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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and thank you for participating in the Ford Motor Company third-quarter earnings conference call. (Operator Instructions)

Thank you. I would now like to turn the conference over to Mr. Ted Cannis, Executive Director, Investor Relations. Please go ahead, sir.

Ted Cannis *- Ford Motor Company - Executive Director, IR*

Thanks very much, Victoria, and good morning and welcome, everybody. Welcome to Ford Motor Company's third-quarter 2016 earnings review.

Presenting today is Mark Fields, our President and CEO; Bob Shanks, our Chief Financial Officer. Also participating are John Lawler, Vice President and Controller; Neil Schloss, Vice President, Corporate Treasurer, and CFO Ford Smart Mobility; Paul Andonian, Director of Accounting; and Marion Harris, Ford Credit CFO.

As usual, copies of the press release and presentations are available on our websites. Also as usual, there are some non-GAAP references and those are reconciled in the appendix to the GAAP measures.

Today's discussion includes some forward-looking statements about our expectations for future performance. Actual results may vary.

As a reminder, Ford Credit has a call later today at 11:00 AM to discuss third-quarter results. Later today we'll be filing our 10-Q and based on some of your feedback, we have added some supplemental information to help with the analysis that some of you have requested. And that's on pages 54 and 55 of the 10-Q.

With that, I'm going to pass it over to Mark. Mark?

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

Thanks, Ted. Good morning, everybody. In the third quarter we delivered our better-than-expected company adjusted pretax profit of $1.4 billion, which was lower than a year ago, as were all the other key metrics. And the decline from last year was due to North America. This reflects the impact of the Super Duty launch, F-150 stock changes, and increased warranty costs from a door latch recall that we announced back in September.

During the quarter, in addition to the all-new Super Duty, we also launched the all-new Lincoln Continental and I will talk more about these as we go through the call.

Looking at our global market share, it was down slightly. We had improved share in Asia-Pacific and that was offset by results in North America, South America, and Middle East and Africa. Turning to Europe, we had our best third-quarter profit there since 2007 and it also was our sixth consecutive profitable quarter there.

Looking at Asia-Pacific, we saw strong growth plus our best-ever third-quarter profit. Ford Credit remained strong with the best quarterly profit since 2011 and as we step back and we look at the first nine months of the year, our pretax profits and our cash flow were strong, about the same as we generated a year ago.

Now we expect the good news versus our guidance that we delivered in the quarter to be offset in the fourth quarter. But stepping back and looking at the full year, we continue to expect to deliver one of the best profit years ever for the Company and that's a full-year company-adjusted pretax profit of about $10.2 billion.

Now if you turn to slide 4, you can see we're having a continued focus on the four drivers of shareholder value and that's really around growth, risk, returns, and rewards.

In looking at growth, we launched several key vehicles and helping fortify our core business with strong reactions from customers, as evidenced by the record third-quarter retail sales that we recorded in China and for the overall Asia-Pacific region. We also announced our intent to have a high-volume, fully-autonomous vehicle in commercial operation in 2021 in either a ridesharing or ridehailing service.

And we also during the quarter completed the acquisition of Chariot, which is a San Francisco-based shuttle service that we now plan to grow globally as we work with cities to help solve their transportation issues and also provide, importantly, new sources of growth for Ford.

In terms of returns, our profitability at Europe, Asia-Pacific, and Ford Credit were strong and we continued our focus overall on making sure that we deliver cost efficiencies, net of economics, across the business, as we once again in the quarter delivered favorable cost performance versus our plan. And that is despite the large recall in the period.

In terms of risk, we contributed about $200 million to our funded pension plans. And in terms of rewards, we distributed regular dividends of $600 million and that is part of our ongoing strategy to deliver attractive dividends to shareholders that we can then sustain through the business cycle. Just looking year-to-date, we have rewarded shareholders with $2.9 billion in distributions.

Slide 5 shows some of the additional highlights in the quarter and I would like to just touch on a few of these. Our new Lincoln Continental is off to a strong start and we are also receiving a lot of positive feedback from customers in terms of delivering on our quiet luxury brand promise. Our new Super Duty just won the important Truck of Texas Award, which is particularly significant given the importance of this market to our truck franchise.

Moving over to Europe, we launched our new KA+, which is imported from India, as we work to improve the profitability of our small vehicle business. And the initial feedback on the KA+ has been positive. We also announced a number of important collaborations and investments in autonomous vehicles and mobility services, all of which position us as a solid investment in the near term with an attractive upside in emerging opportunities.

So let's turn to our view of the global business environment and you can see that on slide 6. Global growth remains below trend and that is due to recessions in key emerging markets, as well as some constraints on business investment spending. Looking at the US, growth is improving after a weak start to the year and in Europe we expect moderate economic growth and continued monetary policy stimulus to support industry volume.

Just looking at the UK in particular, the economic data have improved from the initial Brexit shock, but the tone of the recent statements regarding the timing of exiting the EU have contributed to additional sterling weakness. And in China, we expect continued growth supported by government stimulus. Just moving to Russia and Brazil, incoming data are pointing to economies that appear to have passed a low point of their present cycle.

So with that I would like to have Bob take us through our performance and I will come back to cover our outlook. Bob?

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

Thanks, Mark. Let's turn to the next slide, slide 8, this is our key financial summary and I want to start by just baselining this with some of the key data. So we will start with the third quarter in the first column. I just want to highlight several metrics.

First, company adjusted pretax results of $1.4 billion; net income of $1 billion. Go further down the page adjusted earnings per share on a diluted basis of $0.26 and then the operating cash outflow of $2 billion. So as Mark said, these were all down from a year ago and this was consistent with our expectations.

If you go further down the page, you can see in terms of our cash and net cash balances very, very strong and cash above our target of $20 billion. Now we're going to go through a number of these things in detail through the deck, but two things I want to highlight that we won't talk about again. If you go back up above sort of the middle of the page, you can see we had very few special items on a pretax basis this quarter, only $26 million, and that was related to separations. And our effective operating tax rate in the quarter was 25.9%.

Now if we move over to the first nine months, the year-to-date column, the third column. Just to highlight the strength of the results, $8.2 billion so far this year in terms of company-adjusted pretax results, $5.4 billion of net income, $1.46 of adjusted earnings per share, and then very strong operating cash flow of $4.9 billion. As you can see in the comparison versus year ago, all of those are pretty much in line with what we did a year ago, which was the best year that we've had in our history.

Okay, let's go to slide 9. Now we're going to start to peel back the onion a bit in terms of what happened in the quarter for the business. And these are all absolutes.

You can see the $1.4 billion to the left and let's look at the segment results. $1.1 billion in terms of Automotive, you can see that at the top of the chart; $550 million from Financial Services. And then All Other is primarily our central treasury operations, $223 million negative; that is primarily net interest expense and portfolio gains or losses. That is also where we put Ford Smart Mobility, but nothing material in the quarter to talk about.

