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PRESENTATION

Operator

Good morning. My name is Crystal and I will be your conference operator today. At this time I would like to welcome everyone to the fourth-quarter and full-year 2016 Ford earnings conference call. (Operator Instructions). Thank you. I would now like to turn the conference over to Mr. Ted Cannis, Executive Director, Investor Relations. Please go ahead, sir.

Ted Cannis - *Ford Motor Company - Executive Director of Ir*

Great. Thanks very much, Crystal. Good morning and welcome, everybody, to Ford Motor Company's fourth-quarter and full-year 2016 earnings review. Presenting today are Mark Fields, our President and CEO; Bob Shanks, our Chief Financial Officer; and also participating are John Lawler, Vice President and Controller; Neil Schloss, Vice President, [Corporate] Treasurer and CFO of Ford Smart Mobility; and Paul Andonian, Director of Accounting; and also Marion Harris, Ford Credit CFO.

Copies of the press release and the presentation slides are on our website, as usual.

The preliminary results discussed today include some non-GAAP references and these are reconciled to the most comparable US GAAP measures in the appendix. It also includes some forward-looking statements about our expectations for future performance. Actual results may vary and the significant factors are included in the presentation. Just as a reminder, Ford Credit will be holding a call at 11:00 AM to review its fourth-quarter and full-year results. With that, Mark?

Mark Fields - *Ford Motor Company - President & CEO*

Okay. Thanks, Ted, and good morning, everybody. At our Investor Day in September, and again at the Deutsche Bank conference two weeks ago, we said we were confident that we would achieve our second best full-year Company adjusted pretax profit and we have. 2016 was a very strong



year and in addition to our second best full-year Company profit of \$10.4 billion, we had a near record operating margin of 6.7% and our second strongest cash flow of \$6.4 billion.

The fourth quarter was also strong with Company pretax profit of \$2.1 billion. So, in total, we delivered our seventh year in a row of strong results with 2016 only exceeded by our record performance in 2015. And, of course, we'll dig into the details in a minute, but first I'd like to turn to how we're creating value in our business.

So, turning to slide 4, we're continuing to focus on the four drivers of shareholder value: growth, risk, returns and rewards. So looking at growth, we launched several key vehicles this year helping to strengthen our core business, including the all-new Super Duty, which further solidified our longtime US leadership in full-size pickup trucks. We also took a step forward in the transformation of Lincoln with the launch of the Continental and strong sales growth globally including nearly tripling our sales in China.

In terms of risk, we had strong performance in North America and a combined profit for our operations outside North America. And, thanks to our de-risking strategy, our global funded pension plans held up well. And as a result, our global funded pension plans now are nearly fully funded and our improved risk profile was recognized with a ratings upgrade from each of the four major rating agencies.

Now In terms of returns, a number of key metrics set records, or near records, including a record profit in Europe of \$1.2 billion and our second best profit in Asia Pacific. And our disciplined and focused approach to capital allocation continues to pay off as we continue generating a healthy return on invested capital that's well in excess of our cost of capital.

And then finally in terms of rewards, shareholders benefited from our continued success and our strong cash generation as we distributed \$3.5 billion including our first supplemental dividend that totaled \$1 billion.

Now, slide 5 shows some of the additional highlights in the full year and these include a couple of things. First, the Ford brand was the best-selling brand in the US for the seventh year in a row. F-Series marked its 40th year as the top-selling truck in the US and 35 years as the best-selling vehicle. Our Transit is doing extremely well as the best-selling cargo van in the world and helping us to be the best-selling commercial vehicle brand in Europe for the second consecutive year.

And when it comes to our emerging opportunities, we've expanded Chariot to two cities, San Francisco and Austin, Texas, and we have plans to expand to eight cities by the end of this year, including one outside the United States.

We had the most US patents of any automaker during 2016 and I think this is a very good indicator in terms of how we're amping up our innovation efforts inside the Company. And we made progress towards our intent to have a high-volume, fully autonomous Level 4 vehicle in ride sharing and ride hailing services starting in 2021 with this month's introduction of our next generation Fusion Hybrid autonomous development vehicle.

So now let me turn it over to Bob and he'll take us through the details of our business performance.

Bob Shanks - Ford Motor Company - EVP & CFO

Okay. Thanks, Mark, and let's start on slide 7 with the key financial summary and I'll just go down fourth-quarter and full-year and cover some of the key metrics. So let's start in the first column with the top-line wholesales and revenue.

You can see that we were down just a bit; it was 4% in both wholesales and revenue and that was more than explained by unfavorable stock adjustments in North America. Go down further you can see our Company adjusted pretax results in the quarter came in at \$2.1 billion, which was down \$478 million, and you can see above that that each of the segments that we report, Automotive, Financial Services and All Other, which is primarily our treasury operations or net interest expense, you can see that they were all down.



Going further down, let's look at special items on a pretax basis, \$3.2 billion, and that was driven primarily by the announcement that we made on January 20 of losses associated with the re-measurement of our global pension and OPEB plans. And that was driven by lower discount rates and, just to remind you, that's noncash.

We also picked up a charge of \$200 million associated with our decision to cancel our new plant in Mexico. That was primarily for costs associated with returning the site to its natural state, and also compensating the state government for cost that it incurred in terms of putting infrastructure on the site and to the site. We also picked up a little bit of charges associated with the announcement that we made earlier in the year around our withdrawal from the Japanese and the Indonesian markets.

If you go down further you can see the net income or loss attributable to Ford in the quarter driven by the specials was a negative \$783 million. And then further down, our adjusted earnings per share came in at \$0.30, which was in line with First Call and Bloomberg. You can see the liquidity metrics, I'll go through those later, but all of them, very, very strong.

Let's go down the same column -- the same metrics, if you will, on the full-year column, so we'll start with wholesale and revenue. Pretty flat, just up a touch. Go down further to our Company adjusted pretax results, Mark's \$10.4 billion, which was the second-best that we've ever had. Special items on a pretax basis, the \$3.2 billion, in addition to that came in at \$3.6 billion; that's related to separations that we had earlier in the year both in North America and Europe. On a net income basis, we came in at \$4.6 billion; that was down. That was driven by the special items and adjusted earnings per share of \$1.76.

All right, let's now go through the balance of the presentation. The first three slides are going to be on the full year; those are the only slides we're going to talk to that are full year. We have in the appendix incremental slides that show the bridge between last year and this year's profits for the business units. We are not going to go through them, but if you have questions when we get to the Q&A session, obviously, Mark and I would be happy to answer them.

So, looking on slide 8, looking at absolutes, you can see to the far left, the \$10.4 billion. At the top, Automotive, which was also the second-best result at \$9.4 billion. Within that, you can see the very strong results in North America at \$9 billion; South America a loss; Europe, a record result of \$1.2 billion; we ended up at negative \$300 million for Middle East & Africa; and the second-best result that we've seen in Asia Pacific at \$627 million.

We had a solid result in Financial Services driven by Ford Credit at \$1.8 billion; all other is primarily interest expense and fair market value adjustments to our investment portfolio. All right -- the other thing I just wanted to mention on this slide is that if you were to take the operations outside of North America on a combined basis, we generated a profit of \$421 million; that was nearly double what we did last year and it was the best result on a combined basis for that part of our business in five years.

Okay, let's turn now to slide 9. We're going to drill down now from total Company to Automotive. This is again full year. So the first thing you see when you step back and look at this slide is how similar it was to last year. So it just shows how close we were to meeting if not achieving another record. So was really strong results right across the board.

When you go across, if you look at the market share, the market share came in 0.1% lower and that was driven by declines in North America and South America. The operating margin we touched on and the pretax results we touched on. And we'll go into detail on the next slide in terms of the change. Let's go to slide 10.

Mark Fields - Ford Motor Company - President & CEO

But, Bob, before you go on, let me just make a comment. It's worth noting that our -- oh, sorry. Why don't you go on; it's really the next slide I want to --.



Bob Shanks - Ford Motor Company - EVP & CFO

Yes, you want to talk about the next slide. So I turn to slide 10, and what Mark is talking about, if you look at this slide, you can see we were down \$146 million. The thing that really drove this was higher warranty costs. So there's a lot of ups and downs, but the reason we call out warranty costs is because obviously they are not something that was expected.

If you look at the callout box for contribution costs, you can see the negative \$880 million. That was driven by recalls and the largest one that we've had in many, many years really drove that; that was the door latch recall that we had in the third quarter. It was nearly \$600 million.

