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EDITED TRANSCRIPT

F - Ford Motor Co CFO 'Let's Chat' Forum

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PRESENTATION

Operator

Good morning. Thank you for standing by and welcome to the Ford Motor Company's CFO Let's Chat conference call.

(Operator Instructions)

I would now like to hand the floor to Stacey Steslicki, Director, Investor Relations. Thank you. Ms. Steslicki, I hand the floor to you.

Stacey Steslicki - *Ford Motor Company - Director, IR*

Thank you LaTonya. Good morning and welcome to everyone here and to all of you who are joining the call online and on the phone.

Thank you for taking the time today to join us for Ford Motor Company's Let's Chat. I'm joined by Bob Shanks, Executive Vice President and Chief Financial Officer; Sam Smith, our Assistant Treasurer; and Dawn Dombroski, Manager of Investor Relations. And industry analysts have joined us in the room.

After Bob takes us through a short presentation we will open it up for Q&A from the analysts here in the room. Materials are available on our Ford Investor Relations website and we are broadcasting this call by webcast.

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GAAP reconciliations to non-GAAP references are included in the materials. Additionally, today's discussion includes some forward-looking statements about our expectations for future performance. Actual results may vary.

Now to get started I am happy to turn over to Bob Shanks.

Bob Shanks - *Ford Motor Company - EVP & CFO*

Stacey, thank you. Good morning everybody.

As usual this is just one of these opportunities, very informal, for us to just chat. I want to spend most of the time giving you the opportunity to ask questions.

What we do have is a little bit of material that I will go through quickly just to give you an update on a few things and also to respond to at least a couple of cases where at least we sense that maybe you're having some difficulty understanding some of the things that we have presented. So we want to try to clarify that for you.

If we go to slide 2, this is what we will talk about and I will just go to the next slide and we will start out with industry and GDP planning assumptions. I thought as we come to the end of the year that we would give you a refresh, although the numbers actually aren't different than what they were at the time of third-quarter earnings for 2016 or for Investor Day for 2017. But as you look down and let's focus on 2017 at the moment, since I think that's what's on everyone's mind, you can see a global GDP we are looking at stronger growth.

This is all, of course, pre-election here in the US. A stronger growth globally, US stronger growth. We do see Brazil coming out of recession formally.

Not shown on the slide, Russia, we also see that moving into positive territory in 2017. In the case of Europe, and this is all Europe, about the same as last year and China about the same.

Not on the slide also is UK. We actually see lower growth, positive growth nonetheless, for the UK in 2017. Probably a bit stronger than what we had originally expected after Brexit given how the market has responded to conditions post-Brexit, but we still see positive growth but lower than what we had what we expected to see in 2016.

In terms of industry, you can see we expect global industry to continue to move forward in a positive direction. US consistent with what we said we expect to come in a little below this year, and this year we are still expecting to see I think the top-line number will be about, the same as last year, although if you looked at the unrounded numbers we think it's going to come in a bit weaker with retail weaker within that.

Brazil again up, Russia up a bit. I don't show you that but it's up about 2/10 from this year.

Europe up slightly. And then China about the same, and this is in part driven by our continued assumption that the purchase tax reduction will end at the end of this year, so there's pull ahead sales that we've been experiencing that we think we will see through the fourth quarter, although we are now starting to hear from various sources that the government, various parts of government are talking about whether they extend, do they not extend, if they extend to what degree and so forth. But I think we will just have to wait.

But that is our assumptions. If they do extend I think will be able to react appropriately, and I don't see that as being any issue in terms of our being able to meet whatever incremental demand that might bring with it.

If we go to the next slide I thought I would just touch on a few things within North America and Europe and Asia-Pacific. In terms of industry sales I touched on that. October year to date flat year over year but retail down within that.

If we look at pricing environment we are continuing to see ATPs up. We are up a bit more than that, but that's driven by mix and certainly now with the new Super Duty that's helping as part of that. I'll come to the Super Duty launch in just a second.

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Incentives continue to show that never-ending, very slow increase that we've seen since 2009. Very, very incremental increases but increases nonetheless. And so far including through the data that we have year to date we are also following that trend, although we are a little less than the increase that we are seeing across the broader industry.

In terms of Super Duty launch we are basically past the launch period right now. The orders are, no surprise very, very strong.

The mix, of course, at this point is extremely strong. We've got like 75% Lariat or better in terms of the mix. You saw that with the F-150 when we launched it, so that pattern is repeating itself.

And in October about 36% of our retail sales for the new model. So you will expect that to continue to grow as we get out of the old model and move into the new.

And then you may have seen it, I think it was yesterday or the day before that it was just announced that Super Duty won Motor Trend's truck of the year. So we are very happy about that.

Continental also continuing to progress, basically coming out of its launch off to a very good start. We have shipped vehicles to China. I believe some have arrived, I don't think they have retailed yet but we are starting to fill the pipeline in China, as well.

Election results, I'm guessing you are going to ask me lots and lots of questions about election results. Clearly with the win by the Trump team as well as the Republicans taking control of or maintaining control of both houses there's going to be an opportunity for substantial change. And I think given the policies that they were espousing in the campaign, quite different change in direction I think for the economy and a number of other policy areas.

It's too early to know what it means for us. Obviously, we are going to monitor the situation. During the campaign our government relations folks were in touch with the Trump campaign as well as the Clinton campaign, so we've had dialogue, continue to have dialogue, we are still in dialogue with the transition team. So we hope to be part of the dialogue and conversation as they develop the policies that will come forth.

One thing that I think is very encouraging, at least to me, is the change in the tone post-election. I thought when Mr. Trump met President Obama that was the tone, the dialogue, the mutual respect, the desire to work together I thought that was very, very positive.

And I think the way that the market has reacted so far, as well, is an interesting take on the election and clearly around the view that many of the things that they expect to come out in terms of fiscal stimulus and so forth will result in a stronger economy, at least in the nearer term. So that is going to be good for us. So we are looking forward to working with the new administration once it gets up and running.

The things that we are still going to be espousing are around free but fair trade, particularly rules around currency manipulation. And that is something that the Trump campaign had endorsed. So we are hopeful there.

Fuel economy regulations, that reflect market realities. Safe deployment of AVs and a regulatory framework around that and comprehensive tax reform. So you can ask me questions on that in just a minute.

So if I go to Europe in terms of industry sales I showed you the outlook, quite, quite strong. UK, as I said, is more robust than what we had expected. We have priced, many of the other OEMs have priced over the last couple of months or so.

So we do expect as companies continue to respond to the weak sterling, that's actually gotten weaker than it was post-Brexit, although it has come back a bit recently, we think that that will start to affect industry sales. But I think it's pretty clear that the economy probably will be a bit more robust until we get into the actual consequences of whatever Brexit turns out to be than what we had expected, although, again, I think the pricing action that the industry takes will start to eat into affordability and have some impact on sales.

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The sterling is whatever it is. That is clearly going to have a big impact on almost everyone because most people export into the market from Euro land or wherever.

Across the rest of Europe we have seen moderate pricing. In particular, we've seen pricing and response to Stage VI emissions on commercial vehicles. But, at the same time, we've seen higher incentives, so it's not all flowing through to the bottom line.

In the case of Asia-Pacific we talked about the purchase tax reduction, our assumption. We will have to stay tuned on that and see what actually happens.

The industry remains strong. We are seeing the pull ahead that we had expected on the assumptions that the tax reduction would end this year. So we are going to have a very, very strong fourth quarter.

And our performance has continued to be good since we have recovered from the issues that we've talked about in the March-April timeframe. So that's making us feel very good about the progress we are making there.

Pricing environment, very consistent with what we have been saying. It's still negative. I think year to date it's down about 6%, maybe 5% to 6%, we're about a point or a point and a half more than that, but very consistent with what we've said at earnings in the third quarter.

And we have seen a slowdown on a sequential basis of negative pricing. It's still negative but it's slowing down, so everything that we had expected there seems to be bearing out.

