quarter EBIT loss was \$394 million, down \$561 million from a year ago, with \$506 million coming from our China operations and \$55 million from the operations outside China. For Asia Pacific, the year-over-year decline was due to lower volume and net pricing, as well as lower China JV net income.

In China, we lost \$483 million in the second quarter, a decline of \$506 million year over year. The decline was driven by unfavorable market factors for Ford and Lincoln imports into China and continued negative industry pricing. The lower net pricing also includes adverse stock accrual effects driven by price changes in response to tariff changes. The decline in the China JVs was driven by unfavorable volume and mix, as well as lower net pricing, which was primarily industry-related. With volumes in the JV down year over year, we also saw a decline in royalties, which compensate us for engineering expense that we incurred in the past.

The operations in Asia Pacific outside of China earned \$89 million, down from \$144 million a year ago, with an EBIT margin of 4.2%. This decline was driven by unfavorable market factors, mainly in Australia and ASEAN. India continued to improve, although it incurred a modest loss.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

In general, we measure year-over-year change in Automotive segment EBIT using the causal factors listed below, with net pricing and cost variances calculated at present-year volume and mix and exchange:

**Market Factors** (exclude the impact of unconsolidated affiliate wholesales):

**Volume and Mix** – primarily measures EBIT variance from changes in wholesale volumes (at prior-year average contribution margin per unit) driven by changes in industry volume, market share, and dealer stocks, as well as the EBIT 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 EBIT variance driven by changes in wholesale prices to dealers and marketing incentive programs such as rebate programs, low-rate financing offers, special lease offers, and stock adjustments on dealer inventory

**Cost:**

**Contribution Costs** – primarily measures EBIT 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

**Structural Costs** – primarily measures EBIT variance driven by absolute change in cost categories that typically do not have a directly proportionate relationship to production volume. Structural costs include the following cost categories: **Manufacturing, Including Volume Related** – consists primarily of costs for hourly and salaried manufacturing personnel, plant overhead (such as utilities and taxes), and new product launch expense.

These costs could be affected by volume for operating pattern actions such as overtime, line-speed, and shift schedules **Engineering** – consists primarily of costs for engineering personnel, prototype materials, testing, 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 costs and other postretirement employee benefit costs

**Other** – includes a variety of items, such as parts and services profits, royalties, government incentives, and compensation-related changes. Other also includes:

**Exchange** – primarily measures EBIT variance driven by one or more of the following: (i) transactions denominated in currencies other than the functional currencies of the relevant entities, (ii) effects of converting functional currency income to U.S. dollars, (iii) effects of remeasuring monetary assets and liabilities of the relevant entities in currencies other than their functional currency, or (iv) results of our foreign currency hedging

Beginning in 2018, in our discussion of Asia Pacific EBIT, Other includes the equity income from our China JVs. In prior periods, the impact of our equity income from our China JVs was spread across each causal factor

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

In addition, definitions and calculations used in this report include:

**Wholesales and Revenue** – wholesale unit volumes include all Ford and Lincoln badged units (whether produced by Ford or by an unconsolidated affiliate) that are sold to dealerships, units manufactured by Ford that are sold to other manufacturers, units distributed by Ford for other manufacturers, and local brand units produced by our China joint venture, Jiangling Motors Corporation, Ltd. (“JMC”), that are sold to dealerships. Vehicles sold to daily rental car companies that are subject to a guaranteed repurchase option (i.e., rental repurchase), as well as other sales of finished vehicles for which the recognition of revenue is deferred (e.g., consignments), also are included in wholesale unit volumes. Revenue from certain vehicles in wholesale unit volumes (specifically, Ford badged vehicles produced and distributed by our unconsolidated affiliates, as well as JMC brand vehicles) are not included in our revenue

**Industry Volume and Market Share** – based, in part, on estimated vehicle registrations; includes medium and heavy duty trucks

**SAAR** – seasonally adjusted annual rate

References to Automotive records for EBIT margin and business units are since at least 2009.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The charts on the following pages detail second quarter and year-to-date 2018 key metrics and the change in second quarter 2018 EBIT compared with second quarter 2017 by causal factor for our Automotive segment and its regional business units: North America, South America, Europe, Middle East & Africa, and Asia Pacific.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

37

---

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

38

---

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

39

---



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

40

---

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

41

---

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Mobility Segment

Our Mobility segment primarily includes development costs related to our autonomous vehicles and our investment in mobility through Ford Smart Mobility LLC ("FSM"). FSM designs and builds mobility services on its own, and collaborates with start-ups and tech companies.

The chart below shows the Mobility segment's second quarter and year-to-date 2018 EBIT compared with a year ago.

