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PRESENTATION

Operator

Good morning. My name is Kayla and I will be your conference operator today. At this time, I would like to welcome everyone to the Ford University conference call. (Operator Instructions)

Thank you. Mr. Ted Cannis, Executive Director of Investor Relations, you begin your conference call.

Ted Cannis - *Ford Motor Company - Executive Director, IR*

Thanks, Kayla, and good morning. Welcome to everyone joining us today. On behalf of the entire Ford team, I would like to thank you for taking time to be with us for Ford University. This is an important part of our process to share with investors our key topics that relate to how we report our results throughout the year.

Presenting today are John Lawler, Vice President and Corporate Controller, and Marion Harris, Ford Credit Chief Financial Officer. Also participating are Paul Andonian, Director of Accounting, and Stuart Rowley, who is transitioning out of the Corporate Controller role into a new position as Vice President of Corporate Strategy.

Copies of the presentation today have been posted on our investor and media websites for your reference, along with the full Ford Credit University presentation.

Today's discussion could include some forward-looking statements about our expectations for Ford's future performance. Actual results could be different and the most significant factors that could affect future results are summarized at the end of the presentation and detailed in our SEC filings. Today's focus will only be on how we report the results.

With that I would now like to turn it over to John.

John Lawler - *Ford Motor Company - VP & Controller*

Thanks, Ted, and good morning, everyone. This is John Lawler and I would like to welcome you to the sixth annual Ford University. So let's move on into the agenda.

First, we want to talk about changes in how we present our financial results and you'll see these changes starting with our second-quarter earnings announcement on July 28. Now, for many years in our 10-Ks and 10-Qs we have presented our GAAP results using two income statements, two balance sheets, and two cash flow statements. The first set of financial statements were on a total company consolidated basis and the second set broke out our Automotive and Financial Service businesses separately, with the two financial statements stacked on top of each other.

We are unique in presenting these sector financial statements. We considered it important to show this additional information to enable our investors to understand the operating performance of these two very different businesses. We also provided further detail on our Automotive sector, showing our regional business units as our reportable segments.

On slide 4, we highlight changes to our 10-Q which we plan to file on July 28. We are no longer going to provide sector financial statements. Going forward, we will show segments primarily focusing on Automotive, Financial Services, and Other business activities. I will show you what that looks like in a minute, but first, let's address why we are making these changes.

First, accounting and disclosure rules address consolidated and segment results, but not our unique sector presentations. Now some of you may use our XBRL tagged financial statements to analyze our results and have seen some of the difficulties as XBRL does not consider sector financial statements in their taxonomy.

Second, if we simply eliminated our sector disclosures, we would not be presenting our business the way we run it: with a focus on Automotive and Financial Services. As we have progressed to become a global company more than ever, we are working as a global team to maximize the benefits of our global Automotive and Financial Services operations. And, furthermore, as we embark on becoming an automotive and a mobility company, we need a financial reporting structure that supports this.

Under our new reportable segment structure, we will show the results of our company consistent with how we presently run our business and with an eye on how we expect to grow in the future.

Now, historically, we have made changes to our segment structure at the end of the year and that is recognizing that a change to our segments also changes some of the non-GAAP measures that we use. And since the SEC recently updated its interpretations concerning the use of non-GAAP measures, we are going to make the changes to our sector and segment reporting with our second-quarter results.

So on slide 5 it shows our prior and new segment structure. Our prior reporting structure had two sectors, Automotive and Financial Services, and then within Automotive sector we included our five regional business units and Other Automotive, which consisted primarily of our central treasury functions and special items.

Now the bottom of the graphic shows our new segment structure. We will continue our five regional business units -- we will combine our five regional business units into one segment called Automotive. Financial Services will remain unchanged and we will create a new category called All Other that will combine our central treasury operations, which previously was in Other Automotive, with our newly-formed Ford Smart Mobility subsidiary.