Now if we go back into the Automotive segment, some things to highlight here. If you look at North America, Europe, Asia-Pacific, all profitable. South America and Middle East and Africa losses. If you go below the chart, though, I think this tells the story of the quarter.

If you look at the total company, down $1.7 billion, it's essentially North America. So when we get to North America slide, this is really where the story for the business occurred in the quarter versus last year.

Now in terms of guidance, let me just touch on that here. We had guided to this quarter being about $1 billion, which is 10% of our outlook for the full-year. We did come in better. Our view of that is it's simply a recalendarization of some items from fourth into third, vice versa, and it's really around marketing accruals.

There's about $100 million of good news in marketing accruals in the quarter that will offset in the fourth quarter. And the balance is a number of cost changes, cost improvements that took place in the quarter, but it's $20 million here, $40 million there throughout the whole business. We don't see any signs of that changing the run rate of cost and that will be offset in the fourth quarter, yielding the same outlook for the full year that we had back at Investor Day.

Let's go on to the next slide, slide 10. This is looking at the key metrics of the Automotive segment. Just running across the page you can see wholesale is down about 4%, revenue down 7%. All business units were lower with the exception of Asia-Pacific.

Our share was down 0.1 points; North America, South America, Middle East, and Europe all lower. Europe was flat. Asia-Pacific was higher.

If you look at the SAAR, the SAAR was actually up on a global basis. That was driven by Asia-Pacific and Europe. The other business units or regions were lower.

Our operating margin and PBT were down sharply. That was driven by North America. Now one of the things I want to touch on here, and I will mention it again when we get to North America, we have included in our operating results the effect of the door latch recall, which if you recall from our 8-K that we issued is around $600 million.

Not all companies do that. Some companies will treat that as a special item. We include it in operating results because it is a normal course of business, although clearly something of this size is unusual.

So to help you understand more the run rate of the business, if you were to exclude the recall from our operating results, the margin that you see here of 3.3% would've been 5%. And if you go down below the page, you can see the year-to-date metrics of 7% would've been 7.5%. I will say the same thing when we get to the North American slide.

All right, let's go to slide 11. This looks at what's changing on a year-over-year basis.

You can see we are down $1.7 billion. This was driven by volume declines that was largely around stocks, some share, a little bit of industry. And then, of course, the impact of the recall and you can see that in the warranty item in the callout box for the contribution cost.

I do want to mention net pricing. This is the first quarter we have had this year of positive net pricing. This was primarily in North America, but we did see net pricing in all regions with the exception of Asia-Pacific. And that decline was just the usual downward overall industry pricing, negative pricing that occurs in that market. We will talk about that when we get to that slide.

All right, let's move on to the regions and we will start, as usual, with North America on slide 12. These are the key metrics.

Going across the page, volume was down 11%. This was stocks primarily, negative change in stocks; market share; a little bit of industry. Revenue was down 8%. That was driven by volume.

Market share was down 0.5 points. Within that -- that's the region -- Canada was actually up 1.6 points, Mexico was up 0.3 points, the US was down 0.7 points. That's what drove the overall region. And within the US that was around a retail decline that was cars and utilities and it was fleet, and that was more than explained by rental. F-Series in the quarter was flat on a year-over-year basis.

When you look at the SAAR, it was down about 0.2 points, 200,000 units, for the region that was more than explained by the US, consistent with our view of an eroding, but high, plateau. It was down about 0.5 million units, but still coming in at a strong absolute level.

Both retail and fleet, in an absolute sense, were down on a year-over-year basis. Margin and PBT were down sharply, but again if you go back and look at the margin, if you exclude the recall, the 5.8% would've been 8.4%. Still a very healthy margin and that is including the effect of the Super Duty launch in the quarter.

If you go down to the year-to-date metrics, which again are very, very strong, the 10.1% would be 11% on a year-to-date basis.

Okay, let's move on to the following slide. This is the slide that essentially explains the whole company.

North America down $1.6 billion; there are three things that are happening here. I'll go through them in order of magnitude, but they are all roughly about a third of the entire decline.

The first impact is the Super Duty launch and so this is the effect of less volume but also launch costs. That always comes along with the launch, so that's the first effect. It's something that we talked about at Investor Day.

The second item is around normalization of F-150 and so when you look at normalization of F-150, there's two things going on. If you go back a year ago, we were coming out of the launch of Kansas City towards the end of the second quarter. In the third quarter we were restoring the pipeline at the dealers; the units that we were selling were essentially all retail, no fleet; and we had very, very high mix.

In this particular quarter we have a normal balance of retail and fleet units; normal balance of series mix and options, although it's still very strong; and we actually have a stock decline in the quarter versus the stock build that we had a year ago as we continue to maintain our production in line with demand.

And then, thirdly, we have the door latch recall which was a bit less than $600 million. So those three things effectively explain the entire change in North America, which explains the change that occurred in the Company.

I do want to highlight the positive pricing. This is the first quarter we had positive pricing in North America and this was across many of the vehicles in the portfolio. Obviously Super Duty one aspect of that, but it was not the key driver. It was a major factor, but not the key driver. So that was a very positive effect.

And you can see on the far right we did have -- continue to see higher average transaction prices. They were up about $1,300 a unit; that was nearly twice the industry average. But we did see within that a continuation of higher incentives across the industry, but our increase was less than the industry.

In terms of guidance for the full year, we are now looking at North America coming in at a margin of 9% to 9.5%. That's because of the door latch recall. If we were to exclude that, North America's margin would be over 9.5%, which is consistent with our original guidance at the beginning of the year.

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

Just a couple of comments on the market in the US here, because our view is the industry is at a relatively strong level, but the retail market is softening and the pricing environment is getting tougher. As you have seen and as we have communicated previously, we have taken some production adjustments on a number of select models to match production to demand and that is consistent with our strategy.

We do expect some further actions in the fourth quarter and that will be primarily related to Fusion and Focus and Escape and one fewer crew next week building F-150 at Kansas City.

Then our approach on incentives; Bob mentioned incentives in the industry. Our approach is to be competitive and disciplined. And I think as you've seen in certain segments in the last few months, when the competition has increased incentives, we prioritize margins over market share. And you can see that in our results.

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

Okay, let's move on to South America. In South America, the key metrics shown on this slide, slide 14, you can see both for the third quarter and year-to-date all the metrics were lower. This is driven by the external conditions in South America, which remain challenging. Although I will say that we are starting to see a number of economic indicators that while they are still negative, they are starting to turn upwards.

And so I think we feel comfortable that at least the direction of the economies in South America seem to be moving in a positive direction and supportive of our view that we could see next year the first positive growth, although very, very modest compared to where it has been in the past. But that is a positive sign.

If you look at the metrics, the top line is lower. That's driven both by volume and the weaker currencies. Our market share was lower; that was due to Fiesta in Brazil. In terms of SAAR, South America itself was down 400,000 units, or 10%; that was entirely driven by Brazil, which was down 400,000 units, or 17%.