42

---

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Ford Credit Segment

In general, we measure year-over-year changes in Ford Credit's EBT using the causal factors listed below:

•Volume and Mix:

Volume primarily measures changes in net financing margin driven by changes in average managed receivables at prior period financing margin yield (defined below in financing margin) at prior period exchange rates. Volume changes are primarily driven by the volume of new and used vehicle sales and leases, the extent to which Ford Credit purchases retail installment sale and lease contracts, the extent to which Ford Credit provides wholesale financing, the sales price of the vehicles financed, the level of dealer inventories, Ford-sponsored special financing programs available exclusively through Ford Credit, and the availability of cost-effective funding for the purchase of retail installment sale and lease contracts and to provide wholesale financing

Mix primarily measures changes in net financing margin driven by period over period changes in the composition of Ford Credit's average managed receivables by product and by country or region

•Financing Margin:

Financing margin variance is the period-to-period change in financing margin yield multiplied by the present period average managed receivables at prior period exchange rates. This calculation is performed at the product and country level and then aggregated. Financing margin yield equals revenue, less interest expense and scheduled depreciation for the period, divided by average managed receivables for the same period

Financing margin changes are driven by changes in revenue and interest expense. Changes in revenue are primarily driven by the level of market interest rates, cost assumptions in pricing, mix of business, and competitive environment. Changes in interest expense are primarily driven by the level of market interest rates, borrowing spreads, and asset-liability management

•Credit Loss:

Credit loss is the change in the provision for credit losses at prior period exchange rates. For analysis purposes, management splits the provision for credit losses into net charge-offs and the change in the allowance for credit losses. Net charge-off changes are primarily driven by the number of repossessions, severity per repossession, and recoveries. Changes in the allowance for credit losses are primarily driven by changes in historical trends in credit losses and recoveries, changes in the composition and size of Ford Credit's present portfolio, changes in trends in historical used vehicle values, and changes in economic conditions. For additional information, refer to the "Critical Accounting Estimates - Allowance for Credit Losses" section of Item 7 of Part II of our 2017 Form 10-K Report

•Lease Residual:

Lease residual measures changes to residual performance at prior period exchange rates. For analysis purposes, management splits residual performance primarily into residual gains and losses, and the change in accumulated supplemental depreciation

Residual gain and loss changes are primarily driven by the number of vehicles returned to Ford Credit and sold, and the difference between the auction value and the depreciated value (which includes both base and accumulated supplemental depreciation) of the vehicles sold. Changes in accumulated supplemental depreciation are primarily driven by changes in Ford Credit's estimate of the expected auction value at the end of the lease term, and changes in the estimate of the number of vehicles that will be returned to it and sold. For additional information, refer to the "Critical Accounting Estimates - Accumulated Depreciation on Vehicles Subject to Operating Leases" section of Item 7 of Part II of our 2017 Form 10-K Report

Exchange:

Reflects changes in EBT driven by the effects of converting functional currency income to U.S. dollars

Other:

Primarily includes operating expenses, other revenue, insurance expenses, and other income at prior period exchange rates

Changes in operating expenses are primarily driven by salaried personnel costs, facilities costs, and costs associated with the origination and servicing of customer contracts

In general, other income changes are primarily driven by changes in earnings related to market valuation adjustments to derivatives (primarily related to movements in interest rates) and other miscellaneous items

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

In addition, the following definitions and calculations apply to Ford Credit when used in this report:

• Cash (as shown on the Funding Structure, Liquidity Sources, and Leverage charts) – Cash, cash equivalents, and marketable securities, excluding amounts related to insurance activities

• Earnings Before Taxes (EBT) – Reflects Ford Credit's income before income taxes

• Return on Equity (ROE) (as shown on the Key Metrics chart) – Reflects return on equity calculated by annualizing net income for the period and dividing by average equity for the period

• Securitizations (as shown on the Public Term Funding Plan chart) – Public securitizations, Rule 144A offerings sponsored by Ford Motor Credit, and widely distributed offerings by Ford Credit Canada

• Term Asset-Backed Securities (as shown on the Funding Structure chart) – Obligations issued in securitization transactions that are payable only out of collections on the underlying securitized assets and related enhancements

• Total Debt (as shown on the Leverage chart) – Debt on Ford Credit's balance sheet. Includes debt issued in securitizations and payable only out of collections on the underlying securitized assets and related enhancements.

• Ford Credit holds the right to receive the excess cash flows not needed to pay the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions

• Total Net Receivables (as shown on the Total Net Receivables Reconciliation to Managed Receivables chart) – Includes finance receivables (retail and wholesale) sold for legal purposes and net investment in operating leases included in securitization transactions that do not satisfy the requirements for accounting sale treatment. These receivables and operating leases are reported on Ford Credit's balance sheet and are available only for payment of the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions; they are not available to pay the other obligations of Ford Credit or the claims of Ford Credit's other creditors

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The charts below detail second quarter and year-to-date 2018 key metrics and the change in second quarter 2018 EBT compared with second quarter 2017 by causal factor for the Ford Credit segment.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Corporate Other

Corporate Other primarily includes corporate governance costs, interest income (excluding interest earned on our extended service contract portfolio that is included in our Automotive segment) and portfolio gains and losses from our cash, cash equivalents, and marketable securities, and foreign exchange derivatives gains and losses associated with intercompany lending. Corporate governance costs are primarily administrative expenses supporting oversight or stewardship on behalf of the global enterprise and not allocated to specific business units or segments. Our second quarter 2018 Corporate Other results were a \$71 million gain, compared with a \$146 million loss a year ago. This improvement is driven by net gains on cash equivalents and marketable securities, largely our investment in Pivotal, higher interest income, and higher interest income on income taxes.

Interest on Debt

Interest on Debt consists of interest expense on Automotive and other debt. Second quarter 2018 interest expense on Automotive and other debt was \$301 million, \$10 million higher than a year ago.

Special Items

In Note 18 of the Notes to the Financial Statements, special items are reflected as a separate reconciling item, as opposed to being allocated among the Automotive, Mobility, and Ford Credit segments. This reflects the fact that management excludes these items from its review of operating segment results for purposes of measuring segment profitability and allocating resources.

