

VISTEON CORP  
Form 10-Q  
October 25, 2018

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-15827

VISTEON CORPORATION

(Exact name of registrant as specified in its charter)

State of Delaware 38-3519512

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One Village Center Drive, Van Buren Township, Michigan 48111

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (800)-VISTEON

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant: has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

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As of October 18, 2018, the registrant had outstanding 28,909,766 shares of common stock.  
Exhibit index located on page number 50.

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Visteon Corporation and Subsidiaries  
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Part I  
Financial Information

Item 1. Consolidated Financial Statements

VISTEON CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Dollars in Millions Except Per Share Amounts)  
(Unaudited)

|  | Three Months<br>Ended<br>September 30 |        | Nine Months<br>Ended<br>September 30 |          |
|--|---------------------------------------|--------|--------------------------------------|----------|
|  | 2018                                  | 2017   | 2018                                 | 2017     |
| Sales  | \$681                                 | \$765  | \$2,253                              | \$2,349  |
| Cost of sales  | (599 )                                | (651 ) | (1,938 )                             | (1,995 ) |
| Gross margin   | 82                                    | 114    | 315                                  | 354      |
| Selling, general and administrative expenses                   | (40 )                                 | (55 )  | (139 )                               | (161 )   |
| Restructuring expense  | (18 )                                 | (6 )   | (28 )                                | (10 )    |
| Interest expense   | (4 )                                  | (4 )   | (11 )                                | (15 )    |
| Interest income  | 2                                     | 1      | 5                                    | 3        |
| Equity in net income of non-consolidated affiliates            | 3                                     | 1      | 10                                   | 6        |
| Other income, net  | 7                                     | 4      | 17                                   | 11       |
| Income before income taxes                                     | 32                                    | 55     | 169                                  | 188      |
| Provision for income taxes                                     | (9 )                                  | (8 )   | (42 )                                | (34 )    |
| Net income from continuing operations                          | 23                                    | 47     | 127                                  | 154      |
| Income from discontinued operations, net of tax                | 1                                     | —      | 2                                    | 8        |
| Net income   | 24                                    | 47     | 129                                  | 162      |
| Net income attributable to non-controlling interests           | (3 )                                  | (4 )   | (8 )                                 | (11 )    |
| Net income attributable to Visteon Corporation                 | \$21                                  | \$43   | \$121                                | \$151    |
| Basic earnings per share:                                      |                                       |        |                                      |          |
| Continuing operations  | \$0.68                                | \$1.38 | \$3.99                               | \$4.50   |
| Discontinued operations  | 0.03                                  | —      | 0.07                                 | 0.25     |
| Basic earnings per share attributable to Visteon Corporation   | \$0.71                                | \$1.38 | \$4.06                               | \$4.75   |
| Diluted earnings per share:                                    |                                       |        |                                      |          |
| Continuing operations  | \$0.68                                | \$1.35 | \$3.95                               | \$4.43   |
| Discontinued operations  | 0.03                                  | —      | 0.07                                 | 0.25     |
| Diluted earnings per share attributable to Visteon Corporation | \$0.71                                | \$1.35 | \$4.02                               | \$4.68   |
| Comprehensive income:  |                                       |        |                                      |          |
| Comprehensive income   | \$8                                   | \$59   | \$91                                 | \$205    |
| Comprehensive income attributable to Visteon Corporation       | \$8                                   | \$53   | \$87                                 | \$190    |

See accompanying notes to the consolidated financial statements.

VISTEON CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Dollars in Millions)

|   | (Unaudited)             |                        |
|---|-------------------------|------------------------|
|   | September<br>30<br>2018 | December<br>31<br>2017 |
| <b>ASSETS</b>   |                         |                        |
| Cash and equivalents  | \$ 439                  | \$ 706                 |
| Restricted cash   | 3                       | 3                      |
| Accounts receivable, net  | 448                     | 530                    |
| Inventories, net  | 222                     | 189                    |
| Other current assets  | 192                     | 175                    |
| Total current assets  | 1,304                   | 1,603                  |
| Property and equipment, net   | 384                     | 377                    |
| Intangible assets, net  | 130                     | 132                    |
| Investments in non-consolidated affiliates  | 39                      | 41                     |
| Other non-current assets  | 141                     | 151                    |
| Total assets  | \$ 1,998                | \$ 2,304               |
| <b>LIABILITIES AND EQUITY</b>   |                         |                        |
| Short-term debt, including current portion of long-term debt  | \$ 32                   | \$ 46                  |
| Accounts payable  | 432                     | 470                    |
| Accrued employee liabilities  | 65                      | 105                    |
| Other current liabilities   | 166                     | 180                    |
| Total current liabilities   | 695                     | 801                    |
| Long-term debt  | 348                     | 347                    |
| Employee benefits   | 256                     | 277                    |
| Deferred tax liabilities  | 22                      | 23                     |
| Other non-current liabilities   | 86                      | 95                     |
| Stockholders' equity:   |                         |                        |
| Preferred stock (par value \$0.01, 50 million shares authorized, none outstanding as of September 30, 2018 and December 31, 2017)   | —                       | —                      |
| Common stock (par value \$0.01, 250 million shares authorized, 55 million shares issued, 29 and 31 million shares outstanding as of September 30, 2018 and December 31, 2017, respectively) | 1                       | 1                      |
| Additional paid-in capital  | 1,331                   | 1,339                  |
| Retained earnings   | 1,566                   | 1,445                  |
| Accumulated other comprehensive loss  | (208                    | ) (174 )               |
| Treasury stock  | (2,214                  | ) (1,974 )             |
| Total Visteon Corporation stockholders' equity  | 476                     | 637                    |
| Non-controlling interests   | 115                     | 124                    |
| Total equity  | 591                     | 761                    |
| Total liabilities and equity  | \$ 1,998                | \$ 2,304               |

See accompanying notes to the consolidated financial statements.

VISTEON CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS<sup>1</sup>

(Dollars in Millions)

(Unaudited)

|  | Nine Months<br>Ended<br>September 30 |        |
|--|--------------------------------------|--------|
|  | 2018                                 | 2017   |
| Operating Activities   |                                      |        |
| Net income   | \$129                                | \$162  |
| Adjustments to reconcile net income to net cash provided from operating activities:  |                                      |        |
| Depreciation and amortization  | 67                                   | 62     |
| Equity in net income of non-consolidated affiliates, net of dividends remitted   | (10 )                                | (6 )   |
| Non-cash stock-based compensation  | 4                                    | 9      |
| Transaction gains  | (8 )                                 | (11 )  |
| Other non-cash items   | 2                                    | 2      |
| Changes in assets and liabilities:   |                                      |        |
| Accounts receivable  | 82                                   | 29     |
| Inventories  | (38 )                                | (15 )  |
| Accounts payable   | (17 )                                | (39 )  |
| Other assets and other liabilities   | (104 )                               | (64 )  |
| Net cash provided from operating activities  | 107                                  | 129    |
| Investing Activities   |                                      |        |
| Capital expenditures, including intangibles  | (96 )                                | (69 )  |
| Acquisition of businesses, net of cash acquired  | 16                                   | (47 )  |
| Settlement of net investment hedge   | —                                    | 5      |
| Proceeds from asset sales and business divestitures  | —                                    | 15     |
| Other  | 13                                   | 1      |
| Net cash used by investing activities  | (67 )                                | (95 )  |
| Financing Activities   |                                      |        |
| Short-term debt, net   | (13 )                                | 8      |
| Principal payments on debt   | —                                    | (2 )   |
| Distribution payments  | (14 )                                | (1 )   |
| Repurchase of common stock   | (250 )                               | (170 ) |
| Dividends paid to non-controlling interests  | (12 )                                | (29 )  |
| Stock based compensation tax withholding payments  | (7 )                                 | (1 )   |
| Other  | 2                                    | (3 )   |
| Net cash used by financing activities  | (294 )                               | (198 ) |
| Effect of exchange rate changes on cash  | (13 )                                | 17     |
| Net decrease in cash   | (267 )                               | (147 ) |
| Cash, cash equivalents, and restricted cash at beginning of the period   | 709                                  | 882    |
| Cash, cash equivalents, and restricted cash at end of the period   | \$442                                | \$735  |
| The Company has combined cash flows from discontinued and continuing operations within the operating and investing categories. |                                      |        |

See accompanying notes to the consolidated financial statements.



VISTEON CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Description of Business

Visteon Corporation (the "Company" or "Visteon") is a global automotive supplier that designs, engineers and manufactures innovative electronics products for nearly every original equipment vehicle manufacturer ("OEM") worldwide including Ford, Mazda, Renault/Nissan, General Motors, Jaguar/Land Rover, Honda, Volkswagen, BMW and Daimler. Visteon is headquartered in Van Buren Township, Michigan, and has an international network of manufacturing operations, technical centers and joint venture operations, supported by approximately 10,000 employees, dedicated to the design, development, manufacture and support of its product offerings and its global customers. The Company's manufacturing and engineering footprint is principally located outside of the U.S., with a heavy concentration in low-cost geographic regions.

Visteon provides value for its customers and stockholders through its technology-focused vehicle cockpit electronics business, by delivering a rich, connected cockpit experience for every car from luxury to entry. The Company's cockpit electronics business is one of the broadest portfolios in the industry and includes instrument clusters, information displays, infotainment systems, audio systems, head-up displays ("HUD"), SmartCore™ cockpit domain controllers, vehicle connectivity, and the DriveCore™ advanced safety platform. Visteon also supplies embedded multimedia and smartphone connectivity software solutions to the global automotive industry. The Company's vehicle cockpit electronics business is comprised of and reported under the Electronics segment.

NOTE 2. Summary of Significant Accounting Policies

The unaudited consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. These interim consolidated financial statements include all adjustments (consisting of normal recurring adjustments, except as otherwise disclosed) that management believes are necessary for a fair presentation of the results of operations, financial position and cash flows of the Company for the interim periods presented. Interim results are not necessarily indicative of full-year results.

Restricted Cash: Restricted cash represents amounts designated for uses other than current operations and includes \$2 million related to a letter of credit facility, and \$1 million related to cash collateral for other corporate purposes as of September 30, 2018.

Reclassifications: Certain prior period amounts have been reclassified to conform to the current period presentation.  
Other Income, Net:

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30,<br>2018 | Three<br>Months<br>Ended<br>September<br>30,<br>2017 | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |
|--|--|---|--|---|
| Pension financing benefits, net                      | \$3  | \$3   | \$9  | \$8   |
| Transformation initiatives                           | —  | (1)   | 4  | (1)   |
| Gain on non-consolidated affiliate transactions, net | 4  | 2   | 4  | 4   |
|  | \$7  | \$4   | \$17   | \$11  |

Pension financing benefits, net include return on assets net of interest costs and other amortization.

Transformation initiatives include information technology separation costs, integration of acquired business, and financial and advisory services incurred in connection with the Company's transformation into a pure play cockpit electronics business.



During the nine months ended September 30, 2018, the Company recognized a \$4 million benefit on settlement of litigation matters with the Company's former President and Chief Executive Officer ("former CEO") as further described in Note 17, "Commitments and Contingencies."

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On September 1, 2018, Visteon acquired an additional 1% ownership interest in Changchun Visteon FAWAY Auto Electronics Co., Ltd. ("VFAE" or the "VFAE acquisition"), a former non-consolidated affiliate, resulting in a total 51% controlling interest and a non-cash gain of \$4 million as further described in Note 3, "Acquisitions."

The 2017 gain on non-consolidated affiliate transactions, net are described in Note 5, "Non-Consolidated Affiliates." Recently Adopted Accounting Pronouncements:

Effective January 1, 2018 the Company adopted Accounting Standards Update Topic ("ASU") 2014-09 "Revenue from Contracts with Customers (Topic 606)," using the modified retrospective method. Under the modified retrospective method, the impact of applying the standard is recognized as a cumulative effect on retained earnings. The adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial position, results of operations, equity or cash flows as of the adoption date or for the nine months ended September 30, 2018. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Certain of the Company's nonpublic non-consolidated joint ventures have not yet adopted Topic 606 and therefore the Company's share of earnings as reported in equity in net income of non-consolidated affiliates continues to be reported under historical revenue accounting standards. The Company does not expect the adoption of Topic 606 by its nonpublic non-consolidated affiliates on January 1, 2019 to have a material impact on its results of operations or financial position. For additional information, refer to Note 18, "Revenue Recognition" to the Company's consolidated financial statements.

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of certain cash receipts and cash payments." The ASU addresses eight specific cash flow issues with the objective of reducing the diversity in practice in how certain transactions were classified in the statement of cash flows. The ASU is applied using a retrospective transition method to each period presented. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted the guidance on a retrospective basis on January 1, 2018 and accordingly, previously issued operating cash flows decreased by \$2 million, cash flows used by investing activities decreased by \$2 million and cash flows used by financing activities increased by \$1 million for the nine months ending September 30, 2017.

In November 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory," which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company's adoption of this standard on January 1, 2018 did not have a material impact on its consolidated financial statements.

In November 2016, the FASB issued an accounting standards update ASU 2016-18, "Restricted Cash," requiring that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The change is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Retrospective application is required. The Company adopted the guidance on a retrospective basis on January 1, 2018 and accordingly, included restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows.

