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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Ford third-quarter earnings conference call. (Operator Instructions)

I would now like to turn the conference over to your host for today, Mr. Ted Cannis, Executive Director, Investor Relations. Please proceed, sir.

Ted Cannis - *Ford Motor Company - Executive Director, Investor Relations*

Thank you, Chantele, and good morning. Welcome to everyone joining us today. On behalf of the entire Ford management team, I would like to thank you for taking the time to be with us so that we can provide you with additional details of our third-quarter 2015 financial results.

Copies of this morning's press release and the presentation slides are available on Ford investor and media websites. The financial results discussed today include references to non-GAAP financial measures. Non-GAAP financial measures are reconciled to the US GAAP equivalent in the appendix to the slides.

Today's presentation includes some forward-looking statements about our expectations for Ford's future performance. Actual results could be different. The most significant factors that could affect actual results are summarized at the end of this presentation and are detailed in our SEC filings.

And now, presenting today are Mark Fields, our President and CEO, and Bob Shanks, our Chief Financial Officer. Also participating are Stuart Rowley, Corporate Controller; Neil Schloss, Corporate Treasurer; Paul Andonian, Director of Accounting; and Marion Harris, Ford Credit CFO.

Mark, over to you.

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

Thanks, Ted. Good morning, everybody, and thanks for joining us. The overall headline is we had an outstanding third quarter and we remain on track to deliver a breakthrough year.

Looking at the numbers, we earned $2.7 billion in pretax profit, which was more than double a year ago. We earned $1.9 billion in net income, also more than double. Our automotive operating margin came in at 6.5%, which was up 4 points.

Our automotive operating-related cash flow was $2.8 billion, and this resulted in a number of records for the quarter. We had a record third-quarter pretax profit and a record third-quarter automotive operating-related cash flow.

As we look at the business units, we had our best quarter ever in North America., we had our best third quarter at Ford Credit since 2011, and we have not had a better third quarter in Europe since 2009. And South America improved despite the tougher external conditions that we are seeing in the marketplace.

Now along with those results, we also delivered strong top-line growth. Our wholesale volume was up 7%. Our revenue was up 9%, or 16% at constant exchange, and our global market share came in 0.3 points higher, and that's the third quarter in a row of year-over-year global share growth.

Now along with this growth, we also achieved sustained pricing power and that's really on the back of the strength of our new products. If you take a step back and look at the first nine months of the year, it's an equally strong headline. We earned $7 billion in pretax profit and $5.2 billion in automotive operating-related cash flow, and both are more than all of last year.

Looking at our launches, 14 of our 16 new vehicle launches have been completed successfully, and that's on top of the record 24 global launches which we had last year. Importantly, our quality remains strong and it's also improving in every region around the world.

Turning to F-150, our F-150 is performing extremely well in the marketplace and we also just revealed our all-new Super Duty, which will be coming in 2016. And looking at our third-quarter F-Series sales in the US, well, it was our best sales in nine years.

We also continue to build on our strong truck franchise around the world. If you look at Ranger, well, that's the best-selling pickup in Europe, Australia, New Zealand, Vietnam, and the Philippines. And the Ford brand is the commercial vehicle leader in Europe and we recorded our best sales in 12 years there, led by the Transit family.

Now, even as we're delivering these results with one foot in today, we also have one foot in tomorrow, delivering emerging opportunities through Ford Smart Mobility. And Ford Smart Mobility is our plan to take Ford to the next level, using innovation in connectivity, mobility, autonomous vehicles, the customer experience, and data and analytics. As a company, we see the current disruption in the industry as a major opportunity for us and we are capitalizing on it with much more to come.

Also, we are equally proud of a number of external recognitions that we received in the third quarter. We were voted one of Interbrand's best global brands and were one of the most admired companies for supplier diversity.

So overall, another outstanding quarter delivered by the team. We are on track to deliver breakthrough full year and a second half that is stronger than the first half. And to remind everybody, for the full year we expect pretax profit of between $8.5 billion and $9.5 billion, and along with that higher wholesale volume, revenue, automotive operating margin, and automotive operating-related cash flow.

As you can see from our third-quarter and our year-to-date results, our plan, our people, and our process are delivering and, importantly, creating value for our stakeholders.

As we go into the fourth quarter and close the year and go into 2016 and beyond, we're going to stay absolutely focused on our three priorities, which are accelerating the pace of progress on our ONE Ford plan, delivering product excellence with passion, and driving innovation in every part of our business. So at this point I will have Bob take us through some slides.

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

Okay, Mark. Thanks. On behalf of the 195,000 men and women around the world of Ford, I'm very pleased to take you through the details of what they accomplished in the third quarter.

Let's start on slide 4 on the upper left and let's start with the top line. We delivered a very, very strong performance on both wholesale volume and revenues. As Mark mentioned, wholesale volume was up 7% and revenue was up 9%, 16% if you adjust for constant exchange.

Going down and looking at the operating results, both the automotive sector and financial services contributed strongly to that third-quarter record profit of $2.7 billion and we had earnings per share of $0.45, which was up $0.21.

Now after two quarters of no special items, we have a special item this quarter. It's a positive item of $166 million, and that reflects an investment that we have in an aluminum casting supplier named Nemak.

They had an IPO in the quarter, so we revalued that investment in line with the IPO. That generated this non-cash improvement of $166 million. Now just for information going forward, we will mark to market this investment each quarter and will reflect the gains or losses in Other Automotive.

Now that, combined with the strong pretax results, generated the after-tax result, the net income of $1.9 billion, which was up 129% from a year ago, and earnings per share of $0.48.

Going down to automotive cash flow, $2.8 billion, very strong and again a third-quarter record. We ended the period with $22.2 billion in cash, automotive debt of $12.8 billion, and net cash of $9.4 billion.