But a couple other things to highlight. If you look at the callout box for volume and mix, we had a very strong headwind during the year from stocks -- that's adverse stock changes. So we had a stock build last year, stock reductions this year and that was basically in North America, Europe and Asia Pacific.

But if you go just below that, and this is what Mark may want to talk about, we had very, very strong performance on mix, which has been a deliberate strategy of ours. It's both positive mix performance in terms of the types of products that we sell; it was also positive performance in terms of higher series derivatives that we sell. And that was across North America, Europe and Asia Pacific.

The last thing I would just mention, if you go to the far right, you can see some good news there. That is the non-repeat of the ratification bonus that we paid a year ago to the UAW following the conclusion of our UAW contract.

Mark Fields - Ford Motor Company - President & CEO

And just picking up Bob's comments around mix, I think it's really worth pointing out that the mix performance that we achieved last year, which is really impressive compared with the prior year. And it really resulted in a year-over-year profit improvement for the Automotive segment of just about \$2.4 billion. And that's been mainly in North America and Europe and Asia Pacific.

As Bob was starting to mention, this really reflects a very deliberate and successful strategy to strengthen our brands and enrich the mix of our vehicles by essentially focusing on the higher margin segments where consumer interest is particularly strong. And we've also achieved greater sales of higher series derivatives like Titanium, ST, RS and Raptor within our individual vehicle lines. And I can assure you that this will continue to be an area of focus for us and an opportunity for us as we go forward.

Bob Shanks - Ford Motor Company - EVP & CFO

Okay. Thanks, Mark. So now we're going to flip to quarterly slides. So from this point forward, the color and texture that I'll provide will be primarily on the fourth quarter. Again, in the Q&A, if you have questions on full year, please go ahead and ask.

So this is looking at absolutes for the quarter. So you can see the \$2.1 billion pretax results on the far left. That reflected a \$2 billion Automotive profit. Within that a \$2 billion profit coming from North America. Profits in Europe and in Asia Pacific; declines in South America, Middle East & Africa. Solid results in Financial Services and, again, in All Other that's primarily net interest expense.

Let's move to slide 12 and here we'll look at the key metrics for the Automotive segment in the quarter. So stepping back and looking at it, you can see that wholesales and revenues were down; that was driven primarily by unfavorable stock adjustments, again in North America. If you look at -- well, it's not on the slide, but if you look at the far right -- in terms of the global SAAR, it actually came in 2% higher than a year ago and that was driven by gains in Asia Pacific, Europe and North America.

Looking at market share, we were down 0.1. As I mentioned earlier, that is North America -- or actually, that was full year, so this is the quarter, North America and Europe. Operating margin of 5.7% and then the result on the pretax basis, which was down.

If we go to the next slide, slide 13, we'll go through what drove that decline of \$280 million. It was basically driven by unfavorable stock changes as well as higher costs. So if you look at the callout box on volume and mix, you can see the \$1 billion adverse change related to stock changes; that was 125,000 units. Most of that was in North America and, again, related to stock builds we had a year ago.

A lot of that around F-Series, but also products that we were going to be launching in 2016. And this year we've had a stock depletion in the quarter, making sure that our production remains in line with our demand. If you look to the far right you can see again the impact of the ratification bonus.

Okay, let's turn now to the business units and we'll start, as always, with North America in the fourth quarter. Looking at the far left, wholesale was down 105,000 units; 98,000 of that was the unfavorable stock change that I referenced earlier. The revenue down 7%; that again was driven by that volume change.

The SAAR in the region was 22.5 million units; that was up 400,000 units. That was actually driven by Mexico, 300,000 units. We did see an improvement in the US; that was up 100,000 to 18.4 million SAAR.

Our market share was down 0.3 of a point, that was driven by unfavorable fleet performance and that was driven by rental. You remember we had a pull ahead of our rental sales in the first part of the year, so this is, if you will, the payback in terms of share effect in the fourth quarter. It was partially offset by stronger performance on a regional basis and that was driven by F-Series.

Operating margin was a record for the quarter at 8.5% and then the \$2 billion pretax result to the far right. If you go below the page, I will note the \$9 billion profit in North America, very strong; it was just down a touch from the \$9.3 billion last year. And the operating margin, very, very strong once again at 9.7%. If we were to exclude the door latch recall, we would have come in at 10.3%. So say to give you a sense of the underlying run rate of the business, very consistent with the performance of 2015.

All right, let's go to the next slide, and this is the explanation of the change in North America's result on a year-over-year basis, down \$73 million. You can see that that was driven primarily by stock changes and also by higher product cost.

If you look at the callout box for contribution costs, you can see material excluding commodities; that is more than explained by higher product costs related to the products that we launched including the Super Duty and, earlier in the year, the Fusion and the Escape and also the Continental in the latter part of the year. And to the far right, of course, is the ratification bonus.

For 2017, in terms of guidance, we're continuing to expect that North America's operating margin and its profit is going to be strong. But, as we've said previously, it will be lower than in 2016 and this was mainly due to unfavorable volume and mix and also to the increased investments that we're making in the areas of emerging opportunities.

Mark Fields - Ford Motor Company - President & CEO

And I just want to make a comment on F-Series. Obviously, we get a lot of questions on F-Series. But as you will recall, two years ago we added strength and capability to the F-150, increasing the payload, the towing, the torque while taking out weight with the addition of the high-strength aluminum alloy body.

And this past year we repeated that success with the first all-new Super Duty that we've had in 18 years. And some people called these innovations a risk, but I think with the response that we see from customers, they are clear successes in the marketplace. And just a couple of proof points for that.

Our F-Series total sales last year were over 820,000 units and that's the first time sales have topped 800,000 units in a decade. And if you look at the fourth quarter, our sales were up 4% with retail up 9% and for the full year we gained almost 1 full point of market share in the segment.

If you also look at the fourth quarter, our average transaction price was up over \$1,300 versus last year and that's significantly outpacing the segment. And then finally, we outsold our nearest truck competitor by 246,000 units, and essentially increasing our lead by about 36% year on year. So we are really pleased with the market's reception to our F-Series and we plan to build on that momentum going forward.

Bob Shanks - Ford Motor Company - EVP & CFO

Okay, let's turn south now on slide 16 and we'll look at South America. So the first thing you would note looking at the slide which is encouraging is that all the metrics are up, even though on a pretax result basis you can see only a change of \$2 million.

But nonetheless, it is the first time since the third quarter of 2013 that we've seen metrics turning in a positive direction, which is enforcing our view that the cyclical downturn that we've seen for the last several years is probably bottoming out, coming to an end. And our expectation for next year is that the loss will improve as we see the economic cycle start to turn.

If you look at the quarter, the improvement in wholesales was basically around stocks. That also drove the improvement in revenue along with some pricing. And in terms of the SAAR, the SAAR was still down for the region, 200,000 units to 3.8 million units. And within that, Brazil was down even more, at 400,000. But it was the slowest decline on a quarterly basis that we seen throughout the year. We've seen that decline improve on a quarter-to-quarter basis as we've gone throughout the year, so again, another sign of things starting to turn.

Within that environment, the market share was better; that was due to strong sales of Ka and Ranger and that was in Brazil and in all other markets other than in Argentina. And again, the full year came in at \$1.1 billion decline; that was down about a third from where we were a year earlier and again driven by the economic environment that we were operating in.

And to underscore that, if you go to the next slide on slide 17, this is the pattern that we've shared with you through much of the past number of quarters. You can see a lot of ups and downs for a change of only \$2 million.

But if you look at the second column there you can see that while we're continuing to price and price quite aggressively, it is not enough to offset the effect of the high local inflation and the adverse exchange, in this case both Argentina and Brazil. And, as I mentioned earlier, we do expect in 2017 the loss to improve for South America as the economic cycle begins to turn.

All right, let's move to a very successful story on slide 18, Europe. This is our seventh consecutive quarterly profit. You can see that wholesales were actually flat in the quarter, revenue also essentially flat. That decline is more than explained by exchange.

In terms of SAAR, it came in at 20.7 million units, which was up 1.2 million units, so a strong industry result. Within that, our share was down a touch, 0.2 of a point and that was explained by lower passenger cars sales; that was basically Mondeo, Focus and C-MAX.