And as we said when we launched Ford Smart Mobility LLC, this new company will operate like a startup and, as such, its revenues and expenses are presently very small in comparison with the rest of the business. And by separately tracking it as a segment within All Other, we have set it up for separate reporting as it grows in the future.

Special items will continue to be reported separately. Our earnings material and our press release will now reflect the segment reporting shown on the chart. We will also provide the results of our regional business units, consistent with the financial measures we show for the Automotive segment.

Slide 6, this shows our Automotive key metrics slide from the first quarter of 2016. Starting with the second quarter, this slide will show our Automotive segment key metrics -- wholesales, revenue, market share, and operating margin -- will be unchanged from what we previously disclosed in our sector results.

One change you will notice is how we report our pretax results for our new Automotive segment. Previously, the Other Automotive, which we will now call Central Treasury Operations, was included in our reported Automotive pretax results. Now these activities will be reported as part of All Other, which means that our Automotive segment pretax results will be different than in the past.

Again, as I said, we are making these changes now to reflect how we run our business and to comply with accounting rules and we will still provide the Automotive regional business unit information.

Now on slide 7. On slide 7, we show our non-GAAP financial measures that we commonly use. There's a few things to note.

First, our total company non-GAAP measures that exclude special items will now be called Adjusted: Adjusted Pre-tax Profit, Adjusted EPS, and Adjusted Tax Rate. For our Ford Credit non-GAAP measures, we will use the terms Managed Receivables and Managed Leverage. When we use these non-GAAP measures in earnings press releases and in our SEC filings, we will show the most comparable GAAP measures with greater or equal prominence.

And, finally, all our public disclosures will contain reconciliations, starting with the GAAP measure and showing the adjustments reconciling to the non-GAAP measure.

Next, we would like to spend some time to help everyone better understand how we look at our year-over-year performance by causal factor.

On slide 9, the left-hand side of the slide is an excerpt from our first-quarter earnings release. Now we measure year-over-year changes in automotive pre-tax operating profit, excluding special items, based on six causal factors: volume and mix, net pricing, contribution cost, structural cost, exchange, and other. We will define each of these in the next several slides and one important item to note is that our China joint venture results are included in these six causal factors.

All of the various categories have different values depending on the order in which they are calculated. For consistency, we first calculate the impact of volume and mix at prior-year average contribution margin per unit and then we build on these variances with the impact of exchange, revenue, cost, and then, finally, other one-time items.

So let's begin with volume and mix in that portion of market factors that you see on slide 10.

The volume variance measures profit changes related to wholesale volumes that are driven by changes in industry volume, market share, and dealer stocks. Now we use the prior-year average contribution margin per unit to calculate this variance. Changes in retail sales are reported in the industry and the share performance categories, while the stocks variance is defined as the profit impact attributable to the change in wholesales not resulting in changes from retail sales. In simple terms, the stock's variance walks retail to wholesale performance.

The year-over-year variance in dealer stocks is based on the change in present period stocks, compared with the change in prior-period stocks. The mix variance results from changes in product mix, including mix among vehicle lines and the mix of trim levels and options within a vehicle line. And Other volume includes changes in external components.

The second category under market factors, and that's on slide 11, is net pricing and that's calculated at present-year volume, mix, and exchange. Net pricing primarily measures profit variances driven by changes in wholesale prices to the dealers. This includes items such as product or equipment pricing, which is pricing for additional content and that the end customer values, or pricing for specific equipment or features that are integral to the base design of the vehicle.

The next element is incentives, which includes marketing programs such as rebates, low-rate financing offers, or special lease offers. This also contains stock accruals for the changes in incentives on vehicles already in dealer inventory. Other changes are comprised of items such as select dealer incentives, dealer facility assistance, and other outside sales.

Now turning to slide 12, we move on to what we call the total cost variances. First is contribution cost, and similar to net pricing, the total profit impact is measured at present-year volume, mix, and exchange. This category measures profit variance driven by per-unit changes in cost categories that vary with volume and these include material costs, warranty expense, and freight and duty costs.