Turning to the next page, looking at what's behind the $132 million decline. In South America, it's very, very similar pattern to what we've showed you in the first and second quarters. While we're pricing as aggressively as we can, you can see that it's not enough to offset the effect of high inflation, as well as negative operating exchange effects.

The volume and mix is a bit lighter than what we've seen in the past, but we are still going after cost improvements. You can see that we generated nearly $100 million in the quarter; that was both contribution cost and structural cost. In terms of guidance, we continue to be on track to a loss for the year that would be greater than what it was in 2015.

Okay, let's move next to Europe, which is a very nice story. As Mark said, this was a great quarter for us. It was the best third quarter that we've had since 2007.

If you look at the operating margins and profits, up very sharply. I'm going to go right to the year-to-date numbers at the very bottom of the chart to the far right. We have already earned in the quarter or in the year over $1 billion and that number will get a bit better as we go through the fourth quarter. So we feel extremely good about what's happening in Europe.

The team has done a wonderful job and it's showing up in the results. That is despite the fact -- if you go to the left -- we are starting to take actions in response to anticipated reductions in demand in the UK as OEMs start to price in response to the weaker sterling. We certainly announced a price increase; a number of others have.

In the quarter, our wholesales were down. Our revenue was down. That was driven by those actions, although actually in the quarter the SAAR of UK was unchanged. But we think that will change over time as those price increases start to take hold.

Let's go to the next slide and look at what's behind the change in Europe. So $130 million, you can see the impact of the stock adjustments in terms of the volume. We did continue to see very, very strong mix that was both favorable product mix as well as series mix and options.

Good cost performance on contribution costs; that was driven by material. Good news on exchange, we are fully hedged on an operating basis. This is the non-recurrence of bad news on the balance sheet a year ago.

And the other thing I just wanted to the highlight is all the way through here in various categories we are seeing continued positive performance on a year-over-year basis of our Russia business. So Russia seems to be recovering a bit ahead of where South America is, but very pleased to see the continued performance by the team in that part of our business.

In terms of guidance, clearly we are on track for a result that will be significantly stronger than our profit a year ago.

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

Just a little bit more flavor on Brexit and the impact in the UK, because obviously we get a lot of questions on that. As Bob mentioned, so far we haven't seen a major impact on the industry. We've seen retail down slightly, but that is offset by increasing fleet deliveries.

And in fact, if you peel that back a little bit, we have seen a lot of strength in the commercial vehicle market and especially the van market, which obviously plays to our strength with Transit, which once again was the number one commercial vehicle in the UK and also across Europe.

What we are watching though is pricing. And as Bob mentioned, we, as well as our other competitors, have taken pricing in the UK and that is obviously to compensate for the weakening of the sterling. Our view is that this is what will start to be a negative for the market as we close this year and we get into 2017, so we are getting ahead of that, as Bob mentioned, from our production actions.

In addition to that, we are working all elements of the business to mitigate the potential negative effects on the market.

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

Okay, let's move on to Middle East and Africa. This is the only slide, as usual, that we have for this region.

This is an unusually large loss for us. If you look at the first and second quarters, we averaged a loss of about $50 million, so let me explain what's going on here.

If you go across the page you can see wholesales and revenue are down. That's driven by industry changes and the impact of that on our volume, as well as the revenue. Our share was lower, although if you just looked at the markets in which we participate, that's code for exclude Iran, which is the largest market in the region, our share was actually flat. What was happening is the markets we participate in were declining and Iran was growing, so it's a geographic mix effect.

What is happening in terms of profitability is issues in the Middle East and specifically in Saudi Arabia. That country is transitioning its economy or trying to transition its economy from one that is very oil-based to one that is more diverse, pulling back on subsidies. It has an impact on our performance in the quarter.

We are working very hard to address those issues. We think we will be back on track in terms of a more normal result in the fourth quarter. Probably a loss still, but much, much less than what we are seeing here in the quarter.

Year-to-date you can see that all the metrics are down, but we would not expect this level of loss to continue in the fourth quarter, nor do we see this as a run rate. For the full year, we expect to have a loss in the region compared with a small profit a year ago, but again think about the pattern of the loss based on the comments I just made.

Okay, let's move on to Asia-Pacific. This is another really good story. If you go back to the second-quarter call, if you remember we talked about performance issues in China and Mark, I think, had some commentary around the actions of the team that were working to address that. I got to tell you they really, really responded beautifully.

You can see here wholesales up 30%. The revenue is up 16%. The share improved -- and that's not just China. We had share improvement in Australia, ASEAN, India, so it was pretty broad-based. The margin and profitability are up sharply.

That was not just China. We also saw improvements -- in fact, most of the improvements coming from outside China. But having said that, if you look on the far right towards the bottom, our China JVs did contribute on an equity after-tax basis $320 million of profit. That was up 26%, or over $60 million, and our margin came in at 13.4%, which was an improvement of 0.7 points from a year ago. So feel really, really good about what the team delivered; not only in China, but broadly across the region.

Let's go to the next slide look at what's behind the change in our profitability, up $100 million, and you can see it was driven primarily by volume. If you go across the page you can see the negative pricing that occurred in the region. This was driven by China.

In the quarter, the industry was down about 4% or so. We were up a bit more than that, but it is moderating as we go from quarter to quarter to quarter, consistent with what our expectations had been at the beginning of the year.

So when you think about the guidance for the year, we do expect profit, good profit in the region, but it will be lower than it was a year ago. And that's driven by the effect of the negative pricing in China as well as the weakness of the renminbi.

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

As Bob mentioned back in the second-quarter call, mentioned that we expected our third quarter to show improvement. And the reason for that is we were going to really leverage our new product launches and also step up our go-to-market strategy.

As you can see from the results, we had market share improvement. Importantly, we saw sequential market share improvements, literally, every month and also then the increased profitability for the quarter.

As we look forward -- obviously we are now in the fourth quarter -- we want to build on that performance with our new model launches. We will have a full quarter of the freshened Kuga. We have the Mondeo coming in the quarter. And really take advantage of what we see being actually a strong industry in the quarter with the purchase tax incentives coming to an end at this point.

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

Okay, let's turn to Ford Credit on slide 21. Great results in Ford Credit in the quarter, $567 million; that was up a little bit from where we were a year ago.

If you go below the third set of bars, you can see the year-to-date numbers just under $1.5 billion. Our guidance for the full year continues to be about $1.8 billion.

Going back to the metrics, you can see the business continued to grow. That was across all regions and all products. And if you look at some of the data we have to the right around the portfolio, performance of the portfolio continued to be very, very good.

The LTR continues to rise, but it's still below what we would consider to be a normal level. That's probably more about 50, 60 basis points.

If we go to the next slide, looking at what drove the change on a year-over-year basis, it was the higher volume and the favorable mix. You can see that credit losses continued to be down on a year-over-year basis. This was driven by higher charge-offs and lease residuals also were down on a year-over-year basis. And that was driven by, as you can see in the callout box, our outlook for lower auction values, particularly in smaller vehicles and small utilities, going forward and the impact that has on the vehicles still in our portfolio.