But also within that, and Mark touched on it earlier, we had very strong performance for Commercial Vehicles; our share was over 14%. It was up 0.4 of a point. And not only were we the number one brand in the year, we were the number one brand also in the fourth quarter. Operating margin at 2.3% and \$166 million profit. And if you go down and look at the full year, that was a record at \$1.2 billion; it was also a record margin at 4.2%.

Then let's look at the change on a year-over-year basis. Again, lots of ups and downs, up \$35 million and it was driven primarily by continued favorable cost performance. To the point that Mark made earlier around mix, if you look at the callout box on mix, that \$39 million within that is about \$100 million of good news on mix, both mix among products as well as series mix and options.

The last point I wanted to make on this slide is, as I've said throughout the year, the business has benefited from continued improvement in the results in Russia; that was also the case in the fourth quarter.

So for 2017, we do expect Europe to remain profitable, but it will probably be lower than in 2017. And that's driven by the effect of Brexit on the Sterling along with higher costs that we expect associated with the launch of the Fiesta and the EcoSport along with continued investment that we plan to make in the business moving forward.



Mark Fields - Ford Motor Company - President & CEO

And just overall on the business in Europe. As you know, we made tough choices and strategic decisions including restructuring in Russia when others retreated. And they are paying off, as you heard, from record profit and operating margin in the region.

And, as Bob mentioned, it's being driven by an aggressive focus on costs with nearly \$400 million in cost improvement in 2016 alone. But we've also had an equally strong focus on our product strategy, or the revenue side of it, adding a lot of new vehicles and derivatives in segments with the highest growth and profit potential.

So, an example of that is we saw profit improvement over \$400 million in 2016 from a more favorable mix of products compared to 2015, driven by products like the Edge. But in addition to that, more than half of our Passenger Cars sales in 2016 were high series vehicles, the Titanium's, the Vignale's, the ST, the RS. And this helped push series mix up more than \$300 million compared with last year.

So, bottom line is, we've taken the tough actions, we've invested in the product and the brand and we're seeing the results on the bottom line.

Bob Shanks - Ford Motor Company - EVP & CFO

I didn't mention it, Mark, but as we do see the cycle change, not only South America, but in 2017 Russia also is expected to improve and contribute to a better result at least in that part of Europe in 2017 compared to 2016.

Let's move to another market that's actually been very much affected by commodities, oil, geopolitical conditions. This is the Middle East & Africa. So basically for the quarter, and you can see the metrics here on slide 20, as well as for the full year, which is shown below, it's essentially the same factors. It's all of what I just mentioned. And when you look at the SAAR in the quarter, it came in down 22%; it's the worst decline on a quarterly basis throughout the year that we've seen and it really is driven by everything that I just mentioned.

Within that environment we were able to generate higher share both in the quarter and in the full year and that was due to stronger sales of Ranger, Fiesta and Focus in Africa. But whether you're looking at the quarter or whether you're looking at the full year, basically you're seeing the impact of lower industry volume and you're also seeing the effect of adverse exchange, primarily the South African rand. And remember, we've got manufacturing operations in South Africa and that's why that's an important currency for us there.

As we look at 2017, a very similar story to what I said about Russia, to what I said about Brazil. We are starting to see the commodity cycle change and so as a result we do expect to see Middle East and Africa improve compared with the results that we're showing here for the full year. And that's based not only on favorable external conditions but lower cost and higher net pricing.

All right, let's move to Asia Pacific on slide 21. A strong story here both for the quarter end for the year. You can see wholesales up and revenue flat; remember, revenue does not include the China JVs. In terms of the wholesale improvement, that's driven both by stronger industry as well as share improvement. In terms of SAAR, 44.4 million SAAR for the quarter; that was up 5% from a year ago and that was driven by very strong performance in China.

In terms of market share we were up 3/10 of a point. Again, that's China, that's very strong sales of Escort. And then the Taurus, the Edge and the Lincoln all contributing towards the favorable mix that Mark talked about for Asia Pacific. In terms of margin, strong but down at 8.4%. Pretax results strong but also lower.

If you look at the far right there, as usual, just a comment on the China JVs that came in at \$380 million; that's our equity after-tax. Our share of the profits there in the margin was 12.8%. So it was down but still double-digits. We're still getting a very good overall margin coming out of our JVs in China.



If you go down to the very bottom, you can see the strong result, the second best at \$627 million. That was down and, whether you're looking at a quarter or you're looking at the full year, it was driven by lower pricing in China on an industry basis as well as adverse exchange and that was the renminbi.

And if you go to the next slide, on slide 22, you can see exactly what I just mentioned. You can see the impact of net pricing and the impact on exchange. Cost about flat and some favorable volume and mix including -- well, actually in the quarter we didn't actually have favorable mix. On a year-over-year basis we had launched last year in the quarter Edge and Taurus and so the comps are a little bit different than the other parts of the year.

In terms of 2017, we do expect Asia Pacific's profit to improve. We don't expect that to come from China. We think the China JV profits will be relatively flat. Margin will still be double-digit but probably down a bit, again, because of continued negative pricing, although moderating from what we saw this year, an unfavorable exchange. What we're going to see is improved results across the rest of Asia Pacific, which we also saw in 2016 but at a pace that's even greater.

Mark Fields - Ford Motor Company - President & CEO

Yes, and just to add a little bit of color on China, if you look at sales in 2016, it was our best sales year ever in China. We sold about 1.27 million vehicles and that's up 14% over 2015. And, importantly, this was driven not only by Lincoln, which is -- as Bob pointed out earlier, but also our now five vehicle SUV lineup. It really has been a key driver of our sales growth including Edge and Explorer, but also at the same time by our performance vehicles.

We've introduced Mustang, Focus RS, Focus ST and, as Bob mentioned, we had strong sales of the Taurus in China after we launched it. So I think our efforts -- and we've talked to you about this in the past -- to fill out our product lineup over the past few years has really started to pay off in terms of growth in what is the world's largest vehicle market.

Bob Shanks - Ford Motor Company - EVP & CFO

And we have talked a lot about focusing on the rest of Asia Pacific. And so that improved results that we saw in 2016 in the quarter. And then what we're expecting in 2017 is really encouraging as well, a better balance of profitability across the region.

All right, let's turn to Ford Credit right now. I've got three slides here, as usual. So if you look at the far left, it grew. And you can see that in the first two sets of data. Our pretax results were down and I'll show you what was behind that. It was down both for the quarter and for the full year, coming in still strong at \$1.9 billion for the full year.

And in terms of US Retail and lease metrics, the portfolio performance continues to be robust. All of our origination, servicing and collection practices continue to be consistent. So we are seeing delinquencies start to increase -- or if they've been increasing, then approaching historical levels but not there. And the same is true for loss receivables. So although there, we're starting to get closer to the historical performance of the past.

Let's go to the next slide and look at year-over-year. So two things to comment here. We're down \$158 million. If you first go to the far right, we had a pension settlement that occurred between Ford Credit and Ford of Europe. There is actually a positive offset to this to the dollar in the European results.

And this is basically just simply -- we have a Ford plan. In the past, we've kind of split, if you will, the expense and all the results of that plan between Ford Credit and Europe. We've done that in other regions as well.

But what we've done is we've chosen to have Ford Credit settle its share of the deficit at this point in time and we'll continue to report ongoing service costs, but we're going to put all of the balance now of the risk and rewards on the portfolio to Automotive who will manage it going forward. And we've already done that in other parts of the business over the last number of years.



And then if you look at the middle factor around lease residuals, you can see there the same thing that we've seen all quarters of this year, the impact of lower auction values on the business.

And if you go to the next slide, slide 25, at the upper left, let's focus on the 36-month line, which is the one that's below. You can see that we had pretty stable performance, actually up from the fourth quarter and the first, second and third quarters. We had a 6% decline, about \$1,060 in the fourth quarter. That was largely in September and October.

Knock on wood, in November, December and so far we've actually seen a much more stable performance in auction values. Although we are projecting auction values to be down in 2017 and that's contained in our guidance. But it was encouraging to see it start to stabilize at least over that period of time.

And then on the upper right, I just want to highlight, you can see that the industry continued to perform, or to lease at a pretty healthy rate, if you will. We actually have had a strategy to take down our lease penetration at Ford Credit; this is in response to higher incentives, which is making leasing very expensive as well as lower auction values and recognition of all the units coming back to market.