China reporting structure, I'm actually going to cover that in just a minute.

Before I move on, though, no, I guess that's all I will cover. Let's go on to the next slide.

So I'm sensing, and I think the team is sensing, that there's confusion around when we talk about China what that means and what the results are of Asia-Pacific. So I just wanted to bring this graphic out, I think we've provided it at the Ford University Days, but just to remind you.

When we talk about China what you see on the slides we provide is just that first pillar. That's the China JV, that's our share of their profitability after-tax. So it's our equity share after-tax, and year to date that number is $1.1 billion, and I will show you what's within that number. So that's what you see and that's the only thing that you see when we report our results.

So within China, so when we talk about China we have two other things that are included there and both of them are consolidated impacts. The first is we are incurring costs outside of JVs that are for China that are 100%, they are just costs. So the best example is engineering.

Raj and his team is engineering today for products that the JVs will produce in two, three, four, five years, whatever it happens to be. We incur those costs up front, and then we will recover from the JVs once they start selling through royalties.

So in this box you've got those types of costs, you've also got the royalties coming in. And there are other costs as well related to the JVs, but it all sits there.

If you go to the third box those are the imported vehicles. So on the Ford side now that we've localized the Edge, the highest volume product would be the Explorer coming from the US. And then you've got all the Lincoln products, and then you've also got all the costs associated with establishing the brand.

So everything we are doing around marketing, setting up the network, all of the selling expense, the admin expense related to it. So it's all sitting right there. So when we talk about China it's all three of those, you only see the first box.

The second and the third box is this year are net costs. So it's a reduction of that profitability that you are seeing.

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And then, finally, we've got the rest of Asia-Pacific, so the big drivers there are Australia, ASEAN, India. It's almost all consolidated but we do have just remind you the AAT, plant the 50/50 between Ford and Mazda where we make the Ranger and that's in Thailand. So that is an equity after-tax, and it will be just like that first box. So that is what you see when we talk about China and Asia Pacific.

If you go to the next slide, which is slide 6, this is what is in the JV. So we've got three. The big one, by far, is the first one which is Changan Automobile Corporation.

That's the passenger vehicles. We own 50%, our partner is Changan and that generates the lion's share of the profitability that you see.

The second one is our commercial vehicle JV and that is Jiangling Motors Company. Our partner there is Jiangling Holdings, and that is primarily commercial vehicles. They do have some passenger vehicles such as the Everest that we've just introduced and they have a local brand, as well.

And then the third one is small, this is just engine production, this is a joint venture between ourselves, Changan and Mazda. But that is what is within the $1.1 billion, but the big driver of the results is the first one. And then on the next slide I want to touch on slide 7 because, again, I am not sure if this is understood.

So those are the two slides that we show always for Asia-Pacific. So the first is the key metrics.

So within the key metrics the JV results are included for wholesale, they are included for market share, they are included on an equity after-tax basis and operating margin and included in the pre-tax results but, again, it's the equity after-tax numbers. So it's not included in revenue, but everything else is included.

Then when you go down to our variance analysis on a year-over-year basis, we do, and I think we are probably unique in this, we want to because those JVs are such a big part of our business in Asia-Pacific we don't want to just be looking at the management team that likes a number -- $1.1 billion. There's no understanding of what's going on in there, what's happening to the structure of the business and so forth.

So what we do is we take, we've got the same type of matrix that you see for all of our business units. We have that 100% for each of the JVs. What we do is we just take that equity after-tax effective, if you will, and then we put it in all those factors.

So even though we don't report revenue it's sitting in there, its an effective, and all gets washed out if we need to do some sort of adjustment to come down to the net equity after-tax number and other. So we do that for ourselves, and so we show you what we look at internally so we get a sense of what's happening on cost or revenue or pricing. Otherwise this would look quite different and we just have a big number that doesn't give us any insight, wouldn't give you any insight.

Okay, let's turn to slide 8 and move on to Ford Credit. I want to give you an update on auction values. This is probably the piece of news that's coming out of our get together today.

So as you know we've been talking for a number of quarters now about the trend that we've been seeing in terms of lower auction values driven by the really large amount of vehicles that are starting to come back from all the heavy leasing that's been done in the last several years. And you've seen the effect on our results, and we talked about what's going to happen in the fourth quarter.

As we have continued to see the trend come down that we are reducing our outlook for auction values across the portfolio. It's not going to have any effect on profitability that's going to change our guidance for this year, but it is going to flow through in terms of incremental accumulated supplemental depreciation into 2017.

So what we did this morning is we issued an 8-K, and what we said in the 8-K is that Ford Credit will now earn about $1.5 billion next year versus the $1.8 billion that was mentioned when we had our Investor Day back on September 14. And that's all related to the impact of the accumulated supplemental depreciation because what we are seeing, and you can see on the graph below, what we are seeing is that the focus of the reduction

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in auction values had been in small vehicles and small utilities. It's now starting to spread into other segments, as well, and you can just see it in the slide right there.

So if there is more across the segment that had been affected and we are seeing it now occur in some of the larger segments that had not been affected. And this is consistent with what we've been seeing from ALG. We've just gotten in the fourth quarter ALG update. We are going through that right now but we are pretty confident it's going to be consistent with what we are sharing with you today.

So having said that, and I will hold until I get to the I think it's the final slide in here, it doesn't change what we said about 2017 in terms of the core business improving, including this actually. The core business will continue to improve in 2017 versus 2016, 2018 versus 2017.

The Company will continue to go down next year as we had talked about. But that's being driven by now this, but really what's driving it is the incremental cost and investments associated with the emerging opportunities that we talked about at Investor Day. But this is incremental, the $300 million.

Okay, let's go on to the next three slides. I just want to remind you of this because we just started doing this in the fourth quarter of last year and I don't want you to be surprised. We will, in the fourth quarter we will instead of amortizing gains and losses from the annual remeasurement of our global pension OPEB plans, we will recognize those gains immediately and we will do that in the fourth quarter.

It will be a special item and I believe what we will do is just as we did last year is some days before we get to the earnings call we will issue an 8-K and we will tell you exactly what the impact is. But I want to give you a sense of what that is. Remind you we will do that, but also give you a sense of what it is.

If you go to slide 10, so the remeasurement will take place based on the discount rates and whatever asset values we have as of December 31. So what I am giving you now in the subsequent slide is based on sensitivities we've shared with you in the 10-K but consistent with discount rates as of November 11. The discount rates are lower than what they were last year, so that's going to have an adverse affect on the liabilities.

And particularly in the UK and in Germany where in Germany in particular you don't have to, there's nothing that requires you to pre-fund or fund earlier pension plan, so those plans are not nearly as well-funded as all of our other plans are. UK is very well-funded but not quite as well-funded as the US. And what you will see is there's almost no impact on the US funds from what I will show you in terms of valuation, so this is really around the UK and Germany for the most part.

If you go to the next slide, this is what we expect to see happen. So if you just look at the top here in terms of the US pension, the first column is the change in discount rates year over year again based on what we saw as of November 11. Then you can see what the sensitivity was per hundred bps.

So in the US the impact on the obligations will be negligible. Maybe it's about 1/10.

And the non-US pension funds, this is again primarily UK and Germany, probably about $1.6 billion degradation in terms of funding status. If you remember last year I think we were about $8.26 billion in terms of the funding status. So another $1.6 billion and then OPEB will be about 3/10.

And then you can see all these other factors in there that have to do with the spot yield curve and so forth that will impact everything to the tune of about $3 billion. So the $8.2 could decline by about $3 billion, right, based on what we have here.

But again this will change. Whatever it is as of the end of the year that's what it will be, but it's probably based on what we know today probably in this range. So that will flow through in net income as a special item, not into operating results.

If we go to the next slide on Company guidance for 2016 nothing has changed. So working towards the $10.2 billion and the rest of the metrics. The one update as we are getting closer to the end of the year tax team is advising us that our adjusted effective tax rate is likely to be more like in the high 20s as opposed to about 30 or the low 30s.