Now let's take a look at and discuss the second category under total cost variances and that's on slide 13, which is structural costs. These profit variances are driven by absolute changes in cost categories and they're measured at present-year exchange, and those typically do not have a directly-proportionate relationship to production volumes.

Manufacturing costs, however, do include elements that are affected by volume for operating pattern actions such as overtime, changes in line speed, or a shift in schedules. Even an element of advertising and sales promotions can have some volume-related cost drivers such as the dealer advertising programs.

Other cost elements within our structural cost category include engineering, spending-related costs, administrative and selling expenses, and pension and OPEB. For a full definition of what makes up the main elements of our structural costs, you can refer to our 10-K.

Turning to slide 14, you can see the final categories and we will start with exchange, which primarily measures the profit variance driven by one or more of the following elements. First, there is the impact of gains and losses arising from transactions denominated in currencies other than the functional currency of the relevant entities. Second is the effect of converting functional currency into US dollars.

The third is the effect of remeasuring monetary assets and liabilities of the relevant entities into currencies other than their functional currency. And, finally, the exchange variance includes the results of our foreign currency hedging activities. The last category is Other, which includes a variety of items such as parts and service profits, royalty income, government incentives, performance compensation changes, and any other items that we haven't previously defined.

Okay, next section. There we're going to focus on automotive cash flow and working capital changes. If you turn to slide 16, you will see that the chart on the page and -- in managing the business, changes in automotive cash are classified into three categories. Automotive operating cash flows, other cash flows, and cash flows of a financing nature.

Operating cash flows best represent the ability of the automotive business to generate cash. Those elements include automotive pretax profits, capital spending net of depreciation and amortization, working capital, all other, and that's primarily automotive interest expense and interest income and timing differences. And we will talk more about working capital and timing differences on the next two slides.

Secondary category in other cash flows includes non-recurring items such as separation payments, net receipts from other segments -- and those are primarily Ford Credit distributions and tax payments to the automotive company -- and automotive acquisitions and divestitures. The third category, cash flow of a financing nature, that includes such items as the impact of debt actions and contributions to funded pension plans, as well as dividend payments and stock buybacks.

Moving on to slide 17, we will look at the key drivers of our working capital changes. Now payables, inventory, and receivables are elements of working capital and a component of our operating cash flow. Automotive trade payables are driven by production, including seasonality for the summer and end-of-year plant shutdowns and launch schedules.

Payables are based primarily on an industry-standard production and supplier payment term that generally ranges between 30 and 45 days. The finished vehicles, including the in-transit between countries and manufacturing materials, are the largest component of inventory. We carry relatively low automotive sector trade receivables compared with our trade payables, because the majority of our sales are financed by Ford Credit at the time of wholesale and so automotive receivable balances are impacted by variability in government and related-tax receivables and by arrangements with unconsolidated subsidiaries.

We experience positive changes in working capital as volumes increase, reflecting that we build to order, realize immediate payment at wholesale for finished vehicles, and have standard production payment terms of 30 to 45 days to our suppliers. Working capital balances generally are subject to seasonal changes that can impact cash flow, such as our summer and December shut-down periods, where production and therefore inventory and wholesale volumes are usually at their lowest levels, while payables continue to come due and be paid.

Turning to slide 18, another element that affects cash flow is timing and this is primarily the impact of timing differences between profit accruals and cash disbursements. And the slide illustrates the major components of the timing differences.

Upon wholesale, a warranty reserve accrual is made and cash payments to dealers occur later and that's at the time of the warranty repair. So the initial field service action estimates are accrued at wholesale, and after wholesale, the warranty reserve is monitored for the adequacy and adjusted through income as required.

Similar to warranty, marketing expense is accrued at the time of wholesale. Cash payments to dealers are typically made after the final retail sale and that's usually 60 to 90 days after wholesales. Again, the marketing reserves are monitored and adjusted as incentives change.