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the presentation of net periodic pension cost and net periodic postretirement benefit cost." The ASU requires entities to present the service cost component of the net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Entities will present the other components separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, and disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The standard will be applied retrospectively for the presentation of the service cost component and the components of pension financing costs in the income statement, and prospectively for the guidance limiting the capitalization of net periodic benefit cost in assets to the service cost. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company previously recorded service cost with other compensation costs (benefits) in cost of sales and selling, general and administrative expenses. Adoption of the

standard results in the reclassification of other compensation costs (benefits) in "Other income, net." The Company's retrospective adoption of this standard on January 1, 2018 resulted in a \$2 million and \$5 million increase to cost of sales, and a \$1 million and \$3 million increase to selling, general and administrative expenses, with a corresponding \$3 million and \$8 million increase in other income with no impact to net income for the three and nine month periods ending September 30, 2017.

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In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." The ASU amends the scope of modification accounting for share-based payment arrangements, provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The new guidance allows companies to make certain changes to awards without accounting for them as modifications. It does not change the accounting for modifications. The new guidance is applied prospectively to awards changed on or after the adoption date. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company's adoption of this standard on January 1, 2018 did not have a material impact on its consolidated financial statements. Effective January 1, 2018 the Company has elected to early adopt ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities" which was created to better align accounting rules with a company's risk management activities to reflect the economic results of hedging in the financial statements and simplify hedge accounting treatment. The modified retrospective adoption of ASU 2017-12 did not have a material impact on the Company's consolidated financial position, results of operations, equity or cash flows as of the adoption date or for the nine months ended September 30, 2018. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. For additional information, refer to Note 16, "Fair Value Measurements and Financial Instruments" to the Company's consolidated financial statements.

#### Accounting Pronouncements Not Yet Adopted:

In June 2016, the FASB issued ASU 2016-13, "Credit Losses - Measurement of Credit Losses on Financial Instruments." The guidance requires that for most financial assets, losses be based on an expected loss approach which includes estimates of losses over the life of exposure that considers historical, current and forecasted information. Expanded disclosures related to the methods used to estimate the losses as well as a specific disaggregation of balances for financial assets are also required. The change is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company does not expect application of this accounting standards update to have a material impact on its consolidated financial statements. In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The amendments in Topic 842 supersede current lease requirements in Topic 840 which require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of this standard on the financial statements and disclosures, internal controls and accounting policies. This evaluation process includes reviewing all forms of leases and performing a completeness assessment over the lease population. The company has analyzed the practical expedients to determine the best path for applying the leasing standard and elected all available practical expedients, except for the hindsight expedient, which allows the use of hindsight in determining the lease term. The Company completed its system implementation evaluation during the second quarter of 2018, and concluded that a third party supported lease accounting information system solution will be implemented to account for the Company's leases. The Company has launched a project to implement this system, establish a new lease accounting process and design related internal controls. While the Company's evaluation is ongoing, the impact on existing processes, controls, information systems and the consolidated balance sheet is expected to be material. The Company does not expect a material impact on the consolidated income statement.

#### NOTE 3. Acquisitions

On September 1, 2018, the Company invested approximately \$300,000 and acquired an additional 1% ownership in VFAE, a Chinese automotive electronic applications manufacturer in which the Company had previously been an equity investor. The Company's ownership interest increased to 51% and, because of the change in control, the assets and liabilities of VFAE were consolidated from the date of the transaction. The Company made this additional investment as part of its long-term strategic plan for VFAE. The investment will contribute to the business growth and enhanced economic performance of VFAE by leveraging Visteon's manufacturing technology and engineering capabilities.

The VFAE acquisition has been accounted for as a purchase transaction. The total consideration, including the \$300,000 paid and the fair value of the original 50% interest, has been allocated to the assets acquired, liabilities assumed and non-controlling shareholder interest based on their representative value at September 1, 2018. The excess consideration over the estimated fair value of the net assets acquired has been allocated to goodwill. The operating results of VFAE have been included in the consolidated financial statements of the Company since the date of the transaction.

A preliminary summary of the fair value of the assets acquired and liabilities assumed, translated in U.S. dollars, in conjunction with the transaction is shown below (in millions):

| Assets Acquired                      |      | Liabilities Assumed               |      |
|--------------------------------------|------|-----------------------------------|------|
| Cash and equivalents                 | \$16 | Payable to Visteon Corporation    | \$9  |
| Accounts receivable, net             | 12   | Accounts payable                  | 6    |
| Inventories, net                     | 4    | Other current liabilities         | 5    |
| Other current assets                 | 6    | Income taxes payable              | 1    |
| Property and equipment, net          | 5    | Other non-current liabilities     | 2    |
| Intangible assets including goodwill | 9    | Total liabilities assumed         | 23   |
| Other non-current assets             | 1    | Non-controlling interest          | 15   |
| Total assets acquired                | \$53 | Visteon Corporation Consideration | \$15 |

The Company utilized a third party to assist in the fair value determination of certain components of the purchase price allocation, primarily intangible assets and non-controlling interest, as well as the fair value of the Company's original 50% equity investment.

Fair values of equity investment and non-controlling interest, as of the acquisition date were estimated using the discounted cash flow technique of the income approach. Fair values of intangible assets were based on the excess earning method of the income approach. The income approach requires the Company to project related future cash inflows and outflows and apply an appropriate discount rate. The estimates used in determining fair values are based on assumptions believed to be reasonable but which are inherently uncertain.

At December 31, 2017, the Company previously recorded its investment in VFAE of \$10 million as an Investment in non-consolidated affiliates on its consolidated balance sheet. In connection with its increased investment in VFAE, the Company recorded a gain of approximately \$4 million on its original investment, classified as "Other income, net" in the consolidated income statement.

The acquisition does not meet the thresholds for a significant acquisition and therefore no pro forma financial information is presented.

#### NOTE 4. Discontinued Operations

The Company completed the sale of the majority of its global Climate business (the "Climate Transaction") during 2015 and completed the divestiture of its global Interiors business in 2016 (the "Interiors Divestiture"). These transactions met the conditions required to qualify for discontinued operations reporting and accordingly the settlement of retained contingencies have been classified in income from discontinued operations, net of tax, in the consolidated statements of comprehensive income for the three and nine months ended September 30, 2018 and 2017. Discontinued operations are summarized as follows:

|   | Three<br>Months<br>Ended<br>September<br>30<br>2018 | Nine<br>Months<br>Ended<br>September<br>30<br>2017 | Three<br>Months<br>Ended<br>September<br>30<br>2018 | Nine<br>Months<br>Ended<br>September<br>30<br>2017 |
|---|---|--|---|--|
|   | (Dollars in Millions)                               |  |   |  |
| Selling, general and administrative expenses    | \$—   | \$—  | —   | \$—  |
| Restructuring expense                           | —   | —  | (1)   | —  |
| Gain on divestitures                            | 1   | —  | 4   | 7  |
| Income tax benefit                              | —   | —  | —   | 1  |
| Income from discontinued operations, net of tax | \$1   | \$—  | —   | \$8  |

During the first quarter of 2018, the Company recognized a \$3 million benefit on settlement of litigation matters with its former CEO as further described in Note 17, "Commitments and Contingencies."

In connection with the Climate Transaction, the Company completed the repurchase of the electronics operations located in India during the first quarter of 2017 for \$47 million, recognizing a \$7 million gain on settlement of purchase commitment contingencies. The Company had previously consolidated the India operations based on the Company's controlling financial interest as a result of the repurchase obligation, operating control, and the obligation to fund losses or benefit from earnings.

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## NOTE 5. Non-Consolidated Affiliates

## Non-Consolidated Affiliate Transactions

On September 1, 2018, Visteon acquired an additional 1% ownership interest in VFAE resulting in a total 51% controlling interest and a non-cash gain of \$4 million, as further described in Note 3, "Acquisitions."

During the first quarter of 2017, the Company completed the sale of its 50% interest in an equity method investment for proceeds of \$7 million, consistent with its carrying value. Additionally, the Company sold a cost method investment for proceeds of approximately \$3 million and recorded a pretax loss of \$1 million, classified as "Other income, net."

During the second quarter of 2017, the Company sold a cost method investment for proceeds of approximately \$3 million. The Company recorded a pretax gain of \$3 million classified as "Other income, net."

During the third quarter of 2017, the Company sold a cost method investment for proceeds of approximately \$2 million. The Company recorded a pretax gain of \$2 million classified as "Other income, net."

## Variable Interest Entities

The Company determines whether joint ventures in which it has invested are Variable Interest Entities ("VIE") at the start of each new venture and when a reconsideration event has occurred. An enterprise must consolidate a VIE if it is determined to be the primary beneficiary of the VIE. The primary beneficiary has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Visteon and Yangfeng Automotive Trim Systems Co. Ltd. ("YF") each own 50% of a joint venture under the name of Yanfeng Visteon Investment Co., Ltd. ("YFVIC"). In October 2014, YFVIC completed the purchase of YF's 49% direct ownership in Yanfeng Visteon Automotive Electronics Co., Ltd ("YFVE") a consolidated joint venture of the Company. The purchase by YFVIC was financed through a shareholder loan from YF and external borrowings which were guaranteed by Visteon, of which \$11 million is outstanding as of September 30, 2018. The guarantee contains standard non-payment provisions to cover the borrowers in event of non-payment of principal, accrued interest, and other fees, and the loan is expected to be fully paid by September 2019.

The Company determined that YFVIC is a VIE. The Company holds a variable interest in YFVIC primarily related to its ownership interests and subordinated financial support. The Company and YF each own 50% of YFVIC and neither entity has the power to control the operations of YFVIC; therefore, the Company is not the primary beneficiary of YFVIC and does not consolidate the joint venture.

A summary of the Company's investments in YFVIC is provided below.

|   | September 30, 2018 | December 31, 2017 |
|---|--------------------|-------------------|
| Payables due to YFVIC                   | \$ 12              | \$ 12             |
| Exposure to loss in YFVIC:              |                    |                   |
| Investment in YFVIC                     | \$ 35              | \$ 28             |
| Receivables due from YFVIC              | 27                 | 35                |
| Subordinated loan receivable from YFVIC | 20                 | 22                |
| Loan guarantee of YFVIC debt            | 11                 | 15                |
| Maximum exposure to loss in YFVIC       | \$ 93              | \$ 100            |



NOTE 6. Restructuring Activities

Given the economically-sensitive and highly competitive nature of the automotive electronics industry, the Company continues to closely monitor current market factors and industry trends, taking action as necessary which may include restructuring actions. However, there can be no assurance that any such actions will be sufficient to fully offset the impact of adverse factors on the Company or its results of operations, financial position and cash flows. During the three and nine months ended September 30, 2018, the Company recorded \$18 million and \$29 million of restructuring expenses, including discontinued operations, net of reversals, respectively.

Electronics

During the third quarter of 2018, the Company approved a restructuring program impacting engineering and administrative functions to optimize operations. The Company recorded approximately \$18 million in relation to the program and expects to incur up to \$25 million under this program. As of September 30, 2018, approximately \$16 million remains accrued for the program.

During the second quarter of 2018, the Company recorded employee severance and termination benefit expenses of approximately \$3 million related to legacy employees at a South America facility and \$2 million associated with employees at North America manufacturing facilities due to the wind-down of certain products. As of September 30, 2018, approximately \$4 million remains accrued for these programs.

During the fourth quarter of 2016, the Company approved a restructuring program impacting engineering and administrative functions to further align the Company's footprint with its core product technologies and customers. During the three and nine months ended September 30, 2018, the Company recorded approximately less than \$1 million and \$5 million of restructuring expenses, respectively under this program, and \$4 million remains accrued for the program as of September 30, 2018. The Company has recorded approximately \$45 million of restructuring expenses since inception of this program and it is considered substantially complete.

Discontinued Operations

During the first quarter of 2018, the Company recorded \$1 million associated with a former European Interiors facility related to settlement of employee severance litigation.

As of September 30, 2018, the Company retained approximately \$3 million of restructuring reserves as part of the Interiors Divestiture associated with previously announced programs for the fundamental reorganization of operations at facilities in Brazil and France.