Let's go to the next slide, look at some more metrics around Ford Credit. Just want to highlight the top two.

On the upper left you can see auction values. Our auction values continue to decline. They were down $235 sequentially looking at 36 months, which is the majority of our portfolio, and on a year-over-year basis down about $535. The decline that we've seen so far year-to-date in our portfolio is very, very consistent with what we've seen for the industry if we adjust the industry to our mix of products.

If you look at the far right, in terms of lease share of our retail sales, you can see that the industry itself is trending down although at a very high level. We are trending down more so, coming down to 18%. We guided earlier this year that we expect to be about 20% for the full year and we think we will still be more or less around that level.

This decline reflects our view of residual values and the impact of that on the business. Also in recognition of the fact of the very high lease rates that we've seen over the last number of years against a very high level of industry sales. There's going to be a lot of units coming back over the next several years and so we are adjusting our lease trends in response to that.

Okay, let's move now to automotive cash flow. You can see here towards the middle of the page the $2 billion negative cash outflow. This was driven by the changes in working capital, largely around payables associated with the adjustments that we made, particularly on stocks.

And then you can see there's also an adverse effect on timing differences. Again, that was related to the stock changes and the impact that had on our marketing accruals. If you go further down the page you can seen that our funded pension contributions came in at $200 million.

We are actually changing our guidance for the full year on pension contributions. We expect to contribute about $1.2 billion versus the $1.5 billion that we had guided to. That $300 million difference will be paid in 2017.

Dividends came in at $600 million and, as Mark said, $2.9 billion of distributions to our shareholders for the full year.

With that we will go to my last slide, which is around the balance sheet. I just wanted to highlight here the metrics that we shared with you last time. They are still looking very, very good for the automotive business as well as Ford Credit.

I would like to highlight the pension performance. You can see $7 billion in terms of funded status, but I just wanted to remind you that we will remeasure our pension assets and liabilities at year-end, so this reported number does not reflect the impact from the declining interest rates that we've seen throughout 2016.

I will say, however, because of all the actions we've taken over the last number of years to derisk and to fund our pension plans, that we expect only a very modest deterioration in our funded status at year-end 2016. That will largely be outside of the US, because we are ahead of the overseas markets in terms of getting those plans funded.

So with that, that concludes my comments and I will turn it over to Mark.

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

Thanks, Bob. If you turn to slide 26, this sums up our industry and also our GDP planning assumptions. All in all, we see some risk to global GDP growth as you have things like policy uncertainty, including what's going on with Brexit negotiations. That adds to existing weakness that we see in global trade flows, but also just business investment spending in total.

This is offset partially by steady consumer sector in most of the major markets. So today we are updating our global GDP guidance to 2.9% percent and that really comes in at the low end at the prior range that we guided.

For industry volumes, we are providing some upward adjustments, slight upward adjustments for China and Europe with a small downward adjustment for Brazil.

Now, as you have seen, we have had a strong first nine months of the year and we continue to expect 2016 full-year company-adjusted pretax profit to be about $10.2 billion. And, again, an outcome that would be our second-best since the year 2000.

Just kind of bringing it all together, if you go to slide 28, we are on track for one of our best profit years ever as I mentioned. But that's following a third quarter that was better than expected, but lower than a year ago, as we guided.

We successfully launched the all-new Super Duty and also the Lincoln Continental in North America. And importantly, we are taking actions to address the continuing challenges of what we see as a plateauing US retail industry, higher incentives in the US, and then of course, uncertainty in Europe due to Brexit.

Bob mentioned our cash and liquidity are strong and we continue to deliver a robust regular dividend that we are committed to pay through the business cycle. And as we outlined at our Investor Day that we held last month, the entire Ford team, we remain committed to our strategy and also our roadmap to grow our business as we expand as an auto and a mobility company.

This includes fortifying and building on our strengths; that's trucks and vans to performance vehicles, SUVs, Ford Credit, and of course, our parts business. Transforming parts of our business that have traditionally underperformed and that includes luxury, small vehicles, and emerging markets. And we are growing emerging opportunities in the areas of electrification, autonomy, and mobility that will define and also differentiate the future of our business.

So with that, why don't we just open it up and take your questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Brian Johnson, Barclays.

Brian Johnson - *Barclays Capital - Analyst*

Yes, good morning. A lot of the investors have been struck by the difference in optimism versus pessimism between yourselves and one of your neighbors.

Just a couple things. One, could you maybe highlight where you see the market going in 2017? Do you think there's risk of further downside? And, two, once we get past these dealer stock reductions, how are you looking at the market in terms of fighting for share versus letting it drift down to where it might naturally go?

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

Thanks, Brian. First off, I would call our approach realism. Not optimism, not pessimism; it is realism. We have -- a number of us have been through a number of cycles and we're looking at the data and a big part is interpreting that and what it means for our business.

So I think as we look at the market going forward, as you look at the balance of this year, in the fourth quarter we expect the SAARs will be about the same as last year but with retail being down. And then as we get in -- and with that a tough and more competitive pricing environment.

You can see that in the data that we are all looking at today. You are looking at incentive levels on an absolute basis go up in the industry. They are going up as a percent of MSRP.

As we get into 2017, as you know, we have guided to an industry that will be slightly down. It was 17.7 for next year and then 17.5 for 2018, so at relatively strong levels. We don't see a recession on the horizon, but we do see a marketplace that from a cycle standpoint, it's mature. And we are starting to see the evidence of that.

I think we are being very proactive in looking at these pieces of data and taking, I think, very prudent actions and realistic actions for our company.

As you look at your comment of fighting for share versus pricing, etc., it is always a balance. We want to optimize our profitability and we want to optimize our market share. And you've seen -- look at the latest quarter, last quarter here in the US in the full-sized pickup segment.

We saw a lot of variability in incentive spends and even in that environment our retail share of the segment was even and it's up year over year. We spent the least incentives in the segment and have some of the highest transaction prices. And that's the approach that we are going to take going forward as we see the market go wherever it wants to go.

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

If I can, the only thing I would add is we are also seeing a maturing credit cycle. And you can see that with the used vehicle values. So I think that's another sign or signal in terms of we are just as a different part of the cycle. Again, not bad, but just at a different part.

Brian Johnson - *Barclays Capital - Analyst*

Just quick follow-up question to that, Bob. I'm struck by the pullback in leasing at Ford Credit. Do you think that's having an impact in the showrooms or are you using other promotional tactics to keep the consumer there?

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

Brian, this is Mark. As Bob mentioned upfront, naturally we run at a lower rate, because you just look at the mix of our products. We sell more trucks and vans, which tend to lease less; we have less of a percentage of luxury sales; and as Bob mentioned, we previously guided at the beginning of the year about 20% was about right.