Now another example of the timing difference is performance compensation. Bonuses are accrued throughout the year, but generally, payments are made during the first quarter of the following year. JV impacts primarily reflect the timing difference between when Ford recognizes its share of the JV profits and when JV dividends are received.

Now pension expense are accrued through the year and determined using assumptions regarding the benefit obligation and the fair value of our plan assets. The primary cash outflow occurs when we fund the plans, which is reflected in non-operating cash flow; however, select benefit payments are made from corporate cash, which contributes to the timing differences.

In the next section, we will discuss our process for handling warranty reserves. So we will turn to slide 20 and this discusses how Ford provides warranties on the vehicles that we sell. Warranties are offered for specific periods of time and/or mileage and vary by product, brand, and market.

Also included in our reported warranty, we have costs associated with our field service actions as well as customer satisfaction actions. The estimated lifetime warranty costs are developed using historical data and are accrued at the time the vehicle is wholesaled. Reserves are established by vehicle lines, by model year, and by market.

Then, following a defined pattern estimation model or a proven set of guidelines, the initial estimate of the warranty costs are then compared periodically with our actual experience and, as appropriate, the lifetime reserves are revised. This can result in significant one-time positive or negative adjustments in any given quarter. Accordingly, the quarter-to-quarter comparisons they can be difficult. In our earnings results, we treat both the initial accrual and the reserve adjustments as operating expense.

Our calculation that we use for base coverages is shown on slide 21. We calculate the cost per unit by vehicle, by model year, and by market, and the initial cost per unit is based on prior model experience -- prior model year experience, and it is the cost per unit multiplied by the wholesale volume that establishes the initial accrual.

In the case of an all-new or a major change vehicle, we do develop a warranty cost per unit using a correlation between historical material costs and warranty costs. This methodology is required because prior model year experience is not necessarily going to represent what's going to happen with the new vehicle.

And on a quarterly basis, we conduct reserve reviews to assess the adequacy of those reserves. As the actual claims are incurred, we compare this experience with the historic spend and the trends we see to identify whether an adjustment to the reserve is required.

On slide 22, we show that field service actions include safety and emissions recalls, as well as customer satisfaction campaigns. And like coverages, we book an estimated lifetime cost per unit at the time of wholesale. The cost per unit is based upon several years of historical data, as determined by the model and the market. The reserves are maintained to cover cost of approved programs, plus a contingency for future approvals.

Now when a field service action is approved it is booked against the reserve with no associated impact on profits in the period in which it is accrued. There is one exception to this and that is when an extended warranty program is approved. Then such actions -- those actions are not booked against the reserve, but rather charged directly to income. We conduct quarterly reviews to assess the adequacy of the reserve and make any adjustments as required.

Now, at this time, I will turn it over to Marion Harris, Ford Credit's CFO, who will go over lease accounting and profit reporting beginning on slide 24.

Marion Harris - *Ford Motor Credit Company - CFO*

Thanks, John. Good morning, everyone. We receive many questions about lease accounting and how it affects Ford Credit's quarterly reporting, so we put together a hypothetical example to illustrate accounting for lease depreciation.

Here we are using a 36-month lease with an acquisition cost of $30,000; that is the amount we pay a dealer to acquire the lease contract. At origination, Ford Credit's projected auction value is $15,000, or 50% of MSRP, and the auction value of $15,000 at lease termination we're assuming here is equal to the original lease end projections.

So to achieve a targeted monthly payment, Ford may provide some residual support to Ford Credit. In this example, Ford pays Ford Credit $600 and the contract lease-end value, or LEV, is set at $15,600, which is 52% of MSRP. So base depreciation reflects scheduled depreciation from the acquisition costs to the contract LEV and does not change over the life of the contract.