If you look at the year-to-date results, just two things I want to highlight. Again on the pretax results, the $7 billion that we've generated so far, that is 10% higher than what we generated in all of last year on a pretax basis. If you go down the slide further, and let's go back to the operating-related cash flow, again compared with all of last year, what we've done through the first nine months is already 44% higher. So very, very strong performance through the first nine months of the year.

Let me just close with a couple of comments on taxes, so let's talk about the quarter first. I've seen a lot of articles thus far that is highlighting the tax rate difference.

So versus First Call estimate we nailed the operating results. We came in a little bit different on the tax rate. We originally had guided to 34%. We actually came in at 33%. The First Call estimate was 32%. So that entirely explains the $0.01 difference from the First Call estimate.

For the full year, we are revising our guidance for the tax rate. We'd been at 26%, which was about where we were last year. It looks like now we are going to come in at about 30%.

All right, let's go on and we will look at the automotive sector in more detail on slide 5. Let's just go right through the bars going from left to right.

The wholesales were up 103,000 units, 7%. The revenue was up $3 billion, that's 9%; again 16% after we adjust for exchange. The operating margin up more than 2.5 times at 6.5% and we tripled our pretax results at $2.2 billion.

If you go to the lower left you can see the global industry SAAR was actually up 1 million units. That was driven by North America and Europe. And global market share was up 0.3 point to 7.6%, again the third consecutive year-over-year improvement on a quarterly basis.

And that was broad-based; that was driven by North America, South America, and Europe. Again, go back and look at the year-to-date results; just below the bars and they're improved right across the board.

Okay, let's go to slide 6 and we will look at what drove the $1.5 billion improvement in our automotive sector results. Simple answer is very strong market factors: very strong volume, favorable mix, and very strong net pricing and you can see that that was far in excess of the investments that we continue to make in the business to support growth, not only in this quarter but in the quarters and years ahead.

Okay, let's go on to slide 7 and here we will look at the absolutes by segment within the automotive sector. North America had that fantastic result that was mentioned, $2.7 billion. That's the best quarter that North America has ever had.

And if you look at the other business units, while cumulatively at a loss, this is the fourth quarter in a row that they have improved on a year-over-year basis. And in this quarter improved by $240 million. Looking at Other Automotive that is primarily net interest expense and we continue to expect our full-year result in that space this year to be $650 million.

Okay, let's go on to slide 8 and we will start going through the business units, and we will start with North America as usual. If you go left to right here, tremendous results right across the board.

Wholesale's up 16% and within that 106,000 units you had 45,000 units coming from F-150. So we are back with the F-150, full availability. We ended the quarter with the kind of inventories that we'd like to see, and we are ready to move forward now into the fourth and continue the strong performance that was already referenced.

If you look at revenue, that was up very strongly at 19%. Operating margin 11.3%. This is even better than we did in the second quarter. And if you look at the pretax results, again that best-ever result of $2.7 billion.

If you look at the SAARs, both on a regional basis and in the US, we had strong improvement on a year-over-year basis, and whichever way you look at it, our share improved. The North American share improved, the US market share improved and our US retail of retail, which isn't shown, also improved by 0.4 points. So very strong performance in very strong industries, resulting in extraordinarily strong financial results, something we are very proud of. And if you look at the year-to-date results, again right across the board improved compared with the prior year.

Let's go on to slide 8 and we will look at what's behind the $1.3 billion improvement in North America. Again very similar to what we saw in the automotive sector; it's market factors. Very strong volume and mix, a strong net pricing, and again in excess of the investment that we've made to grow the business in this quarter and in forward years. The other item I would call out is in other we saw strong performance also coming from our parts and services business.

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

Just a couple of comments on the F-150, because there's always lots of interest in F-150. The bottom line is we are seeing very strong demand for the product. We are continuing to see a rich mix. We see fast turn rates, much faster than the segment average, and the transaction prices are up $2,800 year-over-year and higher than our two main competitors.

And if you think about retail market share, our retail market share in the quarter has actually climbed above the pre-changeover levels. And we believe there's more upside in our total share as we begin shipping more F-150s to our fleet customers during the fourth quarter and into next year.

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

And because of that, we're expecting North America to have a very, very strong year with top-line growth and also a full-year profit that will be higher than what we achieved last year. And we are now revising our guidance on the margin to be at the upper end of our guidance of 8.5% to 9.5%, so really strong performance from North America driving the overall company.

Let's go on and look at South America and actually some really great things happening here. Our team has done a wonderful job in a very tough environment of delivering a result that is actually a little bit better than what it was last year.

If you look at the wholesales, the wholesales are down 10% in industries that are down 20% for the region, 25% in Brazil. If you look at revenue, revenue is down 32%; almost all of that is exchange related. Operating margin down on the lower revenue, but you can see the pretax result actually coming in slightly better than what it was a year ago.

If you look at our share in the lower left, very strong performance, both in the region and in Brazil. And that was driven once again by the very strong market reaction to the Ford Ka. If you look at the year-to-date performance, we're down on the top line, but doing better in terms of the financial results. Again, based on what the team has done in this very tough environment. So hats off to the team in South America.

Let's go on to slide 11 and look at the small change year over year. You can see that it was really driven by net pricing. Most of that is to recover the effects of the inflation and also the depreciating currencies, but if you look on the volume and mix callout box, you can see the big impact of the industry decline, which is partially offset by the strong share performance the team has delivered.

For the full year, we continue to expect to have a pretax loss that will be reduced compared with 2014, but we feel very good about what the team has done and clearly has positioned the business to recover very quickly once the external environment starts to cooperate.

Okay, let's go on to Europe on slide 12. Again some good things to call out here: very strong top-line performance. Wholesale is up 17%. The revenue was up modestly in dollars, only 2%, but if you look at it again on an exchange-adjusted basis, up 16%. The operating margin and the pretax results improved by nearly 60%.

If you go down to the third quarter SAARs and shares, you can see very strong growth both in the regional -- at the regional level, but also in the Europe 20. We did improve share across the region. We had a small decline in Europe 20, which was driven by the launch ramp-up of the S-MAX and the Galaxy, along with the aging of the Fiesta.

