

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 17. RETIREMENT BENEFITS (Continued)

The following table summarizes the changes in Level 3 defined benefit pension plan assets measured at fair value on a recurring basis for the years ended December 31 (in millions):

2021						
	Fair Value at January 1	Return on plan assets		Net Purchases/ (Settlements)	Transfers Into/ (Out of) Level 3	Fair Value at December 31
		Attributable to Assets Held at December 31	Attributable to Assets Sold			
U.S. Plans	\$ 16	\$ (2)	\$ —	\$ 5	\$ 1	\$ 20
Non-U.S. Plans (a)	6,006	(943)	153	687	117	6,020
2022						
	Fair Value at January 1	Return on plan assets		Net Purchases/ (Settlements)	Transfers Into/ (Out of) Level 3	Fair Value at December 31
		Attributable to Assets Held at December 31	Attributable to Assets Sold			
U.S. Plans	\$ 20	\$ —	\$ (4)	\$ (8)	\$ 1	\$ 9
Non-U.S. Plans (a)	6,020	(1,732)	26	(722)	217	3,809

(a) Includes insurance contracts, primarily the Ford-Werke plan, valued at \$ 4.7 billion and \$ 2.5 billion at year-end 2021 and 2022, respectively. In the fourth quarter of 2022, we transferred a non-U.S. pension obligation and related plan assets to an insurance company. There were no gains or losses recognized upon settlement.

NOTE 18. LEASE COMMITMENTS

We lease land, dealership facilities, offices, distribution centers, warehouses, and equipment under agreements with contractual periods ranging from less than one year to 40 years. Many of our leases contain one or more options to extend. In certain dealership lease agreements, we are the tenant and we sublease the site to a dealer. In the event the sublease is terminated, we have the option to terminate the head lease. We include options that we are reasonably certain to exercise in our evaluation of the lease term after considering all relevant economic and financial factors.

Leases that are economically similar to the purchase of an asset are classified as finance leases. The leased ("right-of-use") assets in finance lease arrangements are reported in *Net property* on our consolidated balance sheets. Otherwise, the leases are classified as operating leases and reported in *Other assets* in the non-current assets section of our consolidated balance sheets. We have also entered into manufacturing contracts commencing in a future period where Ford's portion of the output is expected to be significant. As a result, there may be embedded leases, and related liabilities, that will be reported as part of our financial statements, typically upon commencement of production.

For the majority of our leases, we do not separate the non-lease components (e.g., maintenance and operating services) from the lease components to which they relate. Instead, non-lease components are included in the measurement of the lease liabilities. However, we do separate lease and non-lease components for contracts containing a significant service component (e.g., energy performance contracts). We calculate the initial lease liability as the present value of fixed payments not yet paid and variable payments that are based on a market rate or an index (e.g., CPI), measured at commencement. The majority of our leases are discounted using our incremental borrowing rate because the rate implicit in the lease is not readily determinable. All other variable payments are expensed as incurred.