

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

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For the Year Ended 31 December 2020

Registered number: 235446



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STRATEGIC REPORT

Strategic Report for the year ended 31 December 2020

The directors present their Strategic Report for the year ended 31 December 2020 for Ford Motor Company Limited ("the Company").

The Company is a private company limited by shares, incorporated and domiciled in the United Kingdom.

Principal activities

The principal activities in which the Company is engaged are the manufacture of low emission petrol and diesel engines and transmissions; and the distribution and sale of motor vehicles and automotive components and associated customer after sales support.

Review of the business

The Company maintained its UK market lead in 2020 while recording 44 consecutive years of passenger vehicle sales leadership and 55 years of commercial vehicle sales leadership. Ford's sales lead was continued in all sectors: total vehicle, cars and commercial vehicles.

The Ford Fiesta and the Ford Transit Custom / Tourneo Custom range took the No.1 and No.2 spots respectively as the UK's best-selling new vehicles in 2020. For the Ford Fiesta, 2020 marked the 12th successive year it had captured the top spot as the country's favourite passenger vehicle with more than 49,000 sold. Since 2009, Ford customers in the UK have purchased close to 1.3 million Fiestas.

The UK remains Ford's third-largest global market, after China and the US. Ford's commitment to its European and UK customers is to invest and grow its leading commercial vehicle business and to provide passenger vehicle customers with a more defined portfolio of sports utility vehicles and crossovers, exciting performance derivatives and iconic imported models with after-sales support supplied by a strong dealer network. Ford also is committed to providing both commercial and passenger vehicle customers with a range of electrification options, including mild, full and plug-in hybrid and all-electric technologies.

The Company's partnership with Ford Credit is another area that continues to help build customer loyalty. The Options personal contract plan has been chosen by millions of our private customers in the UK since its introduction. Most of our customers currently select our two to three-year contracts at prudent interest rates that help maintain residual values and ensure that equity is retained in their vehicles that can be carried through to their next purchase. Ford has a proud history in the UK and the brand continues to show potential to grow and prosper.

In December 2020, Ford Fleet Management – the new fleet management company launched by Ford and ALD Automotive – started operations in the UK. The business aims to maximise fleet productivity with uptime at the heart of every fleet solution and tailored to its corporate customers' requirements and supports Ford's vision to expand its commercial vehicle leadership in Europe by providing customers with a full range of services to help their businesses thrive. Ford Fleet Management enables customers to enjoy a one-stop shop solution for vehicle supply, funding and in-life vehicle.

In March 2021, Ford launched FORDLiive, a transformational new connected productivity solution that delivers maximum uptime for commercial vehicle customers, ensuring their vehicles are always ready to work where and when they need them. The FORDLiive connected uptime system delivers three tangible benefits for customers - fewer avoidable breakdowns, fewer workshop visits and faster repairs - enabling Ford CV customers to maximise their productivity. Ford projects that FORDLiive can potentially reduce vehicle downtime by up to 60 per cent. FORDLiive will be offered free-of-charge to customers on the company's full range of connected commercial vehicles across Ford's key markets in Europe (excludes Transit Courier range).

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STRATEGIC REPORT (*continued*)

Review of the business (*continued*)

Ford is committed to the UK and continues to be a major employer with significant operations in the country. The Ford Britain Dunton Campus in Essex is home to Ford's European market-leading commercial vehicle business which is set to play an even more significant role in the future; the headquarters of both the Ford of Britain national sales company and Ford Credit Europe, Ford's banking arm; and a centre for powertrain engineering. Ford's Mobility innovation Office in London is developing future mobility solutions for Europe.

Ford continues to produce diesel engines at the Dagenham Engine Plant in east London, with the Bridgend Engine Plant having ceased petrol engine production in September 2020. Transmissions are manufactured at the Halewood transmissions plant on Merseyside which returned to sole Ford ownership at the start of March 2021 after 20 years of being part of the Getrag Ford Transmissions joint venture which has now been disbanded. Ford also operates a parts distribution centre in Daventry, and its Transport Operations ship vehicles and components across the UK.

UK Furlough Scheme

As part of its response to the COVID-19 pandemic the UK Government introduced the Coronavirus Job Retention Scheme. This allows all UK employers with employees on a PAYE scheme to designate some or all employees as 'furloughed workers'. Employers can get access to Government support to continue paying part of these furloughed employees' salaries and potentially protect the employees from redundancy. The Company made use of this scheme in 2020 and details of the grants received are shown in Note 7 Other Operating Income.

Principal risks and uncertainties

Excluding financial risk management (see Directors' Report) the management of the business and the execution of the Company's strategy are subject to a number of other risks. The Company's business is substantially dependent upon the sale of its vehicles in the UK and continental Europe. Sales of vehicles could decline if the Company is unable to respond to economic pressures, or a weakening of the industry. In addition, suppliers in economic distress could constrain the availability of components and materials and therefore adversely affect the production and sale of vehicles. Management has responded to these risks by ensuring that regular reviews are made of the Company's position in the market, and that processes exist to develop good communications with suppliers.

Ford welcomed the announcement of a trade agreement between the UK and EU in late December 2020, and that keeps tariff free trade at its heart. This agreement will help sustain the vital role of the automotive industry to European economies today, while also providing stability as the industry transitions to new technologies and opportunities for the future. It is now important to understand the detailed rules of origin which will apply and to create as smooth a transition as possible by maximizing flexibility as businesses adjust to the new trading environment.

Ford also welcomed the trade agreement between the UK and Turkey signed on December 29, 2020. As Europe's leading commercial vehicle brand, Ford's Dagenham engine manufacturing facility in the UK exports much of its diesel engine production to the Ford Otosan joint venture in Turkey where the engines are fitted into Ford Transit vehicles, many of which are then exported from Turkey to the UK. Given that Ford and Ford Otosan business constitutes more than 10 percent of the total trade volume between the UK and Turkey, this trade agreement is extremely significant and helps to secure jobs in both countries.

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STRATEGIC REPORT *(continued)*

Principal risks and uncertainties *(continued)*

The directors have considered the financial position of the Company at 31 December 2020 (net current assets £706m, net assets of £2,253m (2019: net current liabilities £443m, net assets of £1,819m)) and the projected cash flows and financial performance of Ford of Europe for the 12 months from the date of approval of these financial statements. The directors also have taken action to ensure that appropriate cash resources are available to fund the Company's operations. Therefore the directors consider, after making appropriate enquiries that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Section 172 Statement: Statement by the Directors in performance of their statutory duties in accordance with section 172 (1) of the Companies Act

The Directors of the Company, and those of all UK Companies, must act in accordance with a set of general duties as detailed in Section 172 of the Companies Act 2006, which are set out below:

"A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so have regard (amongst other matters) to:

- (a) the likely consequences of any decision in the long term,
- (b) the interests of the company's employees,
- (c) the need to foster the company's business relationships with suppliers, customers and others,
- (d) the impact of the company's operations on the community and the environment,
- (e) the desirability of the company maintaining a reputation for high standards of business conduct, and
- (f) the need to act fairly as between members of the company."

In making this assessment, the Board considers the matters on the following page to be of particular relevance:

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Section 172 Requirement	Examples of how the Board's discussions and decision making have been taken into account	Referenced in the Directors/Strategic Report (where applicable)
(a) the likely consequences of any decision in the long term	<ul style="list-style-type: none"> Throughout the Company's restructuring plan, the Board ensured that employees received regular communications and, where applicable, were consulted with on the various proposals. The Board carefully considered the consequences of their decisions over the long term and concluded that the actions would be of benefit to the Company and its members. In particular, in relation to Bridgend, the Board had a number of meetings to consider the future of the engine plant and following consultation with the employees, concluded that changing customer demand and the cost disadvantages, together with an absence of additional engine models for Bridgend going forward, would make the plant economically unsustainable in the years ahead. In conjunction with the Welsh Government and the Unions, representatives of the Board participated in a Taskforce to support workers and communities affected by the Company's decision to leave Bridgend. 	
(b) the interests of the Company's employees	<ul style="list-style-type: none"> Health and Safety of employees remains a priority consideration within the Company. The Chief Medical Officer based at Dunton, continues to manage the Company's site occupational health services in partnership with an external medical specialist provider. Together they deliver a professional service designed to monitor the health of employees to ensure that they are operating in a healthy working environment. During the year, there were regular meetings between management and employee representatives at all Ford locations to review operational performance and matters of local importance. The Company has continued to communicate directly with employees, as appropriate, via supervisory briefings, Employee Information bulletins and @FordOnline, the Ford intranet web-based system. The Company also publishes @Ford, a monthly news magazine, for employees and pensioners. 	Pages 5-7: <ul style="list-style-type: none"> Health & Safety Employee Communications Diversity, Equity and Inclusion
(c) the need to foster the Company's business relationships with suppliers, customers and others	<ul style="list-style-type: none"> The Company has a Ford Dealer Council, where senior representatives of the Company, including the Company's Managing Director, meet regularly with representatives of the dealer body to discuss a range of matters affecting the dealer network. These include market conditions, proposed sales and marketing initiatives, customer satisfaction, aftersales programmes, dealer franchising matters, and Brexit. The Company has a Supplier Council, who meet regularly with our executives in Purchasing, Product Development and Manufacturing and other functions as required. These meetings are primarily to discuss all manner of subjects impacting our working relationships together, and the subsequent process and policy changes that these subject may bring about. National level meetings, involving senior management and union officials were also held regularly during the year to discuss overall business performance and related matters. 	Pages 5: <ul style="list-style-type: none"> Employee Communications
(d) the impact of the Company's operations on the community and the environment	<ul style="list-style-type: none"> The Company has well established policies for safeguarding and improving the social and environmental impact of its operations. For example, all the Company's manufacturing locations are ISO14001 certified and, as part of a joint initiative agreed with its European Works Council, it operates to agreed social rights and social responsibility principles. The Company encourages its suppliers both to work to achieve ISO14001 certification and to operate their own plants to a standard consistent with our principles. 	Pages 7-8: <ul style="list-style-type: none"> Our community Corporate social responsibility
(e) the desirability of the Company maintaining a reputation of high standards of business conduct; and	<ul style="list-style-type: none"> The Board is committed to complying with all applicable regulations and requires every employee to certify to the Corporate Code of Conduct. A strong compliance culture is encouraged. 	

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(f) the need to act fairly as between the members of the Company	<ul style="list-style-type: none"> The Company is ultimately owned by Ford Motor Company and regularly engages with its parent company to ensure that the Company plans are fully aligned with the group. This includes approval of annual budgets, future business plans and new product launches. 	
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Key performance indicators

The Company measures its financial performance by reference to profitability and market share based on the strategies set out above. Some of the key performance indicators used by the business are set out below:

		2020	2019
Revenue	Revenue is down 32% in line with the effects of the COVID-19 global pandemic on total market volume of vehicle sales	£8,792m	£12,995m
Market share	In a much-reduced market, the Ford Fiesta remained the UK's best-selling car and the Ford Transit retained its leadership position in the Commercial Vehicle market (per SMMT)	12.7% market share (car and commercial vehicles)	13.0% market share (car and commercial vehicles)
PBIT	Profit before interest and tax decreased in line with revenue above	£79m	£391m
Net assets	The balance sheet net asset increase was driven primarily by positive pension asset remeasurement and favourable hedging	£2,253m	£1,819m

Results

The Company's result for the year is set out in the income statement on page 24.

The latest position of the pension schemes under Financial Reporting Standard 101 ("FRS 101") (disclosed in note 21 to the financial statements) shows a net surplus at the year-end before deferred tax of £1,119m (2019: £995m).

Employee communications

We recognise that good communication supports employees in their roles and improves organisational performance. Effective communication is important for developing trust, increasing engagement and ultimately enriching our culture.

During the year, there were regular meetings between management and employee representatives at all Ford locations to review operational performance and matters of local importance. National level meetings, involving senior management and union officials were also held regularly during the year to discuss overall business performance and related matters.

The Company has continued to communicate directly with employees, as appropriate, via supervisory briefings, Employee Information bulletins and @FordOnline, the Ford intranet web-based system. The Company also publishes @Ford, a monthly news magazine, for employees and pensioners.

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STRATEGIC REPORT (continued)

Diversity, Equity and Inclusion

With a long and deep heritage in the UK, Ford has shown a sustained commitment to Diversity, Equity and Inclusion (DEI) that spans numerous decades. However, in as much as we are proud of our rich history and the things we have achieved over that time, we also recognise that we are on a journey and still have more to do to create a fully diverse, equitable and inclusive organisation.

Our DEI aspiration therefore is to cultivate a culture of belonging, where all employees feel valued for the contribution they make to our business and can bring their individual uniqueness and authenticity to the workplace. Infusing a sense of belonging in everything that we do is fundamental to creating a culture where we care for each other and everyone feels they are part of the Ford family.

We strive to achieve this through a range of policies, practices and activities detailed below:

The Company established a formal equal opportunities policy more than 30 years ago and since that date we have continued to develop and evolve workplace policies that recognise and support our employees and their individual life experiences. Most recently we are proud to have implemented a formal policy and toolkit to support trans and non-binary employees' transition in the workplace.

The Company's Diversity Councils and the application of fair employment practices, ensures that all employees are treated equitably regardless of sex, marital status, civil partnership status, parental status, race, ethnic origin, colour, nationality, national origin, disability, sexual orientation, religion/belief, gender identity, age or those with caring responsibilities.

The Company also has a well-established Dignity at Work Policy to create an inclusive working environment through the prevention and elimination of unfair discrimination, harassment, bullying and victimisation. In addition, we are committed to doing even more to make our workplaces more respectful and inclusive by holding Listening Workshops, that will enable our employees to share directly with senior leaders their lived experiences of DEI inside and outside the Company.

Our DEI strategy underpinned by "Our Truths" seeks to create a culture in which everyone is able to contribute to the success of our business. A strategy which is further strengthened by the variety of employee resource groups that form a valuable network across the organisation and share the Company's vision to be a diverse employer of choice. Such networks include, Ford Asian Association, Ford African Ancestry Network, Ford Parents' Network, Professional Women's Network, Ford Carers' Network, Disability and Accessibility Action Group and GLOBE (Sexual Orientation and Gender Identity Network) as well as numerous clubs and societies. Each network, group and society provides a pivotal role in making the Company a great and vibrant place to work.

Ford in the UK also has a comprehensive and targeted approach to increase the heavily underrepresented female pipeline of young women entering Science, Technology, Engineering and Mathematics (STEM) careers through various outreach initiatives and school partnerships. The Company continues to be a long running Stonewall Diversity Champion, a member of the employers' Network for Equality and Inclusion and the BITC. We were also a founding member of the Equality and Human Rights Commission's Working Forward Campaign, which seeks to make British workplaces the best they can be for expectant mothers and new parents and have continued to strive for best practice internally and externally in this key area.