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And then the last slide before we get into your questions is the same slide that we showed at Investor Day. So I haven't moved the bars at all, but the main message is the same. The thing that is new is the Ford Credit piece of the blue bar will come down by the $300 million that I talked about related to the accumulated supplemental depreciation.

Okay, so with that why don't we -- and what will do we are going to check with one of the guys back in the office on the question. If we have difficulty in picking up your questions I will either repeat them or what we will do is we will just pass the (technical difficulty) around, talk to it, make sure that folks online can hear. Do you want to start over there?

QUESTIONS AND ANSWERS

Itay Michaeli - *Citi - Analyst*

I will just start, so the core business outlook has not changed (technical difficulty), how about the regional (technical difficulty) car values in North America? Is there any change in your thinking around the regional outlook you conveyed back at the Investor Day?

Bob Shanks - *Ford Motor Company - EVP & CFO*

We didn't get into a lot of texture around that at Investor Day and there's nothing that we said then that I would change right now. The team is still working to put together the plan for next year. We are almost there but not quite, but nothing that I would add in terms of texture now.

Obviously, as well, we will give you the outlook when we get to earnings. Maybe a bit more at the Deutsche Bank conference.

Matt Stover - *SIG - Analyst*

In the wake of the election there was a report that came out in the Detroit News indicating that the automakers were going to appeal to the new presidency and administration about the changes that were implied in emissions regulations. And I'm wondering if you could talk about two things in the context of that.

Number one, what is it that you folks want to change? Is it the rate of change in terms of emissions progression? And then number two is more of a theoretical question in terms of how you look at the business over the course of your career if you think that stability in underlying regulatory cost is better than mild inflation in underlying regulatory cost?

Bob Shanks - *Ford Motor Company - EVP & CFO*

Okay, I'll come back on the second one, I'm not sure I understood the question. But so we're in a midterm review right now, so coincidence but we are all in that conversation right now with the regulators in terms of the one national standard and the objectives that we all had agreed to. But it did provide for an update based on to give everyone the opportunity to see if the assumptions that we had made back in 2010 I think were coming to bear and they just aren't.

We assumed along with the government that there would be much, much, much higher gas prices than there has been. And as a result of that we also assumed that there would be more of a market pull for electrified product than there has been. There has been no movement whatsoever in terms of electrified products and probably driven by the fact that gas prices are low.

So when we say fuel economy regulatory framework that aligned to market realities it is basically around that. So recognize that given the low gas prices and the lack of any kind of customer pull for electrification, which was an important part, not the only part but an important part of meeting the stricter regulatory requirements, that there should be some recognition of that. And it could be in many different forms.

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It could be different types of credit that might be available. It could be some delay in terms of the lower slope of the regulations. We are open to anything, we are just trying and hoping that we can work with the regulators to recognize that the world isn't what any of us had expected it because we had expected that there would be a market element to the change in terms of what people would want to buy and would be willing to buy.

And that has not occurred at all. In fact, it's gone in the opposite direction.

So we're open -- we don't have a specific here is exactly what we would like you to do. We're open to any number of different alternatives that we're happy to talk about and are talking about with the regulators in terms of what might work better. But that conversation is still ongoing, and now with the new administration we will have new people to talk to so we will have to see where that comes out.

Matt Stover - *SIG - Analyst*

When you think about the priority of it would be to delay the impact of electrification within the fleet? When we look out to the 2025 standard, some proportion of your fleet would have to by definition be EV. Would it be to change the standard in such a way that that is not the case?

Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, it's really the standard didn't assume or didn't require that a specific amount of the fleet but it was a substantial, it was a way of getting there. So recognizing that that is not going to happen naturally, if you will, in terms of the customer pull driven by the fact that it makes sense with what we thought would be much higher gas prices, then we'd like to find some other alternative that allows, it could be different types of credit in terms of some of the other things we are doing in terms of technology or things we are adding to the vehicle that could give you credit towards that.

It could be a number of different things. But it's just not what any of us had expected including the government and it's going to be very difficult, therefore, to get there without pushing on the customers things they just don't want. What was the second part?

Matt Stover - *SIG - Analyst*

It's more a theoretical discussion. We will talk about later.

Dawn Dombroski - *Ford Motor Company - Manager, IR*

This is Dawn Dombroski. I just wanted to let you know that it would be helpful to introduce yourself before you ask a question so the folks on the line (multiple speakers)

Joe Spak - *RBC Capital Markets - Analyst*

Joe Spak from RBC. I just wanted to get back to the accelerated depreciation change in Ford Credit.

My understanding is that's really a mark-to-market of the book really. But as you go forward are you counting on further declines in auction values into 2017? And if so, why shouldn't the guidance for next year actually be greater than the $300 million reduction?

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Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, remember it's not a mark-to-market in the sense of we are booking something today for the whole portfolio. What we do is we look at everything that's in the portfolio that still has months to go before it rolls off and we basically change the slope of the depreciation from what it is or was to a different endpoint. So that is what we are doing.

And then what at the same time that we are doing is for any new business that we are writing this month, next month, whatever, we've got a different view in terms of what the endpoint, again, will be. And then that gets reflected in a different pricing that we give back to Ford marketing and sales in terms of what the cost of the lease is.

Joe Spak - *RBC Capital Markets - Analyst*

But on the existing portfolio are you also considering an even further decline in auction values?

Bob Shanks - *Ford Motor Company - EVP & CFO*

We are assuming that auction values fall in 2017 versus this year, and I think we had an assumption in 2018 versus 2017, as well. So that's already built-in, all built-in.

The only thing that's new now is the fact that with what we see happening for that slide that I showed you is that the slope that we had been on for the things that are in the portfolio we've got to take it down a bit further. Because what we're seeing is there is still degradation in the small utilities a little bit beyond what we had expected, but now we are seeing some other segments where we hadn't seen much degradation happening that we are having to reflect in the adjustments.

Sam Smith - *Ford Motor Company - Assistant Treasurer*

Maybe, again, is it possible to go back to -- the right way to show (inaudible) (inaudible) if you look at the September 2015 column what this chart is doing is measuring the rate of decline in auction values over the course of a year (technical difficulty).

And what you see what was really localized in compact cars in 2015 if you compare that to 2015 the rate of decline has really accelerated (technical difficulty). And that's what has changed compared to the earlier (technical difficulty).

To answer your question, if you look at the way the numbers look from the (technical difficulty) we have a sensitivity in the 10-K that says for a 1% decline in auction values you are going to have (inaudible) depreciation. $35 million of that (inaudible) over the last (technical difficulty)

So that's the profile. If you look at those numbers yes it would imply that the auction values decline that we saw this year, which was around $600 for 36-month leases, will be higher in 2017.

Bob Shanks - *Ford Motor Company - EVP & CFO*

And just to remind you, too, Joe, we don't know yet with the latest ALG data that came in because it just came in so we're working through it. But through what we had in the third quarter, and we did this segment by segment by segment, we took the information that we got from them and also from NADA which is this information. Which this data as opposed to Manheim is more reflective of what actually is on our books as opposed to Manheim which has got 10-year-old vehicles and so forth which have nothing to do with what is on our portfolio.

So when we adjust that data for our mix we are moving exactly in line with the industry. So I don't know that that's the case with this latest change but I suspect it probably is. We haven't seen anything that would suggest that what's happening to our portfolio is different than what's happening across (technical difficulty)

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Jairam Nathan - *Daiwa Securities - Analyst*

(inaudible) going back to Matt's question, so electrification was a big portion of the decline in (technical difficulty). So does that (inaudible) how much --

Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, I don't think it does change -- doesn't change the investment, the $4.5 billion, that's what you're referring to that we've talked about through 2020. I don't think that changes that. And let me tell you why.

First of all, I think we are on a journey here where there is going to be an increasing amount of electrification even in the US, although clearly not at the rate that we might have thought back four or five years ago. But I think, particularly over the next 10, 15 years through 2030, there's going to be an increasing mix of electrification across the portfolio. And that's because it's going to make economic sense.