On a year-to-date basis, we are seeing improvement in wholesales. Revenue is off; again, that is more than explained by exchange. And strong improvement in terms of the financial results.

All right, let's go on to the next slide and we will look at what was behind the $257 million improvement in Europe's results. And again, very similar to auto sector, very similar to North America. On the back of great products and good go-to-market strategies you can see improvement in volume and mix and net pricing more than offset by, or partially offset by very modest increases in cost.

If you look at Other, that is largely explained by the consolidation of Russia. So overall, again, the team is doing a great job here of having us moving forward in a positive direction, and we feel that we are very much on track to move towards a profitable position. We'll be talking about that more early in 2016.

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

Just a couple of comments. As you look at our transformation plan, which we've had in place for a while, it's gaining momentum and we're confident that we are on track for a return to profitability in the region.

If you look at the industry overall, it's improving, but it's still a bit of a two-speed recovery with markets like UK and Germany doing better than some of the southern markets. But that being said, it's improving.

The commercial vehicle segment industry itself is performing well and Ford's commercial vehicle performance is doing extremely well. We're the number one commercial vehicle brand in the region for the quarter and also for the full year, so it really is an exceptional performance on our commercial vehicles led by our Transit.

We are still seeing some muted pricing across the industry, but Ford's mix and rates are strong. And I think all this combined has allowed us to not only grow our share, but also improve the financial performance that Bob just brought you through.

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

Okay, thanks. Let's go on to slide 14 and we'll look briefly at Middle East and Africa.

What I want to highlight here is not so much the financials. The absolutes are relatively small; the results are near breakeven, but the team in Dubai is doing a good job. They've laid out an overall strategic framework for how we can participate in what's going to be a very important region in the next five, 10, 20 years and starting to put the building blocks of actions in place in order for us to participate in that.

In the quarter they did announce a partnership with a local company in Nigeria for us to start assembly of Ranger pickups relatively soon. So again, for the full year, expect to deliver about breakeven results.

Let's move on to Asia-Pacific on slide 15. Again, looking at the key metrics here, a little bit different than some of the other regions we've looked at.

The wholesales were down by 12%, 40,000 units; 35,000 of that was in China and I will come back to that in just a minute. The revenue was flat in dollar terms, but again, adjusted for inflation, it was up 12%. And just to remind you, that does exclude the China joint ventures because they are unconsolidated. The operating margin was down and the pretax results were generally in line with where they were last year.

If you look at the Asia-Pacific SAAR that declined and it was more than explained by a reduction in the China industry SAAR. In terms of our share, our Asia-Pacific share was down 0.1% to 3.5%; that was driven by Australia. And in China you can see that we held our share at 4.7%; that equaled the quarterly record that we set a year ago. If you look below the bars, you can see the year-to-date results basically down right across the board.

Now let's look at -- I'm sorry, I should also comment on the fact that if you go back within the bars on slide 15, we do have the equity after-tax earnings in our China JVs. You can see they were down about 15%.

Let's go to the next slide and I will give you some of the insights in terms of what's happening. A pretty modest decline, but within the numbers. Let's look at the volume and mix in the callout box.

You can see a pretty sizable stock adjustment. We took stocks down in the quarter and that was something that we had talked about in the second-quarter call is we wanted to get our days' supply in line with the decline that we'd seen in the overall industry.

We progressed on that in the first half. We needed to go further in the third quarter, and the team did a good job of that. They also did call the overall run rate of sales properly. So we did end the quarter right where we wanted to be in terms of stocks, but it did affect profits on a year-over-year basis by about $130 million.

The other thing you don't see on the slide is we had a supplier constraint that is now resolved that constrained our production and affected profits to the tune of about $60 million. So, overall, we think the team has responded well to the slowdown that we've seen in China and we are expecting to have a very strong fourth quarter. In fact, we think it's likely to be a record quarter on the back of new products, and in some cases, built in new capacity that has come on stream this year.

We also expect to see a seasonal increase in China that we always see in the fourth quarter as the industry prepares for Chinese New Year early in the following year. And then, of course, the government has taken a number of stimulative actions recently including a purchase tax reduction, which will favorably benefit about 70% of our portfolio. We've already seen the benefits of that in our showroom, so we feel very strong and positive about the full year and looking forward to the fourth quarter.

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

And just a couple of comments on the China industry. We are seeing a stabilization and, as Bob mentioned, we do expect a lift from the stimulus package. As he mentioned, we are seeing showroom traffic improve. We are seeing closing ratios improve and, unquestionably, we see this as a really good opportunity, because 70% of our sales have the engines that are eligible for the stimulus.

And just across Asia-Pacific, as Bob mentioned, we're confident in a strong fourth quarter. And as he mentioned, likely it's going to be a record and it's because of the industry lift, the new products which happen to be good margin products. We're at the optimal stocking levels so we won't experience the destocking that we had in the third quarter. The supplier constraint is behind us and then the seasonal factors, so we feel really good about where we are heading in the fourth quarter and into next year.

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

Okay, very good. Let's go on to Ford Credit on slide 17. Ford Credit, again I mentioned it earlier, but very, very strong performance; the best quarterly results since 2011 at $541 million, and that was driven by growth. You can see the $115 million from volume and mix, most of that is volume, and then we also benefited from favorable mix associated with leasing in North America.

In terms of our guidance for the full year, we continue to expect Ford Credit profit to be about equal to higher than what it was last year. We have narrowed the range of our call for managed receivables to $124 billion to $127 billion. Still looking for $250 million of distributions from Ford Credit in the fourth quarter and we expect to temporarily see our managed leverage a little bit higher than the 8 to 9 to 1 target due to the translation effect of the strong US dollar.

Okay, with that let's leave the business units and we will go on to cash and cash flow on slide 18. Again, I've touched on much of this, but let me highlight once again the strong operating cash flow of $2.8 billion. You can see that was driven by the automotive pretax profits, but we also saw some good performance in working capital and also other timing differences.