## Restructuring Reserves

Restructuring reserve balances of \$27 million and \$24 million as of September 30, 2018 and December 31, 2017, respectively, are classified as "Other current liabilities" on the consolidated balance sheets. The Company anticipates that the activities associated with the current restructuring reserve balance will be substantially complete within one year. The Company's consolidated restructuring reserves and related activity are summarized below, including amounts associated with discontinued operations.

|                    | Electro-              | Other and<br>Discontinued<br>Operations | Total |
|--------------------|-----------------------|---|-------|
|                    | (Dollars in Millions) |   |       |
| December 31, 2017  | \$18                  | \$ 6                                    | \$24  |
| Expense            | 5                     | 1                                       | 6     |
| Utilization        | (12 )                 | —                                       | (12 ) |
| March 31, 2018     | 11                    | 7                                       | 18    |
| Expense            | 5                     | —                                       | 5     |
| Utilization        | (5 )                  | (4 )                                    | (9 )  |
| Foreign currency   | (1 )                  | —                                       | (1 )  |
| June 30, 2018      | 10                    | 3                                       | 13    |
| Expense, net       | 18                    | —                                       | 18    |
| Utilization        | (4 )                  | —                                       | (4 )  |
| September 30, 2018 | \$24                  | \$ 3                                    | \$27  |

## NOTE 7. Inventories

Inventories consist of the following components:

|                   | September<br>30<br>2018  | December<br>31<br>2017 |
|-------------------|--------------------------|------------------------|
|                   | (Dollars in<br>Millions) |                        |
| Raw materials     | \$150                    | \$ 133                 |
| Work-in-process   | 36                       | 24                     |
| Finished products | 36                       | 32                     |
|                   | \$222                    | \$ 189                 |

## NOTE 8. Other Assets

Other current assets are comprised of the following components:

|  | September<br>30<br>2018  | December<br>31<br>2017 |
|--|--------------------------|------------------------|
|  | (Dollars in<br>Millions) |                        |
| Recoverable taxes                            | \$55                     | \$ 56                  |
| Contractually reimbursable engineering costs | 40                       | 14                     |
| Prepaid assets and deposits                  | 37                       | 36                     |
| Joint venture receivables                    | 33                       | 43                     |
| Notes receivable                             | 19                       | 23                     |
| Derivative financial instruments             | 3                        | 1                      |
| Other  | 5                        | 2                      |
|  | \$192                    | \$ 175                 |

The Company receives bank notes from certain of its customers in China to settle trade accounts receivable. The Company may hold such bank notes until maturity, exchange them with suppliers to settle liabilities, or sell them to third party financial institutions in exchange for cash. The Company has entered into arrangements with financial institutions to sell certain bank notes, generally maturing within nine months. Notes are sold with recourse, but qualify as a sale as all rights to the notes have passed to the financial institution. The Company sold \$27 million during the nine months ended September 30, 2018 to financial institutions, \$11 million of which remains outstanding and will mature no later than the first quarter of 2019. The collection of such bank notes are included in operating cash flows based on the substance of the underlying transactions, which are operating in nature.

Other non-current assets are comprised of the following components:

|  | September<br>30<br>2018  | December<br>31<br>2017 |
|--|--------------------------|------------------------|
|  | (Dollars in<br>Millions) |                        |
| Deferred tax assets                          | \$44                     | \$ 46                  |
| Contractually reimbursable engineering costs | 36                       | 24                     |
| Recoverable taxes                            | 30                       | 35                     |
| Joint venture receivables                    | 20                       | 22                     |
| Long term notes receivable                   | —                        | 10                     |
| Other  | 11                       | 14                     |
|  | \$141                    | \$ 151                 |

In conjunction with the Interiors Divestiture, the Company entered into a three year term note with the buyer with an original maturity of December 1, 2019. This note was settled, prior to maturity, for \$11 million, including \$1 million of interest income.

Current and non-current contractually reimbursable engineering costs of \$40 million and \$36 million, respectively, as of September 30, 2018, and \$14 million and \$24 million, respectively, as of December 31, 2017, are related to pre-production design and development costs incurred pursuant to long-term supply arrangements that are contractually guaranteed for reimbursement by customers. The Company expects to receive cash reimbursement payments of approximately \$13 million during the remainder of 2018, \$40 million in 2019, \$15 million in 2020, \$7 million in 2021 and \$1 million in 2022 and beyond.

## NOTE 9. Intangible Assets, net

Intangible assets, net as of September 30, 2018 and December 31, 2017, are comprised of the following:

|                                  | Estimated Useful Life (years) | September 30, 2018   |                          |                    | December 31, 2017    |                          |                    |
|----------------------------------|-------------------------------|----------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
|                                  |                               | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Definite-Lived:                  |                               |                      |                          |                    |                      |                          |                    |
| Developed technology             | 8                             | \$40                 | \$ (31 )                 | \$ 9               | \$40                 | \$ (27 )                 | \$ 13              |
| Customer related                 | 10                            | 90                   | (39 )                    | 51                 | 88                   | (35 )                    | 53                 |
| Capitalized software development | 4                             | 12                   | (1 )                     | 11                 | 8                    | (1 )                     | 7                  |
| Other                            | 23                            | 14                   | (2 )                     | 12                 | 13                   | (1 )                     | 12                 |
| Subtotal                         |                               | 156                  | (73 )                    | 83                 | 149                  | (64 )                    | 85                 |
| Indefinite-Lived:                |                               |                      |                          |                    |                      |                          |                    |
| Goodwill                         |                               | 47                   | —                        | 47                 | 47                   | —                        | 47                 |
| Total                            |                               | \$203                | \$ (73 )                 | \$ 130             | \$196                | \$ (64 )                 | \$ 132             |

In connection with the VFAE acquisition, the Company recorded customer related intangible assets of \$7 million. These definite lived intangible assets are being amortized using the straight-line method over their estimated useful lives of 10 to 12 years. Additionally, the Company recorded goodwill of \$2 million for the excess of the total consideration over the fair values of the identifiable assets and liabilities acquired. These gross additions were partially offset by foreign currency related impacts in Customer related and Other intangibles of \$5 million and \$1 million, respectively.

During the year ended December 31, 2017, the Company contributed \$2 million to American Center for Mobility, a non-profit state of the art research and development facility. The contribution provides the Company certain rights regarding access to the facility for three years. The Company will use the facility for autonomous driving research and development activities for multiple products and therefore capitalized the contribution as an intangible asset. The Company made a second contribution of \$2 million during the third quarter of 2018. The asset is being amortized on a straight-line basis over a 36 month period beginning in January 2018.

The Company recorded approximately \$4 million and \$11 million of amortization expense related to definite-lived intangible assets for the three and nine months ended September 30, 2018, respectively. The Company currently estimates annual amortization expense to be \$16 million for 2018, \$17 million for 2019, \$13 million for 2020, and \$11 million for years 2021 and 2022. Indefinite-lived intangible assets are not amortized but are tested for impairment at least annually, or earlier when events and circumstances indicate that it is more likely than not that such assets have been impaired. There were no indicators of impairment during the nine months ended September 30, 2018.

A roll-forward of the carrying amounts of intangible assets is presented below:

|                       | Definite-lived intangibles |                  |                                  |       |          |       |
|-----------------------|----------------------------|------------------|----------------------------------|-------|----------|-------|
|                       | Developed Technology       | Customer Related | Capitalized Software Development | Other | Goodwill | Total |
| (Dollars in Millions) |                            |                  |                                  |       |          |       |
| December 31, 2017     | \$13                       | \$ 53            | \$ 7                             | \$ 12 | \$ 47    | \$132 |
| Additions             | —                          | 7                | 4                                | 2     | 2        | 15    |
| Foreign currency      | (1 )                       | (2 )             | —                                | (1 )  | (2 )     | (6 )  |
| Amortization          | (3 )                       | (7 )             | —                                | (1 )  | —        | (11 ) |
| September 30, 2018    | \$9                        | \$ 51            | \$ 11                            | \$ 12 | \$ 47    | \$130 |



## NOTE 10. Other Liabilities

Other current liabilities are summarized as follows:

|  | September<br>30<br>2018  | December<br>31<br>2017 |
|--|--------------------------|------------------------|
|  | (Dollars in<br>Millions) |                        |
| Product warranty and recall accruals           | \$35                     | \$ 33                  |
| Restructuring reserves                         | 27                       | 24                     |
| Dividends payable to non-controlling interests | 17                       | 3                      |
| Rent and royalties                             | 17                       | 24                     |
| Income taxes payable                           | 15                       | 12                     |
| Joint venture payables                         | 12                       | 12                     |
| Non-income taxes payable                       | 7                        | 10                     |
| Deferred income                                | 7                        | 18                     |
| Distribution payable                           | —                        | 14                     |
| Other  | 29                       | 30                     |
|  | \$166                    | \$ 180                 |

In the fourth quarter of 2015 the Company declared a special distribution of \$1.75 billion to common shareholders of the Company. On January 22, 2016 the Company paid \$1.74 billion of the distribution, the remaining \$14 million was paid upon settlement of restricted stock units and performance-based share units previously granted to the Company's employees. The special cash distribution was funded from the Climate Transaction proceeds.

Other non-current liabilities are summarized as follows:

|                                      | September<br>30<br>2018  | December<br>31<br>2017 |
|--------------------------------------|--------------------------|------------------------|
|                                      | (Dollars in<br>Millions) |                        |
| Derivative financial instruments     | \$ 21                    | \$ 23                  |
| Product warranty and recall accruals | 16                       | 16                     |
| Deferred income                      | 14                       | 16                     |
| Income tax reserves                  | 11                       | 12                     |
| Non-income tax reserves              | 6                        | 7                      |
| Other                                | 18                       | 21                     |
|                                      | \$ 86                    | \$ 95                  |

## NOTE 11. Debt

The Company's short and long-term debt consists of the following:

|                                   | September 30, 2018    | December 31, 2017 |
|-----------------------------------|-----------------------|-------------------|
|                                   | (Dollars in Millions) |                   |
| Short-Term Debt:                  |                       |                   |
| Current portion of long-term debt | \$—                   | \$ 2              |
| Short-term borrowings             | 32                    | 44                |
|                                   | \$32                  | \$ 46             |
| Long-Term Debt:                   |                       |                   |
| Term debt facility                | \$348                 | \$ 347            |
| Short-Term Debt                   |                       |                   |

Short-term borrowings are primarily related to the Company's non-U.S. affiliates and joint ventures and are payable in U.S. Dollar, Chinese Renminbi and India Rupee. Available borrowings on outstanding affiliate credit facilities as of September 30, 2018, are approximately \$25 million and certain of these facilities have pledged assets as security.

## Long-Term Debt

As of December 31, 2017, the Company had a credit agreement (the "Credit Agreement"), which includes a \$350 million Term Facility maturing on March 24, 2024 and a Revolving Credit Facility with a capacity of \$300 million, which matures on March 24, 2022.

On May 30, 2018, the Company entered into a fourth amendment of its Credit Agreement to reduce the applicable margin on Eurodollar Rate loans. At the Company's option, the Term Facility under the amended Credit Agreement interest shall accrue at a rate equal to the applicable annualized domestic rate plus an applicable margin of 0.75% or the LIBOR-based rate plus an applicable margin of 1.75% per annum.

The Company is required to pay accrued interest on any outstanding principal balance under the credit facility with a frequency of the lesser of the elected LIBOR tenor or every three months. Any outstanding principal under this facility will be due upon the maturity date. The Company may also terminate or reduce the borrowing commitments under this facility, in whole or in part, upon three business days' notice.

Loans drawn under the Revolving Credit Facility accrue interest at an annualized rate equal to LIBOR plus a margin ranging from 1.25% to 2.25% as specified by a ratings grid contained in the Credit Agreement. Based on the Company's current credit ratings, borrowings would accrue interest at LIBOR plus 1.75% per annum. The Revolving Credit Facility also provides \$75 million availability for the issuance of letters of credit and a maximum of \$20 million for swing line borrowing. Any amount of the facility utilized for letters of credit or swing line loans outstanding will reduce the amount available under the amended Revolving Credit Facility.

The Company may request increases in the limits under the amended Term Facility and the amended Revolving Credit Facility and may request the addition of one or more term loan facilities under the Credit Agreement. Outstanding borrowings may be prepaid without penalty (other than borrowings made for the purpose of reducing the effective interest rate margin or weighted average yield of the loans). There are mandatory prepayments of principal in connection with: (i) excess cash flow sweeps above certain leverage thresholds, (ii) certain asset sales or other dispositions, (iii) certain refinancing of indebtedness and (iv) over-advances under the Revolving Credit Facility.

There are no excess cash flow sweeps required at the Company's current leverage level.

The Credit Agreement requires the Company and its subsidiaries to comply with customary affirmative and negative covenants, and contains customary events of default. The Revolving Credit Facility also requires that the Company maintain a total net leverage ratio no greater than 3.00:1.00. During any period when the Company's corporate and family ratings meet investment grade ratings, certain of the negative covenants will be suspended. As of September 30, 2018, the Company was in compliance with all its debt covenants.





As of September 30, 2018, the outstanding aggregate principal borrowing under the amended Term Facility is \$350 million and there were no outstanding borrowings under the Revolving Credit Facility.

#### Other

The Company has a \$5 million letter of credit facility, whereby the Company is required to maintain a collateral account equal to 103% of the aggregate stated amount of issued letters of credit and must reimburse any amounts drawn under issued letters of credit. The Company had \$2 million of outstanding letters of credit issued under this facility secured by restricted cash, as of September 30, 2018. Additionally, the Company had \$14 million of locally issued letters of credit with less than \$1 million of collateral as of September 30, 2018, to support various tax appeals, customs arrangements and other obligations at its local affiliates.