Since 2018, we have been recognised as a Disability Confident Leader under the Government's Disability Confident Scheme and are pleased to play an active role within the Disability Confident Business Leaders Group.

Our culture of diversity, equity and inclusion has always been a part of who we are at our best, and we will carry that forward into the future.

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STRATEGIC REPORT (continued)

Our Community

During 2020, Ford was part of the Ventilator Challenge UK consortium, which included many world leading companies from the automotive, aviation, medical, motorsport and technology sectors, including McLaren, Formula 1 teams, Microsoft, Unilever, BAE, GKN, Rolls-Royce, Microsoft, Unilever and Airbus. The consortium was created in the space of a few days in February 2020 to mass produce much needed ventilators for Covid patients for the UK's National Health Service. Ford led on the overall project management to manufacture the ventilators at volume, and manufactured the most complex sub-assemblies of the ventilators at Ford Dagenham. Ford employees from a wide range of functions worked on the project, including Product Development, Manufacturing, Purchasing, Human Resources, Legal, Communications and other functions, and learnt much from the experience that is already benefitting Ford, including enhanced digital collaboration techniques, rapid project set-up and fast problem-solving.

We offer paid time off for employees to enable them to give back to their local communities. The Company aims to contribute to society and integrate Ford within the local community, build a good reputation with customers and potential employees and encourage personal development through team building skills and job enrichment.

Our employees support various local community projects including food bank appeals, partnerships with local schools, charity drives and more.

We are proud that our global workforce has supported 1.7 million volunteer hours globally since 2005.

Health and Safety

Health and Safety of employees remains a priority consideration within the Company.

The Chief Medical Officer based at Dunton, continues to manage the Company's site occupational health services in partnership with an external medical specialist provider. Together they deliver a professional service designed to monitor the health of employees to ensure that they are operating in a healthy working environment.

Work has continued in 2020 to support mental health and wellbeing initiatives. With the onset of the Covid-19 pandemic, the Company has introduced several protocols to ensure that people working on site are safe and have established arrangements so that the business is supported while people work remotely.

The Safety team continue to maintain and support improvement of safety metrics and key performance indicators at all Ford locations while improving internal assessment process ratings.

Ford complies with health and safety legal requirements and has processes in place to minimise health and safety risks throughout the operation. This is achieved by ensuring that Ford health and safety management systems are consistent with UK health and safety executive guidance for managing health and safety.

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STRATEGIC REPORT (continued)

Health and Safety (continued)

Additionally, in manufacturing areas, Ford utilise a standardised safety operating system which specifies minimum operating requirements to manage safety in operational areas. The Company remains committed to improving essential safety skills at all levels of the organisation offering a comprehensive range of targeted health and safety training programmes.

Corporate social responsibility

"Contributing to a better world has always been a core value at Ford, and our commitment to sustainability is a key part of who we are. Our vision is to create an even more dynamic and vibrant company that improves people's lives around the world and creates value for all of our stakeholders."

William Clay Ford, Jr., Executive Chairman, Ford

The Company has well established policies for safeguarding and improving the social and environmental impact of its operations. For example, all the Company's manufacturing locations are ISO14001 certified and, as part of a joint initiative agreed with its European Works Council, it operates to agreed social rights and social responsibility principles. We also encourage our suppliers both to work to achieve ISO14001 certification and to operate their own plants to a standard consistent with our principles. Globally 100% of our production suppliers, who wish to seek future business with Ford, are ISO14001 certified. We operate a diversity award program; the Chairman's leadership award for diversity (CLAD). These annual awards celebrate our efforts in Europe for an inclusive culture. This approach is mirrored by our Purchasing team, who evaluate and reward Ford suppliers for their diversity efforts.

The Company continues to undertake class leading environmental and social responsibility actions. The Company's commitment to the environment is demonstrated through examples such as: the wind turbines to power the state-of-the-art Dagenham Diesel Centre manufacturing facility at Dagenham. The site is a zero waste to landfill site, we compress and extract and recycle oil from plant sludge and use the dried material as a fuel for incinerators.

Social responsibility is equally demonstrated through a focus on vehicle safety and our commitment to the community. Our corporate safety policy outlines our commitment to design and build vehicles that meet or exceed applicable laws and regulations, while meeting the safety needs and expectations of our customers. In line with our policy letter, Ford is continuously working to enhance the safety of our products.

Our commitment to the community is built around the support and encouragement of various employee volunteering efforts, the backing and operating of the Ford Britain Trust and the on-going relationship and support of a range of charitable and altruistic activities.

Our employees are committed to helping the community through their volunteering efforts. Due to the COVID-19 pandemic, this also took the form of virtual volunteering in 2020, with Ford engineers for example virtually supporting charity partner Primary Engineer's Leaders Award competition. Ford Motor Company Fund, working with their international grant making partner GlobalGiving, also provided gratitude grants to non-profits in recognition of their COVID relief efforts, including Essex and Herts Air Ambulance Trust and the registered charity Ambition, Aspire, Achieve.

The Ford Motor Company Fund is the philanthropic arm of Ford and has been supporting communities at a local level globally for more than 70 years. Their work is rooted in Ford's longstanding commitment to building a better world where every person is free to move and pursue their dreams. By providing access to essential needs and services and developing programs that remove barriers to economic success, Ford Fund helps people overcome obstacles to upward mobility.

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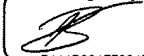
STRATEGIC REPORT *(continued)*

Corporate social responsibility *(continued)*

In the UK, Ford Fund projects include the Ford College Community Challenge, Ford Fund Smart Mobility Challenge, Ford Next Generation Learning and STEM education programs such as the Primary Engineer Essex School program and the Athena (Girls Into STEM) program run with Loughborough University. In 2020 the Ford Fund additionally supported COVID related efforts of charities helping the vulnerable, including St Mungo's, Crisis and the Dagenham-based Future Youth Zone.

On behalf of the Board

B. Spendlove
Director
27 September 2021

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CORPORATE GOVERNANCE REPORT

Corporate Governance Report for the year ended 31 December 2020

The Company corporate governance is embedded within the Company's existing governance practices, and can be explained more fully by using the six Wates principles set out below.

Principle 1 - Purpose and Leadership

An effective board promotes the purpose of a company and ensures that its values, strategy and culture align with that purpose.

The Board is fully aligned with Ford Motor Company's global vision: To become the world's most trusted company. This will be achieved globally through a plan for value creation which is customer-centric and focused on passion for the product and encompasses:

- **WINNING PORTFOLIO:** Design an exciting, profitable vehicle line-up born out of a passion for great products and deep market-specific insights
- **NEW PROPULSION:** Invent new ways to power our line-up that will deliver performance and style as we march towards a net-zero carbon future
- **AUTONOMOUS TECHNOLOGY:** Create a high value self-driving business with ingenious user experience, the safest performance and scalable business models
- **CONNECTED SERVICES:** Build a suite of data-driven mobility and connected services that attract new customers, reducing congestion and improving our products

The Company's values are aligned with the Ford Corporate Truths. A principal value is that employees act with integrity and demonstrate ethical behaviour, as set out in the Company's Employee Handbooks and related policies. The Company's employee engagement and equal opportunities and diversity initiatives are set out on pages 4 and 5 in the Company's Strategic Report.

Principle 2 - Board Composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

The Board composition is detailed in the Directors' Report on page 12. The Board is satisfied that its composition includes individuals with a mix of skills and experience that are up to date and cover the key business areas in order to make informed decisions and provide effective oversight of the Company's business risks.

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CORPORATE GOVERNANCE REPORT (continued)

Principle 3 - Director Responsibilities

A board should have a clear understanding of its accountability and terms of reference. Its policies and procedures should support effective decision-making and independent challenge.

The chairperson chairs regular Board meetings which have Board presentations containing information and data to drive matters requiring discussion and decision. There are clear lines of responsibility between the members of the Board in their work responsibilities, thereby ensuring a broad range of expertise and knowledge to make informed decisions.

The Board has developed a list of matters to be covered at the Board meetings throughout the year, which includes standing agenda items for each meeting which cover the key operating areas of the Company's business together with report outs from subject matter experts in other key areas on a periodic basis, including internal controls, pensions, property and environmental matters.

Principle 4 - Opportunity and Risk

A board should promote the long-term success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.

The Chairperson is a member of the Ford of Europe leadership team and has regular meetings with the Ford of Europe decision makers to discuss strategy. Representatives from the Board engage with Ford Motor Company to ensure that the Company's plans are fully aligned with the group, including approval of annual budgets, future business plans and new product launches. One of the Directors attends the regular Ford of Europe Audit Committees and, where appropriate, would report back matters to the Board which have material implications for the Company. Each of the Directors for their respective specialist areas receives a copy of any audit report conducted for their area. Where appropriate, the Director would raise any material issues to the Board.

Principle 5 – Remuneration

A board should promote executive remuneration structures aligned to the sustainable long-term success of a company, taking into account pay and conditions elsewhere in the company.

The Company rewards employees and members of the Board for performance and contributions to business success. The Company's compensation and benefits package in total will be competitive with leading companies. Compensation is generally comprised of three key elements; base salary, annual bonus and long term incentive plans or stock-based awards for certain levels of employees.

Principle 6 – Stakeholder

A board has a responsibility to oversee meaningful engagement with material stakeholders, including the workforce, and have regard to that discussion when taking decisions. The board has a responsibility to foster good stakeholder relationships based on the company's purpose.

Full particulars of the Company's stakeholder engagement are contained in the section 172 statement in the Strategic Report on pages 2 and 3.

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DIRECTORS' REPORT

Directors' Report for the year ended 31 December 2020

The directors present their ninety-second report and audited financial statements of the Company for the year ended 31 December 2020.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

- G. Hoare (Chairman) (resigned 30 April 2021)
- K. Cahill (Chairman)
- A. Barratt (Managing Director) (resigned 29 October 2020)
- L. Brankin (Managing Director) (appointed 2 November 2020)
- J. Schep
- B. Spendlove
- J. Gardiner
- J. Skerry

Qualifying indemnity provisions

Qualifying third party indemnity provisions and pension scheme indemnity provisions are in force for the Company's directors as of the date of this report and were in force for the duration of 2020.

Future developments in Europe

Ford has delivered its Reset plan started in early 2019 and is now committed to Redesigning further its business in Europe for a sustainable and profitable future.

Ford's operating model and organisation in Europe is centred around three customer-focused business lines – Commercial Vehicles, Passenger Vehicles and Import Vehicles. The Commercial Vehicle business line is located at the Ford Britain Dunton Campus in Essex.

Earlier this year, Ford announced it is investing at least \$22 billion globally in electrification, nearly twice the company's previous electric vehicle investment plans. Having successfully restructured and returned to profitability in Europe in the fourth quarter of 2020, Ford is now moving to the next phase of its plan, led by an all-electric future and is committed to go "all-in" on electrification across its commercial and passenger vehicle portfolio, providing customer choice while delivering CO2 performance.

Ford of Europe remains on track to reach its 6% EBIT margin as part of the company's plan to turnaround its global automotive operations, with returns in excess of the cost of capital for each business group.

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DIRECTORS' REPORT (continued)

Future developments in Europe (continued)

Commercial Vehicles and alliance with Volkswagen AG

Ford will continue to enhance its commercial vehicle leadership in Europe with a tightly integrated offering of smart vehicles, services and partnerships that deliver lifetime value for commercial customers. Ford is Europe's No. 1 commercial vehicle brand in terms of sales volume, and more than one in four Ford vehicles sold today in Europe is a commercial vehicle.

Ford's commercial vehicle range in Europe also will be 100% zero-emissions capable, all-electric or plug-in hybrid, by 2024. By 2030, two-thirds of commercial vehicle sales expected to be all-electric or plug-in hybrid.

In line with Ford's global fitness approach to build, partner or buy, Ford of Europe will leverage relationships. These include the long-standing and successful Ford Otomotiv Sanayi A.S. ("Ford Otosan") joint venture which is one of the global automotive industry's longest running and most successful joint ventures.

On July 12, 2019, Ford and Volkswagen AG announced they would expand their global alliance to include electric vehicles – and will collaborate with Argo AI to introduce autonomous vehicle technology in the U.S. and Europe – positioning both companies to better serve customers while improving their competitiveness and cost and capital efficiencies. The tie-up allows both automakers to independently integrate Argo AI's self-driving system into their own vehicles, delivering significant global scale.

In February 2021, Ford confirmed it was investing \$1 billion to modernize its vehicle assembly facility in Cologne, Germany, one of its largest manufacturing centres in Europe. The investment will transform the existing vehicle assembly operations into the Ford Cologne Electrification Center for the manufacture of electric vehicles, Ford's first such facility in Europe.

Ford also confirmed that its first European-built, volume all-electric passenger vehicle for European customers will be produced at the facility from 2023, with the potential for a second all-electric vehicle built there under consideration. Ford will use Volkswagen's electric vehicle architecture and Modular Electric Toolkit (MEB) to design and build at least one high-volume fully electric vehicle in Europe for European customers starting in 2023, with the potential for a second all-electric vehicle built there under consideration.

In March 2021, Ford confirmed that the next generation Ford Transit Custom range to include all-electric models, built by Ford Otosan in Turkey, advancing Ford's electrification strategy and commercial vehicle leadership in Europe. Plug-in hybrid and conventional engine models also available in what will be the most extensive Transit Custom range ever offered to European customers. The next generation Volkswagen 1-tonne commercial vehicle also will be built in Kocaeli as part of the Ford-Volkswagen Alliance.

The Ford-Volkswagen global alliance – which does not involve cross-ownership between the companies – is expected to create annual efficiencies for each company by adding valuable scale to vehicle platforms and enhances the customer experience by bringing more technologies to market, faster.

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Annual Report and Financial Statements
for the year ended 31 December 2020

DIRECTORS' REPORT *(continued)*

Passenger Vehicles and Imports

Ford is fully committed to evolving its passenger vehicle portfolio in Europe, strengthening its position with vehicles like the Kuga and Puma in the UK. The company is introducing new nameplates into Europe, with the outstanding all-electric Mustang Mach-E just being launched – and including the Mustang Mach-E GT coming later this year – and its first all-electric volume passenger vehicle coming to market in 2023.

By mid-2026, 100 percent of Ford's passenger vehicle range in Europe will be zero-emissions capable, all-electric or plug-in hybrid, moving to all-electric by 2030.

As Ford moves to an all-electric passenger vehicle future, European consumer preferences continue to change. In 2020, 39 percent of Ford's passenger vehicle sales were SUVs and crossovers – up eight percentage points from 2019. Moreover, customers are showing more confidence in electrification technologies, with more than 50 percent of Kuga owners purchasing a Kuga PHEV.