So you can see that we're starting to separate a bit from the overall industry. And in fact, on a full year basis, which you don't see here, we leased at 22% which is actually unchanged from 2015. The industry was at 30%; that was actually up 2 points from 2015. And if you look at the metrics at the bottom, you can see pretty consistent from where we've been in the past, whether it's resale contract placement terms or FICO and higher risk mix.

For the full year, no change to our guidance. We expect Ford Credit's results to be lower, probably about \$1.5 billion. And again, it's around our expectation for lower residual values.

If we go to the next slide, this is cash flow. So in terms of our cash flow performance, very strong. You can see operating came in at \$1.5 billion in the quarter, \$6.4 billion for the full year. That was driven by Automotive segment pretax results. Just want to highlight our capital spending came in at \$6.9 billion in the year; that compares with \$7.1 billion last year. We're guiding to \$7 billion in 2017, so pretty flat over that three-year period.

If you go down further and look at changes in debt, you can see it's positive; that's the \$2.8 billion debt issuance that we had early in December of last year. And then you can see pension contributions of \$1.2 billion is consistent with what we had guided to. We are expecting in 2017 pension contributions to be about \$1 billion and we are also expecting about \$1 billion in 2018 and 2019. That's up from the \$500 million to \$700 million that we've previously guided and that's simply a reflection of the higher discount rates.

And then, dividends, share repurchases, \$3.5 billion which includes the \$1 billion supplemental dividend that we announced and paid in the first quarter of 2016.

Okay, let's go to the annual update on pensions a few things to call out here. You can see that the underfunded status actually didn't move much given the very sharp decline that we saw in discount rates, which is just below there in the second section of data. The US, in fact, hardly moved at all, which is really -- just shows the success of the de-risking strategy that we've had in place for the last six, seven years.

We saw a bigger movement and the non-US plans. And if you look below there you can see that's because the discount rates were actually three times lower than what the declines were in the US. We had very strong asset performance. We talked about pension plan contributions. We had a positive pension plan expense in 2016. We expect to have positive expense in 2017. And then, of course, the remeasurement losses that were announced on the 20th.

And let's go to my last slide on slide 28. So, here is a balance sheet summary. So in sum, cash liquidity balance is very strong. Ford Credit's balance sheet very strong with good liquidity and we've talked about the pensions.

The only thing I want to comment on incrementally here is around the cash balance at \$27.5 billion, obviously, above our target of \$20 billion. And just to share with you how we're thinking about that, \$2.8 billion of that obviously is the debt that we had taken on in December.



And to remind you, we took on that debt because we believed it was opportunistic to do so; the market was very favorable. We know that interest rates are going to be going up so it was a great time to go in and get that debt. Our balance sheet was so strong that we were able to take it on and still not affect our leverage metrics that we're working towards. And again, as we look ahead at what we want to do in terms of transforming the business, core as well as the emerging opportunities, the way we want to grow that.

We wanted to take advantage of favorable market conditions and make sure that we had that cash available for those uses. We will be very, very prudent, disciplined in terms of how we'll use that. But we thought it was great to take advantage of the market and get that cash when it was available.

The other thing that I guess I would mention to you is while there's a lot of enthusiasm and we're all very optimistic about what may come out of the new administration in terms of growth policy, there is also more uncertainty. There's more volatility potentially around that. And also we are probably closer towards the end of the cycle, whenever that might be, than we are to the beginning. So we're not uncomfortable with having a little bit of extra cash at this point in time.

So with that, let me turn it back to Mark and he'll take us through the balance of the presentation.

Mark Fields - Ford Motor Company - President & CEO

Okay, thanks, Bob. So, slide 29 shows our view of GDP growth rates and industry volumes. And, all in all, we expect growth in GDP globally in all the major markets that are shown on the slide there. Similarly, we expect growth in industry volume and in the volume for all major markets except the US, which is going to remain strong.

If you move to slide 30, that just shows that we delivered strong results in 2016, again in line with our expectations. And then, looking ahead, 2017 is going to be a good year for Ford. We expect our key financial metrics for the Company, as I said, in 2017 to be good, yet lower or about the same as 2016. At a Company level, this is driven mainly by investments that we're making in the areas of emerging opportunities and it's the same guidance that we reiterated at the Deutsche Bank conference two weeks ago.

Now, turning to our business units on slide 32, I'll give you a little flavor for what's going on in the business units. We do expect profits in North America and Europe to be lower than last year. While we expect to see improvements in results in South America, Middle East and Africa and Asia Pacific. And for reasons that were already mentioned by Bob, results in Ford Credit and All Other will be lower than 2016.

In addition, you can see in the slide the various puts and takes for each region, so you get an understanding of what's going on one level down in each region in terms of the factors driving the business.

So, let me just wrap this all up before we go to the Q&A. We delivered a very strong 2016; in fact, as we mentioned, our second best adjusted full-year pretax profit. We also delivered a full-year operating margin in North America of 9.7%, which is at the high end of our 8% to 10% target range, which we've talked about in the past.

We set a number of records for the year including a record adjusted pretax profit in Europe and record sales in China. And we expect to deliver another good year this year, again in line with the expectations that we set initially at our Investor Day last September.

So, we're making substantial progress on expanding our business and that's really going from a strong, healthy automotive Company to one that will be even stronger and bigger as we expand to an auto and a mobility Company in the future, which brings me to slide 34.

And, importantly, we now have a very clear vision and strategy for our business going forward and our plan is simple. We want to achieve top quartile returns by expanding our scope from vehicles to mobility through business model innovation. I can tell you we're more focused than ever before on fortifying our strengths, transforming the underperforming parts of our business and investing in emerging opportunities that will provide even more profitable growth in the future for us.



And, as usual, we'll look forward to sharing with you our progress as we go through the year. So, with that, why don't we open it up and start taking your questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). John Murphy, Bank of America.

John Murphy - BofA Merrill Lynch - Analyst

Good morning, guys. Just a first question on one of the big swing factors in 2016 being the \$1.2 billion stock adjustment. Obviously that is a real thing; it's not one time, but it does indicate maybe you earned a little bit more in 2015 than you would have otherwise and that you took that hit in 2016. So the trajectory of earnings between 2015 in 2016 actually should be a bit better than what you are showing here.

And as we look forward to 2017, your stock position, your inventories are relatively lean, I think very disciplined and good, but it does seem like there's a potential for you to, particularly as we get through the second half of the year, to maybe build a little bit of the inventory if the industry comes through. I'm just curious how you are thinking about this and if that logic makes sense to you.

Bob Shanks - Ford Motor Company - EVP & CFO

Well, I think you're right in the first part, but that was driven by the launch schedule and cadence that we had. So if you remember going back to 2015, we were coming out of Dearborn and Kansas City for F-150s, so we were really building stock. We also then had that pull ahead of rental into the early 2016 period, so again we had to build stock for that.

We then, through this year -- in the second half of the year, we've been taking the adjustments -- well, in fact, through the year, we've been taking the adjustments. And so you're right, but it was driven by launch cadence and rental timing or cadence as opposed to anything else.

When we move into 2017, John, I think you're right. When you look at every single region, the way we look at it our stock levels are in very, very good shape and in North America in particular where there had been a lot of concern expressed by a number of people throughout the year. We kept telling you that it was driven by the cadence of launches last year, this year, and what was going on with rental and that we would be in good shape by the end of the year. And we're actually in very good shape, so we delivered on that. Every other region looks fine.

As we look ahead to next year -- or this year, rather, in 2017, I think we'll just hold that level. I don't see any big plus or minus on this particular factor in terms of impact on the Company. It might be a little bit different by business unit, but likely not because I think everyone is in pretty good shape.

I will highlight that we will have the launch of Expedition / Navigator in the third quarter, so that will have an impact. It's not as high-volume, obviously, as some of the other launches we've had on that type of platform in the past, but it is a very high margin vehicle, so it will have some effect, probably more on mix than anything else.

Mark Fields - Ford Motor Company - President & CEO

The only other thing I'd add, John, all these things are linked, right? As you mentioned, in any given year we're going to have launches and things of that nature. But when you look, as Bob said, we're going to continue our strategy of matching production to demand.



But if you look at our incentives in the fourth quarter, the industry in the US was up 16%. We were up 11%; that really follows our strategy of being competitive but disciplined. And that allowed us to have average transaction prices in the quarter that were up over 4% and better than the industry. So, we're really trying to manage and maximize profitability.

Listen, if there is opportunity and there is more business out there, we'll build more. If we're short in any given month, we'll take adjustments. We want to keep those stocks really in shape and be able to react appropriately.