In terms of looking at is it impacting in the showroom, you could say it's having some level of impact. At the same time, we do have an opportunity to take those funds we would spend on that and port them over to maybe some retail incentives.

So, yes, in general, it probably has some level of impact. It depends on the region. Obviously depending upon the leasing concentration, but probably modest at this point.

Brian Johnson - *Barclays Capital - Analyst*

Okay, thank you.

Operator

Rod Lache, Deutsche Bank.

Rod Lache - *Deutsche Bank - Analyst*

Good morning, everybody. Just was hoping we can follow up a little bit on the big picture pricing view on North America.

You are cutting production it looks like by 12.5% in the fourth quarter, so it looks like you are really positioning to have very tight inventory by year-end. But at the same time, it looks like GM's production gets them to almost 100 days over the course of Q4 and Q1. And as you mentioned, we are seeing some pretty aggressive incentives from Fiat Chrysler.

I guess my question is, when you are positioning and talking about this strategy and perhaps willing to accept lower market share but protect profitability, does that strategy kind of vary on a product-by-product basis? I know you are adding quite a bit of content here on some of these vehicles, particularly the pickup trucks, so does that limit your options vis-a-vis pricing competitiveness?

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

I think overall, Rod, our strategy is pretty consistent across the segments. As I mentioned upfront in Brian's question, it's always a balance of optimizing pricing and market share. That's the approach we take pretty consistently across the patch on all of our segments.

Rod Lache - *Deutsche Bank - Analyst*

Okay. Just a data point on Europe and China. Could you update us on what your updated view is on the Brexit impact now with the pound where it is currently?

And on China, you mentioned that you are expecting a little bit of a decline; obviously the pricing and the RMB. Could you just remind us of how you are thinking about the magnitude of the pull forward that's occurring now and how to kind of plays out as you look out, maybe preliminarily, on 2017?

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

Let me just -- I'll start and Mark can supplement. In terms of Brexit effect, what we saw in the second quarter -- just to remind you, we took about a $60 million hit related to the balance sheet because of the weakness of the sterling that occurred after the vote on the 23rd. We then said we would see about $140 million of impact in the second half of the year and that was around actions we would take in anticipation of lower industry.

So we've already started to do that in the quarter; we've started to make those stock adjustments. As I mentioned, Rod, in Europe, even though the industry hasn't yet actually declined, we started to take stocks down so we had a stock reduction in the quarter versus a stock build a year ago.

We announced a price increase, gross price increase of about 2.5% on September 1. A number of other OEMs have announced as well, so I think that will be the beginning of what will be a chilling effect on industry volume. We're just getting ahead of it with the adjustments.

If it turns out not to happen as fast as we are expecting, then we've got the ability to react to that, so we will be very flexible on that.

In terms of looking at 2017, consistent with what we said at our Investor Day event, we think the effect is probably about $600 million. So think of that as the adjustment in terms of industry being about double what we said for the second half of a full-year basis and the balance is around sterling. And if anything, there could be potentially some risk on the sterling given how weak it became following the Tory conference and the comments from Prime Minister May.

But we already are about 80% hedged in terms of our operating exposure at this point in time for next year, so we still have a little bit of exposure but we are comfortable right now with that $600 million.

If you look at Asia-Pacific in terms of what's happening with pricing, in the year-to-date the industry is down about 6% as best we can tell. We are down about 1 point more than that, but we've seen that moderate. We talked about that in the second quarter. We saw that continue to moderate in the third.

In the third quarter, industry year over year was down about 4%. I think we were down about 5% and sequentially I think it was down 1, 1.3 points. So we are seeing a decline of the pace of the decline in pricing and we have built that into our outlook.

Do you want to add anything to that?

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

No, that's good.

Rod Lache - *Deutsche Bank - Analyst*

So you believe that the price deterioration will moderate as you look out into 2017, just despite some expectations of maybe -- currently we are benefiting from pull forward (multiple speakers)?

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

Yes, we think there will be some moderation. Our assumption -- we've mentioned this before. Our assumption is that the purchase tax incentive will not be extended. We will have to wait and see. I think there's some conflicting signals now coming from the government. That is our assumption, but again we are prepared to respond if that's not the case.

I think I would also -- it's interesting; mentioned what we've seen is because the Chinese renminbi is now part of the IMF basket of currencies it's actually weakened as the sterling has weakened, because they are trying to balance the renminbi versus that currency and effect it has had on the basket. So, interestingly, Brexit has actually had an effect on us in Asia-Pacific.

Rod Lache - *Deutsche Bank - Analyst*

Okay, great. Thank you.

Operator

John Murphy, Bank of America.

John Murphy - *BofA Merrill Lynch - Analyst*

Good morning, guys. I hate to follow up on this question again just on pricing. It does seem like pricing in the quarter was very strong for you guys.

You are being very aggressive on adjusting your stocks to demand with these production cuts, but you are also -- it looks like you've gotten pulled back dramatically on leasing as well. And it looks like you are playing the game of holding up pricing, both on the new vehicle side and on the residual side, and taking a hit on volume and playing sort of the long game.

I'm just curious; as you think about these pricing decisions, I think everybody is focused on inventory, production, and pricing actions by competitors in the very near term. But as you think about this, how does the residual value now in the next three to five years play into this decision process? And are we seeing something that is a little bit more balanced short term and long term thinking now?

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

John, we always think of both as we make these decisions. We are just standing back and again looking at the macro factors.

And Bob mentioned this; residual values are extremely important to our customers and they are extremely important to us. And we're just looking at the physicals, right?

We are looking at an industry, where it is in the cycle. It's mature. The retail industry is coming down. We are looking at the levels of leasing and the number of leasing vehicles that are coming back this year and projecting out over the next two or three years.

They are going to get to levels we have never seen on an absolute basis in the industry before. So that's telling us and informing us and saying we need to get ahead of that and that's our philosophy in terms of how we are looking at this. We are looking at the short-term data. We are looking at the leading indicators and that is informing our decisions, both in the short term and the long term.

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

It's not an either/or. We're just trying to balance and trying to find that optimal mix, which is constantly shifting because it's a dynamic, competitive environment. But that's what we are doing and it's what we always do.

John Murphy - *BofA Merrill Lynch - Analyst*

It's refreshing. Just a second question on Ford Motor Credit. You cited volume and mix as being a pretty significant positive in the quarter. I'm just curious what was driving that, given volumes were down on absolute terms on volumes.

Are you seeing a higher penetration rate and are there other products that you are using that would drive mix positively there? Just trying to understand what's going on.

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

One thing I will mention that I will have Marion talk about, which is kind of interesting and I think I've seen some reports on this, we are seeing more Chinese consumers finance their vehicles and we are participating in that as well. So we did see more contracts in China as we saw a greater percentage of our customers that we finance that were going up. But maybe Marion can provide some more color and texture.