In this example base depreciation is -- totals $14,400, which is the difference between the $30,000 acquisition cost and the $15,600 lease-end value. Depreciated over 36 months, this equates to $400 per month of lease depreciation.

Next concept is supplemental depreciation and that reflects the difference between contract LEV and the projected auction value. It is depreciated over the life of the contract. In this example, supplemental depreciation is $600. Ford pays the residual support to Ford Credit upfront and we amortize it over the life of the contract.

With that we have a category called accumulated supplemental depreciation, or ASD, and that reflects the accumulated balance of supplemental depreciation and residual support. In this example, ASD is zero at all points during the contract and at lease contract termination.

So let's turn to slide 25 and get a bit more technical. We assess auction values quarterly and we make changes accordingly. We do this at the contract level. If the expected auction value for a contract is less than what we set at the time that we originated the lease, we depreciate the vehicle more than the base depreciation over the remaining term of the contract.

In this example, at month 12 of the contract we assess the revised projection -- projected auction value to be $14,500, or $500 lower than we originally projected. So, going forward, the rate of supplemental depreciation is increased so that we depreciate the vehicle to the newly-projected auction price. At contract termination, total accumulated supplemental depreciation will be $500.

Over time, projected auction values can be higher or lower. If projected auction values improve, we reverse supplemental depreciation, but we cannot reverse or change base depreciation. So at contract termination, if the vehicle is returned to Ford Credit, it's generally sold at auction and the residual gain or loss reflects the difference between the actual auction proceeds we received and the depreciated value at contract termination. In this example, there is no residual gain or loss.

Let's turn to slide 26 and show how we reflect lease performance in our variance analysis in our earnings. Lease performance, lease residual performance is reported at prior-period exchange rates and it reflects the actual residual gains and losses in the period, plus the change in ASD. So lease residual performance is affected by a number of things including the projected auction value of future disposals, the overall portfolio size, and actual auction values and volume of disposed units in the period.

This concludes our 2016 Ford University presentation. Now John, Stuart, Paul, and I would be happy to address any questions you may have. Ted?

Ted Cannis - *Ford Motor Company - Executive Director, IR*

All right, thanks very much. Let's open it up.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Brian Johnson, Barclays.

Brian Johnson - *Barclays Capital - Analyst*

Good morning, team, and thank you again for hosting this. I have two questions, one around cost of goods sold and the other around working capital.

Around cost of goods sold, couple of things related. Commodity prices are swinging all over the place. You have these programs out there with suppliers where sometimes they are buying and they're passing it through; sometimes they are buying it, we understand, and it's trued-up at the end of the year or quarterly.

Can you just give us a sense of -- then of course, you have your hedges and FAS 133 and all. Then, this is a broad topic, but question one on cost of goods sold is just how in each quarter are you taking that all into account when saying, okay, here's our cost of goods sold for this quarter? How do the true-ups happen? How do we think about hedging in the context of wild swings in the spot market?

Stuart Rowley - *Ford Motor Company - VP, Strategy*

This is Stuart; let me try to take that one. Our key commodity exposures that we track and report in this variance category would be for steel, aluminum, other base metals such as copper, and then precious metals, principally in our catalysts. Steel and aluminum are the largest of those.

Steel we do not hedge; there isn't an effective market. But we do have fixed-term contracts with our steel suppliers and they generally range out to a period of about 12 months. So the price is effectively reset as the contracts mature and then the actual prices paid are what are reflected in the variance compared to the prior period.

In terms of aluminum, we do have some hedging. The hedging is, though, largely not designated, so the change in the value of the hedges -- the underlying change in the aluminum price hits the period as it is used and the mark-to-market on the hedge contracts also hits in each period. So you are effectively seeing the market price flow through in that commodity variance, offset by any mark-to-market on the hedge contracts.

Then I think a similar effect -- in fact, we're reducing our hedging activity on copper as we saw it to have really little effect. You have seen those market prices effectively flow-through in our quarterly variances. And any hedging gains or losses with precious metals is another area where we have contract sale go on that same commodity variance.