Going down further on the page you can see we actually had no pension contributions in the quarter to our funded plans. I talked about this earlier in the year; I said that they would be -- the contributions would be largely biased towards the first part of the year. We still have a couple hundred million dollars ahead of us that will be done in the fourth quarter, ending the year with about $1.1 billion of contributions.

We had $600 million in dividends in the quarter, $1.9 billion of shareholder distributions to date, and since 2012 when we restored the dividend we have had shareholder distributions of $8.5 billion. Liquidity ended at $33.2 billion in the quarter, very, very strong.

Okay, let's turn to slide 19 and look at our planning assumptions and key metrics. At the top you can see industry volume, and if you look at the third column there you can see, as we usually do at this point in time, we have narrowed our call to around a single-point estimate.

So in the US we're looking at 17.7 million units; that would be up 5% from last year and in line with the year-to-date results. In Europe 20 about 16 million units; that would be up 10% and, again, pretty much in line with the year-to-date results.

And in the case of China, we were at 23 million to 24 million in the last call. We've narrowed that now to 24 million based on the actions the government has taken, which would be in line with where we were last year and a little bit higher than the year-to-date results.

In terms of the financial results on the rest of the page, everything remains on track. Certainly I don't want to not state the fact that we expect to see the Company come in with a pretax profit within the range that we've had all year long of $8.5 billion to $9.5 billion.

Overall, very strong results for the quarter, for the year-to-date; expecting a strong fourth quarter and the breakthrough year that we've been talking about since January.

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

A couple of comments on the industry, the US industry in particular, before I wrap it up. We would characterize the US industry as healthy and, barring any type of shock, whether it be economic or policy-related, we do see industry sales staying well supported at the current levels for the next few years. Or in other words, we expect it to be stronger for longer.

Transaction prices are strong across the industry and for us. Replacement demand is back to its historical level of about 70% of industry sales, and when you combine that with the vehicle parc age, the oldest it's ever been at 11.5 years, we think that bodes well.

The labor market is steadily improving. We are seeing better wage and income growth. And then when you look at the full-sized pickup segment, which is important to us here in our biggest and most profitable market, 50% of full-size pickups on the road today are 10 years or older and actually 25% of them are actually 20 years or older. So as we stand back across our lineup we think we are very well-positioned overall, and also with the F-150 and the 2016 launch of the new Super Duty coming down the pike.

So let me just sum it all up. We had an outstanding third quarter, and as we mentioned, it was a record third-quarter profit, and with that higher wholesale revenue and market share and also a better margin. We are firmly on track to deliver the breakthrough full year.

And for 2015, if you look at the regions, we continue to expect North America to be very strong, both in profit but also a substantial top-line growth with margins in the upper end of the 8.5% to 9.5% range that we've guided to. As we look at Europe, we expect improvement in Europe as we continue moving towards profitability and we will have more to say about that in January.

Our Middle East and Africa business unit will deliver breakeven results. South America will deliver better results than last year, despite the much tougher environment we are seeing. And Asia-Pacific is going to have a strong year and a particularly strong fourth quarter, and likely a record fourth quarter, with the new capacity and the products that are coming online in combination with the government incentives promoting smaller vehicles in China.

And of course, continued strong and steady returns from Ford Credit.

As we look at 2016, we expect a strong year. With the momentum that we built in 2015 and particularly in the second half of 2015, we expect that to carry over into 2016. A little bit longer term we are on track to deliver our strategic objectives, which are around being the top five in global sales, having a better balance of profit and sales around the world, 8%-plus operating margins, being in the top quartile of total shareholder returns, and being highly regarded by our stakeholders.

So as you look at the third quarter, we think there's more proof there that we have the right strategic framework. We have the right proven process and, of course, we have the right team and we are consistently delivering. So with that, why don't we go to the phone line for your questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ryan Brinkman, JPMorgan.

Ryan Brinkman - *JPMorgan - Analyst*

Maybe first on Europe, I'm curious what you think the trend is going to be there between diesel and gas given the events since your last call. Can you talk about your mix of diesel versus gas in the region?

Then I think, too, you have a higher mix of light commercial vehicles, which are generally diesel and are going to remain diesel, so can you maybe break that out for us without the impact of LCVs? I'm trying to understand if there were a shift towards gas in the region, if you would benefit from that.

And then just on a similar note, I think there's an opportunity now for your prices in Europe to converge with Volkswagen's more quickly than maybe was earlier hoped for. That's a key long-term positive, but should we also worry that maybe their prices have to come down near-term pressuring the industry? Thanks.

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

Okay. Thanks, Ryan. Let me take the first part of that question. First off, as a company, we are well-positioned to respond to wherever the marketplace goes.

If you look at some of the statistics, our total sales in Europe are about 55% diesel, so it's slightly less than the total industry, but when you break that out, our cars are about 44%, which is below the industry. We do have the capability to actually go up to about 80% of gas engines, so we have that flexibility. And on the LCV side probably about 97% of our LCVs are diesel, but we see that continuing strong.

It's really too early, Ryan, to tell what changes in the marketplace we will see. We have not seen any changes in terms of customer ordering. We've actually seen a little bit of uptick and interest on diesel on our build-and-price internet marketing tool that we have out there.

And in terms of the pricing, again we're going to continue to come out with best-in-class products. We are seeing the strong pricing, particularly across our vehicle lineup. As you noted from where Bob took you through, our pricing was positive across Europe.

In terms of what some of our competitors will do, we don't know. We're just going to stay focused on our plan and keep driving the business forward.

Ryan Brinkman - *JPMorgan - Analyst*

Okay, thanks. Then just for my last question maybe on Asia-Pacific. I think the guidance earlier in the year was that the profits would inflect from the first half to the back half as you launch new product and lever new facility investments. And since then you surprised with a really very strong 2Q and in the process were softer in 3Q; 4Q is going to be strong you say. I'm just curious what the biggest differences there have been, whether there was some sort of pull ahead maybe from 3Q to 2Q.