#### NOTE 12. Employee Benefit Plans

##### Defined Benefit Plans

The Company's net periodic benefit costs for all defined benefit plans for the three month periods ended September 30, 2018 and 2017 were as follows:

|                                   | U.S.<br>Plans         |      | Non-U.S.<br>Plans |       |
|-----------------------------------|-----------------------|------|-------------------|-------|
|                                   | 2018                  | 2017 | 2018              | 2017  |
|                                   | (Dollars in Millions) |      |                   |       |
| Costs Recognized in Income:       |                       |      |                   |       |
| Pension service cost:             |                       |      |                   |       |
| Service cost                      | \$—                   | \$—  | \$—               | \$(1) |
| Pension financing benefit (cost): |                       |      |                   |       |
| Interest cost                     | (6)                   | (7)  | (3)               | (2)   |
| Expected return on plan assets    | 10                    | 10   | 2                 | 2     |
| Amortization of losses and other  | —                     | —    | —                 | —     |
| Net pension income (expense)      | \$4                   | \$3  | \$(1)             | \$(1) |

The Company's net periodic benefit costs for all defined benefit plans for the nine month periods ended September 30, 2018 and 2017 were as follows:

|                                     | U.S.<br>Plans         |      | Non-U.S.<br>Plans |       |
|-------------------------------------|-----------------------|------|-------------------|-------|
|                                     | 2018                  | 2017 | 2018              | 2017  |
|                                     | (Dollars in Millions) |      |                   |       |
| Costs Recognized in Income:         |                       |      |                   |       |
| Pension service cost:               |                       |      |                   |       |
| Service cost                        | \$—                   | \$—  | \$(1)             | \$(2) |
| Pension financing benefit (cost):   |                       |      |                   |       |
| Interest cost                       | (20)                  | (21) | (7)               | (7)   |
| Expected return on plan assets      | 30                    | 30   | 7                 | 7     |
| Amortization of losses and other    | —                     | —    | (1)               | (1)   |
| Restructuring related pension cost: |                       |      |                   |       |
| Special termination benefits        | (1)                   | —    | —                 | —     |
| Net pension income (expense)        | \$9                   | \$9  | \$(2)             | \$(3) |

The Company previously recorded service cost with other components of net pension income (expense) in cost of sales and selling, general and administrative expenses. Adoption of ASU 2017-07, "Compensation - Retirement Benefits (Topic 715)," resulted in the reclassification of pension financing benefit (cost) into "Other income, net." During the nine months ended September 30, 2018, cash contributions to the Company's defined benefit plans were approximately \$1 million for the U.S. plans and \$4 million for the non-U.S. plans. The Company estimates that cash contributions to its defined benefit pension plans will be \$7 million in 2018.



## NOTE 13. Income Taxes

During the three and nine month periods ended September 30, 2018, the Company recorded a provision for income tax on continuing operations of \$9 million and \$42 million, respectively, which reflects income tax expense in countries where the Company is profitable; accrued withholding taxes; ongoing assessments related to the recognition and measurement of uncertain tax benefits; the inability to record a tax benefit for pretax losses and/or recognize expense for pretax income in certain jurisdictions (including the U.S.) due to valuation allowances; and other non-recurring tax items. Pretax losses from continuing operations in jurisdictions where valuation allowances are maintained and no income tax benefits are recognized totaled \$10 million and \$13 million for the nine month periods ended September 30, 2018 and 2017, respectively, resulting in an increase in the Company's effective tax rate in those years.

The reduction of the U.S. federal statutory income tax rate from 35% to 21% under the Tax Cuts and Jobs Act (the "Act") enacted in December 2017, did not have a significant impact to income tax expense for the nine months ended September 30, 2018 due to the U.S. valuation allowance. The Company's income tax expense reflects the estimated impacts of other provisions of the Act including the global minimum income tax and base erosion tax provisions related to offshore activities and affiliated party payments neither of which had a significant impact to income tax expense for the nine months ended September 30, 2018.

The Company provides for U.S. and non-U.S. income taxes and non-U.S. withholding taxes on the projected future repatriations of the earnings from its non-U.S. operations that are not considered permanently reinvested at each tier of the legal entity structure. During the nine month periods ended September 30, 2018 and 2017, the Company recognized expense primarily related to non-U.S. withholding taxes, including exchange impacts, of \$6 million in both years, reflecting the Company's forecasts which contemplate numerous financial and operational considerations that impact future repatriations.

The Company's provision for income taxes in interim periods is computed by applying an estimated annual effective tax rate against income before income taxes, excluding equity in net income of non-consolidated affiliates for the period. Effective tax rates vary from period to period as separate calculations are performed for those countries where the Company's operations are profitable and whose results continue to be tax-effected and for those countries where full deferred tax valuation allowances exist and are maintained. In determining the estimated annual effective tax rate, the Company analyzes various factors, including but not limited to, forecasts of projected annual earnings, taxing jurisdictions in which the pretax income and/or pretax losses will be generated, available tax planning strategies and estimated impacts attributable to the Act. The Company's estimated annual effective tax rate is updated each quarter and may be significantly impacted by changes to the mix of forecasted earnings by tax jurisdiction. The tax impact of adjustments to the estimated annual effective tax rate are recorded in the period such estimates are revised. The Company is also required to record the tax impact of certain other non-recurring tax items, including changes in judgment about valuation allowances and uncertain tax positions, and changes in tax laws or rates, in the interim period in which they occur, rather than include them in the estimated annual effective tax rate.

The need to maintain valuation allowances against deferred tax assets in the U.S. and other affected countries will cause variability in the Company's quarterly and annual effective tax rates. Full valuation allowances against deferred tax assets in the U.S. and applicable foreign countries will be maintained until sufficient positive evidence exists to reduce or eliminate them. The factors considered by management in its determination of the probability of the realization of the deferred tax assets include, but are not limited to, recent historical financial results, historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences, tax planning strategies and projected future impacts attributable to the Act. If, based upon the weight of available evidence, it is more likely than not the deferred tax assets will not be realized, a valuation allowance is recorded. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses, in particular, when there is a cumulative loss incurred over a three-year period. In regards to the full valuation allowance recorded against the U.S. net deferred tax assets, the cumulative U.S. pretax book loss adjusted for significant permanent items incurred over the three-year period ended December 31, 2017 limits the ability to

consider other subjective evidence such as the Company's plans to improve U.S. profits, and as such, the Company continues to maintain a full valuation allowance against the U.S. net deferred tax assets. Based on the Company's current assessment, it is possible that within the next 3 to 15 months, the existing valuation allowance against the U.S. net deferred tax assets could be partially released. Any such release is dependent upon the sustained improvement in U.S. operating results, and, if such a release of the valuation allowance were to occur, it could have a significant impact on net income in the quarter in which it is deemed appropriate to partially release the reserve.

Due to the timing of the Act and the substantial changes it brings, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides registrants a measurement period to report the impact of the new U.S. tax law. During the measurement period, provisional amounts for the effects of the law are recorded to the extent a reasonable estimate can be made. To the extent that all

information necessary is not available, prepared or analyzed, companies may recognize provisional estimated amounts for a period of up to one year following enactment of the Act.

For year-end 2017, the Company recorded provisional amounts for impacts of the Act in accordance with the guidance as of the date of the year-end filing, including the one-time transition tax on the mandatory deemed repatriation of foreign earnings, gross foreign tax credit carryforwards, the remeasurement of deferred taxes, and related valuation allowances. In the three months ended September 30, 2018, the Company has continued to evaluate these impacts of the Act and has not identified any material adjustment to the previously recorded provisional amounts. The Company will continue to refine provisional amounts surrounding the remeasurement of deferred taxes and information related to unremitted earnings from foreign affiliates to more precisely analyze and compute the remeasurement of deferred taxes and the impact of the transition tax under the Act, as well as other provisions of the Act, such as the global minimum income tax and base erosion tax provisions related to offshore activities and affiliated party payments, as more information and further guidance become available.

#### Unrecognized Tax Benefits

Gross unrecognized tax benefits as of September 30, 2018 and December 31, 2017, including amounts attributable to discontinued operations, were \$18 million in both years. Of these amounts approximately \$11 million and \$9 million as of September 30, 2018 and December 31, 2017, respectively, represent the amount of unrecognized benefits that, if recognized, would impact the effective tax rate. The gross unrecognized tax benefit differs from that which would impact the effective tax rate due to uncertain tax positions embedded in other deferred tax attributes carrying a full valuation allowance. If the uncertainty is resolved while a full valuation allowance is maintained, these uncertain tax positions should not impact the effective tax rate in current or future periods. The Company records interest and penalties related to uncertain tax positions as a component of income tax expense and related amounts accrued at September 30, 2018 and December 31, 2017 was \$2 million and \$3 million, respectively.

With few exceptions, the Company is no longer subject to U.S. federal tax examinations for years before 2014, or state, local or non-U.S. income tax examinations for years before 2003, although U.S. net operating losses carried forward into open tax years technically remain open to adjustment. During the first quarter of 2018, the IRS informed the Company that the 2016 tax year would be added to the ongoing examination of the Company's U.S. tax returns for 2014 and 2015. Although it is not possible to predict the timing of the resolution of all ongoing tax audits with accuracy, it is reasonably possible that certain tax proceedings in Europe, Asia and Mexico could conclude within the next twelve months and result in a significant increase or decrease in the balance of gross unrecognized tax benefits. Given the number of years, jurisdictions and positions subject to examination, the Company is unable to estimate the full range of possible adjustments to the balance of unrecognized tax benefits. The long-term portion of uncertain income tax positions (including interest) in the amount of \$11 million is included in "Other non-current liabilities" on the consolidated balance sheet, while the current portion in the amount of \$2 million, is included in "Other current liabilities" on the consolidated balance sheet.

During 2012, Brazil tax authorities issued tax assessment notices to Visteon Sistemas Automotivos ("Sistemas") related to the sale of its chassis business to a third party, which required a deposit in the amount of \$15 million during 2013 necessary to open a judicial proceeding against the government in order to suspend the debt and allow Sistemas to operate regularly before the tax authorities after attempts to reopen an appeal of the administrative decision failed. Adjusted for currency impacts and accrued interest, the deposit amount is approximately \$13 million, as of September 30, 2018. The Company believes that the risk of a negative outcome is remote once the matter is fully litigated at the highest judicial level. These appeal payments, as well as income tax refund claims associated with other jurisdictions, total \$16 million as of September 30, 2018, and are included in "Other non-current assets" on the consolidated balance sheet.

## NOTE 14. Stockholders' Equity and Non-controlling Interests

Changes in equity for the three and nine months ended September 30, 2018 and 2017 are as follows:

|  | 2018    |       |        | 2017    |       |        |
|--|---------|-------|--------|---------|-------|--------|
|  | Visteon | NCI   | Total  | Visteon | NCI   | Total  |
| (Dollars in Millions)                    |         |       |        |         |       |        |
| Three Months Ended September 30, 2018    |         |       |        |         |       |        |
| Beginning balance                        | \$516   | \$100 | \$616  | \$569   | \$136 | \$705  |
| Net income from continuing operations    | 20      | 3     | 23     | 43      | 4     | 47     |
| Net income from discontinued operations  | 1       | —     | 1      | —       | —     | —      |
| Net income                               | 21      | 3     | 24     | 43      | 4     | 47     |
| Other comprehensive income (loss)        |         |       |        |         |       |        |
| Foreign currency translation adjustments | (14 )   | (3 )  | (17 )  | 17      | 2     | 19     |
| Net investment hedge                     | —       | —     | —      | (7 )    | —     | (7 )   |
| Benefit plans                            | —       | —     | —      | (1 )    | —     | (1 )   |
| Unrealized hedging gain                  | 1       | —     | 1      | 1       | —     | 1      |
| Total other comprehensive income (loss)  | (13 )   | (3 )  | (16 )  | 10      | 2     | 12     |
| Stock-based compensation, net            | 2       | —     | 2      | 3       | —     | 3      |
| Share repurchases                        | (50 )   | —     | (50 )  | (10 )   | —     | (10 )  |
| VFAE acquisition                         | —       | 15    | 15     | —       | —     | —      |
| Dividends to non-controlling interests   | —       | —     | —      | —       | (24 ) | (24 )  |
| Ending balance                           | \$476   | \$115 | \$591  | \$615   | \$118 | \$733  |
| 2018                                     |         |       |        |         |       |        |
| 2017                                     |         |       |        |         |       |        |
| (Dollars in Millions)                    |         |       |        |         |       |        |
| Nine Months Ended September 30, 2018     |         |       |        |         |       |        |
| Beginning balance                        | \$637   | \$124 | \$761  | \$586   | \$138 | \$724  |
| Net income from continuing operations    | 119     | 8     | 127    | 143     | 11    | 154    |
| Net income from discontinued operations  | 2       | —     | 2      | 8       | —     | 8      |
| Net income                               | 121     | 8     | 129    | 151     | 11    | 162    |
| Other comprehensive income (loss)        |         |       |        |         |       |        |
| Foreign currency translation adjustments | (43 )   | (4 )  | (47 )  | 57      | 4     | 61     |
| Net investment hedge                     | 2       | —     | 2      | (20 )   | —     | (20 )  |
| Benefit plans                            | 2       | —     | 2      | (2 )    | —     | (2 )   |
| Unrealized hedging gain                  | 5       | —     | 5      | 4       | —     | 4      |
| Total other comprehensive income (loss)  | (34 )   | (4 )  | (38 )  | 39      | 4     | 43     |
| Stock-based compensation, net            | 2       | —     | 2      | 9       | —     | 9      |
| Share repurchases                        | (250 )  | —     | (250 ) | (170 )  | —     | (170 ) |
| VFAE acquisition                         | —       | 15    | 15     | —       | —     | —      |
| Dividends to non-controlling interests   | —       | (28 ) | (28 )  | —       | (35 ) | (35 )  |
| Ending balance                           | \$476   | \$115 | \$591  | \$615   | \$118 | \$733  |
| Stock-based Compensation, net            |         |       |        |         |       |        |

On June 7, 2018, the Company modified the accounting for certain cash settled stock-based compensation Restricted Stock Units ("RSUs") for non-employee directors of the Company. These awards, previously subject to liability accounting, are now expected to settle in stock. The liability of \$6 million related to these awards has been reclassified to shareholders' equity as of June 30, 2018 and will be subject to equity method accounting going forward.