Brian Johnson - *Barclays Capital - Analyst*

Okay, and which will still remain in the segment EBIT North America, Europe? It's not going to be lost in Other Automotive or does that relate to other FAS --?

Stuart Rowley - *Ford Motor Company - VP, Strategy*

Absolutely. All of our hedge contracts, whether they be for commodities or whether they be for exchange, are and will continue to be reported in Automotive. We also have financial instruments in the credit company and they are in the operation. They are not going to be in that Other category.

Brian Johnson - *Barclays Capital - Analyst*

Second question around cost of goods sold, I'll start with an anecdote. I was in a supplier's executive room in December in the mid-2000s and there was a heated exchange between the CEO of another company and the parts executive.

Parts executive walked into a room with the CFO and said I just agreed on pricing with so-and-so. I said, oh, you mean for next year? He goes, no, for this year. And apparently their relationship with this one OEM was such that the final price for the year would be set in December and so raises issue of kind of what are you booking as the revenue and what is the customer booking as their cost during the year?

Do you have any of those contracts where it's trued-up? If so -- at the end of the year and it's negotiated? And if so, how do you recognize costs as you go along, recognizing there's an end of year or end of platform or whatever true-up?

Stuart Rowley - *Ford Motor Company - VP, Strategy*

What I would say is our reported costs reflected the contracted prices that we are paying. As you know, we do negotiate with our suppliers on prices and that does happen on a rolling basis through the year. They're not -- there isn't one effective date in the year; it's a rolling process.

We also have a material cost efficiency program where we are making changes to design to be more efficient in the manufacturing process, and those also come through the year. So when we do settle with suppliers there are times where something might be retroactive based on the negotiation. And if that is the case, then the retroactive element would be reflected in the period in which the contract is finalized.

I would not view that though as being something that is particularly material. It doesn't make the results particularly lumpy, but there is an element of it.

Brian Johnson - *Barclays Capital - Analyst*

Okay. And final question around working capital. If needed, we can follow up offline with your staff.

Certainly understand all the drivers and you laid them out clear and so forth around what key components are. Frankly, when we sit down and try to bridge from changes in the key balance sheet accounts payables inventory receivables to the working capital on the cash flow statement, sometimes abridged, we just never quite get there. Are there other balance sheet accounts other than the accounting 101 definition that are flowing into that change in working capital, A)? And B) is there anyway outside-in to reconcile those?

Stuart Rowley - *Ford Motor Company - VP, Strategy*

Brian, the largest element that you probably wouldn't be able to see would be the impact of exchange rates. Comparing the absolute balances and would -- that would be the principal element. There probably are some other non-cash changes, but exchange would be the principal one.

Brian Johnson - *Barclays Capital - Analyst*

Just could you give me an example of why that would mean the balance sheet formula would not flip to what's on the cash flow statement?

Stuart Rowley - *Ford Motor Company - VP, Strategy*

For example, if we had a large inventory balance, for example, in Europe denominated in euros, the change in that balance based on the exchange (multiple speakers).

Brian Johnson - *Barclays Capital - Analyst*

You're writing that down, but it's not a cash impact. Or writing it up?

Stuart Rowley - *Ford Motor Company - VP, Strategy*

Right.

Brian Johnson - *Barclays Capital - Analyst*

So if we had a model that sort of said X percent of the inventory is in this currency, we could get there?

Stuart Rowley - *Ford Motor Company - VP, Strategy*

Yes. In working capital the payables variance is the biggest one. Frankly, it would not be something that's straightforward to model.

Operator

Colin Langan, UBS.

Colin Langan - *UBS - Analyst*

Great, thanks for taking my questions and thanks again for hosting this call.

Can I just clarify --? I think I just want to make sure I understand. The segment reporting; will we still get the same level of detail in the MD&A in terms of sales, wholesale profitability by region or is that going to disappear?