Now today it doesn't make a lot of economic sense, but as the costs of all the componentry, the batteries and everything that goes into electrification starts to come down. And the cost of ICEs start to or continue to go up as we put more and more technology in to meet the regulatory requirements.

We believe that the economics of electrification are going to make more and more sense. Also particular use cases are going to make more sense we have for moving things, for example, in cities could make a lot of sense.

The other reason that we are going to continue is because, again, this is what we are talking about, we were talking about earlier with Matt's question was around federal regulation. We still have California regulations and the other nine states and there is no evidence that even if there is a relaxation of federal requirements that they will go along with that. Right now we do have one national standard but there has been some buzz coming out of those regulatory bodies that they don't have any intention at the moment of changing.

Then, in addition, remember we are a global player. And if anything electrification seems to be taking a more central role in terms of the Chinese view around what they want to see in their industry and what they want to see in their cities and I believe in Europe something similar is happening. There's a transition that seems to be a occurring in terms of thinking, particularly diesel relative to electrification and those solutions.

So I think it's happening regardless in terms of electrification but in terms of the role that it plays in the next several years of meeting the regulatory requirements here is just going to be more difficult for it to play a role the original regulation had assumed or the targets had assumed. Just because of the economics and particularly related to the low gas prices.

Jairam Nathan - *Daiwa Securities - Analyst*

If you could how should we think about the peso depreciation here?

Bob Shanks - *Ford Motor Company - EVP & CFO*

What do I think about what?

Jairam Nathan - *Daiwa Securities - Analyst*

The Mexican peso depreciation.

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Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, in terms of impact on the business it's interesting we actually have net revenue exposure on the peso. So that in and of itself would not be positive, but I say that, I have to provide more insight, that's because a lot of the localized componentry in the supply base in Mexico is actually denominated in dollars.

(technical difficulty)

There we go. Do you have a question over here?

Unidentified Audience Member

I just wanted to follow-up, first I love the Continental. I've been in it a few times, it's very comfortable and I like the (inaudible)

Bob Shanks - *Ford Motor Company - EVP & CFO*

Did you sit in the back?

Unidentified Audience Member

Just on the residual value issue, can you give us some data, perhaps even round numbers or if not now could you provide it when you can of the number of vehicles currently coming off lease you would expect? You should have some pretty good visibility (inaudible) auctions or the dealers based on what you originated 36 months ago what could come off, of course, depending on whether that customer allows it. And then maybe just the character or some of the mix of those types of, what percentage of the vehicles (inaudible) get a better sense from?

Bob Shanks - *Ford Motor Company - EVP & CFO*

I can tell you what I know off the top of my head you may know. I think it's about 200,000 that are coming off lease, and I think if you go back to the third quarter we are getting like a high 70% return rate. I want to say 78% --

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Unidentified Audience Member

In the third quarter 200,000?

Bob Shanks - *Ford Motor Company - EVP & CFO*

200,000 for the year.

Sam Smith - *Ford Motor Company - Assistant Treasurer*

For this year.

Bob Shanks - *Ford Motor Company - EVP & CFO*

For this year.

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Unidentified Audience Member

For 2016.

Bob Shanks - *Ford Motor Company - EVP & CFO*

2016, yes.

Sam Smith - *Ford Motor Company - Assistant Treasurer*

This is math can probably do yourself but to give you some flavor for the quantum of increase, and I will have to qualify this. If you look at just scheduled terminations, so the leases when they come due for turn in that the increase in scheduled terminations is about 25% as we look into next year the increase and the year after that.

Now that's going to be impacted, of course, by the return rate and, of course, by all the work that is done to try to optimize the calendarization of that, but that will give you a quantum but keep in mind that you have those factors. And then, of course, if you look at the industry I'd say it's probably roughly in the same ballpark and then there's a step-up in 2019. And that why we see our lease share and part of this outlook it is something that we really want to be proactive with and get ahead of.

Unidentified Audience Member

Okay. Maybe just as a follow-up --

Bob Shanks - *Ford Motor Company - EVP & CFO*

Before, the bigger issue, though, is not our vehicles coming back. It's the industry (multiple speakers)

Unidentified Audience Member

I was going to go a different direction and there was some data I think published earlier this week by (inaudible) that showed that 32% of new car purchases involve a trade-in where the customer is upside down on their equity on the loan, and that the average amount of upside downness, if that's a word, is around $4,500, which is also a record high. So (inaudible) upside down and $4,500. So for the vehicles that are owned by your customers and potentially in a negative equity position as their vehicles are moving along the trends you are marking to market at the FinCo, is that roughly is there a line of experience the dealers in your system?

Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, first of all, remember we are very, very low in terms of mix of the extended payment term. I would guess a lot of that is around the extended payment term. I think we've got like 5% --

Sam Smith - *Ford Motor Company - Assistant Treasurer*

I think 3% greater than 73 months.

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Unidentified Audience Member

But in terms of reporting your own process are you also at record upside downness or is that also reflected --

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Sam Smith - *Ford Motor Company - Assistant Treasurer*

I don't want to give out the wrong number. But I would say that that has been the trend.

When we describe the year-over-year change in severity on the retail side, about half of it is auction values. And that's a good way to proxy what's happening and customers are there for turn in.

And the other half of it is structural and that's longer-term contracts. And we have been I think more disciplined than the industry but there has been a trend roughly 60 months average to about roughly 65 or 66 today.

And as you know as that gets lengthened out the period of time before you reach positive equity in the vehicle lengthens by more than that period of time. So the trend is definitely there, and I think where your question was headed is there are natural things that emerge as headwinds from this financing cycle.

On the lease side leases are going to be more expensive because you now have to have a higher level of customer payments to get down to the lower residuals for the lower auction values. And then on the retail side as you quite rightly point out you are going to have customers that are they are going to be looking at possibly an increased amount of negative equity or negative equity where they otherwise would have had positive equity.

And then, of course, you've got that portion of the customer base that's cross-shopping between used cars and new cars. So I think together it's a source of headwinds and it's one of the factors that goes into the way that we've been thinking about our views of the total industry.

Bob Shanks - *Ford Motor Company - EVP & CFO*

That's one of the reasons why we have industry sales coming down.

Rod Lache - *Deustche Bank - Analyst*

Rod Lache, Deutsche Bank. Two things I wanted to ask about.

One was just to clarify on the regulatory change and trying to get credit for things that you may be putting into vehicles with active safety and things like that Ford (inaudible), is there anything that could happen prior to the 2022 review? I guess, first, just a point of clarification.

Bob Shanks - *Ford Motor Company - EVP & CFO*

I don't think I know the answer to that. I know we are in the conversation right now --

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Rod Lache - *Deustche Bank - Analyst*

On the review for 2022- 2025?

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Bob Shanks - *Ford Motor Company - EVP & CFO*

Yes it's beyond that. But I could be wrong.

Rod Lache - *Deustche Bank - Analyst*

And then just secondly, two really big things that have helped Ford and the entire industry over the past years, I think you could argue that globalization has clearly helped and also credit availability and terms have been really good. You're starting to see some negative consequences from a reversal of that on the globalization side when you are talking about the UK.

Do you have any initial thoughts on what the effect would be in the most likely scenario in the event that something happening to NAFTA do you basically assume this MFN kind of tariffs and 2.5% or is there something potentially more concerning there? And then on the credit side --

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Bob Shanks - *Ford Motor Company - EVP & CFO*

So can I just answer?

Rod Lache - *Deustche Bank - Analyst*

Yes, go ahead.

Bob Shanks - *Ford Motor Company - EVP & CFO*

Because I will forget if you keep going. So I think on the NAFTA side we don't know. Clearly that was something that was front and center in terms of some of the dialogue that we saw during the presidential campaign.