During the nine months ended September 30, 2018, the Company recognized a \$10 million benefit on forfeiture of unvested shares due to the settlement of a litigation matter as further described in Note 17, "Commitments and Contingencies."

#### Share Repurchase Program

On January 9, 2017, the Company's Board of Directors authorized \$400 million of share repurchases of common stock through March 2018. During first quarter of 2017, the Company entered into an accelerated share buyback ("ASB") program to purchase shares of Visteon common stock for an aggregate purchase price of \$125 million. Under this program, the Company purchased 1,300,366 shares at an average price of \$96.13.

Beginning in the second quarter of 2017, the Company paid approximately \$75 million to repurchase 677,778 shares at an average price of \$110.63 via open market share repurchases through December 31, 2017.

On January 15, 2018, the Company's Board of Directors authorized an additional \$500 million of share repurchases, for a total authorization of \$700 million, of its shares of common stock through 2020.

During the first nine months of 2018, the Company entered into various programs with third-party financial institutions to purchase an aggregate amount of \$250 million of the Company's common stock as further described below:

On December 19, 2017, the Company entered into a forward starting share repurchase agreement with a third party financial institution to purchase up to \$25 million of the Company's common stock complying with the provisions of Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934. Share purchases under the program commenced on January 2, 2018 and expired on February 26, 2018. Under this arrangement, the Company paid approximately \$13 million to purchase a total of 109,190 shares with an average price of \$120.41.

During the first quarter of 2018, the Company entered into a brokerage agreement with a third-party financial institution to execute open market repurchases of the Company's common stock. Pursuant to this arrangement the Company paid \$12 million to repurchase 96,360 shares at an average price of \$122.99.

On March 6, 2018, the Company entered into a share repurchase agreement with a third party financial institution to purchase shares of its common stock complying with the provisions of Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934. Share purchases under the program commenced on March 6, 2018 and expired on March 19, 2018. The Company paid approximately \$25 million to purchase a total of 204,775 shares with an average price of \$122.08 under this program.

On March 6, 2018 the Company entered into an ASB program with a third-party financial institution to purchase shares of Visteon common stock for an aggregate purchase price of \$150 million. On March 7, 2018, the Company received an initial delivery of 988,386 shares of common stock using a reference price of \$121.41. The ASB program concluded on July 20, 2018 and the Company received an additional 229,986 shares. In total the Company purchased 1,218,372 shares at an average price of \$123.12 under this ASB program.

During the third quarter of 2018, the Company entered into a brokerage agreement with a third-party financial institution to execute open market repurchases of the Company's common stock. Pursuant to this arrangement the Company paid \$10 million to repurchase 87,141 shares at an average price of \$114.67.

On August 27, 2018, the Company entered into a share repurchase agreement with a third party financial institution to repurchase of the Company's common stock complying with the provisions of Rule 10b5-1 and Rule 10b-18 under the Securities and Exchange Act of 1934. Pursuant to these programs the Company spent \$40 million to repurchase 375,069 shares at an average price of \$106.65 during the quarter.

As of September 30, 2018, \$450 million of the authorization through 2020 remains outstanding. The Company anticipates that additional repurchases of common stock, if any, would occur from time to time in open market transactions or in privately negotiated transactions depending on market and economic conditions, share price, trading volume, alternative uses of capital and other considerations.



## Non-Controlling Interests

The Company's non-controlling interests are as follows:

|  | September 30, 2018    | December 31, 2017 |
|--|-----------------------|-------------------|
|  | (Dollars in Millions) |                   |
| Yanfeng Visteon Automotive Electronics Co., Ltd.   | \$55                  | \$ 77             |
| Shanghai Visteon Automotive Electronics, Co., Ltd. | 42                    | 44                |
| Changchun Visteon FAWAY Electronics, Co., Ltd.     | 15                    | —                 |
| Other  | 3                     | 3                 |
|  | \$115                 | \$ 124            |

## Accumulated Other Comprehensive Loss

Changes in Accumulated other comprehensive income (loss) (“AOCI”) and reclassifications out of AOCI by component include:

|   | Three Months Ended September 30, 2018 |         | Nine Months Ended September 30, 2017 |         |
|---|---------------------------------------|---------|--------------------------------------|---------|
|   | (Dollars in Millions)                 |         |                                      |         |
| Changes in AOCI:  |                                       |         |                                      |         |
| Beginning balance   | \$(195)                               | \$(204) | \$(174)                              | \$(233) |
| Other comprehensive income (loss) before reclassification, net of tax     | (11 )                                 | 8       | (33 )                                | 34      |
| Amounts reclassified from AOCI  | (2 )                                  | 2       | (1 )                                 | 5       |
| Ending balance  | \$(208)                               | \$(194) | \$(208)                              | \$(194) |
| Changes in AOCI by Component:   |                                       |         |                                      |         |
| Foreign currency translation adjustments                                  |                                       |         |                                      |         |
| Beginning balance   | \$(129)                               | \$(123) | \$(100)                              | \$(163) |
| Other comprehensive income (loss) before reclassification, net of tax (a) | (14 )                                 | 17      | (43 )                                | 57      |
| Ending balance  | (143 )                                | (106 )  | (143 )                               | (106 )  |
| Net investment hedge  |                                       |         |                                      |         |
| Beginning balance   | (10 )                                 | (3 )    | (12 )                                | 10      |
| Other comprehensive income (loss) before reclassification, net of tax (a) | 1                                     | (7 )    | 3                                    | (20 )   |
| Amounts reclassified from AOCI  | (1 )                                  | —       | (1 )                                 | —       |
| Ending balance  | (10 )                                 | (10)    | (10 )                                | (10)    |
| Benefit plans   |                                       |         |                                      |         |
| Beginning balance   | (61 )                                 | (76 )   | (63 )                                | (75 )   |
| Other comprehensive income (loss) before reclassification, net of tax (a) | —                                     | (1 )    | 1                                    | (2 )    |
| Amounts reclassified from AOCI  | —                                     | —       | 1                                    | —       |
| Ending balance  | (61 )                                 | (77 )   | (61 )                                | (77 )   |
| Unrealized hedging gain (loss)  |                                       |         |                                      |         |
| Beginning balance   | 5                                     | (2 )    | 1                                    | (5 )    |
| Other comprehensive income (loss) before reclassification, net of tax (b) | 2                                     | (1 )    | 6                                    | (1 )    |
| Amounts reclassified from AOCI  | (1 )                                  | 2       | (1 )                                 | 5       |
| Ending balance  | 6                                     | (1 )    | 6                                    | (1 )    |
| Total AOCI  | \$(208)                               | \$(194) | \$(208)                              | \$(194) |

(a) Net tax expense was less than \$1 million for both the three and nine months ended September 30, 2018 and 2017.

(b) Net tax benefit was less than \$1 million and net tax expense was less than \$1 million related to unrealized hedging loss (gain) for the three months ended September 30, 2018 and 2017, respectively. Net tax expense of less than \$1

million and \$1 million are related to unrealized hedging gain for the nine months ended September 30, 2018 and 2017, respectively.

## NOTE 15. Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to Visteon by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common and potentially dilutive common shares outstanding. Performance based share units are considered contingently issuable shares, and are included in the computation of diluted earnings per share based on the number of shares that would be issuable if the reporting date were the end of the contingency period and if the result would be dilutive.

The table below provides details underlying the calculations of basic and diluted earnings per share:

|   | Three<br>Months<br>Ended<br>September<br>30<br>2018 |        | Nine<br>Months<br>Ended<br>September<br>30<br>2017 |        |
|---|---|--------|--|--------|
|   | 2018  | 2017   | 2018   | 2017   |
|   | (In Millions, Except Per<br>Share Amounts)          |        |  |        |
| Numerator:  |   |        |  |        |
| Net income from continuing operations attributable to Visteon   | \$20  | \$43   | \$119  | \$143  |
| Net income from discontinued operations attributable to Visteon | 1   | —      | 2  | 8      |
| Net income attributable to Visteon                              | \$21  | \$43   | \$121  | \$151  |
| Denominator:  |   |        |  |        |
| Average common stock outstanding - basic                        | 29.3  | 31.2   | 29.8   | 31.8   |
| Dilutive effect of performance based share units and other      | 0.2   | 0.6    | 0.3  | 0.5    |
| Diluted shares  | 29.5  | 31.8   | 30.1   | 32.3   |
| Basic and Diluted Per Share Data:                               |   |        |  |        |
| Basic earnings per share attributable to Visteon:               |   |        |  |        |
| Continuing operations   | \$0.68  | \$1.38 | \$3.99   | \$4.50 |
| Discontinued operations   | 0.03  | —      | 0.07   | 0.25   |
|   | \$0.71  | \$1.38 | \$4.06   | \$4.75 |
| Diluted earnings per share attributable to Visteon:             |   |        |  |        |
| Continuing operations   | \$0.68  | \$1.35 | \$3.95   | \$4.43 |
| Discontinued operations   | 0.03  | —      | 0.07   | 0.25   |
|   | \$0.71  | \$1.35 | \$4.02   | \$4.68 |

## NOTE 16. Fair Value Measurements and Financial Instruments

## Fair Value Measurements

The Company uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. The fair value hierarchy gives the highest priority to the quoted prices in active markets for identical assets and liabilities and lowest priority to unobservable inputs.

- Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Company has the ability to access.
- Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability.
- Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

#### Items Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis. The fair value measurements are generally determined using unobservable inputs and are classified within Level 3 of the fair value hierarchy. These assets include long-lived assets, intangible assets and investments in affiliates, which may be written down to fair value as a result of impairment. During the nine months ended September 30, 2018, there were no items measured at fair value on a nonrecurring basis, except for the items described in Note 3 "Acquisitions."

#### Items Not Carried at Fair Value

The Company's fair value of debt was approximately \$382 million and \$401 million as of September 30, 2018 and December 31, 2017, respectively. Fair value estimates were based on the current rates offered to the Company for debt of the same remaining maturities. Accordingly, the Company's debt fair value disclosures are classified as Level 2, "Other Observable Inputs" in the fair value hierarchy.

#### Items Measured at Fair Value on a Recurring Basis

The Company is exposed to various market risks including, but not limited to, changes in currency exchange rates and market interest rates. The Company manages these risks, in part, through the use of derivative financial instruments. The maximum length of time over which the Company hedges the variability in the future cash flows related to transactions, excluding those transactions as related to the payment of variable interest on existing debt, is eighteen months. The maximum length of time over which the Company hedges forecasted transactions related to variable interest payments is the term of the underlying debt. The use of financial derivative instruments may pose risk of loss in the event of nonperformance by the transaction counter-party.

The Company presents its derivative positions and any related material collateral under master netting arrangements that provide for the net settlement of contracts, by counterparty, in the event of default or termination. Derivative financial instruments designated and non-designated as hedging instruments are included in the Company's consolidated balance sheets. There is no cash collateral on any of these derivatives.

Foreign currency hedge instruments are measured at fair value on a recurring basis under an income approach using industry-standard models that consider various assumptions, including time value, volatility factors, current market and contractual prices for the underlying and non-performance risk. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Accordingly, the Company's foreign currency instruments are classified as Level 2, "Other Observable Inputs" in the fair value hierarchy.

Interest rate swaps are valued under an income approach using industry-standard models that consider various assumptions, including time value, volatility factors, current market and contractual prices for the underlying and non-performance risk. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, and can be derived from observable data or supported by observable levels at which transactions are executed in the marketplace. Accordingly, the Company's interest rate swaps are classified as Level 2, "Other Observable Inputs" in the fair value hierarchy.

**Foreign Exchange Risk:** The Company's net cash inflows and outflows exposed to the risk of changes in foreign currency exchange rates arise from the sale of products in countries other than the manufacturing source, foreign currency denominated supplier payments, debt and other payables, subsidiary dividends and investments in subsidiaries. The Company primarily uses foreign currency derivative instruments, including forward and option contracts, to mitigate the variability of the value of cash flows denominated in currency other than the hedging entity's functional currency. Foreign currency exposures are reviewed periodically and any natural offsets are considered prior to entering into a derivative financial instrument. The Company's current hedged foreign currency exposures include the Euro, Japanese Yen, Thai Baht and Mexican Peso.

