

Impairment of Long-Lived Assets

Asset groups are tested at the level of the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Our asset groups presently are the regional Automotive business units (i.e., North America, South America, Europe, China (including Taiwan), and the International Markets Group), Ford Credit, and the separate legal entities within the Mobility segment. Asset groupings for impairment analysis are reevaluated when events occur, such as changes in organizational structure and management reporting. As a result of the new organizational and segment structure that will be implemented in 2023, our asset groups are expected to be Ford Blue North America, Ford Blue Europe, Ford Blue Rest of World, Ford Model e, Ford Pro, Ford Credit, and Ford Next (formerly Mobility).

Nature of Estimates Required - Held-and-Used Long-Lived Assets. We test our long-lived asset groups when changes in circumstances indicate their carrying value may not be recoverable. Events that trigger a test for recoverability include material adverse changes in projected revenues or expenses, present cash flow losses combined with a history of cash flow losses and a forecast that demonstrates significant continuing losses, significant negative industry or economic trends (including a substantial shift in consumer preference), a current expectation that a long-lived asset group will be disposed of significantly before the end of its useful life, a significant adverse change in the manner in which an asset group is used or in its physical condition, or when there is a change in the asset grouping. In addition, investing in new, emerging products (e.g., EVs) or services (e.g., connectivity) may require substantial upfront investment, which may result in initial forecasted negative cash flows in the near term. In these instances, near term negative cash flows on their own may not be indicative of a triggering event for evaluation of impairment. In such circumstances we also conduct a qualitative evaluation of the business growth trajectory, which includes updating our assessment of when positive cash flows are expected to be generated, confirming whether established milestones are being achieved, and assessing our ability and intent to continue to access required funding to execute the plan. If this evaluation indicates a triggering event has occurred, a test for recoverability is performed.

When a triggering event occurs, a test for recoverability is performed, comparing projected undiscounted future cash flows to the carrying value of the asset group. If the undiscounted forecasted cash flows are less than the carrying value of the assets, the asset group's fair value is measured relying primarily on a discounted cash flow method. To the extent available, we will also consider third-party valuations of our long-lived assets that were prepared for other business purposes. An impairment charge is recognized for the amount by which the carrying value of the asset group exceeds its estimated fair value. When an impairment loss is recognized for assets to be held and used, the adjusted carrying amounts of those assets are depreciated over their remaining useful life.

Nature of Estimates Required - Held-for-Sale Operations. We perform an impairment test on a disposal group to be discontinued, held for sale, or otherwise disposed of when we have committed to an action and the action is expected to be completed within one year. We estimate fair value to approximate the expected proceeds to be received less cost to sell and compare it to the carrying value of the disposal group. An impairment charge is recognized when the carrying value exceeds the estimated fair value.

Assumptions and Approach Used - Held-and-Used Long-Lived Assets. Fair value of an asset group is determined from the perspective of a market-participant considering, among other things, appropriate discount rates, valuation techniques, the most advantageous market, and assumptions about the highest and best use of the asset group.

We measure the fair value of an asset group based on market prices (i.e., the amount for which the asset could be sold to a third party) when available. When market prices are not available, we generally estimate the fair value of the asset group using the income approach and/or the market approach. The income approach uses cash flow projections. Inherent in our development of cash flow projections are assumptions and estimates derived from a review of our operating results, business plan forecasts, expected growth rates, and cost of capital, similar to those a market participant would use to assess fair value. We also make certain assumptions about future economic conditions and other data. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates may change in future periods.

Changes in assumptions or estimates can materially affect the fair value measurement of an asset group and, therefore, can affect the test results. The following are key assumptions we use in making cash flow projections:

- *Business projections.* We make assumptions about the demand for our products in the marketplace. These assumptions drive our planning assumptions for volume, mix, and pricing. We also make assumptions about our cost levels (e.g., capacity utilization, cost performance). These projections are derived using our internal business plan forecasts that are updated at least annually and reviewed by our Board of Directors.