And then just lastly, it looks like you actually increased here -- am I right, you increased your market expectation China? Now you're saying 24 million versus 23 million to 24 million? Mark mentioned the government tax incentives on 1.6 liter and below engines. Can you talk about, specific to those incentives, what percentage of your vehicles qualify for them, whether you've seen an uptick in your own sales since they've been announced?

And then just lastly maybe high level, do you think that China has found a bottom here?

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

I think I can remember maybe a third of that so what I don't cover just ask again, Ryan.

In terms of the calendarization, I think you will still see a stronger second half than a first half and it's going to be driven by the fourth quarter. I think we probably would have expected third and fourth to be a little smoother than what it's going to turn out to be, but that is because of the destocking action that we had to take in the third.

We did that actually through the first and particularly in the second, but the industry continued to slow a bit ahead of us keeping up with that. So we caught up in the third quarter, but now looking forward to a very strong fourth. We also are affected, obviously, in the third by the supplier constraint, which isn't something that we had expected, and some of that will get back in the fourth quarter as well. So that's really what's behind the calendarization.

But generally, if you look at second half versus first half, it will be consistent with what we said from the very beginning and one of the factors behind the Company's better second half than first half.

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

Just your question around what percent of our vehicles are available for the incentives, 70%. And when you look at the engines that we have, the small EcoBoost engines that we do have, we think we have an opportunity there.

In terms of have we reached a bottom, well what we've seen, as I mentioned in my remarks, we've seen stabilization and I think the good news is we've seen a bit of a stabilization on the passenger car market. And when you look at all of the actions that the government has taken and the PBOC has taken over the last number of months, we think that bodes well.

So we think we found a bit of a bottom in passenger vehicles. Commercial vehicles still a little bit of weakness there that we are seeing persistent and that will be a big determinant of where the economy is heading, but we are still seeing some weakness there.

Ryan Brinkman - *JPMorgan - Analyst*

Okay, great. All very helpful, thanks. Congrats on the quarter.

Operator

Joe Spak, RBC.

Joe Spak - *RBC Capital Markets - Analyst*

Good morning. Thanks for taking the question. I first wanted to get a little bit of a better sense of the puts and takes for the fourth-quarter North America margins. You're showing production up 12%, but -- and calling that the higher end of the range, but that would still be a step down from what you've done year-to-date, which I think was sort of 9.9%. So maybe you could give us first some of the offsets there.

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

Yes, we have -- all the numbers you cited, Joe, are correct, so 9.9% year-to-date, the 11.1% second quarter, 11.3% in the third. And I think we were [6.7%] in the first when we were still launching -- in the launch of the F-150. We do think will come in at the upper end of that range, which would obviously suggest a fourth quarter that's going to be lower than we saw in the second and third, and that's driven by normal seasonal factors.

If you look at our business year in and year out right across the board, North America, other regions as well, we have cost increases on a sequential basis going from the third quarter into the fourth quarter and we expect to see that happen again this year. We will still see positive -- on a year-over-year basis expect to see positive top line in terms of volume, in terms of still see good mix. We will still see positive pricing, but we will still see that seasonal cost increase.

The other thing I will mention that's different this year than some other years is the fact that there are aspects of the UAW agreement, once we conclude one, that we will book in the fourth quarter. So for example, if we were to have signing bonuses, which it looks like GM agreed to and FCA, those would be booked in the quarter that the agreement is confirmed or ratified. So that would take place also in the fourth quarter.

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

(multiple speakers) Joe, just to put that into perspective into the entire year, again in a year in which we had a lot of launches, and particularly in the first half of the year launching the second plant for F-150, we are guiding to the upper half of 8.5% to 9.5%. So that gives you a little bit of perspective of the momentum as we get into 2016.

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

On that point, if you look at North America from 2010 to 2014, it's averaged 9.1%. So it looks like we had the chance of even doing better than that despite the launches that still affected us at the beginning of the year.

Joe, you were going to say something?

Joe Spak - *RBC Capital Markets - Analyst*

I was just going to ask any potential UAW agreement is considered in that guidance for the year?

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

Yes.

Joe Spak - *RBC Capital Markets - Analyst*

Okay. And South America, I know you talked about some positive stuff for Ford there, but obviously the commentary on the environment is a difficult one.

I guess what I'm wondering is over the past four or five years you've done a pretty good job of pricing for some of the currency moves. And I guess what I'm wondering is if you're beginning to hit the limits of what you can do there, how have some of your recent pricing actions been received in that region?

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

We would price more if the industry would. That's really what needs to happen is there needs to be more aggressive pricing overall by everyone in the market, because the impact of the depreciating currencies and the local inflation, we just can't keep up with it.

We have been quite active on the pricing front, but it has just not been something that everyone --. I think you've got a number of players, particularly the larger players, that are trying to protect their market share positions and not responding to the forces that we are seeing.

If you look at the real, for example, over the last year it has depreciated by 63%. If you look at inflation in Brazil, it's running at about 10%. And then Argentina 15% to 26%, 27%, depending upon whether it's the official inflation rate or the one that people actually live with.

So that's really what's happening is it's just the environment is really, really eating away at the overall cost positions that everybody has there and the revenue that we are generating.

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

But, Joe, that being said, when you look at our plan of introducing new product and the fact that we were able to gain 1.4 points of market share, when the economy does turn we think we will be well-positioned from a product standpoint, from a cost standpoint. And keep in mind, before 2013 we had nine years of good profitability out of the region.

So we're taking the long view, but we also understand in the short to medium term it's going to be volatile and it's going to be challenging.

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

Just to underscore that, if you go to slide 11 and you look at the contribution costs and structural costs which are netting to basically about nothing there together, there's about $100 million of inflation effects in those numbers. So the teams actually delivered cost reductions of about $100 million just in the quarter on a year-over-year basis. So we are swimming hard, it's just the current is quite strong against us.