John Lawler - *Ford Motor Company - VP & Controller*

No, you will still get the same level of information. We are going to make sure that you have all the same information you have today after we make this change.

Colin Langan - *UBS - Analyst*

Got it, okay. Thank you for the clarification. The other question, is it possible to kind of walk through on the warranty side -- I know this quarter there's a big Takata-related recall. Obviously you can't disclose what the impact would be, but what would -- how would that -- that would be a field service action.

And what would the thought process be in terms of how you have to decide whether you need to adjust your reserve or not and whether it's above a threshold or whatever? Is there any way to kind of walk through the thinking behind how that kind of decision would be made?

John Lawler - *Ford Motor Company - VP & Controller*

We would treat Takata like we would any other action that we would see with any other supplier. We look at the balance of our reserve based on our historical models and we look at what we are seeing coming in and we do an adequacy measure against that reserve. Then we would adjust it appropriately.

So we do that at every quarter and, depending on what actions we see or what actions have been approved, we will make the appropriate actions in the reserve balance adjustment if required. So we wouldn't treat Takata any differently than any other action that we would be facing.

And the key point there is that they are not in specials. Those flow-through operating income.

Colin Langan - *UBS - Analyst*

Got it. As a basic example, though, if you accrued early in the life like $1,000 over the life for field service actions, every time you have an action it kind of reduces against that? And then if this is -- well, it looks like you're going to be ending above; you would have to do a true-up? That kind of logic?

John Lawler - *Ford Motor Company - VP & Controller*

Yes, that is the logic.

Stuart Rowley - *Ford Motor Company - VP, Strategy*

The only thing I'd add, Colin, is it's not a -- it's a very predetermined process and formula that we follow, so we take discretion out of the process. Simply put, if the ambient level of field service actions increases over time, you would see us adding to the reserve. It's really, as John pointed out, I think it's a seven-year historic balance so these things average in and average out over time based upon the trends.

Colin Langan - *UBS - Analyst*

Got it. And just lastly, obviously there's a lot of headlines and you talked on 5/14 around exchange. Can you just remind everybody about your exposure in Europe between the pound and the euro and what all the recent moves may impact in terms of your Europe results?

Stuart Rowley - *Ford Motor Company - VP, Strategy*

As you know, we are the market leader in the UK and it is a significant market for us. We do have a net exposure to the pound sterling, a net revenue exposure so a weaker sterling is negative to us.

That said, we have a very -- again, a predetermined hedging program in place. And for the current year, on the key exposures that we hedge, we are 100% covered. So for the 2016 calendar year there isn't -- net of the hedging, we are covered.

The caveat I would make to that is that you can get balance sheet impacts. So to the extent that we have receivables or payables denominated in a different currency that can hit in the quarter if you have a dislocation in a currency. They are typically hard to call, though, because the way -- again it depends where those balance sheet exposures are.

But sterling revenue exposure hedged for the current year and, conversely, the euro is a net cost exposure to us as a company. So a weaker euro vis-a-vis the US dollar is favorable to our results, so of course it depends on the magnitude of the exposures and the change in the currency moves. Obviously, we've seen a short-term move in sterling. It will be the more medium-term movement that will be impactful to us.

Colin Langan - *UBS - Analyst*

When you say you've hedged is that transaction or transaction and translation, or --?

Stuart Rowley - *Ford Motor Company - VP, Strategy*

On the currencies that we cover, we take an approach that allows us effectively to cover what we call the operating exposure. It's really the profit exposure to the currency, so it encompasses both. The piece it can't cover, as I said, is that balance sheet exposure where, if you have a large payable in Ford Britain to a euro balance and the euro versus the sterling moves, that has an impact in the quarter that the move happens.

Colin Langan - *UBS - Analyst*

Okay. Thank you very much for taking my question.

Operator

John Murphy, Bank of America Merrill Lynch.

John Murphy - *BofA Merrill Lynch - Analyst*

Good morning, guys. Thanks for doing this.