As of September 30, 2018, and December 31, 2017, the Company had foreign currency derivative instruments with aggregate notional value of approximately \$77 million and \$119 million, respectively. At September 30, 2018, approximately \$40 million of the hedge instruments have been designated as cash flow hedges. Accordingly, the total change in fair value of the transactions are initially recognized in other comprehensive income, a component of shareholders' equity, if considered highly effective. Upon settlement of the transactions, the accumulated gains and losses are reclassified to income in the same periods during which the hedged cash flows impact earnings. The fair

value of these derivatives is an asset of \$1 million and a liability of \$2 million, as of September 30, 2018, and December 31, 2017, respectively. The difference between the gross and net value of these derivatives after offset by counter party is not material. The estimated AOCI that is expected to be reclassified into earnings within the next

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12 months is an approximate gain of less than \$1 million. The terms of the hedges do not exceed 18 months. At December 31, 2017, the Company had cross currency swaps intended to mitigate the variability of the value of the Company's investment in certain European subsidiaries with an aggregate notional value of \$150 million, designated as net investment hedges under the forward method of effectiveness assessment. The aggregate fair value was a non-current liability of \$23 million at December 31, 2017.

In connection with the Company's early adoption of ASU 2017-12, on March 29, 2018 the Company re-designated the hedging relationships of its existing cross currency swaps as net investment hedges of certain of the Company's European affiliates. Concurrent with its adoption of the new standard, the Company elected to change the method of hedge effectiveness from the forward rate to the spot method.

On May 30, 2018, concurrent with the fourth amendment of its Credit Agreement, the Company elected to de-designate its net investment hedge relationships and modify its existing cross currency swaps to more closely align with certain terms of the amended facility. The amended swaps are designated as net investment hedges of the Company's investments in certain European affiliates. These existing off-market swap transactions had an aggregate liability fair value of approximately \$22 million at the time of designation as net investment hedges. At inception of the hedge relationship the amount of excluded component related to the off-market swap transactions was \$3 million. This amount is amortized into earnings on a straight-line basis through expiration of the swaps in August 2022. Additionally, the Company executed an incremental \$50 million in notional value of cross currency swaps which are also designated as net investment hedges of certain of its European affiliates.

The Company uses the spot method to assess the effectiveness of its net investment hedge transactions. Accordingly, the effective portion of periodic changes in the fair value of the designated cross currency swaps are recorded to other comprehensive income. At September 30, 2018, the Company had cross currency swaps with an aggregate notional value of \$200 million and aggregate fair value of \$21 million recorded in other non-current liabilities.

**Interest Rate Risk:** The Company is subject to interest rate risk in relation to variable-rate debt. The Company uses financial derivative instruments to manage exposure to fluctuations in interest rates in connection with its risk management policies.

At December 31, 2017, the Company had an aggregate notional value of \$150 million of interest rate swaps intended to mitigate the variability of interest expense related to the floating rate debt under the Term Facility. On May 30, 2018, concurrent with the amendment of its Term Facility, the Company terminated the interest rate swaps and received \$4 million of proceeds upon settlement. Simultaneously, the Company executed interest rate swaps with an aggregate notional value of \$200 million to effectively convert designated floating rate interest payments to fixed cash flows. On July 17, 2018, the Company executed an incremental interest rate swap transaction with a notional value of \$50 million. At September 30, 2018, the Company had interest rate swaps with an aggregate notional value of \$250 million.

The maturities of these swaps do not exceed the underlying obligations under the amended Term Facility. The instruments are designated as cash flow hedges, accordingly, the effective portion of the periodic changes in the fair value of the swap transactions is recognized in accumulated other comprehensive income, a component of shareholders' equity. Subsequently, the accumulated gains and losses recorded in equity are reclassified to income in the period during which the hedged cash flow impacts earnings. As of September 30, 2018 and December 31, 2017, the fair value of the derivative was an asset of approximately \$2 million and less than \$1 million, respectively. AOCI expected to be reclassified into earnings within the next 12 months is a gain of \$1 million.

## Financial Statement Presentation

Gains and losses on derivative financial instruments for the three and nine months ended September 30, 2018 and 2017 are as follows:

|  | Recorded<br>Income<br>(Loss)<br>into<br>AOCI,<br>net of tax<br>2018 | Reclassified<br>from AOCI<br>into Income<br>(Loss)<br>2018 | Recorded<br>in<br>Income<br>(Loss)<br>2017 | Recorded<br>in<br>Income<br>(Loss)<br>2017 | Recorded<br>in<br>Income<br>(Loss)<br>2017 |
|--|---|--|--|--|--|
| Three Months Ended September 30, 2018          |   |  |  |  |  |
| Foreign currency risk - Cost of sales:         |   |  |  |  |  |
| Cash flow hedges                               | \$—   | \$(1 )   | \$ 1                                       | \$ 2                                       | \$—  |
| Non-designated cash flow hedges                | —   | —  | —  | —  | 1  |
| Foreign currency risk - Interest expense, net: |   |  |  |  |  |
| Net investment hedges                          | 1   | (7 )   | 1  | —  | —  |
| Interest rate risk - Interest expense, net:    |   |  |  |  |  |
| Interest rate swap                             | 2   | —  | —  | —  | —  |
|  | \$3   | \$(8 )   | \$ 2                                       | \$ 2                                       | \$—  |
| Nine Months Ended September 30, 2018           |   |  |  |  |  |
| Foreign currency risk - Cost of sales:         |   |  |  |  |  |
| Cash flow hedges                               | \$2   | \$(1 )   | \$ 1                                       | \$ 5                                       | \$—  |
| Non-designated cash flow hedges                | —   | —  | —  | —  | 1 (2 )                                     |
| Foreign currency risk - Interest expense, net: |   |  |  |  |  |
| Net investment hedges                          | 3   | (20 )  | 1  | —  | —  |
| Interest rate risk - Interest expense, net:    |   |  |  |  |  |
| Interest rate swap                             | 4   | —  | —  | 1  | —  |
|  | \$9   | \$(21)   | \$ 2                                       | \$ 6                                       | \$1 \$(2)                                  |

## Concentrations of Credit Risk

Financial instruments including cash equivalents, derivative contracts, and accounts receivable, expose the Company to counter-party credit risk for non-performance. The Company's counterparties for cash equivalents and derivative contracts are banks and financial institutions that meet the Company's credit rating requirements. The Company's counterparties for derivative contracts are substantial investment and commercial banks with significant experience using such derivatives. The Company manages its credit risk through policies requiring minimum credit standing and limiting credit exposure to any one counter-party and through monitoring counter-party credit risks.

The Company's credit risk with any individual customer does not exceed ten percent of total accounts receivable except for Ford and its affiliates which represent 26% and 28%, Mazda which represents 18% and 17% and Renault/Nissan which represents 13% and 14%, of the balance as of September 30, 2018 and December 31, 2017, respectively.

## NOTE 17. Commitments and Contingencies

## Litigation and Claims

In 2003, the Local Development Finance Authority of the Charter Township of Van Buren, Michigan (the "Township") issued, approximately \$28 million in bonds finally maturing in 2032, the proceeds of which were used at least in part to assist in the development of the Company's U.S. headquarters located in the Township. During January 2010, the Company and the Township entered into a settlement agreement (the "Settlement Agreement") that, among other things, reduced the taxable value of the headquarters property to current market value and facilitated certain claims of the Township in the Company's chapter 11 proceedings. The Settlement Agreement also provided that the Company would negotiate in good faith with the Township in the event that property tax payments was inadequate to permit the Township to meet its payment obligations with respect to the bonds. In September 2013, the Township notified the Company in writing that it is estimating a shortfall in tax revenues of between \$25 million and \$36 million, which could render it unable to satisfy its payment obligations under the bonds. On May 12, 2015, the Township commenced a proceeding against the Company in the U. S. Bankruptcy Court for the District of Delaware in connection with the foregoing. Upon the Company's motion to dismiss, the Township dismissed the proceeding before the Delaware Bankruptcy Court and re-commenced the proceeding against the Company in the Michigan Wayne County Circuit Court for the State of Michigan on July 2, 2015. The Township sought damages or, alternatively, declaratory judgment that, among other things, the Company is responsible under the Settlement Agreement for payment of any shortfall in the bond debt service payments. On February 2, 2016, the Wayne County Circuit Court dismissed the Township's lawsuit without prejudice on the basis that the Township's claims were not ripe for adjudication. The Township appealed the decision to the Michigan Court of Appeals, which affirmed the dismissal of the Township's lawsuit. The Township has sought leave to appeal from the Michigan Supreme Court. On May 11, 2018, the Supreme Court directed supplemental briefing and oral argument "on whether to grant the application or take other action." The Township filed its supplemental brief on June 22, 2018, and Visteon filed its brief on July 13, 2018. On October 9, 2018, the Supreme Court held oral argument and took the matter under advisement. It is not known when the Supreme Court will issue its decision and whether it will grant leave or some other form of relief. The Company disputes the factual and legal assertions made by the Township and intends to vigorously defend the matter. The Company is not able to estimate the possible loss or range of loss in connection with this matter.

The dispute between the Company and its former President and Chief Executive Officer, Timothy D. Leuliette, was resolved in the first quarter of 2018. Pursuant to the resolution, the Company recognized \$17 million of pre-tax income, representing the forfeiture of stock based awards and release of other liabilities accrued during prior periods. The benefit is classified as a reduction to selling, general and administrative expenses of \$10 million, a benefit to "Other income, net" of \$4 million, and a benefit to discontinued operations of \$3 million.

In November 2013, the Company and Halla Visteon Climate Control Corporation ("HVCC"), jointly filed an Initial Notice of Voluntary Self-Disclosure statement with the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") regarding certain sales of automotive HVAC components by a minority-owned, Chinese joint venture of HVCC into Iran. The Company updated that notice in December 2013, and subsequently filed a voluntary self-disclosure regarding these sales with OFAC in March 2014. In May 2014, the Company voluntarily filed a supplementary self-disclosure identifying additional sales of automotive HVAC components by the Chinese joint venture, as well as similar sales involving an HVCC subsidiary in China, totaling approximately \$12 million, and filed a final voluntary-self disclosure with OFAC on October 17, 2014. OFAC is currently reviewing the results of the Company's investigation. Following that review, OFAC may conclude that the disclosed sales resulted in violations of U.S. economic sanctions laws and warrant the imposition of civil penalties, such as fines, limitations on the Company's ability to export products from the United States, and/or referral for further investigation by the U.S. Department of Justice. Any such fines or restrictions may be material to the Company's financial results in the period in which they are imposed, but is not able to estimate the possible loss or range of loss in connection with this matter. Additionally, disclosure of this conduct and any fines or other action relating to this conduct could harm the Company's reputation and have a material adverse effect on its business, operating results and financial condition. The Company cannot predict when OFAC will conclude its own review of voluntary self-disclosures or whether it may impose any of the potential penalties described above.



The Company's operations in Brazil and Argentina are subject to highly complex labor, tax, customs and other laws. While the Company believes that it is in compliance with such laws, it is periodically engaged in litigation regarding the application of these laws. As of September 30, 2018, the Company maintained accruals of approximately \$13 million and \$3 million for claims aggregating approximately \$99 million and \$3 million in Brazil and Argentina, respectively. The amounts accrued represent claims that are deemed probable of loss and are reasonably estimable based on the Company's assessment of the claims and prior experience with similar matters.

While the Company believes its accruals for litigation and claims are adequate, the final amounts required to resolve such matters could differ materially from recorded estimates and the Company's results of operations and cash flows could be materially affected.

#### Guarantees and Commitments

The Company has provided a \$11 million loan guarantee to YFVIC. The guarantee contains standard non-payment provisions to cover the borrowers in event of non-payment of principal, accrued interest, and other fees, and the loan is expected to be fully paid by September 2019.

As part of the agreements of the Climate Transaction and Interiors Divestiture, the Company continues to provide lease guarantees to divested Climate and Interiors entities. As of September 30, 2018, the Company has approximately \$5 million and \$1 million of outstanding guarantees, related to the divested Climate and Interiors entities, respectively. These guarantees will generally cease upon expiration of current lease agreements.

#### Product Warranty and Recall

Amounts accrued for product warranty and recall claims are based on management's best estimates of the amounts that will ultimately be required to settle such items. The Company's estimates for product warranty and recall obligations are developed with support from its sales, engineering, quality and legal functions and include due consideration of contractual arrangements, past experience, current claims and related information, production changes, industry and regulatory developments and various other considerations. The Company can provide no assurances that it will not experience material claims in the future or that it will not incur significant costs to defend or settle such claims beyond the amounts accrued or beyond what the Company may recover from its suppliers. Specific cause actions represent customer actions related to defective supplier parts and related software.

The following table provides a reconciliation of changes in the product warranty and recall claims liability:

|                               | Nine<br>Months<br>Ended<br>September<br>30<br>2018 2017<br>(Dollars in<br>Millions) |       |
|-------------------------------|---|-------|
| Beginning balance             | \$49  | \$55  |
| Accruals for products shipped | 14  | 15    |
| Changes in estimates          | (1 )  | 5     |
| Specific cause actions        | 5   | 3     |
| VFAE consolidation            | 1   | —     |
| Recoverable warranty/recalls  | 2   | —     |
| Foreign currency              | (1 )  | 2     |
| Settlements                   | (18 )   | (29 ) |
| Ending balance                | \$51  | \$51  |

#### Other Contingent Matters

Various legal actions, governmental investigations and proceedings and claims are pending or may be instituted or asserted in the future against the Company, including those arising out of alleged defects in the Company's products; governmental regulations relating to safety; employment-related matters; customer, supplier and other contractual relationships; intellectual property rights; product warranties; product recalls; and environmental matters. Some of the foregoing matters may involve compensatory, punitive or antitrust or other treble damage claims in very large amounts, or demands for recall campaigns, environmental remediation programs, sanctions, or other relief which, if granted, would require very large expenditures. The Company enters into agreements that contain indemnification provisions in the normal course of business for which the risks are considered nominal and impracticable to estimate. Contingencies are subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. Reserves have been established by the Company for matters discussed in the immediately foregoing

paragraph where losses are deemed probable and reasonably estimable. It is possible, however, that some of the matters discussed in the foregoing paragraph could be decided unfavorably to the Company and could require the Company to pay damages or make other expenditures in amounts, or a range of amounts, that cannot be estimated as of September 30, 2018 and that are in excess of established reserves.