So both Mexico and Canada have already indicated their willingness at least based on what I've read to renegotiate the treaty with the US. So I do expect that there will be some movement on that front given what the priorities have been of the Trump campaign and then what's already been said since. But I also believe, and I think this is, again look at what the market, how the market is reacting, it does expect from the new administration policy, broad policies that are going to be very pro-growth whether it's fiscal policies, the infrastructure that's been talked about, revision of trade deals to whatever degree.

So I wouldn't be surprised if there are changes, but I think that whatever the changes are going to be done ultimately thoughtfully and with a mind to ensuring that they are going to be pro-growth overall. And when you think about NAFTA and how integrated the three economies are, not just in our sector but across many, many sectors, I am confident that all three governments or whoever is involved in the discussions and we want to be helpful and part of those discussions. We will make whatever changes hopefully come out in a way that is going to still be very supportive of overall growth.

I don't know what that means. No one knows what that means because it hasn't moved beyond sort of campaign discussion yet, so we will have to see. But I feel encouraged by the overall market response to what the expectations are around the broader policies and I think the trade policies will ultimately be supportive of that.

Rod Lache - *Deustche Bank - Analyst*

Based on the question of credit availability and how that relates to what you are observing in the auction market, over time in the past when residuals have declined there has been tightening as lenders have assumed greater loss severity. And I was hoping that you can maybe just address what you are seeing or what you are anticipating vis-a-vis credit availability?

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Is that something that could exacerbate used-car prices just given that subprime is the larger proportion of that market? Are there any kind of high level thoughts on what your expectations would be going forward?

Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, I will let Sam comment. I don't think we are sensing any particular broad tightening of credit availability at this time yet. I do expect that, and you've already seen that in our own trends, that the leasing is going to be more difficult. Now as Sam said the cost of leasing are going to be much much higher and, again, as an industry we've got to recognize what's happening in terms of all these vehicles that are going to be coming back off lease over the next several years.

So I think that's something that the industry is going to have to start to be more responsive to. But in terms of credit availability I think the thing that is what we had assumed and that certainly now has happened post-election is higher interest rates. I think that's going to happen impact. But so far the increase in the interest rates that we've even seen since the election haven't been out of line with what we had projected internally in terms of a path of increasing rates over the next number of years getting back to what they call a more normal level.

Rod Lache - *Deustche Bank - Analyst*

Embedded already in your expectations of mix or volume?

Bob Shanks - *Ford Motor Company - EVP & CFO*

Yes

Sam Smith - *Ford Motor Company - Assistant Treasurer*

(technical difficulty) I'd like to look between the new side and (technical difficulty) where we (inaudible) signs of lower credit availability. And so for the captive space we already have a very large penetration of the new car buyers for Ford. So I don't see anything on that side.

We have seen evidence of what might be happening on the used side, on the subprime side (inaudible) on the used side. But it kind of makes sense because when we're thinking about lending from a retail standpoint our exposure to declining auction values is like a second order effect.

We first have to have a default and then we see the impact on severity. So on the prime side the idea that the lower recovery value is going to cause a material change in credit availability and then kind of factor right through that process. But on the used side it's a much bigger deal because the loss rates are (multiple speakers)

Rod Lache - *Deustche Bank - Analyst*

Right, the markets are connected obviously for used-car prices.

Sam Smith - *Ford Motor Company - Assistant Treasurer*

The implication of your point which is that something that could feed back into the used-car market is totally valid.

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Ryan Brinkman - *JPMorgan - Analyst*

Thanks, Ryan Brinkman from JPMorgan. This question is a follow-up to the earlier discussion we are having about corporate average fuel economy standards.

I think in the past you have talked about one factor that's trickling into your long-term outlook for 8% to 10% margin North America is the assumption of negative mix whether that mix is coming from higher rising CAFE standards or eventually rising fuel prices. So we talked about CAFE, that could be relaxed.

Some analysts in the oil and gas industry have been talking about since the election maybe that the approval of the Keystone pipeline or opening more federal lands to oil and gas drilling could now mean that fuel prices would remain lower for longer or even fall from here. So at this point in time between CAFE and fuel prices is there any reason to believe that maybe the pressure on your margins long term in North America might not be less than you were earlier assuming?

Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, I think if there were some sort of revision to the standards as we discussed that are more in line with the type of environment that you just described, particularly around gas prices, gave us the opportunity to not put as much content on as quickly that customers aren't going to pay for. Yes, I think that would be very helpful. And to the extent that we don't have the forced electrification where it's not being pulled by the customer which implies you are doing it at some sort of discounted price, yes, that would be helpful too.

Ryan Brinkman - *JPMorgan - Analyst*

Thanks and then just my last question is LMC Automotive recently reported that West Europe SAAR in October was 15.2 million which was the highest in over seven years. Can you remind us of the Brexit headwind that you initially called out and how much of that was due to regulatory or currency changes that you expected and how much was due to adverse market conditions that you anticipated which appear like maybe they have not so far materialized and maybe might not?

Bob Shanks - *Ford Motor Company - EVP & CFO*

Yes, so what we said is $200 million this year. And of that we took a $60 million hit in the second quarter which was around a balance sheet devaluation associated with the weaker sterling.

And then we expected about $140 million of adverse volume effects related to adjustments that we would make to production in anticipation of a change in industry volume and we are still doing that. So that I would expect to still flow through in terms of the outlook and it's contained in the outlook that we have for Europe and the results that we've have seen so far which was already a $1 billion profit.

Ryan Brinkman - *JPMorgan - Analyst*

What was the annualized impact, though, on --

Bob Shanks - *Ford Motor Company - EVP & CFO*

Next year what we said is you can take the $140 million and double it.

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Ryan Brinkman - *JPMorgan - Analyst*

And that still applies or maybe not?

Bob Shanks - *Ford Motor Company - EVP & CFO*

For now it still applies. And then I think we said that the total impact next year is probably now about $600 million with the potential for it to be a bit more just depending on what happens. But, again, I go back to we said similar to the China purchase tax reduction, these are the things that we are doing in anticipation of those assumptions coming home.

If, in fact, the UK industry stands up longer, better we will make the appropriate adjustment to our production. We still think that we have as we look out at the next several months we think we have adequate stock even with the adjustments that we are making that we cannot lose sales. If it looks like things pick up then we can increase production which really would be a plus for us but that's not the assumption right now.

Dave Tamberrino - *Goldman Sachs - Analyst*

Great, thank you. It's Dave Tamberrino from Goldman Sachs. Two questions.

First on the North American market as we think about the implications from the residual values today, you said interest rates the move post-election have been in line with where you are thinking that impacts vehicle affordability. You haven't changed your North America SAAR for 2017 but the imputed cost for leases is going up which means to me that that's lowering vehicle affordability for consumers, so to offset that it basically implies that you think incentives need to continue to go up in 2017 to keep that pace that you are originally expecting, is that the right way to think of it?

And further on the incentives how much further do you think we can go? You've already topped out as a percentage of ASP versus historicals on passenger cars, but light trucks were only about 10%. Do you think we can add another $2,000 to $3,000 on SUVs and light trucks from an incentive perspective?

Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, I don't have the answer to that. I think at some point it can't keep going up, you would think. And that's, again, one of the reasons why we are assuming that we have peaked in terms of industry volume and it is going to start to decline.

In fact, I think some of you have even lower projections in 2017 and maybe beyond. So I don't know exactly where this is going to come out, Dave. But what we've been doing is we've been trying to recognize the fact that [peak] is behind us, I think it's probably fair to assume that incentives continue to rise next year although, again, we are going to have pricing that we will be taking and trying to offset as much of that as we can.

And we did have success on that with the launches that we had in the third quarter. In the fourth quarter I think I said in the last earnings call that we will still possibly have positive pricing in North America, although it won't be as great I don't think as what we saw in the third quarter. But within that we do have incentives rising.

So I don't know, I think at some point and particularly on the lease at some point the industry has just got to pull back a bit, you would think, because of the cost of it and the implications that are continuing to build and are ahead of us in terms of a lot of volume coming back. So I don't know, we will have to wait and see. We have assumed that there will be continuous increase in general incentives overall but then again we've also got pricing actions in place that will attempt to try to keep us at least over the next year or so keep us balanced in that space.