Our pre-tax and tax special items were as follows:



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Taxes

Our tax provisions for the second quarter and first half of 2018 were \$280 million and \$454 million, respectively, resulting in GAAP effective tax rates of 20.8% and 13.9%, respectively. The GAAP effective tax rates for the second quarter and first half of 2018 were 11.5 percentage points higher and 5.2 percentage points lower, respectively, than a year ago.

Our second quarter and first half of 2018 non-GAAP adjusted effective tax rates, which exclude special items, were 20.8% and 14.0%, respectively. The non-GAAP adjusted effective tax rates for the second quarter and first half of 2018 were 10.6 percentage points higher and 4.8 percentage points lower, respectively, than a year ago.

The higher second quarter 2018 rates reflect the non-repeat of a realization of foreign tax credit benefits. The lower first half 2018 rates reflect a lower corporate statutory tax rate in the United States as a result of the 2017 Tax Cuts and Jobs Act.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

LIQUIDITY AND CAPITAL RESOURCES

Total balance sheet cash, cash equivalents, marketable securities, and restricted cash (including Ford Credit) remains strong at \$36.7 billion.

Company excluding Ford Credit

Liquidity. One of our key priorities is to maintain a strong balance sheet, while at the same time having resources available to invest in and grow our business. Based on our planning assumptions, we believe we have sufficient liquidity and capital resources to continue to invest in new products and services, pay our debts and obligations as and when they come due, pay a sustainable regular dividend at the current level, and provide protection within an uncertain global economic environment.

Our key balance sheet metrics include: company cash, cash equivalents, marketable securities, and restricted cash, excluding Ford Credit's cash, cash equivalents, marketable securities, and restricted cash (collectively "Company cash"); Company liquidity, which includes Company cash, less restricted cash, and total available committed credit lines; and cash net of debt.

At June 30, 2018, we had \$25.2 billion of Company cash, with 86% held by consolidated entities domiciled in the United States. We target to have an average ongoing Company cash balance of about \$20 billion. We expect to have periods when we will be above or below this amount due to: (i) future cash flow expectations, such as for investments in future opportunities, capital investments, debt maturities, pension contributions, or restructuring requirements, (ii) short-term timing differences, and (iii) changes in the global economic environment.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Our Company cash investments primarily include U.S. Department of Treasury obligations, federal agency securities, bank time deposits with investment-grade institutions, corporate investment-grade securities, investment-grade commercial paper, 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 is approximately one year and adjusted based on market conditions and liquidity needs. We monitor our Company cash levels and average maturity on a daily basis.

In addition to our target Company cash balance, we also target to maintain a corporate credit facility, discussed below, for our Automotive business of about \$10 billion to protect against exogenous shocks. We assess the appropriate long-term target for total Company liquidity, which includes Company cash and the Automotive portion of the corporate credit facility, to be about \$30 billion, which is an amount we believe is sufficient to support our business priorities and to protect our business. At June 30, 2018, we had \$36.1 billion of Company liquidity. We may reduce our Company cash and liquidity targets over time, based on improved operating performance and changes in our risk profile.

**Changes in Company Cash.** Beginning in 2018, we are reporting Company adjusted operating cash flow, which includes Automotive, Mobility, Corporate Other, and Interest on Debt cash flows, as well as Ford Credit distributions. Prior to 2018, Ford Credit distributions were reported as a non-operating cash flow.

In managing our business, we classify changes in Company cash into operating and other items. Operating items include: Company adjusted EBIT excluding Ford Credit, capital spending, depreciation and tooling amortization, changes in working capital, Ford Credit distributions, and all other and timing differences. Non-operating items include: separation payments, other transactions with Ford Credit, acquisitions and divestitures, changes in Automotive debt, contributions to funded pension plans, and shareholder distributions.

With respect to "Changes in working capital," in general we carry relatively low Automotive segment trade receivables compared with 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 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. 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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Changes in Company cash are summarized below:

Capital spending was \$1.9 billion in the second quarter of 2018 and \$3.7 billion year-to-date. Our outlook for full year 2018 capital spending remains at \$7.5 billion. We continue to expect capital spending to decline to about \$7 billion annually starting in 2020.

Second quarter 2018 working capital was \$2.1 billion negative reflecting primarily the impact of lower production payables on working capital and higher inventory. Year-to-date 2018 working capital was \$1 billion negative, more than explained by higher inventory.

Second quarter and year-to-date 2018 all other and timing differences were negative reflecting primarily interest payments on Automotive debt, cash taxes, and assorted timing differences.

Shareholder distributions were about \$600 million in the second quarter of 2018 and \$1.8 billion year to date. We continue to expect full year distributions of \$3 billion.

Available Credit Lines. Total committed Company credit lines excluding Ford Credit at June 30, 2018 were \$12 billion, consisting of \$10.4 billion of our corporate credit facility and \$1.6 billion of local credit facilities. At June 30, 2018, the utilized portion of the corporate credit facility was about \$35 million, representing amounts utilized for letters of credit. At June 30, 2018, the utilized portion of the local credit facilities was about \$1 billion.