Marion Harris - *Ford Motor Credit Company - CFO*

Thanks, Bob. John, Bob is right; we have seen growth in all of our products globally over the last year. Remember this is a portfolio business, so we had good growth during 2015 which then shows as year-over-year growth in 2016 over 2015.

But Bob's right; we did have a record quarter in China and we continue to see volume growth there. But it has been around the world as well.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay, great. Then just lastly on pension contributions $1.2 billion versus your previous expectation of $1.5 billion. It sounds like some of that is spilling over into next year, but how should we think about pension contributions going forward, Bob? Is this the kind of thing where you are largely done or are we going to see sort of $500 million to $1 billion numbers going forward?

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

What we have said is -- originally we said $1.5 billion this year and then $500 million to $700 million -- it depends on the year -- going forward. We don't have to make that $300 million this year, so we are not going to, but we will next year so it just moves to next year.

Think about this year $1.5 billion to $1.2 billion, next year let's say instead of $700 million it's $1 billion. That's kind of the dynamic that we see. And then going after next year probably in that $500 million to $700 million range. It will depend on the year.

John Murphy - *BofA Merrill Lynch - Analyst*

Great, thank you very much.

Operator

Colin Langan, UBS.

Colin Langan - *UBS - Analyst*

Great, thanks for taking my question. Given Q3 came in better than expected, what is the key reason that guidance for the full year didn't come up slightly? Is it the Q4 production cuts; was that not part of your thinking earlier in the year or --? What are the key drivers?

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

Let me take that one. We thought it was $1 billion; that was our forecast. It came in stronger.

And when we kind of peeled back and looked at what was behind that -- so the first thing was we saw marketing accruals came in about $100 million light or favorable in the quarter, but when we look at the physicals it's just timing that will reverse in the fourth quarter. So that's not going to change anything.

And then the rest of it was really around cost performance. We got about $300 million of cost performance across the regions and across the business, and when we peeled it back it was $20 million here, $30 million there, $40 million. There wasn't any one big thing. And so as we looked at it and discussed it with the regions, I think the view was that it was just timing.

We've got a huge pressure and focus on cost reductions and hopefully that was also what drove it, but there's nothing compelling that would tell us that the full year is going to come out any differently. So our point of view now is it's just timing.

Colin Langan - *UBS - Analyst*

It sounds like your view on the US market has changed. Has the mix outlook changed at all with the F-150 production cuts? Does that imply that you think pickups may weaken or is that just response to the competition?

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

I think when you look at the segment in the quarter, it is relatively strong. Maybe not growing as strong as we expected, but I think it's against the backdrop, Colin, of, listen, we are still in a strong industry. Pickups in general are still strong.

If you look at just September, we had our strongest retail F-Series month of the year. And when you look at the demand, obviously as I mentioned earlier, we saw a lot of variability in incentive spend from the competitors.

And as I said, when you look at the metrics on how we are performing in terms of incentive spends, transaction prices, etc.; the response to the new Super Duty; and transaction prices, literally, near the top of the industry, we feel pretty good about the full-size pickup segment. But at the same time, you have to think about it in terms of overall what we are seeing in the industry in terms of some weakening in the retail end. And we will keep watching it.

And that's why we are being proactive around our stocks. We want to protect that brand, we want to protect that franchise, and we want to protect the residual values for our customers.

Colin Langan - *UBS - Analyst*

Got it. Going back to Ford Credit, very strong quarter there. Any color on the sustainability of that number though? I think it was the highest since 2011.

Is there something unique in the quarter or --? It seems like you've been cautious on that business, yet it was pretty good.

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

I think the only thing I would highlight that was sort of one-time in the quarter, Colin, is if you go to slide 22 and look at the callout box, you can see we got $41 million of good news in terms of derivatives, which is just -- it happens in the quarter. It may or may not continue on; it's tied to interest rates. So that was unusual.

When you look at the balance of the year, we are not going to have as strong a quarter in the fourth quarter and the team will talk about that in the call at 11:00. But that is largely around what is happening, is going to continue to happen on residual values.

The only think I would highlight that will be unusual in that quarter -- that doesn't change the Company results -- it's just a payment that's going to go from one part of the business to the other, which is about $80 million payment that Ford Credit is going to make to Ford of Europe. That's around funding the gap that we have in one of the plans, pension plans in Europe that Ford Credit is going to satisfy and then Ford Europe will actually kind of manage that going forward. So that will be a shift of $80 million between the two.

It will affect Europe or rather Credit's results, but has no impact on the business. It will be good news in Europe.

And they will talk more about that and give you more flavor at the 11:00 call.

Colin Langan - *UBS - Analyst*

Just one last question. China margins again were very, very strong, I think 15% net income margin. How do you think about it at the next year in an environment that may be flat with pricing pressure? Are you going to be able to find cost offsets or should those margins moderate a bit?

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

As Bob mentioned, as we look at the pricing environment in China, it has been negative for quite some time. That's our assumption going forward.

And what it means very simply, Colin, is making sure that we continue to bring out new and fresh product. That's what's driving the performance that you see in the recent quarter in terms of either it's our new MKZ or our Taurus, or our Everest, or the freshening of the Kuga that has driven that.

And as we think about going forward a continual focus on costs -- not only structural cost within China and Asia-Pacific, but material cost, particularly after we launch the products. And as you know, once we launch the products we have a lot of efforts on material cost.

Colin Langan - *UBS - Analyst*

All right, thank you very much.

Operator

Emmanuel Rosner, CLSA.

Emmanuel Rosner - *CLSA Limited - Analyst*

Good morning, everybody. I wanted to get a little bit more color on the North American pricing performance in the quarter.

As you pointed out, this is the first positive quarter for pricing and clashes a little bit with comments around increasing incentives and pricing environment getting tougher. And so any color on what has been going right this quarter and how to think about it going forward?

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

I think if you go to slide 13 I think it is, which is the North American year-over-year details, you can see in the callout box we did have an increase in incentives. It's just that we had more favorable impact on the pricing side.

When you look at the details of it, obviously we got some good news on Super Duty, although, frankly, the number of units we sold in the quarter was pretty modest because of the timing of the launch. But we had some good news there. But the rest of it was just the guys pricing, taking pricing opportunities where they saw them across the portfolio.

There was good news across quite a number of our products, particularly as we went from the 2016 model year into the 2017 model year; that they are starting to just be able to eke out, if you will, and collectively generated the type of results that we did. It wasn't really so much around any one thing or big launches or whatever; it was very widespread across the portfolio.

Emmanuel Rosner - *CLSA Limited - Analyst*

And so looking forward?

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

So looking forward, I wouldn't talk about next year. I think we could see some continued positive pricing in the fourth quarter. I don't think it would be anywhere near this level, but it could be a little bit positive. But I don't think it will be as positive.

Emmanuel Rosner - *CLSA Limited - Analyst*

Okay, that's great. Then just on Europe; you were mentioning some of the dynamics around Brexit and I think you said you are 80% currency hedged for next year. I know it's probably very early to look beyond next year, but at the same time I guess 2018 is when you have been suggesting your earnings would sort of go back and increase again. What does the Brexit impact look like on the -- once those hedges roll off?