As a result of this growing change in customer preference, Ford will phase out the Mondeo, its large car, at the end of March next year. Ford's other large crossover and multi-purpose vehicles – the seven-seat Ford Galaxy and Ford S-MAX – will continue in production, with full hybrid versions of both recently launched.

Specific future developments in the UK

Ford announced on June 6, 2019, that it was starting consultation with its union partners on a plan to close the Bridgend Engine Plant. That consultation was completed in the year and the plant closed in September 2020.

Ford confirmed in October 2019 that it had established its new Commercial Vehicle business group at its site in Dunton, Essex, as part of a wider colocation of its key U.K. business operations. The Ford Commercial Vehicles business line facilitates fast decision-making centred on commercial vehicle customer needs, with a dedicated management organisation that includes leaders responsible for marketing, manufacturing and product development. The group intends to strengthen further Ford's position as Europe's No.1 commercial vehicle brand, with the target to double its commercial vehicle profitability within the next five years.

Ford also has renamed its Ford Dunton Technical Centre in Laindon, Essex, to Ford Dunton Campus, to highlight its new multifaceted role as the headquarters for many of the company's key activities located in the U.K. In addition to being the location for the Commercial Vehicles business group, the Ford Dunton Campus, is now home to Ford's powertrain engineering, and – following the recent move from their prior location in Warley, Essex – the Ford of Britain national sales company, and Ford Credit Europe, Ford's banking arm.

The consolidation of the Commercial Vehicles business group and the other main office and technical operations on the Ford Dunton Campus will provide many of Ford's employees with better, more creative and collaborative working environments, while also reducing costs and enhancing the ability to better focus on the needs of customers.

Ford also is building a new commercial vehicle Advanced Propulsion Laboratory on the Dunton Campus that includes powertrain NVH (noise, vibration and harshness) test chambers, and a testing area for electrification technologies. The new test facilities start operation later in 2021, and technical personnel presently working in other test areas will operate the new facilities following any required upskilling or retraining.

In March 2020, the UK Government announced that the Thames Freeport would be one of eight new freeports in England.

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

DIRECTORS' REPORT *(continued)*

Specific future developments in the UK *(continued)*

Thames Freeport is a digitally linked economic zone connecting Ford Dagenham, the global ports at London Gateway and Tilbury, and many communities in urgent need of 'levelling-up'. Businesses looking to expand are being urged to take advantage of the tax benefits of relocating to the Freeport and being part of a customs zone, which makes it easier and cheaper to move goods into and out of the country.

The Thames Freeport will be a new centre of excellence for the country as it electrifies, automates and digitises its future. The freeport provides Ford with a great opportunity as a test bed for a variety of customer-focused mobility technologies and other business opportunities at Ford Dagenham in the future.

Dividends

The directors recommend that no dividend be paid in respect of 2020 (2019: £nil).

Political donations

There were no contributions to political parties in respect of 2020 (2019: £nil).

Financial risk management

The Company's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk, interest rate risk and exchange rate risk. The Company has in place a risk management programme that sets out specific guidelines to manage these risks and the circumstances where it would be appropriate to use financial instruments to manage these.

Price risk

The Company is exposed to commodity price risk as a result of its operations and has entered into arrangements with related parties to manage a portion of this risk. The Company holds no listed or other equity investments as part of its core business and therefore has no operational exposure. However, the Company maintains defined benefit pension schemes with material holdings in return seeking investments. The Company performs regular reviews to ensure the pension schemes are adequately funded over time.

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers. The amount of exposure to any individual counterparty is subject to a limit, which is specified within individual agreements.

Liquidity risk

The Company maintains access to short-term financing designed to ensure sufficient liquidity.

Interest rate cash flow risk

From time to time, the Company has floating rate interest bearing assets and liabilities which create a net exposure to changes in interest rates. The Company has chosen not to use derivative financial instruments to manage these risks, but the directors will revisit the appropriateness of this policy should the Company's exposure change significantly.

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

DIRECTORS' REPORT (continued)

Financial risk management (continued)

Exchange rate risk

The Company has exposures to exchange risks due to sourcing materials and selling products in various currencies. The Company has entered into arrangements with related parties to manage a portion of these risks.

The Company has certain of its assets denominated in non-functional currencies, created both cash flow and statement of financial position re-valuation risk. The Company manages this risk through the use of foreign exchange derivatives resulting in no material impact from exchange rate changes.

Research and development

Research and development as part of the ongoing drive to maintain a flow of customer-focused, innovative and affordable vehicle launches is now carried out by the Company's parent company, Ford Technologies Limited. The Company continues to be a substantial employer of engineers and technicians, a centre of excellence for leading edge automotive technologies and is a major contributor towards the UK Government's objective of further developing the fields of science, engineering and technology.

Ford is building a new, £23 million commercial vehicle Advanced Propulsion Laboratory (APL) on the Dunton Campus that includes powertrain NVH (noise, vibration and harshness) test chambers, and a testing area for electrification technologies. The new test facilities are scheduled to start operation in 2021, and technical personnel working in other test areas will operate the new facilities following the required upskilling or retraining. The APL supports Ford's U.K. and European commercial vehicle leadership by enabling the company to stay at the forefront of new vehicle technologies, including electrification.

Streamlined Energy and Carbon Reporting 2020

	Energy Consumption kWh	CO2 Emissions Location based tCO2	CO2 Emissions Market based tCO2
Scope 1 Energy/Emissions			
Natural Gas	69,018,441	12,690	12,690
Gas Oil	14,050,826	3,607	3,607
Business Owned Transport	58,693,825	14,781	14,781
Fuel for Product Testing	1,169,768	296	296
Total Scope 1 Energy/Emissions	142,932,860	31,375	31,375
Scope 2 Energy/Emissions			
Electricity	121,222,442	28,262	106
Total Scope 2 Energy/Emissions	121,222,442	28,262	106
Scope 3 Energy/Emissions			
Employee Owned and Leased Vehicles	1,022,292	253	253
Total Scope 3 Energy/Emissions	1,022,292	253	253
Total Scope 1, 2 & 3	265,177,594	59,890	31,734

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

DIRECTORS' REPORT (continued)

Streamlined Energy and Carbon Reporting 2020 (continued)

Intensity Metric

Revenue 2020 in mil £ 8,787
tCO₂/mil £ 6.82

Scope and Methodology

Ford Motor Company Ltd. reports greenhouse gas (GHG) emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. We follow the HM Government Environmental Reporting Guidelines (March 2019) and have defined the scope of the FMC Ltd SECR report as all energy use and carbon emissions from our operations in the United Kingdom, using the financial control boundary approach.

Scope 1 emissions are generated from the gas and gas oil used in all buildings where FMC Ltd operates in the UK and emissions generated from company vehicles and trucks used for business travel in the UK. We also include the fuel combusted for product testing.

Scope 2 emissions are generated from the use of electricity in all buildings FMC Ltd occupies in the UK.

Scope 3 emissions are generated from employees on company business using their own or leased vehicles.

The reporting period for GHG emissions ran from 1 January to 31 December 2020. Conversion factors were taken from the 2020 UK Government's Conversion Factors for Company Reporting document. Both location based and market based emissions are presented.

Where possible, energy use was determined from supplier invoices or sub meter readings. Where the landlord controls the supply via a service arrangement, estimates were made based on the floor space occupied or standard consumption values. Transport emissions for company owned trucks and emissions from product testing were determined from fuel consumption. Fuel expense and mileage claims were used to determine emissions from other business travel in company owned or leased vehicles as well as employee vehicles on company business.

Energy Efficiency Actions Taken

Energy Efficiency is part of day to day operation in Ford Motor Company Ltd due to our Energy Management Operating System (EMOS). Under EMOS, targets are set and tracked for each production facility and road maps are developed to achieve these targets. Energy teams work on identifying improvement opportunities. This drove special energy saving actions during the COVID lock down, as well as energy projects like implementation of LED lighting, optimization of boiler house steam returns, or installation of variable speed drives.

All FMC Ltd facilities are supplied with electricity from renewable energy sources except where the energy supply is not under our control. Four wind turbines with a total capacity of 6.4 MW generate electricity at our manufacturing locations.

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

DIRECTORS' REPORT *(continued)*

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

DIRECTORS' REPORT *(continued)*

Going Concern

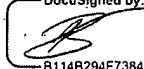
The directors have considered the financial position of the Company at 31 December 2020 (net current assets £706m, net assets of £2,253m (2019: net current liabilities £443m, net assets of £1,819m) and the projected cash flows and financial performance of Ford in Europe for the 12 months from the date of approval of these financial statements. The directors also have taken action to ensure that appropriate cash resources are available to fund the Company's operations. Therefore the directors consider, after making appropriate enquiries, that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Independent auditors

PricewaterhouseCoopers LLP have expressed a willingness to remain as independent auditors of the Company.

On behalf of the Board

B. Spendlove
Director
27 September 2021

DocuSigned by:

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Registered office:
Arterial Road
Laindon
Essex, SS15 6EE

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORD MOTOR COMPANY LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Ford Motor Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2020; the income statement, the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing management's assessment of the going concern risks faced by the business;
- Understanding the nature of the business and its arrangements with other group entities;
- Considering the financing and liquidity of the company, including the covenants related to debt and the ability of the company to achieve such covenants;
- Reviewing the post year end performance of the company, in particular in the commercial vehicle market; and
- Considering the wider automotive market, external economic and social factors which may have a bearing on the assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORD MOTOR COMPANY LIMITED (continued)

Conclusions relating to going concern (continued)

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORD MOTOR COMPANY LIMITED (*continued*)

Responsibilities for the financial statements and the audit (*continued*)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation and employment law, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate or unusual journal entries outside the usual course of business as well as management bias in accounting estimates. Audit procedures performed by the engagement team included:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with the provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management about existing and potential litigation and claims, and known or suspected instances of non-compliance with laws and regulations and fraud;
- addressing the risk of fraud through management override of controls by testing the appropriateness of journal entries, particularly those with unusual account combinations in relation to revenue;
- incorporating an element of unpredictability into our audit testing, as required by ISA (UK) 240;
- challenging assumptions and judgements made by management in determining their accounting estimates, in particular in relation to the evaluation of the funding position of pension schemes and the warranty provision; and
- communicating relevant identified laws and regulations and potential fraud risks to all engagement team members, and reminding them to be alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORD MOTOR COMPANY LIMITED (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.


Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- The financial statements are not in agreement with the accounting records or returns.

We have no exceptions to report arising from this responsibility.



Gregory Briggs (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford

27 September 2021

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

INCOME STATEMENT

(in millions)

	Note	For the years ended December 31,	
		2020	2019
Revenue	5	£ 8,792	£ 12,995
Cost of sales and other expenses			
Cost of sales	6	(8,469)	(12,259)
Selling, administrative, and other expenses	6	(269)	(345)
Total costs of sales and other expenses		(8,738)	(12,604)
Other operating income	7	25	-
Interest expense	10	(20)	(20)
Other interest income and finance income, net	10	13	5
Profit before income tax		72	376
Income tax benefit/(expense)	11	4	(83)
Net profit		£ 76	£ 293

STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	Note	For the years ended December 31,	
		2020	2019
Net profit		£ 76	£ 293
Other comprehensive income/(loss), net of tax			
Items that will not be classified to profit and loss			
Remeasurement of the liability for the net defined post-employment benefit	28	194	(675)
Tax on remeasurement of the liability for the net defined post-employment benefit	28	(38)	110
Items that may be reclassified to profit and loss			
Fair value adjustments on cash flow hedging instruments	28	240	(298)
Tax on fair value adjustments on cash flow hedging instruments	28	(40)	51
Total other comprehensive income/(loss), net of tax		356	(812)
Total comprehensive income/(loss)		£ 432	£ (519)

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

STATEMENT OF FINANCIAL POSITION
(in millions)

	Note	December 31, 2020	December 31, 2019
ASSETS			
Cash and cash equivalents		£ 70	£ 50
Trade and other receivables	12	2,083	1,543
Derivative financial instruments	13	48	8
Inventories	14	666	460
Net investment in operating leases	15	112	124
Total current assets		2,979	2,185
Intangible assets	16	8	14
Property, plant, and equipment	17	708	869
Investment property	19	19	19
Derivative financial instruments	13	11	-
Investment in subsidiaries and associates	20	422	422
Pension	21	1,119	995
Deferred income taxes	11	28	166
Trade and other receivables	12	4	4
Total non-current assets		2,319	2,489
Total assets		£ 5,298	£ 4,674
LIABILITIES			
Accounts payable	22	£ 1,319	£ 1,118
Derivative financial instruments	13	51	176
Deferred revenue and other liabilities	24	220	217
Provisions	25	683	1,117
Total current liabilities		2,273	2,628
Derivative financial instruments	13	31	118
Debt	23	552	-
Deferred revenue and other liabilities	24	98	55
Provisions	25	91	54
Total non-current liabilities		772	227
Total liabilities		3,045	2,855
EQUITY			
Called up share capital	27	848	848
Share premium account		36	36
Retained earnings/(Accumulated losses)		207	(25)
Accumulated other comprehensive loss	28	(22)	(222)
Capital contribution reserve		1,197	1,197
Other reserves		(12)	(15)
Total equity		2,253	1,819
Total liabilities and equity		£ 5,298	£ 4,674

The accompanying notes are part of the financial statements.

The financial statements on pages 24 to 68 were approved by the board of directors and were signed on its behalf by:

K. Cahill
Chairman

DocuSigned by:
Kieran Cahill
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B. Spendlove
Director

DocuSigned by:
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Date: 27 September 2021

Registered number: 235446

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

STATEMENT OF CHANGES IN EQUITY
(in millions)

	Called Up Share Capital	Share Premium Account	Retained earnings/ (Accumulated losses)	Accumulated Other Comprehensive Income/(Loss) (Note 28)	Capital Contribution Reserve	Other Reserves	Total Equity
Balance at January 1, 2019	£ 848	£ 36	£ 248	£ 25	£ 1,196	£ (19)	£ 2,334
Comprehensive income/(expense)							
Net profit			293	-	-	-	293
Other comprehensive expense, net of tax				(812)	-	-	(812)
Reclassifications			(565)	565	-	-	-
Total comprehensive expense			(272)	(247)	-	-	(519)
Transactions with shareholders							
Share-based compensation				-	-	4	4
Deferred tax related to items credited directly to equity			(1)	-	1	-	-
Total transactions with shareholders			(1)	-	1	4	4
Balance at December 31, 2019	£ 848	£ 36	£ (25)	£ (222)	£ 1,197	£ (15)	£ 1,819
Balance at January 1, 2020	£ 848	£ 36	£ (25)	£ (222)	£ 1,197	£ (15)	£ 1,819
Comprehensive income/(expense)							
Net profit			76	-	-	-	76
Other comprehensive income, net of tax				356	-	-	356
Reclassifications			156	(156)	-	-	-
Total comprehensive income			232	200	-	-	432
Transactions with shareholders							
Share-based compensation				-	-	3	3
Total transactions with shareholders				-	-	3	3
Balance at December 31, 2020	£ 848	£ 36	£ 207	£ (22)	£ 1,197	£ (12)	£ 2,253

The accompanying notes are part of the financial statements.