Our corporate credit facility was amended as of April 26, 2018 to extend the maturities by one year. Lenders under our corporate credit facility have commitments to us totaling \$13.4 billion, with 75% of the commitments maturing on April 30, 2023 and 25% of the commitments maturing on April 30, 2021. We have allocated \$3 billion of commitments to Ford Credit on an irrevocable and exclusive basis to support its growth and liquidity. We would guarantee any borrowings by Ford Credit under the corporate credit facility.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The corporate credit facility is unsecured and free of material adverse change conditions to borrowing, restrictive financial covenants (for example, interest or fixed charge coverage ratio, debt-to-equity ratio, and minimum net worth requirements), and credit rating triggers that could limit our ability to obtain funding. The corporate credit facility contains a liquidity covenant that requires us to maintain a minimum of \$4 billion in aggregate of domestic cash, cash equivalents, and loaned and marketable securities and/or availability under the facility. If our senior, unsecured, long-term debt does not maintain at least two investment grade ratings from Fitch, Moody's, and S&P, the guarantees of certain subsidiaries will be required.

Debt. As shown in Note 14 of the Notes to the Financial Statements, at June 30, 2018, Automotive segment debt, which excludes Ford Credit and Other debt, was \$15.6 billion. Company debt excluding Ford Credit was \$16.2 billion. Both balances were about \$300 million lower than December 31, 2017, more than explained by exchange.

Leverage. We manage Automotive debt levels with a leverage framework to maintain strong, investment grade credit ratings through a normal business cycle. The leverage framework includes a ratio of Automotive debt, underfunded pension liabilities, operating leases, and other adjustments, divided by Company adjusted EBIT, excluding Ford Credit EBT, and further adjusted for depreciation, amortization, and other adjustments. Ford Credit's leverage is calculated as a separate business as described in the Liquidity - Ford Credit Segment section of Item 2. Ford Credit is self-funding and its debt, which is used to fund its operations, is separate from our Automotive debt.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Ford Credit Segment

**Funding Overview.** Ford Credit's primary funding and liquidity objective is to be well capitalized with a strong, investment grade balance sheet and ample liquidity to support its financing activities and growth under a variety of market conditions, including short-term and long-term market disruptions. Ford Credit's funding strategy remains focused on diversification, and it plans to continue accessing a variety of markets, channels, and investors.

Ford Credit's liquidity profile continues to be diverse, robust, and focused on maintaining liquidity levels that meet its business and funding requirements. Ford Credit annually stress tests its balance sheet and liquidity to ensure that it continues to meet its financial obligations through economic cycles.

**Funding Portfolio.** The chart below shows the trends in funding for Ford Credit's managed receivables:

Managed receivables of \$151 billion as of June 30, 2018, were funded primarily with term debt and term asset-backed securities. Securitized funding as a percent of managed receivables was 36%. Ford Credit expects the mix of securitized funding to remain around 35%. The calendarization of the funding plan will result in quarterly fluctuations of the securitized funding percentage.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

**Public Term Funding Plan.** The following chart shows Ford Credit's issuances for full-year 2016 and 2017, planned issuances for full-year 2018, and its global public term funding issuances through July 24, 2018, excluding short-term funding programs:

Ford Credit's total unsecured public term funding plan is categorized by currency of issuance. Ford Credit plans to continue issuing its European debt from the United States. For 2018, Ford Credit projects full-year public term funding in the range of \$26 billion to \$30 billion. Within the unsecured term funding plan, Ford Credit forecasts higher full-year issuance in euros and pounds sterling, and lower full-year issuance in U.S. dollars compared with 2017. This reflects opportunistic issuances in euros completed in the first half of 2018, much of which support Ford Credit U.S. funding requirements. Through July 24, 2018, Ford Credit has completed \$19 billion of public term issuances.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Liquidity. The following chart shows Ford Credit's liquidity sources and utilization:

Ford Credit's liquidity available for use will fluctuate quarterly based on factors including near-term debt maturities, receivable growth, and timing of funding transactions. Ford Credit targets liquidity of about \$25 billion. At June 30, 2018, Ford Credit's liquidity available for use was \$2.1 billion lower than at year-end 2017.

Ford Credit's sources of liquidity include cash, committed asset-backed facilities, unsecured credit facilities, and the corporate credit facility allocation.

54

---



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

**Leverage.** Ford Credit uses leverage, or the debt-to-equity ratio, to make various business decisions, including evaluating and establishing pricing for finance receivable and operating lease financing, and assessing its capital structure.

The chart below shows the calculation of Ford Credit's financial statement leverage and managed leverage:

Ford Credit plans its managed leverage by considering prevailing market conditions and the risk characteristics of its business. At June 30, 2018, Ford Credit's financial statement leverage was 8.9:1, and its managed leverage was 8.3:1. Ford Credit targets managed leverage in the range of 8:1 to 9:1.

**Total Company**

**Pension Plans - Underfunded Balances.** As of June 30, 2018, our total Company pension underfunded status reported on our balance sheet was \$5.7 billion and reflects the net underfunded status at December 31, 2017, updated for service and interest cost, expected return on assets, separation expense, interim remeasurement expense, actual benefit payments, and cash contributions. The discount rate and rate of expected return assumptions are unchanged from year-end 2017, and the reported number does not reflect the impact from any change in interest rates or asset returns since year-end 2017.

Based on our planning assumptions for asset returns, discount rates, and contributions, we expect our funded status to improve at year-end 2018 compared to the end of 2017.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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, Fitch, Moody’s, and S&P.