John Murphy - BofA Merrill Lynch - Analyst

Okay, that's helpful. And then just a second question. I know there's a lot of puts and takes and things that are going on that you're discussing with Trump as far as new policies here. But just specifically around the potential for expensing CapEx and R&D, obviously in 2017 and 2018, you guys are talking about \$2 billion to \$3 billion of incremental expenses for EVs and Smart Mobility.

And if we see expensing of costs like that could that give you a higher deductibility, which means that you might increase your deferred tax asset and not pay taxes for a longer period? I'm just trying to understand, if we look at that \$2 billion to \$3 billion, how much would have gotten expensed otherwise previously and would there be more that could get expensed now that would give you a big benefit going forward?

Bob Shanks - Ford Motor Company - EVP & CFO

Well, the only thing I would say on the -- I'll call it the blueprint tax proposal, that's the only thing that's really on the table at the moment. There's a lot of different factors there. So a lot of people focus on the border adjustable tax, you're focusing on the expensing of CapEx. There's all sorts of ins and outs and ups and down; it's just a completely different tax code.

We've been modeling that, which is what I mentioned at the Deutsche Bank conference. It looks attractive to us and favorable, but it also depends on the detail and we don't know that yet, John. I will say that -- you know that we are booking taxes at a healthy rate. We came in at, as I said, 32% -- 31.9% for the quarter; I think it was about 30% for the year, if I remember correctly.

So we are booking at a healthy rate given the tax code we have, but our cash taxes are quite low and they are expected to remain low over the next number of years. And the modeling we've done, again, it depends on what the details are, but it doesn't suggest that that's going to change to any degree whatsoever.

John Murphy - BofA Merrill Lynch - Analyst

Okay, and then just one last quick housekeeping one on the accounting for leases. Obviously, you guys are accelerating depreciation where you need to on auction values that might be lower. Just curious, if we think about what we see in the P&L versus the timing of the cash impact to those when those vehicles come back for you and the industry. Is there a cash impact at the end of lease that we might see that's being reflected in the P&L right now on an accrual basis?

Bob Shanks - Ford Motor Company - EVP & CFO

No, I don't think there is anything material to mention in that regard, no. Everyone here is shaking their head, so I think I'm right.

John Murphy - BofA Merrill Lynch - Analyst

Okay, great. Thank you very much.

Operator

David Tamberrino, Goldman Sachs.

David Tamberrino - *Goldman Sachs - Analyst*

The first question is really for you, Mark. You've had a couple of breakfasts this week with President Trump. And really wanted to get a sense of your thoughts coming out of there on the policies, how we're shaping the potential changes in the tax code, we've got the House plan that's out there. You clearly mentioned the prospects of an import tariff.

Most clients that I speak to are either in one camp or the other that there is 100% probability of a border tax adjustment, and if that doesn't happen, then we're just going to see import tariffs. So really curious as to -- since you've spent the most time with the new President this week, I believe -- what's your thinking coming out of both those meetings and what you've been hearing?

Mark Fields - *Ford Motor Company - President & CEO*

Well, I think first off, it's a very positive sign from my perspective that literally his first two days in the office he had first morning meetings with manufacturing companies including automotive companies. And I think he's going to be very focused on driving policies that drive investment and job creation in American manufacturing and in automotive manufacturing.

And so I think that's going to be a big, big priority. I think, obviously, as Bob was mentioning earlier, tax reform is going to be a big priority. And I know, obviously, whether it's a border tax or border adjustment, as Bob mentioned, this is a multifaceted blueprint that's out there.

And as Bob said, we've got to look at the statutory tax rates, we've got to look at the territorial tax system that they are talking about, expensing -- immediate expensing of CapEx and then whatever currency impacts are there. Our approach as a Company is just going to stay very close to it and also provide input. So I think tax reform is going to be high on the list.

We did talk about -- he asked very clearly what are the things that are inhibitors in terms of growing jobs and your business? We talked about regulations, in particular we talked about the rulemaking, the finalized rulemaking that was pushed through at the end of the year on the fuel economy -- one national standard which really was a decision that we felt was premature and inconsistent with the promised data-driven approach.

That we think it's really important to get a balanced outcome, balance between making sure that we reconcile interest in reducing carbon into the atmosphere, which we're all for, but also with jobs and also affordability for customers.

So, we may see some actions on that, which could be positive for our business. But my impression walking away is this is a President who is going to be focused on a number of important priorities and make sure that he makes progress on those. And we want to be helpful in the process in terms of -- whether it's trade or tax or regulatory reform, be a trusted source for input.

David Tamberrino - *Goldman Sachs - Analyst*

Understood. That's very helpful. Maybe following up underneath of that, in the event that we don't see a border tax but we do see a potential import tariff and you start thinking about your supply chain, in particular, versus other of your competitors' supply chains. It looks like the cost of being able to produce a vehicle, specifically within the US would have to go up with the amount of local content and then some of the imports come in.

In that environment, do you see passing on price increases to consumers? Do you see pushing that through to the supply chain or you see that more impacting your margin? Just trying to get a feel for how you would manage the business for any potential change or a rising cost environment as a result of a very targeted or potentially targeted import tariff?

Mark Fields - Ford Motor Company - President & CEO

Well, as Bob mentioned earlier, first off we have to see what the policies are going to be. And, as you mentioned, we're doing a lot of different scenario planning. The blueprint -- every company is going to be like a snowflake; they are all going to be different, right, in terms of what their net imports or exports are, their supply chain.

And we're going to just continue to advocate for comprehensive tax reform. And, as Bob mentioned, the border adjustment piece of this is very intriguing for us. And the reason for that is we are the largest producer of vehicles here in the US, we're a top exporter. Obviously, we are doing the analysis on our supply chain because that's going to play into it. And we'll see how it comes out.

It's going to be, I think, a pretty -- getting back to your question earlier, I think the President is going to look for an accelerated rate of getting some level of tax reform in this year and we want to be part of the process in terms of giving them the input on that.

David Tamberrino - Goldman Sachs - Analyst

Thank you. The one last one for me is just in North America, as I think about one of your competitors is going through a bit of a changeover throughout this year. Is there a potential possibility for you to see better market share gains as a result of that? Or is that an opportunity for you to be more price disciplined as some of the competition volume might be pulling back and they might not be as aggressive on their incentives?

Mark Fields - Ford Motor Company - President & CEO

Well, I just keep coming back to our strategy. We run this business to optimize profitability for our shareholders, so we're going to continue our strategy of keeping our inventories in line. We're going to be very disciplined on pricing and continue our approach on making sure that our transaction prices are healthy. We're not going to chase bad share; that's not what we do.

David Tamberrino - Goldman Sachs - Analyst

Thank you very much.

Operator

George Galliers, Evercore ISI.

George Galliers - Evercore ISI - Analyst

Hey, good morning, everyone. My first question was just on raw materials. Clearly we've seen a move in the spot price for a lot of commodities versus the full-year average for 2016. What kind of assumptions do you have for raw material headwinds this year?

Bob Shanks - Ford Motor Company - EVP & CFO

Yes, so, that's a really good question, George. What we saw in 2016 is an advantage, an improvement, if you will, from commodities of about \$900 million. Our planning for 2017 and our guidance for 2017 basically assumes that almost all reverses.

George Galliers - *Evercore ISI - Analyst*

Okay, great. And, then secondly, just with respect to China -- and this isn't necessarily Ford specific; we're also seeing it at some of your peers. Volumes are growing both when we look at Q4 and on a full-year basis. But when we look at profitability, clearly we're not seeing similar progress.

Do you think that -- what's got to change, I guess, for absolute earnings from Chinese JVs to step up going forward? Is it a more stable pricing environment? Is it continued work on the cost front from yourselves? Or is it just -- is there some other factor?

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

Well, let's just talk about the JVs first, because I just want to remind everybody that JVs are not the total China picture for us because we've got imports of Lincoln, we've got imports of Ford. We also incur engineering here at Ford for products that will be built years ahead in the JVs; we get compensated on that through royalties. So there is a little bit of a disconnect there, particularly as we are in growth mode.

But just on the JVs, if you look at the JVs this year, performance was good. We actually had good cost performance in the joint ventures. You've got two things that are happening to the JVs. One is this continued negative trend that we've seen of negative pricing across the industry. And as I said, it did moderate in 2016 versus 2015. And our assumption for 2017 is that it further moderates, although it will still be negative.