Ford Motor Company Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

NOTES TO THE FINANCIAL STATEMENTS

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Ford Motor Company Limited
Annual Report and Financial Statements
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NOTE 1. BACKGROUND AND BASIS OF PREPARATION

Background

The principal activities in which the Company is engaged are the design and engineering of powertrains, including hybrid technologies, and commercial vehicles; the manufacture of low emission petrol and diesel engines and transmissions; and the distribution and sale of motor vehicles and automotive components and associated customer after sales support.

Basis of Preparation

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial assets, pension surplus and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The Company is itself a subsidiary company of Ford Motor Company, a company incorporated in Delaware, USA, and is exempt from the requirement to prepare group financial statements by virtue of Section 401 of the Companies Act 2006. Copies of the ultimate holding company's financial statements can be obtained from the address outlined in Note 34.

The principal accounting policies applied in the preparation of the financial statements of the Company are set out in Note 2. These policies have been applied consistently to all years presented, unless otherwise stated.

Presentation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the Company's functional currency. All financial information has been rounded to the nearest million, except where otherwise indicated.

The statement of financial position differentiates between current and non-current assets and liabilities. Assets and liabilities are classified as current if they mature within one year.

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NOTE 1. BACKGROUND AND BASIS OF PREPARATION (continued)

Basis of Preparation (continued)

FRS 101

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial Instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - ~~(ii) paragraph 73(e) of IAS 16 Property, plant and equipment;~~
 - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 and 18A of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going Concern

The directors have considered the financial position of the Company at 31 December 2020 (net current assets £706m, net assets of £2,253m (2019: net current liabilities £443m, net assets of £1,819m) and the projected cash flows and financial performance of Ford in Europe for the 12 months from the date of approval of these financial statements. The directors also have taken action to ensure that appropriate cash resources are available to fund the Company's operations. Therefore the directors consider, after making appropriate enquiries, that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Revenue Recognition

Revenue is generated primarily by sales of vehicles, parts and accessories. Revenue is recorded when obligations under the terms of a contract with our customer are satisfied; generally, this occurs with the transfer of control of our vehicles, parts or accessories. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods. When we give our dealers the right to return eligible parts for credit, we reduce the related revenue for expected returns.

Sales and Marketing Incentives

Sales and marketing incentives generally are recognised as revenue reductions in *Revenues*. The incentives generally take the form of cash payments to dealers and dealers' customers. The reduction to revenue is accrued at the later of the date the related vehicle is sold or the date the incentive program is both approved and communicated. We generally estimate these accruals using incentive programs that are approved as of 31 December 2020 which is the date of the statement of financial position and are expected to be effective at the beginning of the subsequent period.

Supplier Price Adjustments

We frequently negotiate price adjustments with our suppliers through a production cycle, even after receiving production materials. These price adjustments relate to changes in design specification or other commercial terms such as economics, productivity, and competitive pricing. We recognised price adjustments when we reach a final agreement with our suppliers. In general, we avoid direct price changes in consideration of future business; however, when these occur, our policy is to defer the financial statement impact of any such price change given explicitly in consideration of future business where guaranteed volumes are specified.

Foreign Currency Translation

Income statement transactions in foreign currency are translated into pounds sterling at rates ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the year end date. The effect of this remeasurement process, and the results of our foreign currency hedging activities are reported in *Cost of sales and Selling, administrative, and other expenses*.

Ford Motor Company Limited
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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade Receivables

Trade and other receivables consists primarily of receivables from contracts with our customers for the sale of vehicles, parts, and accessories. Trade receivables initially are recorded at the transaction amount (amortised cost) and are typically outstanding for less than 30 days. Each reporting period, we evaluate the collectability of the receivables and record an allowance for expected credit losses representing our estimate of the expected losses that result from all possible default events over the expected life of a receivable. Expected credit loss rates are applied to receivables that are grouped based on their number of days past due (aging buckets) to calculate the overall allowance. Default occurs when a receivable is 90 days or more past due. The allowance for expected credit losses is measured using a provision matrix method (simplified approach) based on the number of days a receivable is past due. A receivable is written-off when it is deemed uncollectible and all collection efforts have been exhausted. Additions to the allowance for expected credit losses are made by recording charges to expected credit losses expense reported in *Selling, administrative, and other expenses*.

Ford's exposure to credit risk arising from trade receivables is influenced primarily by the default risk of customer base and the risk associated with the industry and the country in which the customers operate. Our credit policy requires that credit limits be established for each external customer before the first shipment is released. The process of establishing or reaffirming credit limits considers the financial conditions and creditworthiness of the customer based on information such as current and historical financial statements, credit agency reports, and trade references. The credit limits are monitored and reviewed at least annually. Sales exceeding the limits are placed on hold if necessary to limit risk.

The carrying amount of trade receivables represents the maximum credit exposure. Ford may require a mortgage collateral from certain dealers for vehicle sales. In a few markets, we may require bank guarantees for direct sales or service parts for certain trade receivables. Ford does not have trade receivables and contract assets for which no loss allowance is recognized because of collateral.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, items recognised directly in equity, or items recognised in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future;

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Ford Motor Company Limited
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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Income Taxes (*continued*)

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Presentation of Sales and Sales-Related Taxes

We collect and remit taxes assessed by different governmental authorities that are both imposed on and concurrent with a revenue-producing transaction between us and our customers. These taxes may include, but are not limited to, sales, value-added, and some excise taxes. We report the collection of these taxes on a net basis (excluded from revenues).

Cash and Cash Equivalents

Included in *Cash and cash equivalents* are highly liquid investments that are readily convertible to known amounts of cash.

Derivative Financial Instruments and Hedge Accounting

In the normal course of business, our operations are exposed to global market risks, including the effect of changes in foreign currency exchange rates, certain commodity prices, and interest rates. To manage these risks, we enter into highly effective derivative contracts:

- Foreign currency exchange contracts, including forwards, that are used to manage foreign exchange exposure;
- Commodity contracts, including forwards, that are used to manage commodity price risk;
- Interest rate contracts, including swaps, that are used to manage the effects of interest rate fluctuations; and
- Cross-currency interest rate swap contracts that are used to manage foreign currency and interest rate exposures on foreign-denominated debt.

Our derivatives are over-the-counter customized derivative transactions and are not exchange-traded. We review our hedging program, derivative positions, and overall risk management strategy on a regular basis.

Derivative Financial Instruments and Hedge Accounting. Derivatives are recorded on the consolidated statement of financial position at fair value and presented on a gross basis. Derivative assets and liabilities are reported in *Derivative financial instruments*.

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Financial Instruments and Hedge Accounting (continued)

We have elected to apply hedge accounting to certain derivatives. Derivatives that are designated in hedging relationships are evaluated for effectiveness using regression analysis at the time they are designated and throughout the hedge period. The ratio of the quantity of the hedged item and the notional amount of the hedge is always 1 for 1. Some derivatives do not qualify for hedge accounting; for others, we elect not to apply hedge accounting.

Cash Flow Hedges. Our Automotive segment has designated certain forward contracts as cash flow hedges of forecasted transactions with exposure to foreign currency exchange and commodity price risks.

The effective portion of changes in the fair value of cash flow hedges is deferred in *Accumulated other comprehensive income/(loss)* and is recognized in *Cost of sales* when the hedged item affects earnings. The ineffective portion is reported in *Cost of sales* in the period of measurement. Our policy is to de-designate foreign currency exchange cash flow hedges prior to the time forecasted transactions are recognized as assets or liabilities on the statement of financial position and report subsequent changes in fair value through *Cost of sales*. If it becomes probable that the originally-forecasted transaction will not occur, the related amount included in *Accumulated other comprehensive income/(loss)* is reclassified and recognized in earnings.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined by methods approximating the first-in first-out ("FIFO") principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of finished products and work in progress, cost includes an appropriate share of production overhead based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Raw Material Arrangements

We may, at times, negotiate prices for and facilitate the purchase of raw materials on behalf of our suppliers. These raw material arrangements, which take place independently of any purchase orders issued to our suppliers, are negotiated at arms' length and do not involve volume guarantees. When we pass the risks and rewards of ownership to our suppliers, including inventory risk, market price risk, and credit risk for the raw material, we record both the cost of the raw material and the income from the subsequent sale to the supplier in cost of sales.

Intangible Assets

Quotas for carbon emissions are capitalised as intangible assets, these are not amortised and are utilised when surrendered to settle carbon emission liabilities. Quotas are initially recognised at fair value and subsequently revalued at each year with the gain or loss being booked to *Selling, administrative, and other expenses* in the income statement.

Costs incurred to develop non-production related software (whether the software is developed internally or by a third party vendor) are capitalised on the basis of the costs incurred to acquire and / or bring them to use.

Non-production related software is amortised primarily using the straight-line method over the estimated useful life of the software. Useful lives range from 3 years for software and 8 years for mainframe and client based software.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost, net of accumulated depreciation and impairments. We capitalise new assets when we expect to use the asset for more than one year. Routine maintenance and repair costs are expensed when incurred.

We recognise the gain or loss on disposal of an item of property, plant, and equipment within *cost of sales* in our income statement.

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of the property, plant, and equipment, taking into consideration our best estimate of its residual value. We record and depreciate separately each major component of a single asset when the components have significantly different useful lives. We generally depreciate leased assets over the shorter of the lease term and their useful lives.

Property, plant and equipment are depreciated primarily using the straight-line method over the estimated useful life of the asset. Useful lives range from 3 years to 36 years. The estimated useful lives generally are 14.5 years for machinery and equipment, 30 years for land improvements, and 36 years for buildings. Tooling generally is amortised over the expected life of a product program using a straight-line method. Land is not depreciated as it is treated as having an infinite life and construction in progress is not depreciated until asset comes into use.

Lease Commitments

Leases are recognized as a right-of-use asset and a corresponding liability at the date in which the leased asset is available for use. The right-of-use assets and lease liabilities are reported in Property, plant, and equipment and Other Financial Liabilities, respectively, on our balance sheet.

Investment Properties

Investment properties are accounted for in accordance with IAS 40 where the cost model is followed. Useful economic lives are 30 years for land improvements, and 36 years for buildings.

Investments are impaired only if there is objective evidence of impairment as a result of one or more events that occurred.

Government Incentives

Government grants that relate to specific capital expenditure are credited to deferred income when received and are credited to the income statement over the related useful economic life of the assets acquired with the grant. The portion of government grants which have not been credited to the income statement are included within deferred revenue and other liabilities. Other government grants are credited to the income statement when received.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Pension/Employee Benefits

We provide short-term and long-term benefits to our employees. Short-term employee benefit obligations generally take on the form of salaries and bonuses and are measured on an undiscounted basis. We generally expense short-term benefits in the period the related benefit is provided. Long-term employee benefit obligations generally take on the form of defined benefit pension obligations.

Defined benefit pension obligations are measured based on the present value of projected future benefit payments for all participants for services rendered to-date. The measurement of projected future benefits is dependent on the provisions of each specific plan, demographics of the group covered by the plan, and other key measurement assumptions. For plans that provide benefits dependent on salary assumptions, we include a projection of salary growth in our measurements. No assumption is made regarding any potential changes to benefit provisions beyond those to which we are presently committed (e.g., in existing labour contracts).

The net periodic benefit costs associated with the Company's defined benefit pension plans are determined using assumptions regarding the benefit obligation and the plan assets (where applicable) as of the beginning of each year. Net periodic benefit costs are recorded in Cost of sales and Selling, administrative, and other expenses. The expected return on pension scheme assets, net of interest costs on pension liabilities are included within Other interest income and finance income, net. The funded status of the benefit plans, which represents the difference between the benefit obligation and fair value of plan assets, is calculated on a plan-by-plan basis. The benefit obligation and related funded status are determined using assumptions as of the end of each year. The impact of plan amendments and actuarial gains and losses are recorded in *Accumulated other comprehensive income/(loss)*, and then reclassified to retained earnings at the end of the year.

Curtailment gains or losses are recorded when an event occurs that significantly reduces the number of employees covered by the plan. We record a curtailment gain when the employees who are entitled to the benefits terminate their employment; we record a curtailment loss when it becomes probable a loss will occur.

Ford shall recognise a settlement gain or loss in the period in which a transaction that permits derecognition of the net defined benefit liability. The gain or loss on a settlement shall comprise: (a) the present value of the obligation being settled, as determined on the date of the settlement; and (b) the settlement price, including any assets transferred and/or payments made.

Ford shall remeasure the plan as of the date of the action if there is a significant curtailment or settlement.

Our policy for funded pension plans is to contribute annually, at a minimum, amounts required by applicable laws and regulations. We may make contributions beyond those legally required.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss immediately. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

Termination and similar benefits are recognised as an expense when management is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense when we have made an offer and the employee accepts the offer, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Provisions

A *provision* is recognised if, as a result of a past event, we have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. We record provisions for warranty, dealer and customer claims, environmental remediation, legal and similar matters.

Due to the inherent uncertainty of the amount and timing of expected payments, we measure our provisions using patterned estimation models that take into consideration historical experience with similar matters, recent facts and circumstances, as well as assumptions about current trends. Each measurement reflects our best assumptions at each reporting period but the ultimate outcome of any matter could result in an amount different than the amount we have accrued and/or disclosed.

Provisions expected to be paid in a period of greater than one year are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as interest expense in *Other interest income and finance income, net*.

Warranties

We accrue obligations for warranty costs and field service actions (i.e. safety recalls, emission recalls, and other product campaigns) at the time of sale. We establish estimates for warranty and field service action obligations using a patterned estimation model using historical information regarding the nature, frequency, and average cost of claims for each vehicle line by model year. We re-evaluate the adequacy of our accruals on a regular basis and any revisions to our estimated obligation for warranties and field service actions are reported as *Changes in accrual related to pre-existing warranties*.

Environmental Remediation

We accrue for costs related to legal obligations to perform certain activities in connection with the retirement, abandonment, or disposal of our assets for which the fair value can be reasonably estimated. These conditional asset retirement obligations relate to the estimated costs for asbestos abatement and the removal of other regulated building materials.

Dealer and Customer Claims

We accrue for dealer and customer claims related to incentive programs that are approved as of the reporting date and are expected to be effective at the beginning of the subsequent period.