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

There have been no rating actions taken by these NRSROs since the filing of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.

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

NRSRO RATINGS							
Ford Issuer	Ford Credit			NRSROs			
	Default / Corporate / Issuer Rating	Long-Term Senior Unsecured	Outlook / Trend	Long-Term Senior Unsecured	Short-Term Unsecured	Outlook / Trend	Minimum Long-Term Investment Grade Rating
DBRS	BBB	BBB	Stable	BBB	R-2M	Stable	BBB (low)
Fitch	BBB	BBB	Stable	BBB	F2	Stable	BBB-
Moody’s	N/A	Baa2	Negative	Baa2	P-2	Negative	Baa3
S&P	BBB	BBB	Stable	BBB	A-2	Stable	BBB-

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

OUTLOOK

Based on the current economic environment, our Company guidance for 2018 includes the following:

We have updated our full year adjusted EPS guidance from a range of \$1.45 to \$1.70 to a range of \$1.30 to \$1.50. Based on the mid-point of each range, the decline of \$0.18 reflects lower-than-expected contributions from Asia Pacific and Europe, offset in part by stronger performance from North America and Ford Credit, as well as a slightly lower adjusted effective tax rate of about 13%. We now expect full year adjusted operating cash flow to be lower than 2017, but still positive.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

NON-GAAP FINANCIAL MEASURE RECONCILIATIONS

The following charts show our Non-GAAP financial measure reconciliations for: Adjusted EBIT, Adjusted Earnings Per Share, Adjusted Effective Tax Rate, Adjusted Operating Cash Flow, and Ford Credit Managed Receivables. The GAAP reconciliation for Ford Credit Managed Leverage can be found in the Ford Credit Segment section of "Liquidity and Capital Resources."

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

59

---

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

60

---

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

## Supplemental Information

The tables below provide supplemental consolidating financial information, other financial information, and U.S. sales by type. Company excluding Ford Credit includes our Automotive and Mobility reportable segments, Corporate Other, Interest on Debt, and Special Items. Eliminations, where presented, primarily represent eliminations of intersegment transactions and deferred tax netting.

Selected Income Statement Information. The following table provides supplemental income statement information (in millions):

	For the period ended June 30, 2018					
	Second Quarter					
	Company excluding Ford Credit					
	Automotive	Mobility	Other (a)	Subtotal	Ford Credit	Consolidated
Revenues	\$35,905	\$ 6	\$—	\$35,911	\$3,009	\$ 38,920
Total costs and expenses	35,569	187	216	35,972	2,362	38,334
Interest expense on Automotive debt	—	—	287	287	—	287
Interest expense on Other debt	—	—	14	14	—	14
Other income/(loss) net	367	—	245	1,012	(8 )	1,004
Equity in net income of affiliated companies	54	—	—	54	6	60
Income/(loss) before income taxes	1,157	(181 )	(272 )	704	645	1,349
Provision for/(Benefit from) income taxes	221	(43 )	(64 )	114	166	280
Net income/(Loss)	936	(138 )	(208 )	590	479	1,069
	3	—	—	3	—	3

Less:  
Income/(Loss)  
attributable  
to  
noncontrolling  
interests  
Net  
income/(Loss)  
attributable  
to Ford  
Motor  
Company

\$933	\$ (138 )	\$(208)	\$587	\$479	\$ 1,066
-------	-----------	---------	-------	-------	----------

(a) Other includes Corporate Other, Interest on Debt, and Special Items

For the period ended June 30, 2018  
First Half  
Company excluding Ford Credit

	Automotive	Mobility	Other (a)	Subtotal	Ford Credit	Consolidated
Revenues	\$74,917	\$ 10	\$—	\$74,927	\$5,952	\$ 80,879
Total costs and expenses	73,715	351	406	74,472	4,700	79,172
Interest expense on Automotive debt	—	—	562	562	—	562
Interest expense on Other debt	—	—	28	28	—	28
Other income/(loss) net	4,115	58	372	1,845	22	1,867
Equity in net income of affiliated companies	272	—	—	272	12	284
Income/(loss) before income taxes	2,889	(283 )	(624 )	1,982	1,286	3,268
Provision for/(Benefit from) income taxes	566	(68 )	(150 )	348	106	454
	2,323	(215 )	(474 )	1,634	1,180	2,814



Net income/(Loss)						
Less:						
Income/(Loss) attributable to noncontrolling interests	12	—	—	12	—	12
Net income/(Loss) attributable to Ford Motor Company	\$2,311	\$ (215 )	\$ (474)	\$1,622	\$1,180	\$ 2,802

(a) Other includes Corporate Other, Interest on Debt, and Special Items

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Selected Balance Sheet Information. The following tables provide supplemental balance sheet information (in millions):