And then the second impact is on exchange. Now the exchange hit clearly affected our imports -- the Ford imports, the Lincoln imports. But while we have very high local content in the joint ventures, they still import, and so that also had a negative impact. It's really those two things that affected the overall business in China but also specifically in joint ventures.

Going forward, one of the things that has been helping us has been the mix. And that's been sort of a part of our recipe for success in North America, it has been in Europe and I think that's probably further opportunity for us in China moving ahead into the future.

Mark Fields - *Ford Motor Company - President & CEO*

To put that in perspective, as you look at 2016, 40% of our sales in China came from the more profitable segments, the large cars, SUVs, performance vehicles and premium. And that was up about a little less than 1.5 points versus the year ago, so the team is really focusing on that.

And then to your point earlier on the industry, as you know, we've guided the industry to be higher next year in China, but we do expect the end of the tax incentives or the reduction of the tax incentives that happened at the end of last year, that's going to be a drag on industry sales and volumes probably through the first quarter.

We reflected that in our assumptions and we anticipate that the impact from the pull ahead is going to ease from the second quarter going forward and it supports our outlook of about a little over 27 million units. But we are seeing in January a pay back and the industry is seeing a payback.

So we'll have to get through -- Chinese New Year is early this year, so let's get through January and February and then I think we'll have a better idea of the run rate as we get into the end of the first quarter.

George Galliers - *Evercore ISI - Analyst*

Great. Thank you very much.

Operator

Rod Lache, Deutsche Bank.



Rod Lache - *Deutsche Bank - Analyst*

I wanted to just -- I had two things. One is, again, on border adjustments. We came up with an estimate that, just for the overall industry, not Ford specifically, this is something that could potentially increase the cost of a vehicle sold in the US by \$2,300. And at the same time it looked to us like the effect would be really small for Ford.

And I'm wondering if you've done a similar competitive analysis. Should we be watching this as one of the more potentially significant changes to the competitive landscape? And post your meetings, if you have any thoughts on timing of implementation, whether there could be a phase in? In other words, is this something that we should be thinking about as maybe a factor or even in the intermediate term, like 2018, 2019?

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

Well, let me comment first, Rod, and then Mark can add comments that he might have. So we have been modeling it, as I said. The one thing -- so your assumption in terms of how we stand versus competition is how we see it. We are in a pretty good place in terms of import/export position as we look at vehicles, as we look at our parts, so we see that as being something that's attractive.

Then when you combine it with some of the other aspects of the blueprint like the lower tax rate and some of the other aspects. Plus an assumption that we've made through discussions with the staffs that are working on this that some of the things that are important to us like tax attributes will continue into the future. That's what gives us, at least for now, a positive point of view on that particular proposal.

When we look at our competition, we can't see, if you will, the data around parts. We just can't find a source for that anywhere. But we clearly can understand imports and exports of vehicles. And when we look at that, again, you're right, relative to our peer set we're in very good shape and versus some of them extremely good shape.

So, it could have an adverse impact in terms of them if what we see now as a proposal passes through. And for us it looks pretty attractive. And actually, not having too much impact at all over the next several years in terms of our cash taxes.

Mark Fields - *Ford Motor Company - President & CEO*

And just to Bob's point on -- when you look at our profile, I mean, you know the facts, Rod. We're the number one manufacturer in the US and also Ford is not one of the top manufacturers in Mexico, so that adds to our profile.

When you look at some of the nuances on how this will be laid out, whether there will be phase-ins or things of that nature, I think that's work in front of the administration and Congress going forward. There will be lots of discussion, there will be lots of sausage making around this to see ultimately what happens.

My view is, as I go back earlier, I think they are going to want to make significant progress this year and get something passed through Congress this year. I think Paul Ryan last night laid out getting something done by August. Now whether they'll be able to do that, I don't know, but clearly that's their intent.

Rod Lache - *Deutsche Bank - Analyst*

Great, thank you. And just secondly, obviously the market's expectations, vis-a-vis US growth and inflation and monetary policy, have changed a lot here in the past couple months, but your guidance didn't really change since the Investor Day.

I was hoping you might be able to just give us some color on how this could affect North America and also the Credit business, whether you see some implications for rates that could be more significant in terms of recent rates, for example. And then in Credit, how should we be thinking about the financing margin and broadly just as the market is transitioning from looser monetary to tighter monetary policy?

Bob Shanks - Ford Motor Company - EVP & CFO

Well, let me take a shot at it first, and then again if there are some broader perspectives that Mark can share. So, I think what we've seen so far is the market is excited and interested, intrigued and optimistic about what might happen, but we don't have any policies yet. So, I don't -- we don't know.

So we are hopeful; we're also optimistic and encouraged about what might be, but nothing really has changed yet other than maybe sentiment. I think it's fair to say sentiment has changed. So until we see something more definitive, we're not changing our point of view in terms of what our operating assumptions are.

And in fact, I think so far this month in January, I think the rate of sales that we've seen for the industry suggest that there is nothing that would tell us that anything is any different than what we been assuming. And we have built in increasing interest rates both for this year and going forward. So we're already assuming what you've talked about.

The question is if we do get very positive pro-growth strategies that are much more inflationary than what has been assumed, then obviously there is an impact there. And it would affect many parts of the business, both pro and con, and something that we would manage and deal with as we always do. But there's nothing specific to respond to yet, Rod.

Rod Lache - Deutsche Bank - Analyst

Right. Well, the market rates, Bob, like five-year swaps are up like 75 basis points since November. So the market is starting to reflect a different paradigm. And I would imagine that that's very meaningful, just broadly, on a number of different fronts. So that's more or less what I was asking about (multiple speakers).

Bob Shanks - Ford Motor Company - EVP & CFO

Well, so far what we've seen has been consistent with what our planning assumptions have been, because we did build increasing interest rates. So I think we've gone to market a couple of times and everything is consistent with what we had expected in terms of -- actually, we're seeing good spreads and I think the rates have been consistent with what we had planned. So I understand your point, but it hasn't materialized yet into anything physical that would be different than our planning assumptions.

Rod Lache - Deutsche Bank - Analyst

Okay. All right, thank you.

Operator

Brian Johnson, Barclays.

Brian Johnson - *Barclays Capital - Analyst*

Good morning. A couple questions. Housekeeping and then a more strategic one again related here to the White House. Housekeeping, anything you can comment around quarterly cadence particularly in North America, particularly getting through some of the destock?

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

Well, as I mentioned earlier, I think the destock is behind us. On a Company basis, usually it's 60%/40% in terms of profits first half/second half. I would expect something like that this year. I always hesitate to get into specific quarters because I'm inevitably wrong.

But last year was very unusual; the year before was very unusual, the flip side of that because of the launches. I would say I think the third quarter in North America will be the weakest and that's going to be driven by the impact of the launch of the Expedition / Navigator. But, other than that, I would call it a more normal year in terms of cadence.

Brian Johnson - *Barclays Capital - Analyst*

Okay, when I said destock, I meant overstock, if you will, in 1Q of last year. On a strategic question, in addition to what the NHTSA and the EPA control directly around fuel economy and environmental regulations of the EPA, EPA has historically, at least in the eight years, granted California a waiver to pursue its own greenhouse gas policy.

Was there any discussion at the White House around the theme of harmonization of fuel economy and environmental regulation? And sort of the debate, maybe too philosophical, around is this state's rights versus federalism in terms of getting to a harmonized system once again?

Mark Fields - *Ford Motor Company - President & CEO*

Well, we didn't get into a discussion around state's rights versus federalism in the meeting. But what we did talk about, and I get back to earlier where we said we weren't advocating for elimination of the standards -- I made the point that one of the reasons we were very supportive of the one national standard is because it was one national standard. You had CARB, the California Air Resources Board, together with NHTSA, together with EPA and we emphasized that was important going forward.

Brian Johnson - *Barclays Capital - Analyst*

Well, what if CARB decides to continue to stick to its aggressive goals, perhaps even more aggressive? What do you think the new administration will do through the EPA waiver process?

Mark Fields - *Ford Motor Company - President & CEO*

I think you'd have to ask the administration that question.

Brian Johnson - *Barclays Capital - Analyst*

Okay. Thanks.

Operator

Itay Michaeli, Citi.