Operator

Colin Langan, UBS.

Colin Langan - *UBS - Analyst*

Great, thanks for taking my question. On slide 9 you show net pricing and contribution costs. When I net them together it's fairly flat, slightly negative I guess.

I'm a bit surprised given you talk about the F-150 had ATPs up I think you said $2,800. You have the new Explorer, the Edge. Are you --? How should we think about net pricing going forward and sort of what is the drag in there that is preventing net pricing from being more positive?

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

I don't think there's a drag at all, Colin, and I will say what I have said I think for two quarters in a row. When you look at the business, you've got to look at the whole business.

And if you look at the volume and mix, let's start there first. I just mentioned we were up over 100,000 units year over year in volume; 45,000 of that is F-Series, so clearly a significant factor behind what you see on industry, share, stocks. And on mix -- and most of that $547 million that you're looking at there is actually favorable mix -- and much of that is F-Series.

So you have to look at the impact that the new product has on volume, that it has on mix, and that it's got on net pricing. And obviously, it's a factor in net pricing; it's not the only factor.

On the contribution costs that's not all F-Series. You've got Explorer, you've got Edge, you've got a number of new products which also are contributing to everything. So you really have to take all of that and you've got to put it together, and of course, the result is a fantastic margin.

Colin Langan - *UBS - Analyst*

There has been a lot of questions on the F-150. Can you clarify whether the new F-150 is more profitable than the outgoing model, given the higher aluminum cost, now that it's been in the market for a while?

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

I will say what I've said for about a year and a half: the F-150 margins are very, very profitable and we are very satisfied with the contributions they're making to the overall business. The other thing I would remind everyone is that this is a positive contributor to our achieving our regulatory compliance on fuel economy, which gives us options in other parts of our portfolio as we're developing those products. So the effects of the F-150 are very, very positive in and of itself, but also in other ways across other aspects of our business.

Colin Langan - *UBS - Analyst*

I know you're not going to talk about 2016, but your earlier comments talked about margins being at the high end of the range by H1's launch cost. How should we think about that, those costs into 2016, because you do have the Heavy Duty coming? Is that going to be flat year over year or is this still net down when we think about launching the next year?

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

We'll talk about margins as well as other aspects of our guidance on the call in January. As Mark mentioned, we're looking forward to a very strong 2016 for the Company coming off of everything that we've built this year.

North America will have strong results. There is the F-Series -- Super Duty launch next year, but that will be a more normal launch because we've got a separate body shop. We're going to take all the actions that we needed to take in regularly scheduled downtime, as opposed to what we did in Dearborn and Kansas City. So it's a very different type of launch and clearly benefiting from everything that we've learned on the first two.

So this will not be the effect that you saw with the F-150. It will be a normal launch.

Operator

John Murphy, Bank of America Merrill Lynch.

John Murphy - *BofA Merrill Lynch - Analyst*

Just a first question, if we could maybe look on slide 9. One of the things that I think we were a little bit surprised at was the increase in structural costs and, to a lesser extent, contribution costs here. Can you just remind us how you are thinking about structural costs at this point and how you think about sort of your breakeven level relative to the US SAAR right now? Because it does seem like there's some costs that are creeping in here that we weren't really expecting.

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

They're not creeping in, they're planned. If you think about what we're thinking about for the business, we've been talking for quite some time about profitably growing the business, and where we see opportunities to invest in the business to do so and get an appropriate return on our invested capital, we will.

So here what you see is investments that we are making in product, investments we are making in advertising sales promotion. You have an increase in D&A as we have ramped up our spending as the business has grown and we see opportunities to do so profitably growing forward. So all of that is necessary and supportive of the types of margins that we're delivering.

If you think about the breakeven, we are targeting -- I think we talked about this back on our investor day. We are targeting to get to a breakeven that is equivalent to two-thirds of our wholesale volume, and that is exactly where North America is. So everything is where it should be for North America. And when we look ahead, if we have opportunities to invest in the business and grow it in a profitable way with the appropriate returns, we will do so.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay, that's helpful. Then the second question: as you look at how the year has progressed here, Bob, it does sound like things have shifted a little bit and obviously you're still going to have second-half profits that are higher than first-half profits. But what do you think is sort of the major puts or headwinds that you are running into that are changing that a little bit?

It just does seem like there's a little bit less optimism relative second half versus first half relative to where there was maybe at the beginning of the year.

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

John, I'm not sure why you would say that. The year is playing out very much like we had expected. We feel exactly -- that we're exactly where we thought we would be at the beginning of the year.

We see the second half still being stronger, as we had expected, than the first half. We delivered outstanding results in the second; here we are in the third. The fourth, sequentially, will be lower as it normally is, but on a year-over-year basis it's going to be spectacular. (multiple speakers) So we think the year is playing out exactly as we have said it was going to play out.

John Murphy - *BofA Merrill Lynch - Analyst*

But, Bob, you talked about sort of the seasonal pattern that was typical where the first half was stronger and the second half was weaker, and now it seems like you're pointing to seasonal factors in the fourth quarter putting pressure on North America, which is what you didn't say before. You actually said the second half would be -- was stronger and you wouldn't see the typical seasonal factors, so I think that's where things have changed a little bit relative to what we were expecting. It just seems like that's a change.

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

Okay, I respectfully disagree. Why don't you go back and look at the graphic that we provided? You will see the second half was stronger than the first half, you'll see that the first quarter was the weakest quarter of the year, and you'll see that the fourth quarter was trailing off a bit from the third quarter. That's exactly what's going to happen.

Operator

Emmanuel Rosner, CLSA.

Emmanuel Rosner - *CLSA Limited - Analyst*

Good morning, everybody. I wanted to ask you just a little more color on these, the comments that you made on the Super Duty launch being more of a regular launch versus the F-150. I guess as we're trying to -- from our seat trying to understand sort of the implications of a launch and obviously some downtime next year, but then also potentially offset by additional strength on the F-150. What does a regular launch mean compared to what we saw in the F-150?