Assets	June 30, 2018		Eliminations	Consolidated
	Company excluding Ford Ford Credit	Ford Credit		
Cash and cash equivalents	\$7,749	\$9,079	\$ —	\$ 16,828
Marketable securities	17,362	2,286	—	19,648
Ford Credit finance receivables, net	—	51,354	—	51,354
Trade and other receivables, less allowances	3,674	7,352	—	11,026
Inventories	12,565	—	—	12,565
Other assets	2,485	1,119	—	3,604
Receivable from other segments	629	1,689	(2,318)	) —
Total current assets	44,464	72,879	(2,318)	) 115,025
Ford Credit finance receivables, net	—	56,351	—	56,351
Net investment in operating leases	2,051	27,314	—	29,365
Net property	35,398	182	—	35,580
Equity in net assets of affiliated companies	2,963	124	—	3,087
Deferred income taxes	12,094	224	(1,947)	) 10,371
Other assets	6,804	1,496	—	8,300
Receivable from other segments	2	34	(36)	) —
Total assets	\$ 103,776	\$ 158,604	\$ (4,301)	) \$ 258,079
Liabilities	Company		Eliminations	Consolidated
	excluding Ford Ford Credit	Ford Credit		
Payables	\$ 21,579	\$ 1,164	\$ —	\$ 22,743
Other liabilities and deferred revenue	19,579	1,655	—	21,234
Automotive debt payable within one year	3,968	—	—	3,968
Ford Credit debt payable within one year	—	46,916	—	46,916
Payable to other segments	2,318	—	(2,318)	) —
Total current liabilities	47,444	49,735	(2,318)	) 94,861
Other liabilities and deferred revenue	22,710	1,397	—	24,107
Automotive long-term debt	11,642	—	—	11,642
Ford Credit long-term debt	—	89,718	—	89,718
Other long-term debt	599	—	—	599
Deferred income taxes	126	2,405	(1,947)	) 584
Payable to other segments	36	—	(36)	) —
Total liabilities	\$ 82,557	\$ 143,255	\$ (4,301)	) \$ 221,511

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Selected Cash Flow Information. The following tables provide supplemental cash flow information (in millions):

	For the period ended June 30, 2018			
	First Half			
	Company			
	excluding Ford			
	Ford	Credit	Eliminations	Consolidated
	Credit			
Cash flows from operating activities				
Net cash provided by/(used in) operating activities	\$2,894	\$5,592	\$ —	\$ 8,486
	Company			
	excluding Ford			
	Ford	Credit	Eliminations	Consolidated
	Credit			
Cash flows from investing activities				
Capital spending	\$ (3,667 )	\$ (21 )	\$ —	\$ (3,688 )
Acquisitions of finance receivables and operating leases	—	(32,273 )	—	(32,273 )
Collections of finance receivables and operating leases	—	25,980	—	25,980
Purchases of marketable and other securities	(8,904 )	(2,821 )	—	(11,725 )
Sales and maturities of marketable and other securities	9,388	3,368	—	12,756
Settlements of derivatives	(47 )	156	—	109
Other	(180 )	(1 )	—	(181 )
Investing activity (to)/from other segments	1,477	154	(1,631 )	—
Net cash provided by/(used in) investing activities	\$ (1,933 )	\$ (5,458 )	\$ (1,631 )	\$ (9,022 )
	Company			
	excluding Ford			
	Ford	Credit	Eliminations	Consolidated
	Credit			
Cash flows from financing activities				
Cash dividends	\$ (1,711 )	\$ —	\$ —	\$ (1,711 )
Purchases of common stock	(89 )	—	—	(89 )
Net changes in short-term debt	343	(2,078 )	—	(1,735 )
Proceeds from issuance of long-term debt	176	27,959	—	28,135
Principal payments on long-term debt	(507 )	(24,792 )	—	(25,299 )
Other	(42 )	(51 )	—	(93 )
Financing activity to/(from) other segments	(154 )	(1,477 )	1,631	—
Net cash provided by/(used in) financing activities	\$ (1,984 )	\$ (439 )	\$ 1,631	\$ (792 )
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	\$ (137 )	\$ (152 )	\$ —	\$ (289 )

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

## Selected Other Information.

Cost of sales and Selling, administrative, and other expenses for the second quarter of 2018 were \$36 billion, a decrease of about \$100 million compared with the second quarter of 2017. Cost of sales and Selling, administrative, and other expenses for the first half of 2018 were \$74.5 billion, an increase of \$2.9 billion compared with the first half of 2017. The detail for these changes is shown below (in billions):

	2018	
	Lower/(Higher)	
	2017	
	Second	First
	Quarter	Half
Volume and mix, exchange, and other	\$ 1.0	\$ (1.4 )
Contribution costs		
Material excluding commodities	(0.2 )	(0.4 )
Commodities	(0.3 )	(0.8 )
Warranty	(0.3 )	—
Freight	(0.1 )	(0.1 )
Structural costs	(0.2 )	(0.4 )
Special items	0.2	0.2
Total	\$ 0.1	\$ (2.9 )

Equity. At June 30, 2018, total equity attributable to Ford was \$36.4 billion, an increase of about \$900 million compared with December 31, 2017. The detail for this change is shown below (in billions):

	Increase/ (Decrease)
Net income	\$ 2.8
Shareholder distributions	(1.8 )
Other comprehensive income	(0.2 )
Common Stock issued (including share-based compensation impacts)	0.1
Total	\$ 0.9

U.S. Sales by Type. The following table shows second quarter 2018 U.S. sales volume and U.S. wholesales segregated by truck, SUV, and car sales. U.S. sales volume reflects transactions with (i) retail and fleet customers (as reported by dealers), (ii) governments, and (iii) Ford management. U.S. wholesales reflect sales to dealers.