Itay Michaeli - Citigroup - Analyst

Good morning, everyone. Hi, just shifting maybe away from North America for a minute on South America, just given the flattish losses in the fourth quarter, could you just talk a little bit about what some of the drivers for improvement in 2017 might be? Perhaps the magnitude, roughly, if you can share? And then also a similar question around the non-China Asia Pacific improvement that you are expecting for 2017.

Bob Shanks - Ford Motor Company - EVP & CFO

Well, if you go back to slide 32, Itay, if you want to go back there, I think this slide shows what the ups and downs are, if you will, on a year-over-year basis. So in South America, we do expect to see positive net pricing. We do expect to see favorable volume. Even though it doesn't look like the industries are moving much when you look at the industry slides, that's really due to rounding. We still see exchange as a bit of a headwind including -- and also cost including commodities.

So it's really around favorable volume and mix and especially pricing. So that's what we see happening, and it does require the external environment to start to move forward in a positive direction.

And then if you go back to the slide it has our assumptions on GDP, we've got a very modest projection of 0.5% GDP improvement, which is consistent, I think, with the Brazilian banks we're talking to and a few others. So I think it's in the range of what most people are expecting.

But I also would say, at least based on the data we've been looking at on a month-to-month basis, it could be more of a second-half recovery than a first half, at least in terms of the strength driving that full-year result.

Not going to get into a quantification of magnitude on any of the business units, but I think it will be a -- we're expecting it to be a reasonably good improvement on a year-over-year basis, but we'll still be at a loss. And then you asked me on Asia Pacific, I think you were asking me around the specific -- the non-China?

Itay Michaeli - Citigroup - Analyst

Correct, yes.

Bob Shanks - Ford Motor Company - EVP & CFO

Yes, so I've got to tell you, we're so excited about that because -- and we've been talking about this for a long, long time. Australia was really having a tough time, particularly prior to going into the restructuring, the manufacturing and then after we announced it. ASEAN was struggling; India, of course, big investments and in growth mode there.

And we're so excited because we're now seeing a big turnaround particularly in ASEAN and Australia. We see profits, strong profits in those parts of the business in 2017 and that's really what's driving the improvement. But even India -- while India will be a loss again in 2017, we see less of a loss. So overall, that part of the business in Asia Pacific is really moving forward in a very positive direction and something we've been working very, very hard at.

Mark Fields - Ford Motor Company - President & CEO

And importantly, in Australia, we actually completed the closure of the manufacturing facility last year in the October/November timeframe. So the team is really focused now on not only building our business but we made announcements late last year around building our engineering capability in Australia. So right direction in terms of momentum.

Itay Michaeli - Citigroup - Analyst

That's very, very helpful. Just a quick follow-up, back to North America on slide 15. The positive other driver, I think of about \$250 million, was that mostly parts and accessories? And, if so, what's the outlook for that business globally in 2017?

Bob Shanks - Ford Motor Company - EVP & CFO

That was part of it. You're looking at what, slide 15, did you say?

Itay Michaeli - Citigroup - Analyst

Yes, slide 15, the two (multiple speakers).

Bob Shanks - Ford Motor Company - EVP & CFO

Yes, it was parts and service; we also had lower legal costs. We had some favorable performance from some of the subsidiaries within North America. And then there was just other, other, other -- just a whole slew of smaller things that added up. But, yes, it included good performance by parts and service, which overall for the business in 2016 did very well across the globe.

Itay Michaeli - Citigroup - Analyst

Great. That's very helpful. Thanks so much.

Operator

Ryan Brinkman, JPMorgan.

Ryan Brinkman - JPMorgan - Analyst

Thanks. Some more questions to try to probe this border adjusted tax issue. I just wanted to confirm that your comment at the Detroit show that a border adjusted tax could be potentially a positive not just on a relative but an absolute basis. Does that analysis take into account not just the vehicles that you're importing and exporting but also the parts that you purchase from suppliers that might be imported?

And then as part of your answer, it would be great, too, if you could remind us of your export strategy, because going back to that Europe turnaround call in October of 2012, I think it was, you mentioned then your plan to ramp exports from the US. And since then now you're exporting to China, too. So maybe your exports are greater than the market appreciates. Any color or data you could share would be helpful.

Bob Shanks - Ford Motor Company - EVP & CFO

Let me take the first part and then Mark can respond on the second. So to be specific, yes, in an absolute sense, more outside of our business metric as we're actually modeling this out many, many years because you have to do that with taxes. So it actually can be quite favorable in an absolute sense sort of I'll call it beyond our five-year business planning period.



Through our business planning period, it's probably more neutral and that's both in terms of an absolute tax, but in particular the cash tax status that I mentioned earlier. The bigger opportunity in terms of the big change versus where we are today is more post 2021 in terms of the assessment that we've made.

Mark Fields - Ford Motor Company - President & CEO

Yes, in terms of, Ryan, your question on export strategy from -- let's say here from North America. As you know, what we've talked about in the past is utilizing our manufacturing operations globally and be better exporters, if you will, in balancing and basically using our manufacturing assets around the world.

And that's why in Europe, for example, coming out of the US we added the Edge, which is doing very well in the marketplace. We're getting the new KA+ out of India. And in terms of other exports out of the US, as I said, we're a top exporter and part of it is when you look at China, for example, we're exporting Explorers, Lincoln, we talked about the growth there.

Actually we have a -- when you take into account imports and parts, we actually -- we have a -- from the US, we're actually -- we're in a net surplus in terms of our trade with China with the exports that we do out of here in the US. So we're going to continue to utilize our manufacturing assets very efficiently around the globe and this is all around our strategy, taking advantage of our scale, and making sure we're taking advantage of the assets that we have in different parts of the world.

Ryan Brinkman - JPMorgan - Analyst

Okay, thanks. And then just my last question is really what was better than you thought in 4Q because you did \$10.4 billion of full-year pretax versus \$10.2 billion that [you reiterated] at the time of 3Q. So versus our own expectations, it was North America Automotive.

I know you don't guide granularly quarterly by region, but was it the Super Duty? Was it some of these profit improvement initiatives that you talked about on the 2Q call? Did those track better or whatnot? And is there any way to say that maybe the stronger profits in 4Q bode well as we enter 2017 relative to guidance or anything like that?

Bob Shanks - Ford Motor Company - EVP & CFO

So, Ryan, you're asking specifically about North America?

Ryan Brinkman - JPMorgan - Analyst

Or just what contributed to the implied -- the \$200 million implied [beat] versus your implied guidance for 4Q, basically, on pretax?

Bob Shanks - Ford Motor Company - EVP & CFO

Cost, cost.

Ryan Brinkman - JPMorgan - Analyst

Cost. And do those costs continue -- was that one-time period benefit or is there now a stronger base of earnings that you carry into 2017?

Bob Shanks - Ford Motor Company - EVP & CFO

Well, it's interesting. When we look at the year-over-year cost change for the total Company, I went back and looked a number of years, this is the lowest cost increase that we've had on a year-over-year basis since I think going back to 2009 or something like that. So actually we've seen -- we've put a lot of control on cost. North America was a big contributor to that and that certainly helped us in our performance throughout the course of the year.

As we move into 2017, we've talked about the investments that we're making and the emerging opportunities. If I kind of put that to the side, the commodity increase that I talked about, I think everything else actually should be a cost save in 2017.

And we have to work hard to do that, but it does show the focus that we put on cost and continue to. And again, I would highlight what we showed at the Deutsche Bank conference. Within all of that we've got about \$3 billion worth of efficiencies that we're generating right across the business that's helping us to continue the investments we're making for growth.

Ryan Brinkman - JPMorgan - Analyst

Very helpful. Thank you.

Operator

Adam Jonas, Morgan Stanley.

Adam Jonas - Morgan Stanley - Analyst

Hey, just a quick one here. Alphabet and Waymo seem to have gone around to all the OEMs globally, and I suspect yourselves included, to try to look for a way to work with you on sharing data, creating HD maps and helping your efforts in the autonomous driving revolution.

I was just curious if you could reiterate your stance on data sharing with suppliers like a Waymo or Mobileye that ostensibly want to help develop a common crowdsourced 3D map, for example, amongst other things. How do you view the opportunity to do that versus do-it-yourself, because you obviously have huge scale globally on miles traveled to maybe do that yourself. How do you weigh that and, again of course, versus the value of the data and the sanctity of the data?