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

Well, I don't know because I don't know what the exchange rates will be. We will have to see, but --. In fact, one of the things I just want to remind you, Emmanuel, is we not only hedge out for next year but we already had some hedges in place in 2018. Obviously much less so than in 2016 or 2017, but we have got some of 2018 already protected.

I think the big uncertainty -- let me just say one thing. The team will have more time, obviously, to respond to what they've seen from the impact of Brexit. They have been working furiously ever since June 23 to react to this on cost, mix, every single part of the business. So there will be more time to reposition and reset the business in terms of this new environment.

I think the big question mark for the industry is what happens when the negotiations are concluded, particularly around duty rates. And that's a complete TBD and that will be some time apparently in 2019.

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

Let me also -- I know we're answering a question about Brexit, but let me give some perspective on Europe because, as Bob mentioned, if you look year-to-date we've made over $1 billion. And the growth rates, the industry across Europe was up about 4% in the quarter, so we are seeing that steady growth.

Importantly, as we said, we are seeing strong growth in the commercial vehicle market. Not only in the UK, but across the continent, which plays well for us given Transit. We are seeing SUVs; as a percent of the industry, it's up another 2 or 3 points across the industry.

And as you know, we have had a strategy to reposition the Ford brand in Europe in terms of moving it up a bit. As you saw from the results and Bob mentioned, the mix improvements have not only come from the products, the product line mix, like Mondeo and Mustang and Ranger, but it has also come by a very deliberate strategy on series mix.

To give you just a couple of data points, where we have a very high series mix on our Transit, Ranger -- over 50% of the mix on Ranger is the Wildtrak version, which is the high-end version. And on Edge over 50% of the mix is on the Sport version, so nearly 50% of our Edges are being sold for EUR50,000 or more. We are going to continue that strategy across Europe and also in the UK.

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

Let me just add one other thing. Remember, Emmanuel, in my comments I talked about Russia? Russia is having a very nice, positive year-over-year affect in Europe. So you can imagine, go out to 2017, 2018, 2019 as that economy continues to improve, as oil prices stabilize or even continue to improve further, that is going to have a nice effect on our business.

We stayed because we saw that opportunity. We are seeing it come home even this year. That is another factor I think you don't want to forget about our business in Europe.

Emmanuel Rosner - *CLSA Limited - Analyst*

That's great color, thank you.

Operator

Adam Jonas, Morgan Stanley.

Adam Jonas - *Morgan Stanley - Analyst*

I got a couple questions. First on the topic of vehicle safety. I'm sure you guys have seen the FHA data from the first half of this year, unfortunately, with traffic fatalities up about 10.5% on a comp -- it was up the better part of 10% the prior year.

You are in an interesting position to be able to commercialize these relatively affordable technologies that really address that. I'm sure it's in everybody's interest that you do that and we know you are aware and it's in your interest and you want to do it.

I guess the question for you is how much on a per-unit basis -- as you talk to [Raj's] team and your suppliers, how much would it take -- putting aside the fully-autonomous robo stuff -- to make a real dent in vehicle-to-vehicle or vehicle-to-pedestrian safety? Like per car, are we talking -- to make accidents a third less likely for your new vehicles, is it hundreds of dollars a car? Is it $1,000 or is it several thousand?

Just high level, Mark, would really appreciate it given all your exposure to this technological discussion.

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

Well, high level, it is some degree of money. I can't give you a figure whether it's $300, $3,000, etc. If you look at the way the safety features, the driver-assisted features that we have on our vehicles today, we literally offer them across -- either standard or options across our vehicle lineup. And if you look at the pricing, we are very competitive along those lines.

To your question around the fatalities, that's why we are so bullish on autonomous vehicles and, as you know, the societal and safety benefits that could have from that. But let's face it; I haven't seen the data yet, but if you really want to improve vehicle safety, you take people's phones away from them so they can't text while they are driving, because I have a feeling that a lot of the increase on that has to do with that.

Our approach on that is through our SYNC system, allow people to do it; rather than touching their phones, keeping their eyes on the road and their hands on the wheel. And that's our approach. It is an interesting question, but one in which I can't give you an exact answer.

Adam Jonas - *Morgan Stanley - Analyst*

Okay. Well maybe just as a follow-up; before this stuff gets regulated and is standard equipment, you do have big players out there like Toyota talking about making AEB, for example, standard across their global lineup by as soon as 2018, 2019. If a big competitor like that does something, is it safe to assume that Ford can't be far behind, just from a marketing and consumer advocacy and safety standpoint? Standard question.

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

It's a good question. When you look at our brand, one of the things we are known for is safety and you can expect that we will continue to build and defend that.

Adam Jonas - *Morgan Stanley - Analyst*

Okay. Last question, then. As you make a big push towards electric vehicles -- and you have been very clear in your capital markets day and your communication on how you are putting potentially billions and billions in that effort of electrification. Does that open up an opportunity for you to bring in an entirely new consumer electronics supply base, players like the LG and Samsung and Panasonic, etc., that maybe traditionally were maybe only peripheral automotive suppliers and now could be something a lot more substantial?

For you to bring them in and add a little competitive fire to your traditional Tier 1 mechanical suppliers to kind of -- as a negotiating tactic and to play one off versus the other. Not that it's -- just in -- for the sake of improving the product and getting a lower purchase bill of materials. Is that an opportunity?

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

Yes, we are always looking for new suppliers and when you speak of some of the technologies around electrification, we are using a number of new suppliers. The key thing, as you know, Adam, is coming into the auto industry the duty cycles, the automotive safety grade of those parts and components is absolutely essential.

Sometimes we find when we bring some new suppliers in they're surprised at that, but our job is to educate them on that and I think you will continue to see us do that. And look across the landscape for the best suppliers that give us the best technology, world-class technology at the best cost.

Adam Jonas - *Morgan Stanley - Analyst*

Thanks, Mark.

Operator

Ryan Brinkman, JPMorgan.

Ryan Brinkman - *JPMorgan - Analyst*

Thanks for taking my question. I would like to really delve into the Super Duty a little bit more. Are you learning anything different than your expectations about the cost to produce or the line speed, etc., that would make you feel any different about its profit contribution in 2017 versus 2016?

I think that the Super Duty being fully redesigned for the first time in years, so maybe costly to produce. That was part of the thought process that that would offset some of the pricing mix benefits of the new version in 2017.

I'm asking because I remember that the F-150 launch, it went better than expected, with cost to produce being a little bit less and that was one of the drivers of upside in 2015. So just curious if maybe you are seeing anything similar as you get more experience producing the product.

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

I think overall, Ryan, first off, from a demand standpoint we are seeing, as I mentioned earlier, really good response to the product. In terms of the launch in the plant, as you know, the plant -- we took the learnings from the launches that we had in Dearborn and Kansas City on the F-150. The launch came up very fast. It came up very well. The quality is good coming out of the plant.