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

Emmanuel, what you saw in the launch of the F-150 is obviously we took significant downtime to completely rebuild the body shops. And what we have been able to do with the spacing that we have in Kentucky -- our Kentucky truck operation, the body shop actually started being constructed in 2015 and it's going to be completed by the end of this year, so we won't have the extended downtime that we had in Dearborn Truck or in Kansas City.

Overall, what we will see is the typical model year changeover that happens during the shutdown period over the vacations, so we won't see -- that's what we mean by a more normal launch. We handle it during the shutdown periods, during the vacations and then we're up and running.

Emmanuel Rosner - *CLSA Limited - Analyst*

Okay, that's helpful. Two quick questions on the North American volume in the quarter.

On the production side, it looks like you produced maybe 5% fewer vehicles than you had guided just three months ago. I'm curious where that comes from. And then when I look at your earnings contribution from volume and mix in the quarter in North America, obviously very strong, $1.6 billion. Divided by the delta in wholesales looks like it's $16,000 contribution margin per vehicle or so when you said that only about half of the increase is the F-Series. So can you maybe explain the high contribution?

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

The contribution margin that you are seeing is because we have a number of very high-margin products that we have been launching: Explorer, which is very high-margin; Edge, which was really coming out in the quarter very strongly because we'd launched it I think the prior quarter, that is a very high-margin product; and of course, Mustang. Mustang is doing extremely well, too. So you've got a lot of very high-margin products that were driving that increase and generating the type of margins that you are seeing.

Operator

Rod Lache, Deutsche Bank.

Rod Lache - *Deutsche Bank - Analyst*

Wanted to also ask you about that. On slide 9, the North American bridge, typically you provide the material ex commodities, the commodity, and the warranty items for the contribution costs. I didn't see that this time for the segment. You had it for the overall company.

I was hoping you could get that and, more specifically, I believe that there was a $500 million warranty charge last year. So is the -- and I'm assuming that that's in the year-over-year comparison. So is the contribution cost actually more like $927 million ex that or is that $427 million really the contribution costs year over year?

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

Rod, if you were to look at the Company slide, which is back on slide 6, those -- the callout explanations are very much the North American callout explanations. If you just factor them down very slightly, that's basically what you would see in the case of North America. So North America in terms of material, excluding commodities, would be $1.1 billion; the commodities about $325 million; the structural-related costs about $320 million. So you can see the North American results very, very much mapping to the total company.

In the case of warranty, we saw good news of about $340 million year over year in North America, so that's exactly what you are talking about. We did have some reserve adjustments that we normally make in the third quarter, that's when we do our deep dives, particularly on both coverages I think, and also field service actions. But we also had the one-time actions last year, which obviously didn't happen this year. So net it to good news. And that's really what's behind that $418 million on slide 6.

Rod Lache - *Deutsche Bank - Analyst*

Thanks, that's helpful. I was hoping you could just comment on going forward, one of your competitors recently suggested that they may be able to mitigate regulatory cost inflation through 2018. Just given that you already absorbed a lot with F-Series to help you guys achieve some of these targets longer-term, is that something that you think Ford can achieve?

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

Well, we're not talking about the forward years today. When we did have our investor day some time ago, we talked about the fact that particularly towards the end of the decade, if you look 2019 and 2020, I think there's a lot of work the whole industry has got to do at that point in time in response to compliance, particularly around emissions and fuel economy.

But I think we feel good about where we are up until 2019, but then there's sort of a step level increase then that we're all going to have to continue to work on, particularly with more electrification that's going to be required in that timeframe.

Rod Lache - *Deutsche Bank - Analyst*

Okay, just one last one if I can sneak it in. You provide all the buckets for the Asia bridge, and I was wondering if you might be able to just give us a sense of how -- if we were just to think about China specifically, how would the bridge be bucketed? What would the structural costs be doing? What is pricing doing on a year-over-year basis as we look at Q3?

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

Yes, we're not going to break out individual markets within regions, but I think it would be fair to say that in general, because we do include on an equity after-tax basis the year-over-year variances from the China JVs within these data that you are seeing on slide 16, and you could imagine that a lot of that is going to be driven by China just because of the size of that business within Asia-Pacific. So I think you are probably looking at China when you're looking at the slide here, for the most part.

Operator

Adam Jonas, Morgan Stanley.

Adam Jonas - *Morgan Stanley - Analyst*

So Toyota recently made a statement in the media in Tokyo that it expects sales of gasoline and diesel engine cars will be, they said, near zero by the year 2050. Now I know 35 years is a long time, but is that crazy? What do you think of that forecast?

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

Well, I can't speak to some of my competitors. In terms of our business plan, that's a long business plan that we would have to look out.

But our plan, as you know, Adam, very simply is provide the power of choice to consumers. We have terrific internal combustion engines, electrification; we have all the different variants. We are working on hydrogen fuel cells, etc. We have great diesel engines.

Our approach going forward is fuel economy is important to customers, and so emissions and things of that nature, and we're going to continue to provide that choice and products that will appeal to our customers that are interested in those things. Those are the things that they are interested in and we're going to continue to work at it.

Adam Jonas - *Morgan Stanley - Analyst*

Great, Mark. Maybe nearer term, and this is something I think I asked you about at the Detroit show almost a year ago, the topic of active safety and tying in life-saving and accident-prevention technologies, software and sensors and things, that also happen to make cars more fuel efficient. Any update on your progress of how Ford and some of your competitors have been able to convince the regulators that, look, these things should actually start getting some credit on the fuel economy side?

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

From our standpoint, we are actively engaged with the regulators and it's an active, ongoing discussion. We share the same objectives: we want to reduce the number of accidents, we want to reduce the number of fatalities, we want to reduce congestion, and we want to improve just overall safety for our customers.

