



UAW FORD

Modifications to 2007 Agreement and Addendum to VEBA Agreement

February 2009

A message to UAW Ford workers

February 24, 2009

Dear Brothers and Sisters,

As we all know, Ford Motor Company lost \$5.9 billion in the 4th quarter of 2008, and \$14.6 billion total in 2008. In addition, and in some ways of much greater concern, Ford used up \$21 Billion of their cash reserves in 2008 and is burning more than a billion dollars a month just to stay in business because revenue from sales have dropped so dramatically. The company cannot continue to sustain this level of losses and stay in business.

The U.S. auto industry as a whole is in a severe crisis, with an annual selling rate that could be as low as 9 to 10 million vehicles in 2009—down from a normal level of 16 to 17 million vehicles per year. At this level of sales, no auto company, including the transplants, can continue operations without significant modifications.

Fortunately, Ford obtained a \$25 billion credit line from private markets in 2006 and therefore has not yet had to apply for government loans as was necessary for Chrysler and GM. In 2006, Ford mortgaged all of its assets in order to receive the line of credit that is keeping them afloat today. Because of the current global banking and financial crisis, no further private financing is available. Without substantial restructuring and change from all stakeholders—senior management, general salary, bondholders and creditors, dealers, suppliers, and our UAW Ford membership—Ford cannot survive on a long-term basis.

This document summarizes the tentative modifications to the 2007 agreement the UAW has reached with Ford Motor Company, and an Addendum to the agreement establishing the Voluntary Employee Beneficiary Association (VEBA) trust for retiree health care.

Faced with catastrophic circumstances never seen before in our industry, your bargaining committee was determined to make the necessary sacrifices in a manner that would cause the least amount of long-term pain to our members and would protect as many jobs as possible and not cut our members' base wages, not reduce our health care benefits, and would protect our retirees.

There is no loss in your base hourly pay, no reduction in your health care, and no reduction in your pension. In addition, in the face of these hard times and financial realities we have negotiated a funding structure that maintains the core principle that the VEBA must receive assets with the value consistent with the 2007 national agreement, so that our retiree health care continues to be protected.

Your bargaining committee also demanded that all stakeholders must share fairly in the sacrifices necessary to save Ford. Salaried workers have already made substantial sacrifices and will be called on for more. All company executives up to and including the Board of Directors and the CEO are making sacrifices. Dealers, suppliers and bondholders are all contributing to this massive effort to keep Ford viable and sustain good jobs in the USA.

While we realize the proposed sacrifices for UAW members are painful, we were able to prevent any further plant closings, we secured new product guarantees, and we negotiated new opportunities for UAW involvement in future business decisions.

We believe these modifications to our contract and the VEBA trust are truly essential to keeping Ford in business so we can keep manufacturing jobs here in the United States. We urge a "yes" vote in favor of ratification.

In Solidarity,

Ron Gettelfinger
President

Bob King, *Vice President*
and Director, UAW Ford Department

and the UAW Ford National Negotiating Committee

Proposed Modifications to the 2007 UAW Ford National Agreement

Alternative Work Schedules

Following discussions with the local union the company can implement an Alternative Work Schedule that is currently agreed to in the Ford system with a minimum of a 14-day notification and approval by the National Ford Department. The local parties may develop an AWS to address unique operating issues with approval of the National parties.

Overtime

Upon ratification of the proposed modifications, the time-and-a-half rate will begin after 40 compensated straight time hours. Saturday and Sunday premiums will be paid after 40 hours straight-time compensation in the same work week, including authorized leaves of absence.

Relief Time

Break time has been reduced to 40 minutes of relief time per eight-hour shift and 50 minutes per 10-hour shift.

COLA

Cost-of-living adjustments will be suspended for the term of the modified agreement to offset health care costs.

Performance Bonus

The parties agreed to suspend payment of performance bonuses scheduled for 2009 and 2010 to offset health care costs.

Christmas Bonus

The parties agreed to suspend payment of Christmas bonuses scheduled for 2009 and 2010 to offset health care costs.

Buyouts

In order to address the issue of excess manpower, the following buyout options for Ford workers will be offered effective April 1, 2009 and ending May 22, 2009.