The suppliers are performing well. We do have an issue on one supplier that is trying to keep up with us on demand and we're working with them on that. But as their usual process, we will launch, settle the plant down, and that's where the teams --. Once we get to the launch levels and the plant is stable, that is when we really start going to town on looking at are there ways of getting more efficient in terms of the productivity on the line, but also material costs? In terms of 2017, we are going to continue to follow that pattern.

In terms of impacts, as Bob has mentioned, when you look at the margins on the new Super Duty, they are lower than the previous one and that's because it's the first time we've redone the product in 18 years. But we will continue to follow the process and continue to work on the costs and the margins over time.

Ryan Brinkman - *JPMorgan - Analyst*

Okay, great. Then just the last question is on Middle East and Africa. The loss there was a lot bigger than we've seen historically. I know, Bob, I heard you say to not take that as a run rate, but also maybe to expect some losses there going forward.

So the question is really was there anything unusual weighing on the region in the quarter? And then if the losses are to continue for some time, do you maybe need to reevaluate your participation in some of the many markets in that region, similar to what you did with Japan and Indonesia earlier?

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

First thing I guess I would say, I think there was something unusual and that's what I was trying to highlight in my comments, which is around the performance of the business in the Middle East and specifically in Saudi. And that was a combination of what was happening in the external environment but also our own, if you will, business performance, which we are working hard to address. And I think we will get that back on track, just like we did in China.

When I look at the fourth quarter and quarter to quarter, I just think we're going to see on a quarterly basis improvements across most parts of the business. It's just the thing that you've just got to keep in mind, Ryan -- I think this is a different conversation than in Japan or Indonesia -- is the external environment it's sort of similar to Russia and South America.

This is an environment that's been affected by the commodity cycle. It's been very affected by oil, particularly in the Middle East. It's been affected to some extent by geopolitical issues, so I think it's a different conversation and discussion.

I think we will end up with much better results in the fourth quarter, based on what we see today. And going forward I do think the team has got a really, really good growth plan that will get us to profitability and very, very good returns over the business planning period.

Ryan Brinkman - *JPMorgan - Analyst*

Great, thanks for the color.

Operator

David Tamberrino, Goldman Sachs.

David Tamberrino - *Goldman Sachs - Analyst*

Thanks for taking our questions. The first one just on Europe. As you think about the Brexit headwinds that you have outlined and then some of the positives from Russia, I'm just curious to hear your thoughts if the positives from Russia can actually outweigh some of the negative effects that you are expecting from the Brexit situation.

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

We always assumed that we would see improvement in Russia. I just didn't want you guys to forget about it, because we are still there and we are seeing that benefit. It's a tool in our toolkit that maybe some others don't have in terms of where the business will go in the future. But that was the case before Brexit.

Brexit is a new thing and we're going to have to respond to that, and the team is doing that by looking at every single part of the business. I do think we have got that added benefit of an improving Russia business to help us. But clearly the business including Russia we have a lot of work to do to just rethink how we get to those 6% to 8% returns that we are targeting, but Jim Farley and his team are all over it.

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

Just remember, David, the guidance that we gave at Investor Day that for 2017 we expect Europe to continue to be profitable, but at a lower level than we see in 2017 -- or 2016. And that's specifically taking into account the impact that we are presently projecting for Brexit.

David Tamberrino - *Goldman Sachs - Analyst*

Understood. Then just on the back of that, when we think about moving from growth in Western Europe to growth in Eastern Europe, what impacts does that have on your mix specifically?

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

I'm not sure I understand the question.

David Tamberrino - *Goldman Sachs - Analyst*

When you think about the vehicles that you are selling, in terms of the UK you called out you've been doing well in the commercial vehicle market in the Transit vans. Smaller cars, SUVs; as you move from Western Europe into Eastern Europe, are we talking about larger vehicles that could potentially be helpful? Are you looking at smaller vehicles with less content?

I'm just trying to think about the mix of vehicles as we move from Western Europe to Eastern European growth.

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

One thing I would highlight, and Mark touched on it, we are now providing the KA+, which is coming from India replacing the vehicle that was actually built by Fiat for us in Poland. So we've got the opportunity to -- particularly given the reaction that we are starting to see to that product, I think we've got the opportunity to get a lot more out of that part of the business.

Plus we've been working very, very hard on our small vehicle business in Russia across Ford entirely, but certainly -- not Russia, in Europe. And I think the actions that will be coming to market in the future are going to give us an opportunity to see more contributions from smaller vehicles. That's certainly part of the equation that Jim and the team are working on. That will help as well.

David Tamberrino - *Goldman Sachs - Analyst*

Thank you. And then my second question, maybe it's more appropriate for your 11:00 call. But when we think about leasing characteristics, what levels of subvention are you at today? Where is that from a year ago and where do you expect that to go going forward?

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

Well, we don't provide that level of specificity. I would just say that the costs of subvention are rising and they are high because of what's happening with residual values. And so that's certainly something that we have to take into consideration, because we can take those funds we can deploy them in other ways that might be more effective in the marketplace. And that's certainly one of the balancing actions that our marketing sales team considers as they are thinking about how to go to market.

David Tamberrino - *Goldman Sachs - Analyst*

Understood, thank you for the time.

Operator

David Whiston, Morningstar.

David Whiston - *Morningstar - Analyst*

Thanks, good morning. Bob, can I get a clarification on the pension here? Are we saying at a global basis by the end of next year you will be fully funded? Is that correct?

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

Well, by the end of next year we expect our global pension plans to be, if not fully funded, largely funded. And by that you might think about 95% funded. It really depends on what's going to happen with interest rates and the asset returns, but the US is already getting close to that. I think we're a little bit behind that level in the UK and Germany, but our funded plans by the time we get to the end of next year should be, if not fully funded, then largely funded.

David Whiston - *Morningstar - Analyst*

Okay. And just one follow-up on autonomous. If tech and the regulatory environment move faster than you guys expected, would you guys be willing to offer level 5 perhaps sooner than you were thinking or does it depend on the scenario testing that Raj talked about?

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

It's really dictated by our technical development, not dictated by regulations. And as we said, we've been working at this for over 10 years and we feel confident in our plans and how we are approaching this.

Level 4 we think is on track for 2021 and, again, it's in defined areas that we can 3-D map and using the LIDARs and sensors. Level 5 is a different kettle of fish in terms of the amount of technology on the hardware and the software algorithms to be able to handle all those climactic conditions. And so that's our approach and we are confident in that approach.

David Whiston - *Morningstar - Analyst*

Okay, thank you.

Operator

There are currently no further questions. I would like to turn the call back to the presenters for any closing remarks.

Ted Cannis - *Ford Motor Company - Executive Director, IR*

All right, thank you very much. See you soon, everybody.

Operator

Again, thank you for your participation. This concludes today's call. You may now disconnect.