If we look at page 12, just a really quick question. When you look at the contribution cost that you are showing on that bar, it no longer shows the breakout of commodities, warranty, and freight. Is that just on this Asia Pac slide that you're showing here as an example and we will still get those broken out in total, and for North America?

John Lawler - *Ford Motor Company - VP & Controller*

Yes, we will break those out when they're significant. In this case here on Asia Pacific it wasn't, but if we had a period where it was we would show that.

John Murphy - *BofA Merrill Lynch - Analyst*

And we will continue to get it for the total, right?

John Lawler - *Ford Motor Company - VP & Controller*

Right, exactly.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay, just making sure there. Then on page 18 you made mention of in timing differences on cash payments that it could include selected benefits to payment to retirees, including pension. I thought most of those cash payments to retirees would be flowing out of the pension asset account and not necessarily out of the corporate coffers. So just curious what's going on there, because I would've only imagined that cash payments would be contributions into the pension account and then they would be paid out from there.

Stuart Rowley - *Ford Motor Company - VP, Strategy*

Thanks, John. I think John covered this in some of his remarks, so pension expense, it's profits. The primary cash flows related to pensions are the contributions to the funds, which we show outside of operating cash flow, and we provided you with guidance for the annual level of contribution. There are some smaller cash outflows that are reported under the operating item, for example.

I think benefits to unfunded plans, the sort of senior executive top-up plans, show in that operating cash flow line. But you're right; the majority of the cash flows are the contributions to the funded plans that are shown further down the statement.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay, so that would be small potatoes in that line?

Stuart Rowley - *Ford Motor Company - VP, Strategy*

Yes.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay. Then just lastly, on page 25, this lease accounting is incredibly helpful, particularly given some of the controversy around used vehicle pricing right now, or the debate I should say. As we think about risk to the downside and even maybe to the upside in used vehicle pricing, how often do you reset these residual assumptions and how often will the depreciation schedules change?

Marion Harris - *Ford Motor Credit Company - CFO*

Quarterly. We do a full analysis quarterly and we work with outside vendors like ALG.

John Murphy - *BofA Merrill Lynch - Analyst*

When you think about these estimates -- and I'm not sure this is exactly a question for this call. But when you think about these residual estimates, what are the inputs of those? I know you just alluded to ALG, but is there some factor or thought process in the variable that there is going to be a massive level, or not a massive level but a very significant increase in lease returns over time.

Is ALG encompassing that in the residual assumptions they are giving you? I'm just trying to understand how that's thought of in this process.

Marion Harris - *Ford Motor Credit Company - CFO*

Yes, John, they do and we look at this as well. We don't just rely on ALG for forecasting residuals. We take a number of things into consideration including things related to Ford and the vehicle line itself, where it is in the lifecycle of the vehicle, when it's coming back, whether it's going to be up against something new within our cycle plan, the overall level of leasing within -- for that vehicle line as a percentage of the total retail sales, percentage of leasing within the segment, the size of the overall auction market, and so on. So there are a number of factors that go into the residual projections.

John Murphy - *BofA Merrill Lynch - Analyst*

So in simple form, it's far more encompassing an analysis than just thinking it as simple spot prices on resid and taking some sort of discount? It's a much more all-encompassing analysis, correct?

Marion Harris - *Ford Motor Credit Company - CFO*

Yes, I would agree with that and say that we have a very deep group that -- of scientists that work on this.

John Murphy - *BofA Merrill Lynch - Analyst*

Great, that's very helpful. Thanks a lot, guys.

Operator

There are no further questions at this time. I turn the call back over to Ted Cannis for any closing remarks.

Ted Cannis - *Ford Motor Company - Executive Director, IR*

Thank you very much, Ford team. Thank you very much for listening, everyone. If you have any additional questions, we are available. And have a good day.

Operator

This concludes today's conference call. You may now disconnect.