So we are in active discussions right now. I think the things that you mentioned are things that we are talking to them about because we feel that they do require consideration, and we will see where we come out on those discussions.

Operator

Matt Stover, SIG.

Matt Stover - *SIG - Analyst*

Thank you very much. A question about Asia-Pacific. It's been some time here where one hand off or the other hand took China down, but it's doing pretty well. It's doing about $1.2 billion in profit, but the other APAC businesses are losing about $1.2 billion annualized.

And I guess I kind of understand the story in China, but I'm wondering how we should think about those other losses outside of China that are dragging down the results within the region.

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

Let me first start with China. You're only looking at the China joint ventures. We have three other areas of our business in China that would come to what we would call China as we are looking at it internally. So you've got the built up imports that we send into China on the Ford brand. We've got the Lincoln products that we are also exporting into China, and as you might expect, since we're in the process of just launching that brand and launching the network and the products, that is not this year contributing positively to profits.

Then we've also got engineering costs that we are incurring today inside Ford that we will only receive compensation for in future years once we start building the vehicles that we're engineering. So that is a cost, if you will, that we incur until that point in time. So you have to look at all of that in order to have a complete view of what our profitability is inside China. Looking at the JVs is going to give you not a complete understanding of what that story is.

If you look at the rest of the region, the rest of the region for the last two quarters, this quarter and the second quarter, actually has improved on a year-over-year basis and was pretty flat in the first quarter. So the efforts that we have underway in India, Australia, and ASEAN are making great progress in terms of getting those businesses where they need to be.

In the case of Australia, we would expect that inflection point, if you will, to occur when we close our manufacturing facility there in October of next year. The team is doing a very, very good job of repositioning the brand and the product lineup to prepare for that.

In the case of India, we just launched the brand-new Sanand facility and the new product that we are building there, the Figo, and that's off to a good start. But there will be a while before we -- as we add product and add volume there to get that plant up and running to the level that we expect it to be.

Then in the case of ASEAN we've actually very good progress in ASEAN in terms of getting that region back to profitability. There is sort of skirting around that level at the moment, so we feel really good about the progress we are making. We have more work to do and we expect that to contribute positively in the relatively near future. So those are the three areas; again, all progressing very nicely and all contributing positively on a year-over-year basis.

China is the reason why the region declined year-over-year, both in the third quarter and the second quarter.

Operator

Patrick Archambault, Goldman Sachs.

Patrick Archambault - *Goldman Sachs - Analyst*

Great, thanks for squeezing me in here. A couple of clarifications, just one I think it might've been Emmanuel's question, and forgive me if that was answered. But I think there was a question about the shipments being different in 3Q for North America relative to what was originally guided for.

What was the reason for that? Was that some of the ramp stuff that we have -- some of the ramp challenges with frames that we've been reading about or is there something else that led to that difference?

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

Thanks. From a production standpoint, what we ran into, Patrick, was a supplier-related production disruption. We are now through that, but it did impact our production in North America and it did impact our production in China. But as I said, we are through that.

It is not related to F-150. As you've seen -- actually our production F-150 came just about bang on what we expected. It was from some other vehicles, some of our utilities, that impacted a number of our plants.

Patrick Archambault - *Goldman Sachs - Analyst*

Got it. Okay, that's helpful. Then just while we're on the same topic of North America, a lot of time is spent on slide 9, but the net pricing piece just taking that on its own. It is down -- the year-on-year increase is down from the second quarter, where I think it was around $700 million if I'm remembering correctly.

Is this kind of for the fourth quarter the new run rate of pricing, or is this something that could pop up back towards that previous increase? Just the thing that comes to mind is there was at least one month in the quarter where incentives were pretty big on the F-150, and I feel like they moderated after that. So just wanted to try and put those things together.

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

Patrick, just to be clear you are talking about sequentially second to third quarter in North America?

Well, if your question was the second to third-quarter change we had lower volume. It was down about 45,000 units and again that's because of plant shutdowns that we have in the summer.

Operator

We will now take questions from the media community.

David Shepardson, Detroit News.

David Shepardson - *The Detroit News - Media*

Thanks for having the call. Mark, I wonder if you would like to respond to Republican presidential candidate Donald Trump, who over the last six months has been heavily critical of Ford's announced plans to expand its investments in Mexico by about $2.5 billion. Could you just sort of address generally whether you think it's appropriate to be investing in Mexico in response to suggestions that Ford should be spending more resources here in the US?

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

Thanks, Dave. Listen, as we said, we have not talked to Donald Trump and we've not made any changes to our manufacturing plans.

You know, Dave, as a company we deal with the facts and facts are stubborn things. At Ford, we are proud of the facts and, unfortunately, we suspect the facts are getting lost in the politics. The reality and the facts are that we have invested more than $10 billion in the US in our plants since 2011 and we have also added 25,000 US employees. And when you look at the way we spend our investments, 80% of our North American investments are here in the US and 97% of our engineering is done here in the US.

We're a multinational company and we invest in all the markets we do business in. You just saw the numbers here in the US. We've been in Mexico for 90 years.

And this kerfuffle that we've seen yesterday around our F-650 and our F-750 and what's going on, we did re-source them from Mexico to Ohio. We made that decision back in 2011 and that was long before any candidates announced their intention to run for US president. As a matter of fact, that was made before the last presidential election.

So those are the facts. We don't -- as we look at that, we don't -- facts don't cease to exist because they're ignored, but those are the facts at Ford. And we are very proud of the fact of what we do in terms of driving -- doing our part to drive economic development in the US and in many other markets we do business around the world.

Operator

At this time I would like to turn the conference back over to Mr. Ted Cannis. Please proceed, sir.

Ted Cannis - *Ford Motor Company - Executive Director, Investor Relations*

Mark, Bob, anything you want to say to wrap up?

All right. Thanks very much, everybody, and information will be out on the website.

Operator

Thank you for your participation in today's conference. This concludes the presentation; you may now disconnect. Have a wonderful day.