Buyouts will be available according to the following schedule:

- Retirement-eligible skilled trades workers: \$40,000
- Retirement-eligible production workers: \$20,000
- Not eligible for retirement, but with at least one year of seniority: \$50,000

Workers in all of the above groups will receive a \$25,000 voucher toward the purchase of a Ford vehicle or may opt for a \$20,000 cash payment instead of the voucher.

Workers not eligible for retirement who elect a buyout will receive basic medical and hospitalization coverage for six months following separation from the company; dental and vision are not included. These workers will also break seniority and will extinguish their recall rights.

In addition, an Educational Opportunity option will be available under the following terms:

- Two years of tuition assistance, up to \$15,000 per year
- Two-year stipend of 50% of annual wage
- Two years of health care coverage, including dental and vision

Direct Deposit

Unless prohibited by state law, all employee compensation will be paid by direct deposit. In the event it is not possible to do direct deposit, checks will be mailed to the employee's last home address on record.

Paid Holiday Plan

To help offset health care costs, negotiators agreed to suspend the Easter Monday holiday in each of the remaining years of the current agreement. The holiday scheduled for Monday, April 13, 2009 will be suspended, as will Monday, April 5, 2010 and Monday, April 25, 2011.

Entry Level

Performance and Christmas bonuses will be suspended for entry-level workers for the duration of the proposed modified agreement. Entry level employees will earn 13 weeks of Supplemental Unemployment Benefits (SUB) after one year of seniority and 26 after three years of seniority.

Sourcing, Product and Investment Commitments

Future Products

Due to the depressed economic environment and reduced automobile sales, the company informed us that several plants were in jeopardy of closure. As a part of the overall agreement, the UAW achieved commitments to:

- Recommitted products for all current assembly plants, with the exception of Twin Cities.
- Source a new transmission to U.S. operations
- Commit to additional engine production in the U.S.
- Source in-house production of advanced technologies vehicles to the Michigan Assembly Plant
- Insource kitting and additional starter volume to Rawsonville
- Insource additional crank shaft volume to Woodhaven Forging.

Investment Commitment

Due to the uncertainty of the industry, Ford agreed that any deviations from the product commitments to UAW-represented facilities during these negotiations would be subject to the grievance procedure and the company will be required to sit down with the union to discuss alternative plans to fulfill the intent of the future product commitment.

Sourcing

UAW strengthened our involvement in early product sourcing decisions. Twice annually, the company will review its five-year global assembly and powertrain cycle plan with the union.

In addition, 12 sourcing-related activities have been identified in which the UAW will participate to accomplish early and direct involvement for our members.

Study on Insourcing Seat Assembly

A study will be conducted to assess the feasibility of insourcing seat assembly work. Particular attention will be given to insourcing seats at the Rawsonville, Mich., plant.

Seat Supplier Issues

During these negotiations, UAW and Ford established that a fully fringed labor rate of \$35 per hour for seat assembly when the work is being done at a supplier company is competitive.

Sterling Axle Plant

The union secured a commitment from the company to continue allocating products and additional work to Sterling Axle.

UAW, Ford and Supplier Partnerships

The company has agreed to a quarterly meeting between the UAW Vice President and Director of the UAW Ford Department and Ford Purchasing Directors for commodities and supplied parts, to foster partnership between the UAW, Ford and key suppliers.

In addition, Ford will host an annual workshop for UAW-represented suppliers to allow UAW-represented suppliers an opportunity to provide input and ideas as well as to further the relationship with Ford's Purchasing and Operations functions.

The UAW Vice President and Director of the UAW National Ford Department will be provided an opportunity to speak at Ford's annual Top 100 supplier conference.

Ratification and Approval

This is a summary of the proposed modifications to the 2007 UAW Ford National Agreement, and a summary of the Addendum to the agreement establishing the Voluntary Employee Beneficiary Association (VEBA) Trust. In all cases, the actual language will apply.

Modifications to the 2007 UAW Ford National Agreement will take effect on the first Monday following the ratification of the Agreement. The Addendum to the VEBA agreement is subject to court approval, various government approvals, and approval by Ford shareholders.