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Dave Tamberrino - *Goldman Sachs - Analyst*

Okay, and then my second question for Sam, when I think about the sensitivities that's lined out in the 10-K, a 1% decline is about $100 million over three years. You are calling out $300 million next year, only $35 million for that first year. Is this the right way to think about the decline in residuals or auction values is it 10% year over year from where we are, is it 5%? Maybe help.

Sam Smith - *Ford Motor Company - Assistant Treasurer*

Yes, the other thing to keep in mind is that ultimately what rolls through profit is the relationship between our forecast and ALG where we are marking the book. And you can't, unfortunately, do the math that crisply by just saying, okay, you've got 300 of ASP that you're taking next year because it's responsible for the change in the outlook.

Multiply that by 3 and say okay, that's how much has changed in auction values. But directionally speaking we saw 3% decline so far this year. The numbers do imply that that number is higher for next year.

Emmanuel Rosner - *CLSA - Analyst*

Hi, Emmanuel Rosner, CLSA. So just additional clarification on potential impacting your product planning or technology planning if you were successful in your discussion in CAFE standard.

So assuming you are successful the industry manages to get these inflected this more realistic way, how should we think about the benefit in terms of planning to the extent that it truly is a global business, there is no sense of that China or Europe will really inflect their policies. So is it just a case where you feel your US-centric product would be able to have less of that content or less soon or do you actually feel that there is better other ways that I'm not thinking of in terms of benefit?

Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, not knowing exactly what the changes might be if there were favorable changes from our point of view I think you are probably right to think about it is that I think the technology we develop, what we do with our powertrains, what we can do with electrification, I don't know across the portfolio of Ford around the world that that changes. I think it means is we can put to a different agree that content technology into our products here.

As I said the mix I think wouldn't have to be pushed as adversely here as perhaps it might have to otherwise. But I think it's more that as opposed to there are some fundamental things don't do that you were going to do across your portfolio in terms of technology powertrain development.

I think the other thing, too, just to remind us that we have to keep an eye on are these the California and the nine states because there is aspects of, again, all this regulatory requirement, so there's not one thing, there are multiple requirements. If they branch off and go off in a different direction, which they have before the one national standard, then that mitigates to some extent in some of the regulatory areas the benefit that we would get from a change.

Emmanuel Rosner - *CLSA - Analyst*

Got it. And then just, Bob, the additional clarification on the residual, so where you, obviously, the mark-to-market the immediate impact on the new assumption, is that also reflected in the underlying business outlook?

To a certain extent, obviously, you are reiterating today the fact that you expect continued progression in your core Automotive business. A lot of it is Ford-specific, (inaudible) and your launches. Is there any inflection given at the margin in terms of what the underlying business would do as a result of basically having to put either more incentives or less lease or any other business decision linked to these lower residuals?

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Sam Smith - *Ford Motor Company - Assistant Treasurer*

I think you've already started to see it. Our lease share was lower relative to industry in the third quarter. And as we've described this observation that what was a small car, utility phenomenon has spread was something we began to see in September and really into October, as well.

So I think that's already happening in terms of how it's feeding in (technical difficulty) the way that we are going to market. Just one clarification on the first point that you made. We mark the lease book to market, but the realization from a P&L standpoint takes place over the life of the lease, just make sure that that (technical difficulty)

John Murphy - *Bank of America Merrill Lynch - Analyst*

Any change in your thoughts around capital allocation given all the uncertainty that seems to be emerging in the world, particularly around the supplemental dividend early next year and maybe an idea that you might want to hold onto more cash just given this real step-up in uncertainty?

Bob Shanks - *Ford Motor Company - EVP & CFO*

There's been so much change that's occurred really recently, and it's not clear how that change is going to manifest itself in terms of policies, requirements and so forth. So I think it's too early to say that given these recent changes we are going to do X, Y or Z. I do think it's fair to say at least for me personally it feels like a world that's even more volatile potentially than what had happened before, but also with opportunities.

Again look at the market reaction. So I just think it's too early to tell.

I'm not off running and changing anything, if you will, at this point. But certainly there is more (technical difficulty). So, therefore, I think that certainly factors into our thinking but nothing as of now that we have changed so far.

John Murphy - *Bank of America Merrill Lynch - Analyst*

And then on your quote on free and fair trade you guys are advocates for it. Obviously there's a lot of focus around NAFTA, but if you look globally at Japan and Korea and how you operate or don't operate there and they operate here, particularly on China and the JV structures you guys are forced into there yet, Geely has opened up a plant in South Carolina with Volvo now without any JV structure.

You could argue that outside NAFTA there is some real disadvantageous structures in the world and policies in the world. Would you advocate with the new administration to maybe level the playing field more globally?

Because we definitely are disadvantaged, I mean, from a free and fair trade and structure standpoint globally. They are doing a great job otherwise, but there's really a real definitionally problem at least free and fair trade.

Bob Shanks - *Ford Motor Company - EVP & CFO*

I think just very broadly is what you just said is that we've always advocated free trade as long as it's fair trade. And I think to the extent as the government pursues whatever it turns out to be specific policies on that front, I don't know if it will be multilateral agreements, bilateral agreements. But we would certainly be in favor of them and a level playing field provided that they address some of the things that historically they have not, especially if it's currency manipulation.

And that is vis-a-vis countries like Japan. So I think it's too early to tell exactly what form any change may take in terms of actions the new government takes, but we want to be part of the conversation.

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And even though there is this sense of protectionism and nationalism, we do believe that the broader global economy has benefited from more open trade. And I think consumers broadly have benefited from lower prices of the goods and services that they may purchase. But there clearly have been issues that have come out of that that really have got to be addressed.

John Murphy - *Bank of America Merrill Lynch - Analyst*

But you wouldn't advocate for a reciprocal in-country structure as far as ownership and operation because there are very significant differences between the US and other countries in the world?

Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, I mean I think that would be great if that occurred. I think that's probably not very practical, though, in terms of what ultimately would happen. I mean the structure of the Chinese market is what it is and until the Chinese change it, if they ever do, it will be what it is.

John Murphy - *Bank of America Merrill Lynch - Analyst*

But in the US?

Bob Shanks - *Ford Motor Company - EVP & CFO*

I don't think that we need to take on the same types of restrictions. If by free and fair trade you are thinking we have to do what others do I'm not sure that's necessarily the answer either. Because think about the jobs that are being created here by the Geelys coming over and building plants and hiring workers.

Dawn Dombroski - *Ford Motor Company - Manager, IR*

Just a reminder to introduce yourself before you ask a question, please.

Jamie Albertine - *Consumer Edge Research LC - Analyst*

Jamie Albertine from Consumer Edge. Thanks for taking the question.

Just go back to China for second, I thought I heard you say in your prepared remarks that you are starting to hear through conversations coming up now that suggest the potential for extension of the purchase tax credit. That sounds like a change since we last spoke from your third-quarter earnings call.

I just want to get a sense for, one, if you were to see the tax benefit expire in December, end of December, what are your expectations for what that means from a demand perspective? I would imagine sales would be elevated as people try and get in front of that. And then also if we could dimension, should there be some extension, how do you see that impacting demand or are we looking at it with too fine a comb?

Bob Shanks - *Ford Motor Company - EVP & CFO*

No, I don't think you are looking at it with too fine a comb. We are almost towards the end of the year, so they haven't formally changed the assumption that it ends as of the end of this year. So we've seen very strong growth even through this month in terms of sales, very, very robust, so I think that probably continues until the end of the year.

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It will have a -- there is some sort of pull ahead that's taking place between the first quarter and the fourth quarter. I think that will have happened. Even if they announce some sort of extension or a partial extension or an extension at a lower amount or whatever it could turn out to be, I don't think it probably changes much in terms of what this year is going to look like and the fact that it pulled ahead sales from the first quarter.