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The Company does not reasonably expect, except as otherwise described herein, based on its analysis, that any adverse outcome from such matters would have a material effect on the Company's financial condition, results of operations or cash flows, although such an outcome is possible.

NOTE 18. Revenue Recognition

Disaggregated revenue by geographical market and product lines is as follows:

|                          | Three<br>Months<br>Ended<br>September<br>30<br>2018 | Nine<br>Months<br>Ended<br>September<br>30<br>2018 |
|--------------------------|---|--|
| (Dollars in Millions)    |   |  |
| Geographical Markets (a) |   |  |
| Asia                     | \$286   | \$ 910   |
| Europe                   | 223   | 759  |
| Americas                 | 179   | 611  |
| Eliminations             | (7 )  | (27 )  |
|                          | \$681   | \$ 2,253   |

(a) Company sales based on geographic region where sale originates and not where customer is located.

|                        | Three<br>Months<br>Ended<br>September<br>30<br>2018 | Nine<br>Months<br>Ended<br>September<br>30<br>2018 |
|------------------------|---|--|
| (Dollars in Millions)  |   |  |
| Product Lines          |   |  |
| Instrument clusters    | \$275   | \$ 908   |
| Audio and infotainment | 176   | 578  |
| Information displays   | 116   | 382  |
| Climate controls       | 27  | 98   |
| Body and security      | 25  | 86   |
| Telematics             | 17  | 51   |
| Other (includes HUD)   | 45  | 150  |
|                        | \$681   | \$ 2,253   |

The Company generates revenue from the production of automotive vehicle cockpit electronics parts sold to OEM's, or Tier 1 suppliers at the direction of the OEM, under long term supply agreements supporting new vehicle production. Such agreements may also require related production for service parts, subsequent to initial vehicle production periods.

In connection with the sale of electronics parts, the Company is subject to typical assurance warranty obligations that only cover the compliance of the electronics parts produced according to agreed-upon specifications. For further detail on the Company's warranty obligations see Note 17 "Commitments and Contingencies."

Performance Obligations

The Company's contracts with customers involve various governing documents (Sourcing Agreements, Master Purchase Agreements, Terms and Conditions Agreements, etc.) which do not reach the level of a performance obligation of the Company until the Company receives either a purchase order and/or a customer release for a specific number of parts at a specified price, at which point the collective group of documents represent an enforceable contract. While the long term supply agreements generally range from three to five years, customers make no commitments to volumes, and pricing or specifications can change prior to or during production. The Company recognizes revenue when control of the parts produced are transferred to the customer according to the terms of the contract, which is usually when the parts are shipped or delivered to the customer's premises. Customers are generally invoiced upon shipment or delivery and payment generally occurs within 45 to 90 days. Customers in China are often invoiced one month after shipment or delivery. Customer returns, when they occur, relate to quality rework issues

and are not connected to any repurchase obligation of the Company. As of September 30, 2018, all unfulfilled performance obligations are expected to be fulfilled within the next twelve months.

Revenue is measured based on the transaction price and the quantity of parts specified in a contract with a customer. Discrete price changes may occur during the vehicle production period in order for the Company to remain competitive with market prices or based on changes in product specifications. In addition, customers may request or expect certain discounts not reflected in the purchase order that require estimation. In the event the Company concludes that a portion of the revenue for a given part may vary from the purchase order, the Company estimates variable consideration at the most likely amount to which the Company expects to be entitled. The estimates typically represent a narrow range of discounts and are based on historical experience and input from customer negotiations. The Company records such estimates within Sales and Accounts receivable, net, within the consolidated statements of comprehensive income and consolidated balance sheets, respectively. The Company adjusts its estimate of revenue at the earlier of when the most likely amount of consideration changes or when the consideration becomes fixed. During the three and nine months ended September 30, 2018, the Company recognized approximately \$10 million and \$22 million net increases in transaction price related to performance obligations satisfied in previous periods, respectively.

The Company does not have an enforceable right to payment at any time prior to when the parts are shipped or delivered to the customer; therefore, the Company recognizes revenue at the point in time it satisfies a performance obligation by transferring control of a part to the customer. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue. Shipping and handling costs associated with outbound freight after control of the parts has transferred to a customer are accounted for as a fulfillment cost and are included in cost of sales.

#### Accounts Receivable, net

Accounts receivable, net, include amounts billed and currently due from customers. The Company maintains an allowance for doubtful accounts to provide for estimated amounts of receivables not expected to be collected. The Company's accounts receivables are continually assessed for collectibility and any allowance is recorded based upon the age of outstanding receivables, historical payment experience and customer creditworthiness.

#### Contract Balances

The Company has no material contract assets, contract liabilities or capitalized contract acquisition costs as of September 30, 2018.

#### NOTE 19. Segment Information

Financial results for the Company's reportable segment have been prepared using a management approach, which is consistent with the basis and manner in which financial information is evaluated by the Company's chief operating decision maker in allocating resources and in assessing performance. The Company's chief operating decision maker, the Chief Executive Officer, evaluates the performance of the Company's segment primarily based on net sales, before elimination of inter-company shipments and Adjusted EBITDA (a non-GAAP financial measure, as defined below). The Company's current reportable segment is Electronics, which provides vehicle cockpit electronics products to customers, including instrument clusters, information displays, infotainment systems, audio systems, telematics solutions and head-up displays.

#### Adjusted EBITDA

The Company defines Adjusted EBITDA as net income attributable to the Company adjusted to eliminate the impact of depreciation and amortization, restructuring expense, net interest expense, equity in net income of non-consolidated affiliates, loss on divestiture, gain on non-consolidated affiliate transactions, provision for income taxes, discontinued operations, net income attributable to non-controlling interests, non-cash stock-based compensation expense, and other gains and losses not reflective of the Company's ongoing operations. The Company has changed the presentation of the reconciliation of Adjusted EBITDA to Net income attributable to Visteon Corporation, due to the adoption of ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the presentation of net periodic pension cost and net periodic postretirement benefit cost."

Adjusted EBITDA is presented as a supplemental measure of the Company's financial performance that management believes is useful to investors because the excluded items may vary significantly in timing or amounts and/or may obscure trends useful in evaluating and comparing the Company's operating activities across reporting periods. Not all companies use identical calculations and, accordingly, the Company's presentation of Adjusted EBITDA may not be comparable to other similarly titled measures of

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other companies. Adjusted EBITDA is not a recognized term under GAAP and does not purport to be a substitute for net income as an indicator of operating performance or cash flows from operating activities as a measure of liquidity. Adjusted EBITDA has limitations as an analytical tool and is not intended to be a measure of cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. In addition, the Company uses Adjusted EBITDA (i) as a factor in incentive compensation decisions, (ii) to evaluate the effectiveness of the Company's business strategies and (iii) the Company's credit agreements use measures similar to Adjusted EBITDA to measure compliance with certain covenants. Electronics sales were \$681 million and \$765 million for the three months ended September 30, 2018 and 2017, respectively. Segment Adjusted EBITDA was \$71 million and \$83 million for the three months ended September 30, 2018 and 2017, respectively.

Electronics sales were \$2,253 million and \$2,349 million for the nine months ended September 30, 2018 and 2017, respectively. Segment Adjusted EBITDA was \$256 million and \$268 million for the nine months ended September 30, 2018 and 2017, respectively.

The reconciliation of Adjusted EBITDA to net income attributable to Visteon is as follows:

|  | Three                 |       | Nine Months |       |
|--|-----------------------|-------|-------------|-------|
|  | Months                |       | Months      |       |
|  | Ended                 |       | Ended       |       |
|  | September             |       | September   | 30    |
|  | 30                    |       | 30          |       |
|  | 2018                  | 2017  | 2018        | 2017  |
|  | (Dollars in Millions) |       |             |       |
| Adjusted EBITDA                                      | \$71                  | \$83  | \$256       | \$268 |
| Depreciation and amortization                        | (22 )                 | (21 ) | (67 )       | (62 ) |
| Restructuring expense                                | (18 )                 | (6 )  | (28 )       | (10 ) |
| Interest expense, net                                | (2 )                  | (3 )  | (6 )        | (12 ) |
| Equity in net income of non-consolidated affiliates  | 3                     | 1     | 10          | 6     |
| Provision for income taxes                           | (9 )                  | (8 )  | (42 )       | (34 ) |
| Income from discontinued operations, net of tax      | 1                     | —     | 2           | 8     |
| Net income attributable to non-controlling interests | (3 )                  | (4 )  | (8 )        | (11 ) |
| Non-cash, stock-based compensation expense           | (4 )                  | (3 )  | (4 )        | (9 )  |
| Other  | 4                     | 4     | 8           | 7     |
| Net income attributable to Visteon Corporation       | \$21                  | \$43  | \$121       | \$151 |



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations, financial condition and cash flows of Visteon Corporation ("Visteon" or the "Company"). MD&A is provided as a supplement to, and should be read in conjunction with, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the Securities and Exchange Commission on February 22, 2018, and the financial statements and accompanying notes to the financial statements included elsewhere herein.

### Description of Business

Visteon Corporation is a global automotive supplier that designs, engineers and manufactures innovative electronics products for nearly every original equipment vehicle manufacturer ("OEM") worldwide including Ford, Mazda, Renault/Nissan, General Motors, Jaguar/Land Rover, Honda, Volkswagen, BMW and Daimler. Visteon is headquartered in Van Buren Township, Michigan, and has an international network of manufacturing operations, technical centers and joint venture operations, supported by approximately 10,000 employees, dedicated to the design, development, manufacture and support of its product offerings and its global customers. The Company's manufacturing and engineering footprint is principally located outside of the United States.

Visteon provides value for its customers and stockholders through its technology-focused vehicle cockpit electronics business, by delivering a rich, connected cockpit experience for every car from luxury to entry. The Company's cockpit electronics business is one of the broadest portfolios in the industry and includes instrument clusters, information displays, infotainment systems, audio systems, head-up displays, SmartCore™ cockpit domain controllers, vehicle connectivity, and the DriveCore™ advanced safety platform. Visteon also supplies embedded multimedia and smartphone connectivity software solutions to the global automotive industry. The Company's vehicle cockpit electronics business comprises and is reported under the Electronics segment.

### Strategic Priorities

Visteon is a technology-focused, pure-play supplier of automotive cockpit electronics. The cockpit electronics business is growing faster than underlying vehicle production, and is expected to grow by more than 1.5 times over the next five years. Key drivers of the growth include connected car, advanced driver assistance systems ("ADAS") and electrification technologies.

The Company has laid out the following strategic priorities:

**Long-Term Growth and Margin Expansion** - Visteon offers technology and related manufacturing operations for instrument clusters, information displays, infotainment systems, cockpit domain controllers, audio systems, telematics solutions, and head-up displays.

The Company reported Adjusted EBITDA margin of 11.4% in the nine months ended September 30, 2018 and 2017. The Company is focused on delivering continued cost efficiencies by streamlining selling, general and administration costs and engineering costs, improving free cash flow, optimizing the capital structure and driving savings benefits as revenue grows.

**Develop Next Generation of Safety Features** - The Company is an established global leader in cockpit electronics technologies and is positioned to provide solutions as the industry transitions to the next generation of safety features. The Company's approach to advanced safety is to feature fail-safe centralized domain hardware, designed for algorithmic developers, and to apply artificial intelligence for object detection and other functions. The Company is developing a Level 3/4 secure advanced safety domain controller platform with an open framework based on neural networks. Level 3+ system requirements include systems with environmental monitoring radar, camera and LiDAR sensors, late fusion of sensor data, scalable centralized computing and machine learning algorithms. The Company is taking a disciplined approach to progress advanced safety technology via collaborations with key partners, customer partnerships and strategic investments.

The Company is partnering with technology organizations in connection with the DriveCore™ introduction, with the goal of creating an open collaboration model for automakers. The DriveCore™ technology, introduced in 2018, includes three components:

- **Compute** - A modular and scalable computing hardware platform designed to be adapted to all levels of automated driving.

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Runtime - In-vehicle middleware that provides a secure framework enabling applications and algorithms to communicate in a real time, high-performance environment.

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Studio - A PC-based development environment that enables automakers to create an ecosystem of developers for rapid algorithm development.

In January 2018, the Company announced a strategic cooperation agreement with a leading China-based vehicle manufacturer, to develop and deploy next generation advanced safety and other cockpit electronics solutions. Visteon will continue to leverage joint venture relationships to drive adoption of new offerings.

Enhance Shareholder Returns - On January 9, 2017, the Company's Board of Directors authorized \$400 million of share repurchases of common stock through March 2018. During 2017, the Company purchased 1,978,144 shares at an average price of \$101.10 totaling \$200 million.