Mexico Investment Review

UAW negotiators won a commitment from the company on the issue of sourcing Ford products to Mexico. The company agreed that prior to making any product commitments to Mexico, discussions will be held with the UAW to consider alternative sourcing possibilities.

Stamping Business Unit and Dearborn Tool and Die

During these negotiations, Ford re-committed to \$200 million in technology and equipment investments at U.S. stamping plants. In addition, the company re-committed to \$20 million for new equipment for the Dearborn (Mich.) Tool and Die; this investment will take place when adequate cash becomes available.

Skilled Trades Competitiveness

Self-directed Mechanical Skilled Trade Teams will be established to perform work assignments which the team can perform effectively and safely in pilot locations where no mechanical skilled trades are on layoff.

Vacation

Under terms of the proposed modifications, there will be no pay in lieu of vacation, except in cases where a vacation is cancelled by management or for accrued vacation that was not taken for reasons beyond the employee's control.

Company-paid Physical Exams, Preventive Programs Required

As a result of these proposed modifications to the 2007 Agreement, all UAW Ford-represented employees will now be required to take a physical exam – paid for by the company – based on the following schedule.

| Age | Schedule |
|-------------|---------------|
| Under 40 | every 3 years |
| 40-49 | every 2 years |
| 50 and over | every year |

Additionally, UAW Ford workers will be required to participate in any subsequently negotiated recommended health coaching or disease management programs. If a member elects not to participate in physical exams according to the above schedule, and/or does not participate in the recommended programs, he or she will be required to pay a \$25 monthly health care premium.

The company will cover all costs associated with participation in the recommended programs.

Equity of Sacrifice

UAW and Ford negotiators agreed that all company stakeholders must participate in the modifications necessary to maintain business operations and become fully competitive.

The company agreed to provide a quarterly update on the level of sacrifice contributed by various Ford stakeholders, including: executives, directors, management and salaried personnel, active and retired UAW members, bondholders, dealers and suppliers.

ACH Commitment (former Visteon)

In the proposed agreement, Ford commits to restructure the following Automotive Components Holdings facilities: Milan, Saline, Sheldon Rd. and Sandusky to make them attractive for sale and commits they will not close through the term of the 2007 UAW Ford National Agreement.

Job Security Program Suspended

The parties agreed to suspend certain provisions of the Job Security Program that place employees in Protected Status for the remainder of the agreement. All employees currently in Protected Status will be placed on layoff on the effective date of this agreement and employees henceforth eligible for Protected Status also will be placed on layoff and will be eligible for the SUB and TAP benefits outlined below.

SUB Modified, Transition Assistance Plan (TAP) Established

The proposed agreement modifies the Supplemental Unemployment Benefit (SUB) and establishes a new Transition Assistance Plan (TAP) according to the following schedule.

| SENIORITY | SUB | TAP |
|---------------|----------|----------|
| 20-plus years | 52 weeks | 52 weeks |
| 10-20 years | 39 weeks | 39 weeks |
| 1-10 years | 26 weeks | 26 weeks |

The Transition Assistance Plan pays 50 percent of the employee's gross base pay for a 40-hour work week. No carve-out of any earnings except state systems benefits will be taken from TAP payments.

Members may choose to opt out of the TAP and will receive the remaining TAP liability and \$10,000. If the member chooses this option, he or she will forfeit all recall rights but their remaining allotment of health care coverage continues.

The health care benefit under SUB remains unchanged from the 2007 National Agreement. Coverage is based on years of employment, according to the following schedule.

| Years of Service | Coverage Duration |
|--------------------|-------------------|
| Less than 1 | 0 months |
| 1 but less than 2 | 2 months |
| 2 but less than 3 | 4 months |
| 3 but less than 4 | 6 months |
| 4 but less than 5 | 8 months |
| 5 but less than 6 | 10 months |
| 6 but less than 10 | 12 months |
| 10 or above | 24 months |

One Out-of-Zone Job Offer

After the existing hierarchy is completed, employees on layoff have three options:

A) accept an out-of-zone placement;

B) be dropped from pay and benefits with recall rights only;

C) bump the low seniority employee in zone who is working (in Michigan, zones 1 and 2 will be combined for this action only).

If option C is elected, the low-seniority working employee in the zone must accept out-of-town placement or be dropped from rolls with only recall rights.