So I still think you will probably see a lower SAAR in the first quarter than what you saw in the third and fourth quarter this year. But if they were to continue it in some form or to some degree next year it might mean that the flat sales that we showed here, 26.1 million or typically some upside opportunity for the full year. But I would think probably maybe not affecting so much the first quarter.

Jamie Albertine - *Consumer Edge Research LC - Analyst*

If I may just a follow-up, I know the residual questions have been beaten to death at this point. But we've heard from dealers complaining in some instances about certain manufacturers and their volume-based incentive programs, and it seems like fewer dealer or OEMs than more have gotten religion on what you've described today, so the accelerated depreciation and then also trying to be more prudent on residual calculations. Is that a fair characterization or do you think that most OEMs with few exceptions are actually taking similar measures to how you --

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Bob Shanks - *Ford Motor Company - EVP & CFO*

I don't know how you cannot have -- it's not a question in relation to (inaudible) accounting. It's the facts.

So we have gone and looked at some of the 10-Qs, Ks, whatever, of other players that have big captives. And we are seeing for those that have been leasing for a period of time, for example some companies have only started relatively recently, so they are not as exposed because their portfolio is younger and newer and smaller. But if you go back and look at some of the other captives that have been around and doing this for a long time we are seeing big charges.

So I think it's -- because we also wanted to make sure that it wasn't just us in terms of what we are seeing and we are seeing that happen across the other OEMs. But some don't have captives and some have only relatively recently restored their captives. So they are in a somewhat different place. But, again, I will just go back to what I said I think it was the third-quarter call which is that through the year-to-date data that have come out, both in terms of the NADA results as well as ours, the declines are tracking very, very close to what we are seeing ourselves on the industry level.

Jamie Albertine - *Consumer Edge Research LC - Analyst*

Understood. Thank you.

Justine Fisher - *Goldman Sachs - Analyst*

I just had another question to follow up on the post-election administration. I think that I don't envy your position being in a period of regulatory uncertainty, and I am sure people in the finance crowd also don't. Also we see where it's coming from.

But if there is a tariff or a set of tariffs on products from Mexico, if I'm in the Ford situation room how does the Company change its strategy on that? Do you guys look far out and say, okay, is this going to be a four-year administration or an eight-year, can you start moving production back to the US? I know we are in the early stages of this, but would the Company make significant changes to its existing footprint as a result of that or would you say, well, maybe this is going to be a temporary thing and it switches back eight years from now?

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Bob Shanks - *Ford Motor Company - EVP & CFO*

I don't want to speculate. I understand why you are asking me the question and it's a good question. But I don't want to speculate because while there could be, I don't know, maybe there's one thing that's done by the government, but then there's it's in the context of three or four or five other things that are taking place at the same time that either could be in same space, I just don't know, we don't know, none of us know.

So I just keep coming back to the fact that it's clear that at least from the campaign positions that Mr. Trump took that they are focused on growth, they are focused on bringing manufacturing jobs back to the US, they are focused on building a stronger, more competitive infrastructure, which I think that's great for the country, as well. Comprehensive tax reform which I think everyone recognizes that's needed. So I think if we can let them do whatever they say they are going to do and build a stronger, more vibrant, growing economy and provide an environment where it makes economic sense to build back up manufacturing jobs here, which by the way, we've added 28,000 jobs since 2011, then that's going to be good for all of us.

I think focusing on one thing that was part of a campaign rhetoric is probably not the right thing. Again, look at how people seem to be responding, acting now that we have to govern as opposed to campaign, I think it's a bit different. So let's just wait and see. I really am focusing on the bigger picture in terms of building a more robust, vibrant economy which the market indicates at least that's possible.

Justine Fisher - *Goldman Sachs - Analyst*

And then in a related vein, I know that with you guys having overhauled the F-Series there's not going to be going back from that, obviously. But how do you think a potential change in the timeline to reach emissions standards changes Ford's position vis-a-vis peers who may have had to spend money in 2018 or 2019 to either overhaul vehicles or add a lot more aluminum or lightweight steel parts to their vehicles, if they don't have to do that now, how does that change I guess the potential price point that they can offer their vehicles hat versus you guys and your position in the market share at least in terms of trucks?

Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, let me be clear about one thing. We are extremely, extremely happy with the decisions that we made around F-150, around Super Duty and we are going to do the same thing with the Expedition Navigator next year.

We have absolutely no regrets about that whatsoever and the reason I say that is because we still have those regulations. They haven't changed, so even people coming out in 2018 or 2019, those products are under development and they have to be developed assuming a certain regulatory environment which is the one that we have.

So we have no regrets whatsoever because even if there is some sort of revision of the regulatory standards they are going to continue to become tougher. I think that's probably a given, it's just the degree of the slope of the climb we have to make towards different requirements.

So with what we did with the, let's just take the F-150, with what we did with the F-150 we chose to take an approach on lightweighting with that because we knew not only would it help us with meeting the regulatory requirements but more importantly it gives the product attributes and benefits that the consumers actually value and the consumers will pay for. That's not true if we were to do that to a Fusion or something else, but it is true with an F-150. It's true with a Super Duty, and even true to an extent with Expedition and Navigator.

You're getting payloads, you are getting towing, better fuel economy. So the capability that we got through the lightweighting and at the same time being able to achieve the better compliance is a win-win for us. And don't forget, too, the F-150 is a very strong positive contributor overall to our overall compliance.

So we don't have to do things now on other vehicles that had lower margin in terms of making that necessarily compliant on its own. We got a lot more flexibility across the portfolio in terms of our compliance strategy, if you will. So for us it's win-win.

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Justine Fisher - *Goldman Sachs - Analyst*

My takeaway for it would be this vis-a-vis a question that was asked earlier is that it may be this Automobile Manufacturers Association is pushing for an extension of some of these standards, etc., but it would almost be like the industry cutting off its nose to spite its face to have a rollback of everything. Maybe someone in the administration, new administration might think that that is what the industry wants but everyone has put so much into this already that to roll it back entirely would actually probably be more hurtful for auto manufacturers --

Bob Shanks - *Ford Motor Company - EVP & CFO*

I don't think anyone is asking for rolling it back entirely. I think all that is being asked for is, and this is why we have the midterm review checkpoint anyway is because there were a number of very important assumptions that the government, I think there was some outside think tanks involved as well as the OEMs, when we put those together it was around physical assumptions and we had this checkpoint in place because we wanted to make sure that the physical assumptions still were relevant in terms of what underpinned the regulatory framework. They don't.

At least some of them don't. And some very important ones don't. So I think it's appropriate, and that's what we have to checkpoint, appropriate for all this is done together and say, well, it hasn't happened the way that we've expected. So what does that mean and how might we revise the standard, still moving at a positive direction, but revise the standard in a way that recognizes that reality.

Matt Stover - *SIG - Analyst*

(inaudible) we're in a weird market right now where it seems to me you are trying to behave rationally (technical difficulty). And if I think about next year as you focus on the things that you guys can actually control, how would you like to see inventories relative to where they are right now when you think about it in the first half of the year as measured on a day's sales basis if your sales assumptions hold true flattish, slightly down? And the second question is that Ford Credit outside of lease should we expect the penetration of Ford Credit to go up as a proportion of total North American US?

Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, I will hit the second one first. I think your assumption is no.

Sam Smith - *Ford Motor Company - Assistant Treasurer*

No, and it's really a function of the incentives that we are running. And if we take some of the things that we have done that we've talked about so far if we are doing a little bit less leasing there are also levers that we can pull that makes the retail financing a little bit more attractive. So we hover in 60% range of retail for Ford Credit, and that's a safe way to think in general areas going forward.

And keep in mind from a Ford Credit standpoint whether we are talking about loans for leases we are a full spectrum lender. The footprint that we have with our customer base from a credit quality standpoint has been incredibly consistent over the years. So the little changes that you see in the penetration are more a function of the relative attractiveness of the (inaudible) lease versus loan versus what is available on the outside and not anything that we are doing to change how we are (inaudible) credit that were, that was sort of the customer that (inaudible) extended credit.