	U.S. Sales	U.S. Wholesales
Trucks	301,626	270,823
SUVs	236,258	234,706
Cars	140,226	116,014
Total Vehicles	678,110	621,543

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Cautionary Note on Forward-Looking Statements

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:

- Ford's long-term competitiveness depends on the successful execution of fitness actions;
- Industry sales volume, particularly in the United States, Europe, or China, could decline if there is a financial crisis, recession, or significant geopolitical event;
- Ford's new and existing products and mobility services are subject to market acceptance;
- Ford's results are dependent on sales of larger, more profitable vehicles, particularly in the United States;
- Ford may face increased price competition resulting from industry excess capacity, currency fluctuations, or other factors;
- Fluctuations in commodity prices, foreign currency exchange rates, and interest rates can have a significant effect on results;
- With a global footprint, Ford's results could be adversely affected by economic, geopolitical, protectionist trade policies, or other events;
- Ford's production, as well as Ford's suppliers' production, could be disrupted by labor disputes, natural or man-made disasters, financial distress, production difficulties, or other factors;
  - Ford's ability to maintain a competitive cost structure could be affected by labor or other constraints;
- Pension and other postretirement liabilities could adversely affect Ford's liquidity and financial condition;
- Economic and demographic experience for pension and other postretirement benefit plans (e.g., discount rates or investment returns) could be worse than Ford has assumed;
- Ford's vehicles could be affected by defects that result in delays in new model launches, recall campaigns, or increased warranty costs;
- Safety, emissions, fuel economy, and other regulations affecting Ford may become more stringent;
- Ford could experience unusual or significant litigation, governmental investigations, or adverse publicity arising out of alleged defects in products, perceived environmental impacts, or otherwise;
- Ford's receipt of government incentives could be subject to reduction, termination, or clawback;
- Operational systems, security systems, and vehicles could be affected by cyber incidents;
- Ford Credit's access to debt, securitization, or derivative markets around the world at competitive rates or in sufficient amounts could be affected by credit rating downgrades, market volatility, market disruption, regulatory requirements, or other factors;
- Ford Credit could experience higher-than-expected credit losses, lower-than-anticipated residual values, or higher-than-expected return volumes for leased vehicles;
- Ford Credit could face increased competition from banks, financial institutions, or other third parties seeking to increase their share of financing Ford vehicles; and
- Ford Credit could be subject to new or increased credit regulations, consumer or data protection regulations, or other regulations.

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 2017 Form 10-K

Report, as updated by our subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

## ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The Financial Accounting Standards Board ("FASB") has issued the following Accounting Standards Updates ("ASU"). ASU 2016-02 and ASU 2016-13 are expected to have a material impact to our financial statements or financial statement disclosures. For additional information, see Note 2 of the Notes to the Financial Statements.

Standard	Effective Date (a)
2018-08 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made	January 1, 2019
2018-07 Improvements to Nonemployee Share-Based Payment Accounting	January 1, 2019
2018-02 Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	January 1, 2019
2016-02 Leases	January 1, 2019 (b)
2016-13 Credit Losses - Measurement of Credit Losses on Financial Instruments	January 1, 2020

(a) Early adoption for each of the standards is permitted.

(b) The FASB has issued the following update to the Leases standard: ASU 2018-01 (Land Easement Practical Expedient for Transition to Topic 842). We will adopt the new Leases standard effective January 1, 2019.

## ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

## Automotive Segment

**Foreign Currency Risk.** The net fair value of foreign exchange forward contracts (including adjustments for credit risk) as of June 30, 2018, was an asset of \$354 million, compared with a liability of \$22 million as of December 31, 2017. The potential decrease in fair value from a 10% adverse change in the underlying exchange rates, in U.S. dollar terms, was \$2.7 billion at June 30, 2018, compared with \$2.8 billion at December 31, 2017.

**Commodity Price Risk.** The net fair value of commodity forward contracts (including adjustments for credit risk) as of June 30, 2018, was a liability of \$14 million, compared with an asset of \$33 million at December 31, 2017. The potential decrease in fair value from a 10% adverse change in the underlying commodity prices, in U.S. dollar terms, was \$65 million at June 30, 2018, compared with \$69 million at December 31, 2017.

## Ford Credit Segment

**Interest Rate Risk.** To provide a quantitative measure of the sensitivity of its pre-tax cash flow to changes in interest rates, Ford Credit uses interest rate scenarios that assume a hypothetical, instantaneous increase or decrease of one percentage point in all interest rates across all maturities (a "parallel shift"), as well as a base case that assumes that all interest rates remain constant at existing levels. The differences in pre-tax cash flow between these scenarios and the base case over a 12-month period represent an estimate of the sensitivity of Ford Credit's pre-tax cash flow. Under this model, Ford Credit estimates that at June 30, 2018, all else constant, such an increase in interest rates would decrease its pre-tax cash flow by \$2 million over the next 12 months, compared with an increase of \$14 million at December 31, 2017. In reality, interest rate changes are rarely instantaneous or parallel and rates could move more or less than the one percentage point assumed in Ford Credit's analysis. As a result, the actual impact to pre-tax cash flow could be higher or lower than the results detailed above.

## ITEM 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. James P. Hackett, our Chief Executive Officer (“CEO”), and Bob Shanks, our Chief Financial Officer (“CFO”), have performed an evaluation of the Company’s disclosure controls and procedures, as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (“Exchange Act”), as of June 30, 2018, and each has concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by SEC rules and forms, and that such information is accumulated and communicated to the CEO and CFO to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting. There were no changes in internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings.