Investments in Subsidiaries and Associated Undertakings

Investments in subsidiaries and associated undertakings are stated at cost less provisions for impairment. An impairment loss is recognised following the identification of an impairment indicator if the recoverable amount of an investment is lower than its carrying amount.

Debt

Debt is initially recognised at fair value, net of any transaction costs incurred. Debt is subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the term of the debt using the effective interest method. Transaction costs incurred are amortised over the term of the debt.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Other

Litigation and claims are accrued when losses are deemed probable and reasonably estimable. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, and the severity of any potential loss. We re-evaluate and update our provisions and accruals as matters progress over time.

Share-Based Payments

Share-based payment arrangements include awards that will be settled by the delivery of shares and awards that will be settled by the delivery of cash. Awards that will be settled by the delivery of shares are measured at fair value on the grant date. Awards that will be settled in cash are recognised as a liability and are measured at fair value at the end of each reporting period and at settlement. The fair value of the awards that employees are expected to earn is recognised as compensation cost over the vesting period. Changes in the number of awards that employees are expected to earn are recognised in profit or loss over the vesting period.

We measure the fair value of stock options using an option-pricing model and the fair value of restricted stock units using the closing market price of our Common Stock of the ultimate holding Company on the grant date.

NOTE 3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with FRS 101 requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

We consider an accounting estimate to be significant if: 1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and 2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

There are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements.

Warranty and Product Recalls

Nature of Estimates Required. We create a provision for the estimated cost of basic warranty coverage for each vehicle at the time of sale. We establish estimates using historical information regarding the nature, frequency, and average cost of claims for each vehicle line by model year. Where little or no claims experience exists, we rely on historical averages. See Note 25 for information regarding costs for warranty actions. Separately, we also accrue at the time of sale for potential product recalls based on historical experience. Product recalls are distinguishable from warranty coverage in that the actions may extend beyond basic warranty coverage periods.

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NOTE 3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (*continued*)

Warranty and Product Recalls (*continued*)

Assumptions and Approach Used. We re-evaluate our estimate of warranty obligations on a regular basis. Experience has shown that initial data for any given model year may be volatile; therefore, our process relies on long-term historical averages until sufficient data are available. As actual experience becomes available, we use the data to modify the historical averages in order to ensure that the estimate is within the range of likely outcomes. We then compare the resulting accruals with present spending rates to ensure that the balances are adequate to meet expected future obligations. Based on these data, we revise our estimates as necessary. Due to the uncertainty and potential volatility of these factors, changes in our assumptions could materially affect our financial condition and results of operations.

Pensions

Nature of Estimates Required. The estimation of our defined benefit pension plan obligations and expenses requires that we make use of estimates of the present value of projected future payments to all participants, taking into consideration the likelihood of potential future events such as demographic experience. Plan obligations and expenses are based on existing retirement plan provisions. No assumption is made regarding any potential future changes to benefit provisions beyond those to which we are presently committed (e.g., in existing labour contracts).

Assumptions and Approach Used. The assumptions used in developing the required estimates include the following key factors:

- *Discount rates.* Our discount rate assumption is based primarily on the results of a cash flow matching analysis, which matches the future cash outflows for each major plan to a yield curve based on high-quality bonds specific to the country of the plan. Benefit payments are discounted at the rates on the curve and a single discount rate specific to the plan is determined.
- *Salary growth.* Our salary growth assumption reflects our long-term actual experience, outlook, and assumed inflation.
- *Inflation.* Our inflation assumption is based on an evaluation of external market indicators, including real gross domestic product growth and central bank inflation targets.
- *Expected contributions.* Our expected amount and timing of contributions is based on an assessment of minimum requirements, cash availability, and other considerations (e.g., funded status, avoidance of regulatory premiums and levies, and tax efficiency).
- *Retirement rates.* Retirement rates are developed to reflect actual and projected plan experience.
- *Mortality rates.* Mortality rates are developed to reflect actual and projected plan experience.

Assumptions are set at each year end and are generally not changed unless there is a major plan event such as a significant curtailment or settlement that would trigger a plan remeasurement.

The effects of actual results differing from our assumptions and the effects of changing assumptions are recognised in *Accumulated other comprehensive income/(loss)* on our statement of financial position.

See Note 21 for more information regarding pension costs and assumptions.

The 31 December 2020 pension defined benefit obligation and 2021 expense are affected by year-end 2020 assumptions. These sensitivities may be asymmetric and are specific to the time periods noted. The effects of changes in the factors which generally have the largest impact on year-end funded status and pension expense are discussed below.

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NOTE 3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Pensions (continued)

Increase/(Decrease)			
Assumption	Percentage Point Change	Pension Surplus at 31 December 2020 £m	2021 Expense £m
Discount rate	+0.5 pt.	(1,146)	(49.2)
	- 0.5 pt.	1,370	45.0
Actual Return on assets during 2020	+0.5 pt.	(66)	(0.7)
	- 0.5 pt.	66	0.7
Rate of increase in salaries	+0.5 pt.	271	17.8
	- 0.5 pt.	(254)	(16.5)
Inflation	+0.5 pt.	1,072	40.9
	- 0.5 pt.	(975)	(35.7)

The foregoing indicates that changes in the discount rate and inflation can have a significant effect on the funded status of our pension plans, shareholders' funds and expense. We cannot predict these changes in discount rates or inflation and, therefore, cannot reasonably estimate whether adjustments to our shareholders' equity in subsequent years will be significant.

Useful Lives of Property, Plant and Equipment and Intangible Assets

Nature of Estimates Required. The estimation of the useful lives of items of property, plant and equipment and intangible assets is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets.

Assumptions and Approach Used. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Income Taxes

Nature of Estimates Required. We must make estimates and apply judgment in determining the provision for income taxes for financial reporting purposes. We make these estimates and judgments primarily in the following areas: (i) the calculation of tax credits, (ii) the calculation of differences in the timing of recognition of revenue and expense for tax and financial statement purposes that will ultimately be reported in tax returns, as well as (iii) the calculation of interest and penalties related to uncertain tax positions. Changes in these estimates and judgments may result in a material increase or decrease to our tax provision, which would be recorded in the period in which the change occurs.

Assumptions and Approach Used. We are subject to the income tax laws and regulations of the jurisdictions in which we operate. These tax laws and regulations are complex and involve uncertainties in the application to our facts and circumstances that may be open to interpretation. We recognise benefits for these uncertain tax positions based upon a process that requires judgment regarding the technical application of the laws, regulations, and various related judicial opinions. If, in our judgment, it is more likely than not that the uncertain tax position will be settled favourably to us, we estimate an amount that ultimately will be realised. This process is inherently subjective, since it requires our assessment of the probability of future outcomes. We evaluate these uncertain tax positions on a quarterly basis, including consideration of changes in facts and circumstances, such as new regulations or recent judicial opinions, as well as the status of audit activities by taxing authorities. Changes to our estimate of the amount to be realised are recorded in our provision for income taxes during the period in which the change occurred. We must also assess the

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likelihood that we will be able to recover our deferred tax assets against future sources of taxable income. IFRS recognises deferred tax assets to the extent that it is more likely than not (defined as a likelihood of more than 50%) that sufficient taxable profits will be available to utilise the deductible temporary difference or unused tax losses. Changes in our judgment regarding the ability to recover our deferred tax assets are reflected in our tax provision in the periods in which the changes occur.

NOTE 4. NEW STANDARDS AND INTERPRETATIONS

Adoption of New Accounting Standards

We adopted the following amendments during 2020, which did not have a material impact on our financial statements or financial statement disclosures:

Amendments	Effective Date
Definition of a Business (Amendments to IFRS 3)	January 1, 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	January 1, 2020
COVID 19 – Rent Related Concessions (Amendment to IFRS 16)	January 1, 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9 and IFRS 7)	January 1, 2020

Accounting Standards Issued but Not Yet Adopted

The following represent the standards and amendments that are applicable to Ford, none of which are expected to have a material impact to our financial statements or financial statement disclosures:

Insurance Contracts (effective January 1, 2023). The new standard is meant to address the differences in accounting treatment across jurisdictions and insurance products, which made it difficult for investors and analysts to understand and compare insurers' results. The majority of the change relates to long duration contracts.

The International Accounting Standards Board ("IASB") has also issued the following amendments, which are not expected to have a material impact to our financial statements or financial statement disclosures:

Amendments	Effective Date
Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 4, 7, 9, 16 and IAS 39)	January 1, 2021
Property, Plant and Equipment Proceeds before Intended Use (Amendment to IAS 16)	January 1, 2022
Classification of Liabilities as Current or Non-Current (Amendment to IAS 1)	January 1, 2023

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NOTE 5. REVENUE

Amounts included in *Revenue* on our income statement were as follows (in millions):

	For the years ended December 31,	
	2020	2019
Sales of new and used vehicles, parts and accessories	£ 8,448	£ 12,588
Sales of vehicles previously leased under operating leases	261	356
Vehicle operating lease revenue	8	10
Other	75	41
Total revenue	£ 8,792	£ 12,995

Total Company *Revenue* split geographically for the years ended December 31 were as follows (in millions):

	For the years ended December 31,	
	2020	2019
United Kingdom	£ 3,817	£ 6,416
Germany	986	1,512
Spain	448	629
France	379	452
Italy	280	379
Other EU	1,279	1,444
Other Europe (non-EU as at 31 December)	791	881
Rest of World	812	1,282
Total revenue	£ 8,792	£ 12,995

Revenue is recognised when obligations under the terms of a contract with our customer are satisfied; generally this occurs with the transfer of control of our vehicles, parts, accessories, or services. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The transaction price is allocated to each performance obligation based on the relative standalone selling price at contract inception for each performance obligation. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. The expected costs associated with our base warranties and field service actions continue to be recognised as expense when the products are sold (see Note 25). We recognize revenue for vehicle service contracts that extend mechanical and maintenance coverages beyond our base warranties over the life of the contract. We do not have any material significant payment terms as payment is received at or shortly after the point of sale.

Depending on the terms of the arrangement, we may also defer the recognition of a portion of the consideration received because we have to satisfy a future obligation in relation to extended service contracts. We use an observable price to determine the stand-alone selling price for separate performance obligations or a cost plus margin approach when one is not available.

We sell vehicles to daily rental companies and guarantee that we will pay them the difference between an agreed amount and the value they are able to realise upon resale. At the time of transfer of vehicles to the daily rental companies, we record the probable amount we will pay under the guarantee to Other liabilities and deferred revenue

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NOTE 5. REVENUE (continued)

Vehicles, Parts, and Accessories. For the majority of vehicles, parts, and accessories, we transfer control and recognize a sale when we ship the product from our manufacturing facility to our customer (dealers and distributors). We receive cash equal to the invoice price for most vehicle sales at the time of wholesale. When the vehicle sale is financed by Ford Credit Europe, the dealer pays Ford Credit Europe when it sells the vehicle to the retail customer. Payment terms on part sales to dealers, distributors, and retailers range from 30 to 120 days. The amount of consideration we receive and revenue we recognize varies with changes in marketing incentives and returns we offer to our customers and their customers. When we give our dealers the right to return eligible parts and accessories, we estimate the expected returns based on an analysis of historical experience. We adjust our estimate of revenue at the earlier of when the most likely amount of consideration we expect to receive changes or when the consideration becomes fixed.

Used Vehicles. We sell used vehicles both at auction and/or through our dealers. Proceeds from the sale of these vehicles are recognised in revenues upon transfer of control of the vehicle to the customer and the related vehicle carrying value is recognized in Cost of sales.

Extended Service Contracts. We sell separately priced service contracts that extend mechanical and maintenance coverages beyond our base warranty agreements to vehicle owners. The separately priced service contracts range from 12 to 120 months. We receive payment at the inception of the contract and recognize revenue over the term of the agreement in proportion to the costs expected to be incurred in satisfying the obligations under the contract. At January 1, 2020, £19 million of unearned revenue associated with outstanding contracts was reported in Other Liabilities and deferred revenue, £9 million of this was recognized as revenue during the year ended December 31, 2020. At December 31, 2020, the unearned amount was £25 million. We expect to recognize approximately £11 million of the unearned amount in 2021, £8 million in 2022, and £6 million thereafter.

Other Revenue. Other revenue consists primarily of net commissions received for serving as the agent in facilitating the sale of a third party's products or services to our customers. We transfer control and recognize the net commission when the products are delivered to our customer (dealers and distributors).

Leasing Income. We sell vehicles to daily rental companies with an obligation to repurchase the vehicles for a guaranteed amount, exercisable at the option of the customer. The transactions are accounted for as operating leases. Upon the transfer of vehicles to the daily rental companies, we record proceeds received in Other liabilities and deferred revenue. The difference between the proceeds received and the guaranteed repurchase amount is recorded in revenues over the term of the lease using a straight-line method. The cost of the vehicle is recorded in Net investment in operating leases on our consolidated balance sheet and the difference between the cost of the vehicle and the estimated auction value is depreciated in Cost of sales over the term of the lease.

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NOTE 6. TOTAL COST OF SALES AND SELLING, ADMINISTRATIVE AND OTHER EXPENSES

Amounts included in *Cost of sales and Selling, administrative, and other expenses* on our income statement were as follows (in millions):

	For the years ended December 31,	
	2020	2019
Manufacturing materials, labour and overhead	£ 1,333	£ 2,159
Purchase of new vehicles, parts and accessories	6,394	9,060
Exceptional cost of sales (a)	96	285
Depreciation and amortisation (a)	199	227
Warranty	165	104
Advertising	94	122
Other	457	647
Total cost of sales and selling, administrative, and other expenses	£ 8,738	£ 12,604

- (a) The directors of the Company have performed a detailed review of the Bridgend Engine Plant following the announcement made in June 2019 regarding the planned closure of the plant in September 2020. The review resulted in employee separation expenses related to restructuring of £96m (2019: £285m) and £38m (2019: £54m) accelerated write down of property, plant and equipment.

NOTE 7. OTHER OPERATING INCOME

Amounts included in *Other operating income* on our income statement were as follows (in millions):

	For the years ended December 31,	
	2020	2019
Government grants	£ 25	£ -
Total	£ 25	£ -

Government grants consist of UK Government support under the Furlough Scheme and financial support given to the manufacturing and sales sectors.

NOTE 8. PROFIT

Profit is arrived at after charging/(crediting) (in millions):

	For the years ended December 31,	
	2020	2019
Total depreciation on property, plant and equipment and investment property		
Land, land improvements, and buildings	£ 48	£ 13
Machinery, equipment and other	98	143
Special tooling	48	66
Loss/(profit) on disposal of property, plant and equipment	6	(32)
Inventory recognised as an expense	7,459	11,301
Operating lease rentals	4	-

Auditors' remuneration for the statutory audit of the Company's annual financial statements was £532,500 (2019: £519,300). Remuneration for provision of other services was split as follows; statutory audit of the associated financial statements was £185,530 (2019: £216,056), tax advisory was £2,000 (2019: £25,000) and other non-audit related services was £7,000 (2019: £7,000).