Bob Shanks - *Ford Motor Company - EVP & CFO*

And then on the first one, I've got to be careful there in terms of mention specific numbers because they move around every month because of [surprises], sales in given months and the seasonal pattern of them. But I think we are a little heavy right now.

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Not so much in cars but probably in the trucks a little bit and in the SUVs and that's one of the reasons why we have been taking the production adjustment. So we will continue to do what we've been doing all throughout the year, frankly, and just keep adjusting based on whatever's happening with the industry, our own performance and so forth to try to maintain inventories at a level -- I don't think they are out of line, I just think they are a little bit heavy.

Matt Stover - *SIG - Analyst*

So that would imply that nobody knows what's going to happen with sales, but if sales were to trend out the way you should come to a comfortable position probably in Q1, Q2 relative to --

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Bob Shanks - *Ford Motor Company - EVP & CFO*

And I don't think, again, I don't think we are hugely out of line. But I don't think we have to do any slashing and burning or anything. It's we just need to continue to tweak the production program based on whatever's happening to our own sales performance.

I think the industry has come in a little bit less than we thought at the beginning of the year, frankly. But for the last several months it's been trending very much where we had expected it to. And I think going into next year, again, we are expecting a decline, we will see if that comes home or not.

But we've got plenty of touch points and opportunities to adjust the production program as appropriate. So I think we will just continue to tweak it, if you will. I think it's more around that than any major, major actions that we have to take. (multiple speakers)

Adam Jonas - *Morgan Stanley - Analyst*

It's Adam Jonas from Morgan Stanley. I have a question about safety, and not wholly autonomous but the very important steps on the way there, active safety.

First, you must have a lot of information, vehicle data information from crashes, for example, and crash data working with the Insurance Institute on the safety of these vehicles. First, am I wrong, do you have access, does Ford and your scientists and your people in safety have access to that data way you can make an assessment, a market assessment even of how valuable these technologies are in terms of preventing crashes?

Bob Shanks - *Ford Motor Company - EVP & CFO*

I don't personally know.

Adam Jonas - *Morgan Stanley - Analyst*

You don't? Okay. The second question I guess would be then just on what your competitors are doing.

And I will assume that some and maybe your competitors do have this information. Toyota has active safety, AEB city and AEB highways speed on the majority, standard equipment on the majority of their offerings from the US as you know and want to make that 100% standard within about two model years.

Putting even regulations aside how sustainable is it? Because you have currently AEB highway and city standard on zero percent, you do have an optional on a minority of your vehicle lines and I'm assuming that will change. But how long can you have that dichotomy of a competitor as important as Toyota offering it on all vehicles standard where you don't?

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Bob Shanks - *Ford Motor Company - EVP & CFO*

I think that's similar to the question you asked Mark.

Adam Jonas - *Morgan Stanley - Analyst*

It is. And I think you know where I'm going with it because all those vehicles on the left side of the balance sheet of Ford Motor Credit and the majority of the vehicles, the vast majority of the vehicles you are selling now could in a couple of years be seen as twice as dangerous and more difficult to insure.

Bob Shanks - *Ford Motor Company - EVP & CFO*

That's dramatic.

Adam Jonas - *Morgan Stanley - Analyst*

Well, the suppliers -- your suppliers say they are going to get 80% of the benefits for 20% of the cost. And they are about to get more vocal on this I think in terms of the scientifically what they are seeing and if these 60% type reduction of vehicle-to-vehicle and vehicle-to-pedestrian. So just I think it's a worthy topic.

Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, I think, Adam, if you look at our safety ratings they are very high and very competitive. We do have, as you said, a different, presently a different strategy in terms of how we deploy the technology across series and vehicle lines and so forth.

So I guess the only thing I will say is that I don't think we are going to do anything that's going to result in us being uncompetitive in terms of what customers want and value. So I will just leave it at that.

Adam Jonas - *Morgan Stanley - Analyst*

Okay, are you skeptical of the safety benefits, are you -- and is the feeling within Ford that automatic emergency braking, it may not be as good a value to safety proposition as some of your suppliers suggest?

Bob Shanks - *Ford Motor Company - EVP & CFO*

I'm not saying that.

Adam Jonas - *Morgan Stanley - Analyst*

You're not saying that. But you're also not commenting on your own (multiple speakers)

Bob Shanks - *Ford Motor Company - EVP & CFO*

Go-to-market strategy, no.

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Adam Jonas - *Morgan Stanley - Analyst*

Got it. Thank you.

Stacey Steslicki - *Ford Motor Company - Director, IR*

I'm just saying we were scheduled to end about 11:15. We can go a few more minutes if there are any last-minute questions that would be (inaudible) minutes to go. (multiple speakers)

Itay Michaeli - *Citi - Analyst*

Itay Michaeli from Citi, just a quick follow-up, Bob. For North America next year can you share roughly what your retail share assumption is and also what your assumption for mix in terms of cars, trucks, is it relatively flat from this year?

Bob Shanks - *Ford Motor Company - EVP & CFO*

No, not at this point.

Stacey Steslicki - *Ford Motor Company - Director, IR*

One more so we can --

Jairam Nathan - *Daiwa Securities - Analyst*

Thanks. So I just wanted to know if since the election, I know it's early days, but have you seen any change in road traffic, any with regard to sales in the US?

Bob Shanks - *Ford Motor Company - EVP & CFO*

No I think the month so far it's shaping up in line with our overall forecast that's consistent with the year or so. No, I don't see anything to suggest that there's any rush to the showrooms or people staying away.

Emmanuel Rosner - *CLSA - Analyst*

Hi, Emmanuel Rosner, CLSA. Just two quick follow-ups.

So the first one, your first few slides on China, besides just helping us better understand how the reporting works, was there also any underlying fundamental message you are trying to pass on in terms of profitable looks more or less than what you are saying? Was there any sort of (multiple speakers)

Bob Shanks - *Ford Motor Company - EVP & CFO*

The team is telling me that when I talk with you guys on the phone after calls that there's confusion sometimes around when we talk about China what are we talking about and how does a $1 billion year-to-date profit and the JV's equity after-tax turn into the results that we show overall? And some confusion around when we talk about China versus the JV, so I was just trying to make sure that we had the opportunity to clear that up.

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There is no subtext to that. I was just trying to inform.

Emmanuel Rosner - *CLSA - Analyst*

Okay. And then I know you were saying you weren't looking to go to specific topics on the election campaign. But I guess a couple of days ago at the LA Auto Show, Mark Fields was out there trying to make very public message that the 35%, I think, tariff on imports from vehicles from Mexico that would be incredibly disruptive.

You mentioned how you've been in conversations with both the campaigns and the transitioning. How does that 35% reflect, is that something that Ford is truly worried right now that it may come through or is this something that was just part of campaign rhetoric and you are just making sure that it doesn't --

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Bob Shanks - *Ford Motor Company - EVP & CFO*

Well, I wasn't with Mark in Los Angeles but I think he was just responding to a question. And he was asked about that and he just stated the obvious, which in isolation, again, given the integration of the Mexican economy and the supply base with US and US with Canada and all three of them, if you were to just arbitrarily inject 35% duties whole it would be very disruptive. I mean that's self-evident.

But I continue to go back to what I said, if the government, the new government once it's in place is serious about accelerating and growing in a very healthy way the US economy, which I believe it is, I think it will take steps and measures that will enable that and deliver that. That would be contrary to (technical difficulty) I think Mark was just (technical difficulty) answering a question and stating the obvious.

Stacey Steslicki - *Ford Motor Company - Director, IR*

Thanks. Well, with that I guess we will close the meeting.

Thanks again to everyone for participating today. Have a great day and happy Thanksgiving.

Operator

Thank you. This concludes today's Ford Motor Company CFO Let's Talk conference call. We ask that you please disconnect your lines at this time.

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