Low-seniority skilled employees on layoff after the hierarchy is exhausted for non-skilled openings in-zone may be forced to accept the non-skilled opportunity in-zone or be dropped from the rolls with recall rights only.

Addendum to Voluntary Employee Beneficiary Association (VEBA) agreement:

*New funding structure aids company finances,
protects retirees*

Under the 2007 National UAW-Ford Agreement, medical benefits for current and future retirees will be covered by a new Trust Fund (called a "Voluntary Employee Beneficiary Association" or "VEBA"). In the 2007 Agreement, the parties agreed to a series of funding obligations for the VEBA. Those funding obligations were designed to allow the VEBA to provide continued retiree medical coverage at current levels, with retiree co-pays, deductibles and contributions increasing at a 3% annual rate through 2015 and a 4% annual rate starting in 2016, based on projections involving future investment returns, medical inflation, rates of retirement, and other factors.

The VEBA will not be responsible for providing benefits until January 1, 2010. Until that time, Ford will continue to provide the benefits at current levels. The 2007 Agreement also provided that some of the funds that are to be transferred into the VEBA on January 1, 2010 were to be held in a trust fund and a "Temporary Asset Account" at Ford, and invested by Ford, during 2008 and 2009. The 2007 Agreement also included a mechanism for the VEBA to benefit from future increases in Ford's stock price above certain levels. The value of these components of the 2007 Agreement have been impacted by negative investment returns and decreases in Ford's stock price during 2008.

VEBA Committee can adjust benefits beginning in 2010: The VEBA will be governed

by an 11-member Committee, including 5 members appointed by the UAW and 6 Independent Members. Under the 2007 Agreement, that Committee has the authority, starting on January 1, 2012, to adjust benefits so that benefit levels are consistent with the assets in the Trust, including projected future earnings, inflation, etc. Under the Addendum to the 2007 agreement which established the VEBA, the Committee's authority would be adjusted, so that the Committee could make necessary adjustments beginning on January 1, 2010. In view of the dramatic and unexpected losses in the investment markets during 2008, it is important that the Committee has the flexibility to make sure that the level of benefits provided by the VEBA is consistent with the assets levels in the VEBA.

The Committee will continue to monitor projected assets and liabilities, and will closely watch for any potential market recovery during the rest of 2009, before making any decision. The Addendum reflects the importance of giving the Committee the tools that it needs to deal with this rapidly changing situation.

Addendum protects value of VEBA funding assets

On February 16, President Obama appointed a Presidential Task Force to oversee the restructuring of the domestic automobile industry. As part of the emergency loan agreements already obtained by GM and Chrysler, those companies are obligated

Addendum to Voluntary Employee Beneficiary Association (VEBA) agreement *continued*

to modify their VEBA obligations by contributing one-half of the value of each scheduled contribution in the form of stock. This is necessary because a failure of any of these companies would be catastrophic for retirees, since the funding for VEBA is scheduled to be deposited over the next several years and the failure of the company would put those future VEBA contributions at grave risk.

Our overall goal in the VEBA discussions was to protect current and future retirees. The Addendum modifies the schedule for VEBA contributions but maintains the core principle that the VEBA must receive assets with a value consistent with the 2007 Agreement. Although the timing of the contributions has been modified, on an aggregate basis the payments have not been delayed. Also, on an aggregate basis, Ford will continue to be obligated to pay at least half of the contributions in cash.

Company contributes stock; VEBA funding remains diversified: Another key goal in these discussions was to design a structure in which Ford would be able to meet a substantial portion of its obligations to the VEBA by contributing stock, while at the same time not exposing the VEBA to large amounts of risk associated with Ford's stock price. To accomplish this, we were guided by two principles:

First, the VEBA must receive that stock in relatively small annual installments over a long period of time, and must be allowed to promptly sell that stock once it is received. We did not want the VEBA to be forced into a position of being a long-term owner of large amounts of Ford stock. It is important that investments in the VEBA be

diversified, to avoid exposing the VEBA to risks associated with holding a large block of stock in a single company.

