

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14. EQUITY IN NET ASSETS OF AFFILIATED COMPANIES (Continued)

In the ordinary course of business, we buy/sell various products and services including vehicles, parts, and components to/from our equity method investees. In addition, we receive royalty income.

Transactions with equity method investees reported for the years ended or at December 31 were as follows (in millions):

Income Statement	For the years ended December 31,		
	2020	2021	2022
Sales	\$ 4,126	\$ 4,777	\$ 4,369
Purchases	8,439	9,245	9,670
Royalty income	381	458	483

Balance Sheet	2021	2022
Receivables	\$ 724	\$ 1,007
Payables	1,035	1,676

Argo AI

In 2017, we began investing in Argo AI, an artificial intelligence company that became a consolidated subsidiary, with a commitment to fund \$ 1 billion over five years to develop autonomous vehicle technology. In 2020, we completed a transaction with Volkswagen AG ("VW") that resulted in Ford and VW holding equal interests in Argo AI, which together comprised a majority ownership of the entity. As a result of this transaction, which included \$ 500 million of proceeds from the sale to VW of a portion of our interest in Argo AI, we deconsolidated Argo AI, remeasured our retained investment in the entity at fair value, and, net of our carrying value in Argo AI's net assets, recognized a \$ 3.5 billion pre-tax gain in *Other income/(loss), net*. Immediately following this transaction, our retained investment consisted of a \$ 2.4 billion equity method investment and a \$ 400 million preferred equity security investment, which were reflected on our consolidated balance sheets in *Equity in net assets of affiliated companies* and *Other assets*, respectively.

Although Argo AI made progress on developing highly automated driving technology (L4), to achieve commercially viable scale, Argo AI's technology requires significant additional capital investment and time. In the near term, we see more potential for partial or conditional automated driving technology (L2/L3) to be transformative for customers and our business. Therefore, in the third quarter of 2022, we made the strategic decision to shift our capital spending from L4 technology being developed by Argo AI to advanced L2/L3 systems, which we believe will ultimately be essential to achieve profitable commercialization of L4 autonomy at scale in the future. Additionally, because of the significant additional capital and time required to achieve commercialization of L4, as well as other macroeconomic factors, Argo AI has been unable to attract new investors. After performing external outreach in the third quarter of 2022 to assess market interest in acquiring either Argo AI or its technology components and conducting internal reviews to evaluate opportunities to leverage Argo AI's technology, Ford determined that Argo AI no longer has value as a going concern. As a result, we reassessed the carrying value of our investment in Argo AI starting from September 30, 2022, and in October 2022, Ford and VW initiated the process of exiting the joint development of L4 technology through Argo AI. On October 26, 2022, we announced that Argo AI plans to wind down operations, which is in progress.

Our valuation assumed an orderly conclusion of operations at Argo AI, in which the cash required to satisfy the remaining obligations would consume all of Argo AI's remaining capital. In addition, we assessed whether Argo AI's technology components have value in isolation, and we concluded that the cost to integrate into currently anticipated technology ecosystems would be prohibitive.

Accordingly, we recorded a \$ 2.7 billion pre-tax impairment in the second half of 2022. The non-cash charge was reported in *Equity in net income/(loss) of affiliated companies*. The carrying value of our investment in Argo AI is \$ 0 as of December 31, 2022; in addition, we have \$ 65 million in *Other liabilities and deferred revenue* related to our funding commitment in 2023 for our share of Argo AI's expenses incurred in 2022. The carrying value immediately prior to the impairment was higher than our net cash investment of approximately \$ 500 million (i.e., our \$ 1 billion investment less proceeds we received from VW) due to the non-cash gain recognized when we deconsolidated Argo AI in 2020 as described above.