Mark Fields - Ford Motor Company - President & CEO

Yes, thanks, Adam, and the key is that last part of your statement -- we have to look at what the value of the data is. Certainly there is different -- it's a broad spectrum here. And very simply put, we continue to be open to work with partners where we could crowdsource data that, let's say, helps the system as opposed to just an individual manufacturer.

So we're going to continue to go through that process and really understand the value of the data. And when the value of the data -- it points very clearly to working with others, we'll do so. And it all comes down -- as you look at that value of the data -- and I keep going back to what I mentioned a long time ago. We don't want to be relegated to a contract manufacturer status and that's always at top of our mind.

Adam Jonas - Morgan Stanley - Analyst

Okay. Because there seem to be different views there. Toyota, for example, seems to have this: We're big enough and we can do it ourselves and it's early days and we don't want to make a decision on sharing too early and regret it later. Perhaps Chrysler might be on the opposite side of the spectrum of: We'll cross the line early and work early.

I reckon maybe you are somewhere in between. But I'm just curious in terms of timing, do you think that this year would be too soon for you to make a decision? Or is it -- is there even one avenue to go and there may not -- there's no such thing as exclusivity, whether you do-it-yourselfer with a partner? I'm just curious (multiple speakers).

Mark Fields - Ford Motor Company - President & CEO

Well, yes, I can't answer your question in terms of the timing of it, but clearly you know what our objectives are -- is to have a Level 4 vehicle out in the marketplace in 2021. So clearly we have a lot of work to do in front of us but also at the same time we've made a lot of progress.

And as we said, we'll go through that process of -- what's the data that we feel crowdsourced is fine, doesn't have a lot of value, but has a lot of value to the system, versus what's the ones that will have value to us as we look at new business models to grow our business.

Adam Jonas - Morgan Stanley - Analyst

Great. Thanks, Mark.

Operator

Colin Langan, UBS.

Colin Langan - UBS - Analyst

Thanks for taking my question. Just a follow-up on all the border tax questions -- border adjustment questions. One of the key elements there is the impact of all this cost and what it might do to actual industry volume. Any color on the price sensitivity that you would see if we see all these border tax pushing costs up, how much auto sales may fall?

Bob Shanks - Ford Motor Company - EVP & CFO

No, I don't think we have a handle on that. That was a part of Rod's concern or question as well. There is another aspect, too, that we're going to have to look at which is what impact could this have on exchange rates. That's something else that's been mentioned, and the strength of the dollar.

So the thing that's really interesting but also very complex about this whole thing, it's so radically different that it goes way beyond just what's the tax effect that could grow the economy, so that's a positive. It could strengthen the dollar, that's got positives and negatives.

The point that you mentioned around pricing and affordability, that one also could be interesting because, again, based on a relative position that individual companies can have, there's probably an industry effect that could be quite different by individual companies.

So, I just can't answer -- we don't know enough at this time, Colin, to give you a feel for that. But certainly is something that we're aware of and we will be looking at as we get more specifics around the proposal itself as it works its way through Congress.

Colin Langan - UBS - Analyst

And Trump has talked about a focus on jobs; I think you even mentioned -- I think he even tweeted about it and having a plant opened in the US. What would actually -- would you consider, particularly at this point in the cycle, actually putting a whole new physical brick and mortar plant in the US? And what with the criteria be for you to go forward and do something like that (inaudible)? What is the objective here?



Mark Fields - Ford Motor Company - President & CEO

Well, getting to the first part of your question, obviously, as you know, we canceled the plant down in Mexico because the bottom line is we saw what was happening with the segment. We didn't need the capacity anymore and it didn't make any sense to add it, particularly now also where we are in the cycle.

And going forward, the criteria for -- if we would ever build any capacity anywhere is the growth of our business. And we're comfortable with where we are at now, but we have made announcements. We're expanding our Flat Rock facility to build the new autonomous vehicle and the new battery electric vehicle SUV that's coming down the pike.

And as you know, Colin, we look at a lot of different factors, both capacity and where we put it, everything from logistics to labor cost to business environment to tax treatment, etc., and we'll continue to look at those things going forward. But nothing on the plate right now in terms of brand-new facility somewhere but we are expanding some.

Colin Langan - UBS - Analyst

And one question I get a lot from investors is you are guiding earnings down, but a lot of your peers, particularly your tracked US peers are guiding earnings up. I imagine a big chunk is the investment in EV and mobility. Do you think you have some catching up to do? Is that why there is a big outlier there? Or is there another reason that you're a bit more cautious than your tracked competitors. Any thoughts on that? I would love to get your perspective since investors continuously ask.

Bob Shanks - Ford Motor Company - EVP & CFO

Well, I'll give you mine first. I mean first of all, we've been running at a very strong rate for seven years, so some are catching up to the level of performance that we've been at. But when we look at going into in 2017, again, I can't talk to others and what's happening in their business, launches or anything else, but we're going to continue to operate in terms of the core automotive business at a very, very strong level.

It will change in terms of the construct of various factors and probably among the business units because things are different year-by-year. But we think overall, the bottom-line result for core automotive will continue to run at a strong rate. Credit will come down for the reasons that we've talked about, the higher net interest expense. But really the differences around the investments and the emerging opportunities.

And we think that those are -- it's sort of like we're plowing the field, where planting the seed and we know that we're going to harvest the results, probably more towards the next decade. But this is going to transform the business and so it's something that we're really looking forward to doing and it's the right thing to do for the business.

So, we'll have to see where we all end up when the year is out, but we believe that the call that we're making for the business is the right one for us and it's still going to generate a strong result. And, as you know from what we said around the distributions, we're still going to provide shareholders with strong distributions in the year, \$2.8 billion.

Colin Langan - UBS - Analyst

And what about the notion that you're catching up to your peers? Do you disagree with that particularly on EVs? Or do you think maybe you are having to catch up a little bit on a relative basis?

Mark Fields - Ford Motor Company - President & CEO

Well, Colin, I actually disagree with that in terms if you look at electrification. We've sold over 0.5 million electrified vehicles since 2004. And when you look at the breadth of HEVs, PHEVs and also battery electric vehicle that we have, it's one of the broadest. And we've made a commitment now, as you know, to expand that even further, that \$4.5 billion and the 13 products, and we've talked about a number of them.

So, we strongly believe that we have led in this area from a development of the market standpoint. We're working now, as was mentioned earlier, on infrastructure in various parts of the world for EVs. So we're going to continue to keep plowing ahead on this and, no, I don't believe that we are behind.

Colin Langan - UBS - Analyst

Okay, that was good. All right, thank you.

Operator

We will now take questions from the media. Patti Waldmeir, Financial Times.

Patti Waldmeir - Financial Times - Media

Yes, this is Patti Waldmeir. One question please for Mr. Fields. You were obviously one of the first to stress the positive side of a Trump presidency for corporate America. But could you say something about how it feels never to know when you're going to have to deal with, at the very least, a significant market fallout from a presidential tweet? Could you -- what word would you use to describe your mood in this new normal?

And a question for Mr. Shanks. You said that there was a \$200 million charge related to the Mexico cancellation, but I've also seen a \$500 million figure of savings for consolidating small car production related to the cancellation of that factory and I'm not sure where that figure comes from. Could you say something about that?

Bob Shanks - Ford Motor Company - EVP & CFO

Yes, why don't I do that first?

Patti Waldmeir - Financial Times - Media

Okay.

Bob Shanks - Ford Motor Company - EVP & CFO

Mark can respond on how he feels (laughter). Mine is much more straightforward. So the \$200 million is a charge that we're taking in the fourth quarter because we made the decision towards the latter part of the year. So we'll book that in the fourth quarter.

In terms of the \$500 million, that was the net save, if you will, in terms of capital spending. And we talked about that at the time that we announced the cancellation. So we will save \$500 million in capital related to the cancellation of the factory.



Mark Fields - Ford Motor Company - President & CEO

Great. Getting back -- how do I feel? I feel good, and the reason I feel good, Patti is because, you talk about -- you're basically talking about the external environment and how are you ready for things. And it's been the way that we've been running this business for years now.

We're always looking at the external environment literally every day. We're doing the right thing for the business. We are being proactive. We act decisively. So whether it's a tweet from somebody or a market disruption in another or a natural disaster in some part of the world, we're going to be ready because we are just watching that external environment every day and it keeps us riveted on the business.

Patti Waldmeir - Financial Times - Media

Thanks.

Operator

This concludes the fourth-quarter and full-year 2016 Ford earnings conference call. Thank you for your participation. You may now disconnect.

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