

Definitions and Information Regarding Automotive Causal Factors

In general, we measure year-over-year change in Automotive segment EBIT using the causal factors listed below, with net pricing and cost variances calculated at present-year volume and mix and exchange:

- *Market Factors* (exclude the impact of unconsolidated affiliate wholesale units):
 - *Volume and Mix* – primarily measures EBIT variance from changes in wholesale unit volumes (at prior-year average contribution margin per unit) driven by changes in industry volume, market share, and dealer stocks, as well as the EBIT variance resulting from changes in product mix, including mix among vehicle lines and mix of trim levels and options within a vehicle line
 - *Net Pricing* – primarily measures EBIT variance driven by changes in wholesale unit prices to dealers and marketing incentive programs such as rebate programs, low-rate financing offers, special lease offers, and stock adjustments on dealer inventory
- *Cost*:
 - *Contribution Costs* – primarily measures EBIT variance driven by per-unit changes in cost categories that typically vary with volume, such as material costs (including commodity and component costs), warranty expense, and freight and duty costs
 - *Structural Costs* – primarily measures EBIT variance driven by absolute change in cost categories that typically do not have a directly proportionate relationship to production volume. Structural costs include the following cost categories:
 - *Manufacturing, Including Volume-Related* - consists primarily of costs for hourly and salaried manufacturing personnel, plant overhead (such as utilities and taxes), and new product launch expense. These costs could be affected by volume for operating pattern actions such as overtime, line-speed, and shift schedules
 - *Engineering and Connectivity* – consists primarily of costs for vehicle and software engineering personnel, prototype materials, testing, and outside engineering and software services
 - *Spending-Related* – consists primarily of depreciation and amortization of our manufacturing and engineering assets, but also includes asset retirements and operating leases
 - *Advertising and Sales Promotions* – includes costs for advertising, marketing programs, brand promotions, customer mailings and promotional events, and auto shows
 - *Administrative, Information Technology, and Selling* – includes primarily costs for salaried personnel and purchased services related to our staff activities, information technology, and selling functions
 - *Pension and OPEB* – consists primarily of past service pension costs and other postretirement employee benefit costs
- *Exchange* – primarily measures EBIT variance driven by one or more of the following: (i) transactions denominated in currencies other than the functional currencies of the relevant entities, (ii) effects of converting functional currency income to U.S. dollars, (iii) effects of remeasuring monetary assets and liabilities of the relevant entities in currencies other than their functional currency, or (iv) results of our foreign currency hedging
- *Other* – includes a variety of items, such as parts and services earnings, royalties, government incentives, and compensation-related changes

In addition, definitions and calculations used in this report include:

- *Wholesales and Revenue* – wholesale unit volumes include all Ford and Lincoln badged units (whether produced by Ford or by an unconsolidated affiliate) that are sold to dealerships or others, units manufactured by Ford that are sold to other manufacturers, units distributed by Ford for other manufacturers, and local brand units produced by our China joint venture, Jiangling Motors Corporation, Ltd. ("JMC"), that are sold to dealerships or others. Vehicles sold to daily rental car companies that are subject to a guaranteed repurchase option (i.e., rental repurchase), as well as other sales of finished vehicles for which the recognition of revenue is deferred (e.g., consignments), also are included in wholesale unit volumes. Revenue from certain vehicles in wholesale unit volumes (specifically, Ford badged vehicles produced and distributed by our unconsolidated affiliates, as well as JMC brand vehicles) are not included in our revenue
- *Industry Volume and Market Share* – based, in part, on estimated vehicle registrations; includes medium and heavy duty trucks
- *SAAR* – seasonally adjusted annual rate