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NOTE 9. NET FOREIGN CURRENCY EXCHANGE LOSSES

Net foreign currency exchange losses/(gains) recognised on our income statement were as follows (in millions):

	For the years ended December 31,	
	2020	2019
Cost of sales	£ 70	£ 45
Net foreign currency exchange losses	£ 70	£ 45

NOTE 10. INTEREST EXPENSE AND OTHER INTEREST INCOME AND FINANCE INCOME, NET

Amounts included in *Interest expense* and *Other interest income and finance income, net* on our income statement were as follows (in millions):

	For the years ended December 31,	
	2020	2019
Interest expense - debt	£ 14	£ -
Interest expense - group undertakings	4	8
Interest expense - other	2	12
	20	20
Interest income - group undertakings	3	1
Interest income - other	10	4
	£ 13	£ 5

NOTE 11. INCOME TAXES

The *Income tax expense* on our income statement was estimated as follows (in millions):

	For the years ended December 31,	
	2020	2019
Current		
<u>UK corporation tax</u>		
Current tax (benefit) / expense on profits for the year	£ -	£ 47
Changes in estimates related to prior years	(42)	19
Restitution interest tax - accrual for reimbursement to affiliate		(6)
<u>Group relief</u>		
Current year (benefit) / expense	(24)	-
Changes in estimates related to prior years	3	2
Total current tax (benefit) / expense	(63)	62
Deferred		
Current year temporary differences	42	24
Changes in estimates related to prior years	26	(43)
Impact of rate change	(9)	-
Prior year adjustment to Advance Corporation Tax	-	40
Total deferred tax expense	59	21
Income tax (benefit) / expense reported in the income statement	£ (4)	£ 83

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NOTE 11. INCOME TAXES (continued)

Tax expense for the period is lower (2019: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2020 of 19.00% (2019: 19.00%). The differences are explained below:

	For the years ended December 31,	
	2020	2019
Profit on ordinary activities before income taxes	£ 72	£ 376
Tax calculated at UK rate of corporation tax of 19% (2018: 19%)	14	71
Tax effects of:		
Expenses / Income not taxable / (deductible) for tax purposes	4	3
Tax rate differential	-	(3)
Impact of rate change on deferred tax	(9)	-
Change in estimate related to prior years	(39)	21
• Prior year adjustments to deferred tax	26	(43)
Prior year adjustments to Advanced Corporate Tax	-	40
Restitution income tax	-	(6)
Income tax (benefit)/expense	£ (4)	£ 83
Effective tax rate	(5.2)%	22.1%

The deferred tax amounts shown on the balance sheet at December 31 were as follows (in millions):

	2020	2019
Deferred tax assets	£ 200	£ 276
Deferred tax liabilities	(172)	(110)
Net deferred tax assets	£ 28	£ 166

Deferred taxes by major category at December 31 were as follows (in millions):

	2020	2019
Deferred tax assets		
Decelerated capital allowances	£ 191	£ 226
Provisions	8	9
Revaluation of cash flow hedges	1	41
Capital losses	-	-
Total deferred tax assets	200	276
Deferred tax liabilities		
Retirement obligations	(156)	(96)
R&D expenditure credits	(1)	(1)
Plant, property and equipment	(5)	(4)
Chargeable gains rolled over	(10)	(9)
Total deferred tax liabilities	(172)	(110)
Net deferred tax assets	£ 28	£ 166

There are unremitted earnings of £244.8m (2019: £208.9m) relating to the Company's direct subsidiaries. No deferred tax has been provided on this amount as distributions to the Company would be exempt from UK taxation. Disposals of the subsidiaries would also be exempt from UK taxation under the Substantial Shareholdings Exemption.

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NOTE 11. INCOME TAXES (continued)

No deferred tax asset has been provided on connected party capital losses of £170.2m (2019: £170.2m) on the basis that it is not probable that these will be utilised in the future.

At December 31, 2020, Ford Motor Company Limited had pre-tax operating loss carry-forwards for income tax purposes in the amount of £nil million (2019: £nil).

The current and non-current portions of deferred income taxes expected to be recovered or settled within and after one year at December 31 were as follows (in millions):

	2020	2019
Deferred tax assets		
Current portion	£ 25	£
Non-current portion	175	276
Total deferred tax asset	200	276
Deferred tax liabilities		
Current portion		(28)
Non-current portion	(172)	(82)
Total deferred tax liabilities	(172)	(110)
Net deferred tax asset	£ 28	£ 166

The company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same tax authority.

On 10th June 2021, Finance Act 2021 was enacted. This provided for an increase in the main rate of corporation tax in the UK from 19% to 25% from 1st April 2023 for UK tax resident companies whose profits exceed a certain threshold. As the legislation required to increase the UK Corporation Tax rate had not been substantively enacted at the balance sheet date, its effects have not been reflected in the preparation of the financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would have been to increase the current tax/group relief credit by £7.6m and increase the deferred tax asset by £9.0m.

NOTE 12. TRADE AND OTHER RECEIVABLES

Trade and other receivables are analysed as follows (in millions):

	As at December 31,	
	2020	2019
Amounts falling due within one year		
Trade receivables	£ 49	£ 132
Amounts owed by group undertakings	1,992	1,326
Amounts owed by associated undertakings	2	9
Other receivables	19	56
Prepayments and accrued income	20	20
	2,082	1,543
Amounts falling due after more than one year		
Other receivables	4	4
	4	4
Total	£ 2,086	£ 1,547

Amounts owed by group undertakings are unsecured and are repayable on demand.

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NOTE 13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Income Effect of Derivative Financial Instruments

The gains/(losses), by hedge designation, recorded in *Cost of sales* were as follows (in millions):

	As at December 31,	
	2020	2019
Cash flow hedges		
Reclassified from AOCI to income	£ (72)	£ (40)
Derivatives not designated as hedging instruments		
Foreign currency exchange contracts	24	(7)
Total	£ (48)	£ (47)

Statement of Financial Position Effect of Derivative Financial Instruments

The notional amount and estimated fair value of our derivative financial instruments were as follows (in millions).

	December 31, 2020			December 31, 2019		
	Notional	Fair Value of Assets	Fair Value of Liabilities	Notional	Fair Value of Assets	Fair Value of Liabilities
Cash flow hedges						
Foreign currency exchange	£ 5,155	£ 33	£ (61)	£ 4,894	£ 4	£ (243)
Derivatives not designated as hedging instruments						
Foreign currency exchange contracts	(491)	26	(21)	269	4	(51)
Total derivative value, gross	£ 4,664	59	(82)	£ 5,163	8	(294)
Current portion		£ 48	£ (51)		£ 8	£ (176)
Non-current portion		11	(31)			(118)
Total		£ 59	£ (82)		£ 8	£ (294)

Notional amounts are presented on a gross basis. The notional amounts of the derivative financial instruments do not represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. We enter into master agreements with counterparties that may allow for netting of exposures in the event of default or termination of the counterparty agreement due to breach of contract.

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NOTE 14. INVENTORIES

Inventories on our statement of financial position were as follows (in millions):

	As at December 31,	
	2020	2019
Raw materials and supplies	£ 55	£ 71
Work-in-process	89	151
Finished products and vehicles previously subject to operating lease	522	238
Total	£ 666	£ 460

The write-down of *Inventories* to net realisable value as an expense was £0.8 million and £0.8 million for the years ended December 31, 2020 and 2019, respectively.

Included in raw materials and supplies and finished products is £50.0 million (2019: £50.1 million) relating to assets which the Company is committed to buy-back although legal title has passed to a third party.

NOTE 15. NET INVESTMENT IN OPERATING LEASES

Net investment in operating leases consists primarily of lease contracts for vehicles with employees, daily rental companies and fleet customers, with terms of 6-12 months or less. Payment extensions may be requested by the customer and are generally limited to a maximum of six months over the term of the lease. Term extensions may also be requested by the customer. Term and payment extensions in total generally do not exceed twelve months. A lease can be terminated at any time by satisfying the obligations under the lease agreement. Early termination programs may be occasionally offered to eligible lessees. At the end of the lease, the customer returns the vehicle or may have the option to buy the leased vehicle. In the case of a contract default and repossession, the customer typically remains liable for any deficiency between net auction proceeds and the defaulted contract obligations, including any repossession-related expenses.

Revenue from rental payments received on operating leases is recognized on a straight-line basis over the term of the lease. The accrual of revenue on operating leases is discontinued at the time an account is determined to be uncollectible.

Depreciation expense on vehicles subject to operating leases is recognized on a straight-line basis in an amount necessary to reduce the leased vehicle value to its estimated residual value at the end of the lease term. Our policy is to promptly sell returned off-lease vehicles. We evaluate our depreciation for leased vehicles on a regular basis taking into consideration various assumptions, such as expected residual values at lease termination and the estimated number of vehicles that will be returned to us. Adjustments to depreciation expense reflecting revised estimates of expected residual values at the end of the lease terms are recorded prospectively on a straight-line basis. Upon disposition of the vehicle, the difference between net book value and actual proceeds is recorded as an adjustment to Depreciation on vehicles subject to operating leases.

Accumulated depreciation reduces the value of the vehicles from their initial production value to their expected residual value at the end of the lease, with the associated depreciation expense recognized on a straight-line basis over the term of the lease. At the time of purchase, we establish the expected residual value for the vehicle based on recent auction values, return volumes for our leased vehicles, industry-wide used vehicle prices, marketing incentive plans, and vehicle quality data. We monitor residual values each month and review the accuracy of our accumulated depreciation on a quarterly basis.

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NOTE 15. NET INVESTMENT IN OPERATING LEASES (continued)

Net investment in operating leases at December 31 was as follows (in millions):

	2020	2019
Vehicles	£ 112	£ 124

Operating leases are generally pre-payable without penalty and may cause actual paid amounts due to differ from amounts contractually due.

NOTE 16. INTANGIBLE ASSETS

Changes in *Intangible assets* balances on our statement of financial position were as follows (in millions):

	Software
Cost	
Beginning balance 1 January 2020	£ 63
Additions	1
Disposals	(7)
Ending balance 31 December 2020	57
Accumulated amortisation and impairment	
Beginning balance 1 January 2020	(49)
Amortisation	6
Disposals	(6)
Ending balance 31 December 2020	(49)
Net Book Value 31 December 2020	£ 8
Net Book Value 31 December 2019	£ 14

NOTE 17. PROPERTY, PLANT AND EQUIPMENT

Changes in *property, plant and equipment* balances on our statement of financial position were as follows (in millions):

	For the year ended December 31, 2020				
	Land, Land Improvements, and Buildings	Machinery, Equipment, and Other	Special Tooling	Construction In Progress	Total
Cost					
Beginning balance 1 January 2020	£ 478	£ 1,372	£ 396	£ 12	2,258
Additions/transfers	10	23	5	13	52
Disposals/transfers	(9)	(146)	(70)	-	(226)
Ending balance 31 December 2020	479	1,249	331	25	2,084
Accumulated depreciation and impairment					
Beginning balance 1 January 2020	(253)	(927)	(209)	-	(1,389)
Depreciation	(48)	(98)	(48)	-	(194)
Disposals	6	131	70	-	207
Ending balance 31 December 2020	(295)	(894)	(187)	-	(1,376)
Net Book Value 31 December 2020	£ 184	355	£ 144	£ 25	£ 708
Net Book Value 31 December 2019	£ 225	£ 445	£ 187	£ 12	£ 869

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NOTE 17. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of land, land improvements and buildings comprises freehold £165m (2019: £207m). £48m (2019: £48m) relates to land which is not depreciated.

The net book value of land, land improvements and buildings includes £17m (2019: £17m) for right of use assets.

The net book value of machinery, equipment and other includes £8m (2019: £22m) for right of use assets.

NOTE 18. LEASE COMMITMENTS

We lease land, offices, distribution centres and equipment under agreements with contractual periods ranging from less than one year to 10 years. Many of our leases contain one or more options to extend. We include options that we are reasonably certain to exercise in our evaluation of the lease term after considering all relevant economic and financial factors. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

For the majority of our leases commencing after January 1, 2019, we do not separate the non-lease components (e.g., maintenance and operating services) from the lease components to which they relate. Instead, non-lease components are included in the measurement of the lease liabilities.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

We calculate the initial lease liability as the present value of fixed payments not yet paid and variable payments that are based on a market rate or an index (e.g. CPI), measured at commencement. The majority of our leases are discounted using our incremental borrowing rate because the rate implicit in the lease is not readily determinable. All other variable payments are expensed as incurred.

Lease right-of-use assets at December 31 2020 were as follows (in millions):

For the year ended December 31, 2020			
	Land, Land Improvements, and Buildings	Machinery, Equipment, and Other	Total
Cost	£ 24	£ 25	£ 49
Accumulated depreciation	(7)	(17)	(24)
Net carrying amount (a)	£ 17	£ 8	£ 25

(a) Additions to leased assets during the year were £12m (2019: £9m).

(b) Termination / Expiration during the year were £5m as net book value (2019: £nil)

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NOTE 18. LEASE COMMITMENTS (continued)

The components of lease expense for the year ended December 31 2020 were as follows (in millions):

	<u>2020</u>
Depreciation	
Land and buildings	£
Machinery, equipment, and other	16
Total depreciation	
Other Expenses	
Interest expense	1
Total lease expense	<u>£</u>

NOTE 19. INVESTMENT PROPERTY

Changes in *Investment Property* balances on our statement of financial position were as follows (in millions):

	<u>Land, Land Improvements, and</u>
Cost	
Beginning balance 1 January 2020	£ 36
Disposals	
Ending balance 31 December 2020	<u>36</u>
Accumulated depreciation and impairment	
Beginning balance 1 January 2020	(17)
Depreciation	
Ending balance 31 December 2020	<u>(17)</u>
Net Book Value 31 December 2020	<u>£ 19</u>
Net Book Value 31 December 2019	<u>£ 19</u>

Included within freehold investment property above is £10.6m (2019: £10.6m) relating to land which is not depreciated.