Second, the value attributed to the Ford stock would have to reflect the value of the Ford stock at the time of the contribution. Thus, if Ford's stock price is lower, the VEBA must receive more shares, so that the total value received in connection with any contribution provides the VEBA with the full value required under the 2007 Agreement. In other words, we wanted to make sure that this was a change in the form but not the value of the contributions.

To accomplish these objectives, the Addendum provides that annual contributions of stock will occur on a roughly level basis between December 31, 2009 and June 30, 2018. (Very small contributions continue through 2022, in accordance with the 2007 Agreement.) With the exception of the first three contributions, the Addendum provides that — each time a contribution is due — the number of shares transferred will be determined based on the average trading price for Ford stock during the 30 day period immediately prior to the scheduled contribution.

In other words, if Ford stock is trading at \$2 at the time of a contribution, Ford will be required to contribute twice the number of shares compared to what would be contributed if the stock were trading at \$4 at that time. With this mechanism, the VEBA is assured of receiving the correct number of shares to represent the necessary value for the scheduled contribution.

Addendum to Voluntary Employee Beneficiary Association (VEBA) agreement

continued

Finally, the Company has agreed to provisions (called "Registration Rights") which allow the VEBA to sell those shares promptly. While it will likely take four to six months to sell those shares after each contribution, the VEBA's exposure to share-price risk is limited to the short-term changes in Ford stock price during that brief period. In this manner, we have avoided exposing the VEBA to long-term share price risk on Ford stock.

The first three stock contributions will be calculated based on fixed share prices (\$2/share on December 31, 2009; \$2.10/share on June 30, 2010; and \$2.20/share on June 30, 2011). This mechanism means that, if the stock is trading above these levels, the VEBA will receive greater value, but if the stock is trading below these levels the VEBA is at risk of losing value for these first three contributions.

Funding backstops add protection: To further protect the VEBA, Ford agreed to two different "backstop" mechanisms. During the first three years, when the amount of stock received by the VEBA is determined based on these fixed share price figures, Ford will provide up to an additional \$50 million each year, based on the actual ability of the VEBA to realize the targeted price when it sells the shares. In other words, if there is a shortfall based on the stock price, Ford will make additional cash contributions of up to \$50 million in each of those years. In addition, for years 2012 through 2018, the amount of the New Note has been

increased by \$25 million each year, in order to compensate the VEBA for the risk that during the four to six months that it takes to sell the shares each year the stock price will decrease during that time.

The Addendum also makes clear that Ford's ability to make a portion of its annual contribution in the form of stock is conditioned on Ford's financial health. With this mechanism, the VEBA is protected against a situation where it would be forced to receive stock during a time when Ford is in dire financial difficulties.

The Addendum preserves the other features of the 2007 Agreement that protect the VEBA. For example, the New Notes under the Tentative Agreement are secured by a Second Lien of \$3 billion, consistent with the terms of the Second Lien Note under the 2007 Agreement. The Tentative Agreement also includes Warrants, which allow the VEBA to benefit from potential future increases in Ford stock price above certain levels, consistent with the terms of the 2007 Agreement.

Ford and the UAW have also pledged to work with the new Auto Task Force that the Obama administration has recently established, in order to find ways that the government can provide additional security to the retirees and the VEBA.

The Addendum to the VEBA agreement will require court approval, as well as various government approvals and approval by Ford shareholders.

UAW Ford National Negotiating Committee

Joel Goddard, UAW Local 898, Rawsonville, Mich., Co-Chairperson of the UAW Ford National Negotiating Committee, Subcouncil 6 (Manufacturing)

Bernie Ricke, UAW Local 600, Dearborn, Mich., Co-Chairperson of the UAW Ford National Negotiating Committee, Subcouncil 1 (Rouge)

Steve Stone, UAW Local 862, Louisville, Ky., Subcouncil 2 (Assembly)

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Secretary of the National Ford Council

Tony Richard, UAW Local 600, Dearborn, Mich., Subcouncil 1 (Rouge)

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Sean Coughlin, UAW Local 588, Chicago, Ill., Subcouncil 3 (Skilled Trades)

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Guy Hamilton, UAW Local 1250, Brook Park, Ohio, Subcouncil 4 (Stamping)

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Dave Mason, UAW Local 863, Sharonville, Ohio, Subcouncil 5 (Engine, Transmission and Powertrain)

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