In re: Takata Airbag Product Liability Litigation; Economic Loss Track Cases Against Ford Motor Company. On July 16, 2018, Ford entered into a settlement agreement related to a consumer economic loss class action pending before the United States District Court for the Southern District of Florida. The first case was originally filed on October 27, 2014, against Ford, Takata, and several other automotive manufacturers, and was brought by consumers who own or owned vehicles equipped with Takata airbag inflators. Additional cases were subsequently filed in courts throughout the United States and consolidated into a multidistrict case before the Florida court, which also included personal injury claims and claims by automotive recyclers. Ford's July 16 settlement relates only to the consumer economic loss matters. In these cases, Plaintiffs allege that Ford vehicles equipped with Takata airbags are defective and that Ford did not disclose this defect to consumers. Plaintiffs allege that they suffered several forms of economic damages as a result of purchasing vehicles with defective airbags. The settlement is for \$299 million, which is subject to certain discounts, and must be reviewed and approved by the court.

### ITEM 1A. Risk Factors.

The risk factors "With a global footprint, Ford's results could be adversely affected by economic, geopolitical, protectionist trade policies, or other events" and "Operational systems, security systems, and vehicles could be affected by cyber incidents" included in Item 1A of our 2017 Form 10-K Report are revised as follows:

With a global footprint, Ford's results could be adversely affected by economic, geopolitical, protectionist trade policies, 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 material adverse impact on markets around the world. Recent steps taken by the U.S. government to apply and consider applying tariffs on automobiles, parts, and other products and materials (e.g., steel) based on national security grounds have the potential to disrupt existing supply chains and impose additional costs on our business. Concerns persist regarding the overall stability of the European Union, given the diverse economic and political circumstances of individual European currency area ("euro area") countries. These concerns have been exacerbated by Brexit. We have a sterling revenue exposure and a euro cost exposure; a sustained weakening of sterling against euro may have an adverse effect on our profitability. Further, the United Kingdom may be at risk of losing access to free trade agreements for goods and services with the European Union and other countries, which may result in increased tariffs on U.K. imports and exports that could have an adverse effect on our profitability.

We have operations in various markets with volatile economic or political environments and 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 or import 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. Further, the U.S. government, other governments, and international organizations could impose additional sanctions that could restrict us from doing business directly or indirectly in or with certain countries or parties, which could include affiliates.

Operational systems, security systems, and vehicles could be affected by cyber incidents. We rely on information technology networks and systems, including in-vehicle systems and mobile devices, some of which are managed by suppliers, to process, transmit, and store electronic information that is important to the operation of our business and our vehicles. Despite security measures, we are at risk for interruptions, outages, and breaches of: (i) operational systems (including business, financial, accounting, product development, consumer receivables, data processing, or

manufacturing processes); (ii) facility security systems; and/or (iii) in-vehicle systems or mobile devices. Such cyber incidents could materially disrupt operational systems; result in loss of trade secrets or other proprietary or competitively sensitive information; compromise the privacy of personal information of customers, employees, or others; jeopardize the security of our facilities; affect the performance of in-vehicle systems; and/or impact the safety of our vehicles. A cyber incident could be caused by malicious third parties using sophisticated, targeted methods to circumvent firewalls, encryption, and other security defenses, including hacking, fraud, trickery, or other forms of deception. We have been the target of these types of attacks in the past and such attacks are likely to occur in the future. The techniques used for attacks by third parties change frequently and may become more sophisticated, which may cause cyber incidents to be difficult to detect for long periods of time. Our networks and in-vehicle systems may also be affected by computer viruses or breaches due to the negligence or misconduct of employees, contractors, and/

## Item 1A. Risk Factors (Continued)

or others who have access to our networks and systems. A significant cyber incident could impact production capability, harm our reputation, and/or subject us to regulatory actions or litigation.

We are subject to laws, rules, and regulations in the United States and other countries relating to the collection, use, and security of personal information of customers, employees, or others, including laws that may require us to notify regulators and affected individuals of a data security breach. Regulatory actions seeking to impose significant penalties and/or legal actions could be brought against us in the event of a data breach or perceived or actual non-compliance with data protection or privacy requirements. Among these requirements is the European Union's General Data Protection Regulation ("GDPR"), which came into effect on May 25, 2018.

## ITEM 6. Exhibits.

Designation	Description	Method of Filing
<u>Exhibit 12</u>	Calculation of Ratio of Earnings to Fixed Charges.	Filed with this Report.
<u>Exhibit 31.1</u>	Rule 15d-14(a) Certification of CEO.	Filed with this Report.
<u>Exhibit 31.2</u>	Rule 15d-14(a) Certification of CFO.	Filed with this Report.
<u>Exhibit 32.1</u>	Section 1350 Certification of CEO.	Furnished with this Report.
<u>Exhibit 32.2</u>	Section 1350 Certification of CFO.	Furnished with this Report.
Exhibit 101.INS	XBRL Instance Document.	*
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document.	*
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	*
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	*
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	*
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	*

\* Submitted electronically with this Report in accordance with the provisions of Regulation S-T.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FORD MOTOR COMPANY

By: /s/ Cathy O'Callaghan  
Cathy O'Callaghan, Vice President and  
Controller  
(principal accounting officer)

Date: July 25, 2018