NOTE 20. INVESTMENT IN SUBSIDIARIES AND ASSOCIATES

Investment in subsidiaries and associates on our statement of financial position was as follows (in millions):

	<u>For the year ended December 31, 2020</u>		
	<u>Group undertakings shares</u>	<u>Associated undertakings</u>	<u>Total</u>
Cost			
1 January and 31 December 2020	£ 413	£ 11	£ 424
Provisions			
1 January and 31 December 2020		(2)	(2)
Net Book Value 31 December 2020	<u>£ 413</u>	<u>£ 9</u>	<u>£ 422</u>
Net Book Value 31 December 2019	<u>£ 413</u>	<u>£ 9</u>	<u>£ 422</u>

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NOTE 20. INVESTMENT IN SUBSIDIARIES AND ASSOCIATES (continued)

Subsidiaries

Organisation	Jurisdiction	Ownership %	Principle Activity
Henry Ford and Son Limited	Ireland (a)	100%	Vehicle and parts sales
Henry Ford and Son (Finance) Unlimited Company	Ireland (a)	100%	Dormant
Ford Retail Group Limited	England (b)	100%	Vehicle servicing and repair
Ford Retail Limited	England (b)	100%	Vehicle and parts sales
Standard Leasing Limited	England (b)	100%	Dormant
Ford International Liquidity Management Limited	England (c)	100%	Treasury operations
Ford Hourly Escrow Trustee Limited	England (c)	100%	Dormant
Ford Pension Fund Investment Management Limited	England (c)	100%	Dormant
Ford Pension Fund Trustees Limited	England (c)	100%	Dormant
Ford Pension Scheme for Senior Staff Trustees Limited	England (c)	100%	Dormant
Ford Halewood Transmissions Limited	England (c)	100%	Dormant
Ford Salaried Pension Fund Trustees Limited	England (c)	100%	Dormant
Ford Senior Staff Escrow Trustee Limited	England (c)	100%	Dormant

The associated undertaking is the Centre for Engineering and Manufacturing Excellence (CEME), a charitable trust training college (d)

Registered Offices

- (a) Elm Court, Boreenmanna Road, Cork, T12 HHW2
- (b) 2 Charter Court Newcomen Way, Colchester Business Park, Colchester, Essex, CO4 9YA
- (c) Arterial Road, Laindon, Essex, SS15 6EE
- (d) CEME Campus, Marsh Way, Rainham, Essex, RM13 8EU

NOTE 21. PENSION

The pension arrangements provide employees with defined benefits related to pay and service as set out in the rules of each fund. The main funds are the "Hourly Paid Contributory Pension Fund", the "Salaried Contributory Pension Fund", the "Pension Scheme for Senior Staff" and the "Existing" and "Retail" sections of the Cosworth Racing Limited Pension Fund. These are all consolidated and disclosed together as the "Funded Plans". There is an additional plan called the "Company unapproved arrangement (UURBs)" which is unfunded and disclosed separately as the "Unfunded Plans".

Contributions to the funds by the Company take into consideration the results of actuarial valuations carried out by the independent scheme actuary. The assets of the funds are invested and are held separately from those of the Company.

The valuation used for FRS 101 disclosures has been based on a full assessment of the liabilities of the funds by an independent qualified actuary using the latest full membership data at the following effective dates:

- Hourly Paid Fund: 31 August 2020
- Salaried Fund: 31 August 2020
- Senior Staff Scheme: 31 March 2020
- UURBs arrangement: consistent with the data used for the Fund in which they joined from (i.e. 31 August 2020 for Salaried members and 31 March 2020 for Senior Staff members)
- Cosworth Racing Limited Pension Fund: 31 March 2018

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NOTE 21. PENSION (continued)

The funds show a net surplus before deferred tax of (in millions):

	As at December 31,	
	2020	2019
Funded Plans	£ 1,368	£ 1,202
Unfunded Plans	(249)	(207)
Net Pension Surplus	£ 1,119	£ 995

The Company intends to ensure its pension schemes are adequately funded over time.

Assumptions

The assumptions used to determine expense and benefit obligations were as follows:

	For the years ended December 31,	
	2020	2019
Rate of increase in salaries	3.75%	3.50%
Rate of increase to pensions in payment attracting LPI (max.5%)	2.25%	2.00%
Inflation assumption (see below) CPI	2.25%	2.00%
Inflation assumption (see below) RPI	2.75%	2.70%
<u>Discount Rate</u>		
- Hourly paid	1.500%	1.867%
- Salaried	1.500%	1.885%
- Senior Staff	1.5%	1.9%
- Cosworth	1.5%	1.9%
- Retail	1.4%	1.9%
Expected average age at death for a member aged 65	86.4	86.2
Expected average age at death for a member aged 45	87.5	87.4

At 31 December 2020, there were 6,412 current employee members, 38,730 retirees and 14,524 deferred members. The weighted average duration of these obligations is 18 years.

In addition to guaranteed increases, pension in payment increases are made at the Company's discretion. The cost of any future discretionary increases will be recognised at the time of the increase and the cost of funding these increases is borne wholly by the Company.

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NOTE 21. PENSION (continued)**Pension Plan Contributions**

The contributions agreed and paid in 2020, and those forecast to be paid in 2021 by the Company are as follows:

	Hourly Paid Fund	Salaried Fund	Senior Staff Scheme	Cosworth Section	Retail Section	Unfunded Unregistered Retirement Benefit Scheme
1 Jan 2020 – 31 Dec 2020	Total contributions of approx £6.4m	Total contributions of approx £103.7m	Total contributions of approx £0.4m	Total contributions of nil	Total contributions of nil	Total benefit payments of approx £3.5m
1 Jan 2021 – 31 Dec 2021	Total contributions of approx £57.5m	Total contributions of approx £95.4m	Total contributions of approx £1.0m	Total contributions of nil	Total contributions of nil	Total benefit payments of approx £2.5m

Contributions related to benefit augmentations would be in addition to the above amounts.

A number of Ford Credit Europe plc ("FCE") employees who are based in the United Kingdom participate in the Salaried Contributory Pension Fund and the Pension Scheme for Senior Staff. As there is no contractual agreement or stated policy for charging the net defined benefit cost for the plan to FCE, the contributions received from FCE are recognised as a pension cost credit within operating profit and all of the assets and liabilities of the funds are recognised by the Company.

Amounts received from FCE amounted to £11.0m (2019: £13.0m) for regular pension contributions.

Funded Plans**Benefit Plans - Expense and Status**

The net expense for our defined benefit pension for the years ended December 31, were as follows (in millions):

	For the years ended December 31,	
	2020	2019
Expense		
Current service cost	£ 175	£ 173
Interest (income), net	(28)	(45)
Past service cost	15	179
Curtailment / Settlement cost	28	
Net expense	£ 190	£ 307

Investment management expenses of £19m (2019: £21m) have been paid directly by the Company and have been recognised in *other comprehensive income* as remeasurement of the liability for the net defined post-employment benefit.

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NOTE 21. PENSION (continued)

The year-end status of these plans was as follows (in millions):

	As at December 31,	
	2020	2019
Change in benefit obligation		
Benefit obligation at January 1	£ 12,380	£ 10,771
Current service cost	174	173
Interest expense	205	264
Past service cost (including separations)	15	179
Benefits paid	(546)	(508)
Loss/(gain) from remeasurement	1,250	1,506
Curtailment / Settlement Cost	28	
Plan participant contributions (including NIARRs)	4	6
Other (UURBS transfer)	(12)	(11)
Benefit obligation at December 31	13,498	12,380
Change in plan assets		
Fair value of plan assets at January 1	13,589	12,752
Interest income	233	309
Gain/(loss) from remeasurement	1,483	871
Company contributions	111	159
Plan participant contributions (including NIARRs)	4	6
Benefits paid	(546)	(508)
Fair value of plan assets at December 31	14,874	13,589
Total	£ 1,376	£ 1,209

Reconciliation of funded status to Statement of Financial Position (in millions):

	As at December 31,	
	2020	2019
Fair value of fund assets	£ 14,874	£ 13,589
Present value of defined benefit obligations	13,498	12,380
Surplus	1,376	1,209
Surplus not recognised	(8)	(7)
Net pension asset	£ 1,368	£ 1,202

The Cosworth Pension Fund has a surplus that is not recognised, on the basis that future economic benefits are not available to the entity in the form of a reduction in the future contributions or a cash refund. In accordance with the requirements of IFRIC 14, we have recognised a minimum funding commitment associated with that plan.

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NOTE 21. PENSION (continued)

The return on the plan assets was (in millions):

	For the years ended December 31,	
	2020	2019
Interest income	£ 233	£ 309
Remeasurements	1,483	871
Total return on plan assets	£ 1,716	£ 1,180

Analysis of amounts recognised in the Statement of Comprehensive Income (in millions):

	For the years ended December 31,	
	2020	2019
Total actuarial gain/(loss)	£ 233	£ (634)
Surplus not recognised		2
Total gain/(loss) in Statement of Comprehensive Income	£ 233	£ (632)

Pension Plan Assets

The fair value of our defined benefit pension plan assets by asset category at December 31 was as follows (in millions):

Asset Category	As at December 31,	
	2020	2019
Equities	£ 1,139	£ 403
Bonds	12,440	11,927
Absolute return strategies	689	644
Private equity	334	346
Real estate	151	186
Delegated growth funds	10	17
Other assets (including cash)	111	66
Total assets at fair value	£ 14,874	£ 13,589

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NOTE 21. PENSION (continued)**Unfunded Plans****Benefit Plans - Expense and Status**

The net expense for our defined benefit pension for the years ended December 31, were as follows (in millions):

	For the years ended December 31,	
	2020	2019
Expense		
Current service cost	£ 11	£ 12
Interest expense, net	5	5
Past service cost	-	5
Curtailment/Settlement cost	(2)	(18)
Net expense	£ 14	£ 4

The year-end status of these plans was as follows (in millions):

	For the years ended December 31,	
	2020	2019
Change in benefit obligation		
Benefit obligation at January 1	207	£ 175
Current service cost	11	12
Interest expense	4	5
Loss/(gain) from remeasurement	20	21
Past service cost (including separations)	-	5
Benefits paid	(3)	(3)
Curtailment/Settlement cost	(2)	(18)
Other (UURBS transfer)	12	10
Benefit obligation at December 31	249	207
Change in plan assets		
Fair value of plan assets at January 1	-	-
Company contributions	3	3
Benefits paid	(3)	(3)
Fair value of plan assets at December 31	-	-
Net Pension Liability	£ (249)	£ (207)

Analysis of amounts recognised in the Statement of Comprehensive Income (in millions):

	For the years ended December 31,	
	2020	2019
Total actuarial (loss)/gain	£ (20)	£ (21)
Total (loss)/gain in Statement of Comprehensive Income	£ (20)	£ (21)

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NOTE 22. ACCOUNTS PAYABLE

Accounts payable is analysed as follows (in millions):

	As at December 31,	
	2020	2019
Trade payables	£ 425	£ 518
Amounts owed to group undertakings	390	187
Amounts owed to associated undertakings	220	259
Corporation tax	-	47
Taxation and social security	284	107
Total	£ 1,319	£ 1,118

Amounts owed to group and associated undertakings are unsecured and are repayable on demand.

NOTE 23. DEBT

Debt on our statement of financial position was as follows (in millions):

	As at December 31,	
	2020	2019
<i>Due greater than one year but less than five years:</i>		
Bank Loans	£ 552	£ -
Total	£ 552	£ -
Current portion		
Non-current portion	552	-
Total	£ 552	£ -

Bank loans relate to the amount drawn under a £625m loan facility from a syndicate of commercial banks with support from a £500m guarantee from UK Export Finance (UKEF).

Bank loans are unsecured and fully repayable on 30 June 2025. The Company incurred transaction costs of £9.1m in obtaining the loans during the year which are amortised over the life of the loan. The unamortised transaction costs as at 31 December 2020 are £8.9m.

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NOTE 24. DEFERRED REVENUE AND OTHER LIABILITIES

Deferred revenue and other liabilities are analysed as follows (in millions):

	As at December 31,	
	2020	2019
Amounts falling due within one year		
Finance leases within one year	£ 17	£ 19
Other creditors within one year	1	1
Accruals and deferred income	202	197
	<u>220</u>	<u>217</u>
Amounts falling due after more than one year		
Finance leases more than one year	8	
Accruals and deferred income	90	55
	<u>98</u>	<u>55</u>
Total	<u>£ 318</u>	<u>£ 272</u>

The amounts contractually due on our lease liabilities as of December 31, 2020 were as follows (in millions):

	Lease Commitments
Within 1 year	£ 9
After 1 year and within 2 years	5
After 2 years and within 3 years	4
After 3 years and within 4 years	2
After 4 years and within 5 years	1
After 5 years	4
Total	<u>25</u>

NOTE 25. PROVISIONS

Provisions on our statement of financial position were as follows (in millions):

	As at December 31,	
	2020	2019
Warranties	£ 230	£ 175
Dealer and customer claims	468	782
Other	76	214
Total	<u>£ 774</u>	<u>£ 1,171</u>
Current portion	683	1,117
Non-current portion	91	54
Total	<u>£ 774</u>	<u>£ 1,171</u>

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NOTE 25. PROVISIONS (continued)

Warranties

We accrue obligations for warranty costs and field service actions (i.e., safety recalls, emission recalls, and other product campaigns) at the time of sale. We establish estimates for warranty and field service action obligations using a patterned estimation model using historical information regarding the nature, frequency, and average cost of claims for each vehicle line by model year. We re-evaluate the adequacy of our accruals on a regular basis and any revisions to our estimated obligation for warranties and field service actions are reported as *Changes in accrual related to pre-existing warranties* in the table below.

The changes in provisions for warranties were as follows (in millions):

	For the years ended December 31,	
	2020	2019
Beginning balance	£ 175	£ 185
Provisions made	124	101
Changes related to pre-existing provisions	41	2
Payments made	(108)	(114)
Sweden NSC transfer to commercial vehicles (CV)	4	-
Unrealised profit adjustment	(6)	-
Accretion of discounting	-	1
Ending balance	£ 230	£ 175
Current portion	140	123
Non-current portion	90	52
Total	£ 230	£ 175

Dealer and Customer Claims

We accrue for dealer and customer claims related to incentive programs that are approved as of the reporting date and are expected to be effective at the beginning of the subsequent period.

The changes in provisions for dealer and customer claims were as follows (in millions):

	For the years ended December 31,	
	2020	2019
Beginning balance	£ 782	£ 614
Provisions made	846	1,682
Payments made	(1,160)	(1,514)
Ending balance	£ 468	£ 782
Current portion	468	782
Non-current portion	-	-
Total	£ 468	£ 782

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NOTE 25. PROVISIONS (continued)

Other

Other provisions are associated with legal and restructuring actions, employee benefits and other items.

Legal actions. Various legal actions, proceedings, and claims (generally, "matters") are pending or may be instituted or asserted against us.

The extent of our financial exposure to these matters is difficult to estimate. Many matters do not specify amount for damages, and many others specify only a jurisdictional minimum. To the extent an amount is asserted, our historical experience suggests that in most instances the amount asserted is not a reliable indicator of the ultimate outcome.

Litigation and claims are accrued when losses are deemed probable and reasonably estimable. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, and the severity of any potential loss. We re-evaluate and update our provisions accruals as matters progress over time.

As noted, the litigation process is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. Our assessments are based on our knowledge and experience, but the ultimate outcome of any matter could require payment in excess of the amount that we have accrued and/or disclosed.

The ending restructuring provision in relation to the Bridgend Engine Plant closure is £58m (2019: £171m).

The changes in other provisions were as follows (in millions):

	For the years ended December 31,	
	2020	2019
Beginning balance	£ 214	£ 48
Additional provisions, including changes related to pre-existing provisions	74	230
Payments made	(212)	(64)
Ending balance	£ 76	£ 214
Current portion	75	212
Non-current portion	1	2
Total	£ 76	£ 214

NOTE 26. OTHER FINANCIAL LIABILITIES

Other financial liabilities on the statement of financial position consist of our guarantees and indemnifications.

Guarantees and indemnifications are recorded at fair value at their inception. We regularly review our performance risk under these arrangements, and in the event it becomes probable we will be required to perform under guarantee or indemnity, the amount of probable payment is recorded.

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NOTE 26. OTHER FINANCIAL LIABILITIES (continued)

We guarantee certain financial obligations of outside third parties, including suppliers, to support our business and economic growth. Expiration dates vary through 2025, and guarantees will terminate on payment and/or cancellation of the underlying obligation. A payment by us would be triggered by failure of the joint venture or other third party to fulfil its obligation covered by the guarantee. In some circumstances, we are entitled to recover from a third party amounts paid by us under the guarantee. However, our ability to enforce these rights is sometimes delayed until the guaranteed party is paid in full, and may be limited in the event of insolvency of the third party or other circumstances.

In the ordinary course of business, we execute contracts involving indemnifications standard in the industry and indemnifications specific to a transaction, such as the sale of a business. These indemnifications might include and are not limited to claims relating to any of the following: environmental, tax, and shareholder matters; intellectual property rights; power generations contracts; government regulations and employment-related matters; dealer, supplier, and other commercial contractual relationships; and other financial matters, such as securitisations.

Performance under these indemnities generally would be triggered by a breach of terms of the contract or by a third-party claim. While some of these indemnifications are limited in nature, many of them do not limit potential payment. Therefore, we are unable to estimate a maximum amount of future payments that could result from claims made under these unlimited indemnities.

The carrying value of recorded liabilities related to guarantees and indemnifications were £nil and £nil at December 31, 2020 and December 31, 2019, respectively.

NOTE 27. CALLED UP SHARE CAPITAL

The number of ordinary shares outstanding at December 31 were as follows (in millions):

	As at December 31,	
	2020	2019
Allotted and fully paid		
983,118,713 (2019: 983,118,713) ordinary shares of £0.86 (2019: £0.86 each)	£ 848	£ 848

All shares rank pari passu in all respects.

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NOTE 28. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The changes in the accumulated balances for each component of *Accumulated other comprehensive income/(loss)* attributable to Ford Motor Company Limited were as follows (in millions):

	For the years ended December 31,	
	2020	2019
Derivative Instruments		
Beginning balance	£ (222)	£ 25
Losses/(gain) on derivative instruments	168	(338)
Less: Tax benefit	(28)	58
Net losses/(gain) on derivative instruments	140	(280)
Losses reclassified from AOCI to income	72	40
Less: Tax benefit	(12)	(7)
Net losses reclassified from AOCI to net income	60	33
Other comprehensive loss/(gain), net of tax	200	(247)
Ending balance	£ (22)	£ (222)
Pension		
Beginning balance	£ -	£ -
(Losses)/gains arising during the year	194	(675)
Less: Tax benefit/(tax)	(38)	110
Other comprehensive (loss)/income, net of tax	156	(565)
Reclassification to retained earnings, net of tax	(156)	565
Ending balance	£ -	£ -
Total AOCI ending balance at December 31	£ (22)	£ (222)

NOTE 29. CONTINGENT LIABILITIES

The following table summarises the contingent liabilities which are not recorded on the statement of financial position (in millions):

	As at December 31,	
	2020	2019
Contingent liabilities	£ 22	£ 25

Litigation and Claims

Various legal actions, proceedings, and claims (generally, "matters") are pending or may be instituted or asserted against us. These include but are not limited to matters arising out of alleged defects in our products; product warranties; governmental regulations relating to safety, emissions, and fuel economy or other matters; government incentives; tax matters; alleged illegal acts resulting in fines or penalties; financial services; employment-related matters; dealer, supplier, and other contractual relationships; intellectual property rights; environmental matters; shareholder or investor matters; and other financial reporting matters. Certain of the pending legal actions are, or purport to be, class actions. Some of the matters involve claims of compensatory, punitive, or antitrust, or other treble damages in very large amounts, or demands for field service actions, environmental remediation programs, sanctions, loss of government incentives, assessments, or other relief, which, if granted, would require very large expenditures.

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NOTE 29. CONTINGENT LIABILITIES (continued)

We accrue for matters when losses are deemed probable and reasonably estimable. In evaluation matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood that we will prevail, and the severity of any potential loss. We revalue and update our accruals as matters of progress over time.

For the majority of matters, which generally arise out of alleged defects in our products, we establish an accrual based on our extensive historical experience in such matters. We do not believe there is a reasonably possible outcome materially in excess of our accrual for these matters.

For the remaining matters, where our historical experience with similar matters is of more limited value (i.e., "non-pattern matters"), we evaluate the matter primarily based on the individual facts and circumstances. For non-pattern matters, we evaluate whether there is a reasonable possibility of a material loss in excess of any accrual that can be estimated. Our estimate of reasonably possible loss in excess of our accruals for all material matters currently reflects indirect tax and customs matters, for which we estimate the aggregate risk to be a range of up to £21.7 million (2019: £24.9m).

NOTE 30. CAPITAL AND OTHER COMMITMENTS

At 31 December, the Company had the following capital and other commitments (in millions):

	As at December 31,	
	2020	2019
Aggregate of capital contracts approved but not provided for	£ 88	£ 87
Other purchase commitments	397	488
Total	£ 485	£ 575

NOTE 31. EMPLOYEES AND DIRECTORS

Employment costs were as follows (in millions):

	For the years ended December 31,	
	2020	2019
Employment costs		
Wages and salaries	£ 642	£ 875
Pension costs, net of recharges	125	237
Social security costs	86	95
Total	£ 853	£ 1,207

Included above are £138m (2019: £150m) of employment costs that were recharged to the immediate holding company, Ford Technologies Limited for seconded employees.

Included above are £8m (2019: £8m) of employment costs that were recharged to Ford Smart Mobility U.K.Limited for seconded employees.

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NOTE 31. EMPLOYEES AND DIRECTORS (continued)

The average monthly number of persons employed in the Company by geographical location was as follows:

Location of employment	For the years ended December 31,	
	2020 Employees	2019 Employees
South East	5,494	6,031
South Wales	827	1,568
Midlands	338	332
Total United Kingdom	6,659	7,931
Overseas	41	64
Total	6,700	7,995

Aggregate emoluments of the directors amounted to £1.0m (2019: £1.2m). As at 31 December 2020 retirement benefits are accruing under a defined benefit pension scheme to six directors (2019: six directors) and under a defined contribution pension scheme to no directors (2019: no directors). During the year no directors (2019: no directors) exercised share options in the ultimate holding Company and eight directors (2019: ten directors) were eligible to receive shares in the ultimate holding Company under an annual incentive programme.

The highest paid director's emoluments were £0.2m (2019: £0.2m). The highest paid director did not exercise share options during the year. The highest paid director had an accrued annual pension at the end of the year of £0.1m (2019: £0.1m) and an accrued lump sum of £nil (2019: £nil) under a defined benefit pension scheme.

The Company guaranteed directors' loans from a group undertaking of £0.8m (2019: £1.0m) in respect of cars purchased from the Company during the year, the maximum loan liability at any date being £0.5m (2019: £0.4m). Neither the Company nor the group undertaking incurred any liability through fulfilment of these guarantees. The outstanding loan balances and associated accrued interest at the end of the year was £0.3m (2019: £0.3m).

NOTE 32. SHARE-BASED PAYMENTS

The Company's ultimate holding Company issues restricted stock units ("RSUs") to our employees, which consist of time-based and performance-based awards. RSUs provide the recipients with the right to shares of our ultimate holding Company's Share Capital following a specified performance period and/or vesting period. Time-based awards generally have a vesting feature whereby one-third of each grant of RSUs vests after the first anniversary of the grant date, one-third after the second anniversary, and one-third after the third anniversary. Performance-based RSUs vest at the end of the specified performance period, generally three years, assuming required metrics are met. Performance-based RSUs have two components: one based on the ultimate holding Company's internal financial performance metrics, and the other based on ultimate holding Company's total shareholder return relative to total shareholder returns of an industrial and automotive peer group. The ultimate holding Company issue new shares of Share Capital upon vesting of RSUs. At the time of vest, RSU awards are net settled (shares are withheld to cover the employee tax obligation).

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NOTE 32. SHARE-BASED PAYMENTS (continued)

The fair value of both the time-based and the portion of the performance-based RSUs pertaining to internal performance metrics is determined using the closing price of our ultimate holding Company's Share Capital. The fair value of time-based RSUs is expensed over the shorter of the vesting period, using the graded vesting method, or the time period an employee becomes eligible to retain the award at retirement. The fair value of performance-based RSUs is expensed when it is probable and estimable as measured against the performance metrics over the shorter of the performance or required service periods. Expense is recorded in *Selling, administrative, and other expenses*.

Share-based compensation awards outstanding at December 31, 2020 consist of awards granted to employees under the 2008 Long-Term Incentive Plans ("LTIP"). Under the 2008 LTIP, the number of shares that may be granted in any year is limited to 2% of our ultimate holding Company's issued and outstanding Share Capital as of December 31 of the prior calendar year. Any unused portion is available for awards in later years. The limit may be increased up to 3% in any year, with a corresponding reduction in shares available for grants in future years.

The performance-based RSUs granted in March 2020 include a Relative Total Shareholder Return ("TSR" metric). We estimate the fair value of the TSR component of the performance-based RSUs using a Monte Carlo simulation. Inputs and assumptions used to calculate the fair value at grant date were as follows:

	For the year ended December 31, 2020
Fair value per stock award	\$ 7.21
Grant date stock price	7.08
Assumptions:	
Ultimate holding Company stock price expected volatility (a)	25.4%
Expected average volatility of peer companies (a)	26.4%
Risk-free interest rate	0.68%

(a) Expected volatility based on three years of daily closing share price changes ending on the grant date.

During 2020 the number and weighted average grant date fair market price of the share awards are as follows:

	For the years ended December 31,	
	2020	2019
Number of shares	623,317	763,978
Average fair market price of shares (US\$)	\$ 7.08	\$ 8.81

Stock Options

During 2020, no stock options in our ultimate holding Company were issued to our employees. As of December 31, 2020, the last of our outstanding stock options in our ultimate holding Company will expire in March 2024, if not exercised sooner. We measure the fair value of our stock options in our ultimate holding Company using the Black-Scholes option-pricing model and record expense in *Selling, administrative, and other expenses*.

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NOTE 32. SHARE-BASED PAYMENTS (continued)

Out of the 403,903 outstanding options (2019: 542,380 options), 403,903 options (2019: 542,380) were exercisable. Options exercised in 2020 resulted in nil shares (2019: 178,138 shares) being issued at a weighted average price of N/A each (2019: \$1.96 each). The related weighted average share price at the time of exercise was N/A (2019: \$8.62) per share.

Details on various stock option exercise price ranges as of December 31, 2020 were as follows:

Range of Exercise prices US\$	2020 Weighted Average Grant Price US\$	2020 Number of Stocks	2020 Weighted Average Remaining Life Years	2019 Weighted Average Grant Price US\$	2019 Number of Stocks	2019 Weighted Average Remaining Life Years
1.96-5.50	-	-	-	-	-	-
5.51-7.50	-	-	-	-	-	-
7.51-9.50	-	-	-	-	-	-
9.51-11.50	-	-	-	-	-	-
11.51-13.50	12.62	210,248	1.7	12.64	341,071	1.9
13.51-15.50	15.09	193,655	1.8	15.08	201,309	2.7
At 31 December	13.81	403,903	1.8	13.55	542,380	2.2

NOTE 33. EVENTS SUBSEQUENT TO THE REPORTING DATE

There were no post balance sheet events requiring disclosure in the financial statements.

NOTE 34. CONTROLLING PARTIES

The Company's immediate parent company is Ford Technologies Limited, a company registered in England and Wales. The ultimate holding company and controlling party is Ford Motor Company, a company incorporated in the State of Delaware in the USA. At 31 December 2020, the results of the Company are only consolidated into the financial statements of Ford Motor Company. Copies of the ultimate parent company's financial statements may be obtained from: Ford Motor Company, One American Road, Dearborn, Michigan 48126, USA.

NOTE 35. RELATED PARTIES TRANSACTIONS

The Company, acting as the European commercial vehicle entrepreneur to the UK and other European markets has contracted Ford Otosan, a Turkish joint venture company of which Ford Motor Company, USA, owns 41% of the issued share capital to assemble the Transit vehicles for export under contract. Under this contract, with the Company supplying the components to Ford Otosan for assembly, net purchases from Ford Otosan were £1,991m (2019: £2,662m), with a closing payable at 31 December 2020 to Ford Otosan of £214.1m (2019: £255.2m).

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NOTE 35. RELATED PARTIES TRANSACTIONS (continued)

The Company held a contract with the Ford Sollers Holding LLC, a Russian joint venture company 50% owned by Ford Motor Company, USA, to assemble some Transit vehicles for sale in the Russia market. Under this contract the Company supplied components and vehicles of £nil (2019: £16.1m), with a closing receivable at 31 December 2020 of £nil (2019: £nil). During 2020 net purchases were also made of £nil (2019: £14.2m).

The Company has outsourced to Percepta UK Limited, its customer service centres. Percepta UK Limited is a UK company ultimately owned by Percepta, LLC, a US joint venture company of which Ford Motor Company, USA, owns 45% of the issued share capital. During 2020 net purchases were £17.2m (2019: £9.0m), with a closing payable at 31 December 2020 of £0.9m (2019: £0.5m).

In addition, the Company purchases transmission services from Getrag Ford Transmissions GmbH, a Germany joint venture company of which Ford Getriebe-Beteiligungsgesellschaft GmbH, owns 50% of the issued share capital. During 2020 net purchases were £0.3m (2019: £1.7m), with a closing payable at 31 December 2020 of £nil (2019: £nil).