On January 15, 2018, the Company's Board of Directors authorized an additional \$500 million of share repurchases of common stock through 2020, for a total authorization of \$700 million.

During the first quarter of 2018, the Company entered into various programs to repurchase shares of its common stock. The Company paid a total of \$50 million to repurchase 410,325 shares at an average price of \$121.85 under these programs.

On March 6, 2018 the Company entered into an ASB program with a third-party financial institution to purchase shares of Visteon common stock for an aggregate purchase price of \$150 million. On March 7, 2018, the Company received an initial delivery of 988,386 shares of common stock using a reference price of \$121.41. The ASB program concluded on July 20, 2018 and the Company received an additional 229,986 shares. In total the Company purchased 1,218,372 shares at an average price of \$123.12 under this ASB program.

During the third quarter of 2018 the Company entered into various programs to repurchase shares of its common stock. The Company paid a total of \$50 million to repurchase 462,210 shares at an average price of \$108.16 under these programs.

As of September 30, 2018, \$450 million of the authorization through 2020 remains outstanding. The Company may purchase additional shares pursuant to the foregoing authorization.

## Executive Summary

The pie charts below highlight the sales breakdown for Visteon's Electronics segment for the three and nine months ended September 30, 2018.

Three Months Ended September 30, 2018

Nine Months Ended September 30, 2018

Third quarter 2018 global light vehicle production decreased 2% over the same period last year with most regions showing declines from the same quarter of 2017. Decreases in Asia Pacific, Europe and Other were partially offset by an increase in the Americas.

Light vehicle production levels by geographic region for the three and nine months ended September 30, 2018 and 2017 are provided below:

|              | Three Months        |              |        | Nine Months  |              |        |
|--------------|---------------------|--------------|--------|--------------|--------------|--------|
|              | Ended               | Ended        | Change | Ended        | Ended        | Change |
|              | September 30        | September 30 |        | September 30 | September 30 |        |
|              | 2018                | 2017         | %      | 2018         | 2017         | %      |
|              | (Units in Millions) |              |        |              |              |        |
| Global       | 22.1                | 22.5         | (2.0)% | 70.5         | 69.9         | 0.8 %  |
| Asia Pacific | 11.8                | 12.1         | (2.1)% | 36.5         | 36.1         | 1.2 %  |
| Europe       | 4.7                 | 4.9          | (5.1)% | 16.6         | 16.5         | 0.2 %  |
| Americas     | 5.0                 | 4.9          | 2.0 %  | 15.4         | 15.4         | 0.1 %  |
| Other        | 0.6                 | 0.6          | (4.9)% | 2.0          | 1.9          | 4.6 %  |

Source: IHS Automotive

Global production volumes during the fourth quarter are projected to be flat compared to the prior year. Volumes for certain key Visteon customers are projected to decrease in the fourth quarter compared to last year, particularly in North America. Additionally, the continued shift away from diesel vehicles is expected to have a negative impact in Europe. In China, production volumes decreased in the third quarter of 2018 and are projected to continue to decrease in fourth quarter of 2018 due to a softening in consumer demand for automobiles. In southwestern Japan, successive heavy rain in late June through mid-July 2018 resulted in widespread, devastating floods and mud-flows, which may have a lingering impact on production volumes of several vehicle manufacturers in the fourth quarter.

Significant aspects of the Company's financial results during the three and nine months period ended September 30, 2018 include the following:

The Company recorded sales of \$681 million for the three months ended September 30, 2018, representing a decrease of \$84 million when compared with the same period of 2017. The decrease is primarily due to unfavorable volumes and currency, customer pricing net of design changes, and product mix, partially offset by net new business and the consolidation of a previously non-consolidated affiliate.

The Company recorded sales of \$2,253 million for the nine months ended September 30, 2018, representing a decrease of \$96 million when compared with the same period of 2017. The decrease is primarily due to unfavorable volumes, customer pricing net of design changes, and product mix, partially offset by net new business, favorable currency and the consolidation of a previously non-consolidated affiliate.

Gross margin was \$82 million or 12.0% of sales for the three months ended September 30, 2018, representing a decrease of \$32 million or 2.9% of sales compared to the same period of 2017. The decrease is primarily due to unfavorable volumes, customer pricing and product mix, increased engineering expense and unfavorable currency partially offset by improved cost performance.

Gross margin was \$315 million or 14.0% of sales for the nine months ended September 30, 2018, representing a decrease of \$39 million or 1.1% of sales compared to the same period of 2017. The decrease includes unfavorable volumes, customer pricing and product mix, partially offset by improved cost performance and favorable currency.

Net income attributable to Visteon was \$21 million for the three months ended September 30, 2018, compared to net income of \$43 million for the same period of 2017. The decrease of \$22 million is primarily attributable to the decrease in gross margin including unfavorable volumes, customer pricing and product mix, engineering expense and unfavorable currency partially offset by improved cost performance.

Net income attributable to Visteon was \$121 million for the nine months ended September 30, 2018, compared to net income of \$151 million for the same period of 2017. The decrease of \$30 million includes lower gross margin of \$39 million and an increase in restructuring expense of \$18 million. These decreases are partially offset by lower selling, general and administrative expenses of \$22 million.

Total cash was \$442 million, including \$3 million of restricted cash as of September 30, 2018, \$267 million lower than \$709 million as of December 31, 2017, primarily attributable to share repurchases of \$250 million, \$96 million of capital expenditures, distribution payments of \$14 million, and net debt payments of \$13 million, partially offset by cash provided from operating activities of \$107 million.

The Company generated \$107 million of cash from operating activities during the nine months ended September 30, 2018, compared to cash generated by operations of \$129 million during the same period of 2017, representing a \$22 million decrease. The decrease in operating cash flows is primarily due to lower net income of \$33 million, and greater use of cash related to other current assets and liabilities of \$40 million which includes increases in capitalized engineering and third party royalty payments. These items are partially offset by reductions in trade working capital of \$52 million during the nine months ended September 30, 2018 as compared to the same period of 2017.

## Results of Operations - Three Months Ended September 30, 2018 and 2017

The Company's consolidated results of operations for the three months ended September 30, 2018 and 2017 were as follows:

|  | Three Months Ended<br>September 30 |        |                |
|--|------------------------------------|--------|----------------|
|  | 2018                               | 2017   | Better/(Worse) |
|  | (Dollars in Millions)              |        |                |
| Sales  | \$681                              | \$765  | \$ (84 )       |
| Cost of sales  | (599 )                             | (651 ) | 52             |
| Gross margin   | 82                                 | 114    | (32 )          |
| Selling, general and administrative expenses         | (40 )                              | (55 )  | 15             |
| Restructuring expense                                | (18 )                              | (6 )   | (12 )          |
| Interest expense, net                                | (2 )                               | (3 )   | 1              |
| Equity in net income of non-consolidated affiliates  | 3                                  | 1      | 2              |
| Other income, net                                    | 7                                  | 4      | 3              |
| Provision for income taxes                           | (9 )                               | (8 )   | (1 )           |
| Net income from continuing operations                | 23                                 | 47     | (24 )          |
| Income from discontinued operations                  | 1                                  | —      | 1              |
| Net income   | 24                                 | 47     | (23 )          |
| Net income attributable to non-controlling interests | (3 )                               | (4 )   | 1              |
| Net income attributable to Visteon Corporation       | \$21                               | \$43   | \$ (22 )       |
| Adjusted EBITDA*                                     | \$71                               | \$83   | \$ (12 )       |

\* Adjusted EBITDA is a Non-GAAP financial measure, as further discussed below.

## Sales and Cost of Sales

|                                       | Sales                    | Cost of<br>Sales |
|---------------------------------------|--------------------------|------------------|
|                                       | (Dollars in<br>Millions) |                  |
| Three months ended September 30, 2017 | \$765                    | \$(651)          |
| Volume, mix, and net new business     | (68 )                    | 25               |
| Currency                              | (7 )                     | 4                |
| VFAE consolidation                    | 3                        | (3 )             |
| Customer pricing and other            | (12 )                    | —                |
| Net cost performance                  | —                        | 26               |
| Three months ended September 30, 2018 | \$681                    | \$(599)          |

Sales for the three months ended September 30, 2018 totaled \$681 million, which represents a decrease of \$84 million compared with the same period of 2017. Unfavorable currency decreased sales by \$7 million, primarily attributable to the Brazilian Real, Indian Rupee, Euro, Chinese Renminbi and Thai Baht. Unfavorable volumes and product mix, net of new business decreased sales by \$68 million primarily attributable to lower customer production volumes in North America, China and Japan. Product mix reflects the Company specific content across product lines. Other reductions were primarily associated with customer pricing. The consolidation of a previously non-consolidated affiliate, Changchun Visteon FAWAY Auto Electronics Co., Ltd, ("VFAE"), during the third quarter of 2018 increased sales \$3 million.

Cost of sales decreased by \$52 million for the three months ended September 30, 2018 compared with the same period in 2017. Volumes, including the impact of product mix and net new business, decreased cost of sales by \$25 million. Foreign currency decreased cost of sales by \$4 million primarily attributable to the Indian Rupee, Chinese Renminbi, Euro and Japanese Yen, partially offset by the Brazilian Real. Net efficiencies, including material, design and usage economics and lower incentive compensation costs decreased cost of sales by \$26 million. The consolidation of

VFAE during the third quarter of 2018 increased cost of sales \$3 million.

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Cost of sales includes \$77 million of net engineering costs related to forward model program development and advanced engineering activities. Net engineering costs for the three months ended September 30, 2018 were \$9 million higher than the same period of 2017 to support our new business wins as well as investment in new technologies.

#### Gross Margin

Gross margin was \$82 million or 12.0% of sales for the three months ended September 30, 2018 compared to \$114 million or 14.9% of sales for the same period of 2017. Gross margin was impacted by \$43 million from unfavorable volumes and product mix. Unfavorable currency of \$3 million reflected the Brazilian Real and Indian Rupee. Gross margin also included favorable net cost performance of \$14 million, primarily due to favorable material cost efficiencies and lower incentive compensation costs, partially offset by customer price reductions and increased net engineering costs.

#### Selling, General and Administrative Expenses

Selling, general, and administrative expenses were \$40 million or 5.9% and \$55 million or 7.2% of sales, during the three months ended September 30, 2018 and 2017, respectively. The decrease is primarily related to lower incentive compensation costs and favorable currency.

#### Restructuring Expense

During the third quarter of 2018, the Company approved a restructuring program impacting engineering and administrative functions to optimize operations. The Company recorded approximately \$18 million for the three months ended September 30, 2018.

#### Interest Expense, Net

Interest expense, net, was \$2 million and \$3 million for the three months ended September 30, 2018 and 2017, respectively. The decrease in net interest expense is primarily due to lower effective interest rates on debt, interest income on the settlement of a note receivable and the non-recurrence of the 2017 interest rate swap settlement expense.

#### Equity in Net Income of Non-Consolidated Affiliates

Equity in net income of non-consolidated affiliates was \$3 million and \$1 million for the three month periods ending September 30, 2018 and 2017, respectively. The income is primarily attributable to the Company's equity interest in Yanfeng Visteon Investment Company, which increased due to higher engineering recoveries.

#### Other Income, Net

Other income, net consists of the following:

|  | Three<br>Months<br>Ended<br>September<br>30<br>2018 | 2017 |
|--|---|------|
| Pension financing benefits, net                      | \$ 3  | \$ 3 |
| Transformation initiatives                           | —   | (1 ) |
| Gain on non-consolidated affiliate transactions, net | 4   | 2    |
|  | \$ 7  | \$ 4 |

Pension financing benefits, net include return on assets net of interest costs and other amortization.

On September 1, 2018, Visteon acquired an additional 1% ownership interest in VFAE, a former non-consolidated affiliate, resulting in a total 51% controlling interest and a non-cash gain of \$4 million as further described in Note 3, "Acquisitions."



The gain on non-consolidated affiliate transactions for 2017 represents the Company's sale of a cost method investment during the three months ended September 30, 2017 as further described in Note 5, "Non-Consolidated Affiliates."

## Income Taxes

The Company's provision for income taxes of \$9 million for the three months ended September 30, 2018, represents an increase of \$1 million, when compared with \$8 million in the same period of 2017. The increase in tax expense reflects approximately \$4 million in tax expense attributable to the year-over-year increase in the Company's estimated annual effective tax rate driven primarily by the mix of earnings and differing tax rates between jurisdictions, which was partially offset by approximately \$3 million decrease in tax expense related to the year-over-year reduction in profits.

The reduction of the U.S. federal statutory income tax rate from 35% to 21% under the Tax Cuts and Jobs Act (the "Act") enacted in December 2017, did not have a significant impact to income tax expense in the quarter due to the U.S. valuation allowance. The Company's income tax expense reflects the estimated impacts of other provisions of the Act including the global minimum income tax and base erosion tax provisions related to offshore activities and affiliated party payments neither of which had a significant impact to income tax expense in the quarter.

## Net Income

Net income attributable to Visteon was \$21 million for the three months ended September 30, 2018, compared to net income of \$43 million for the same period of 2017. The decrease of \$22 million is primarily attributable to the decrease in gross margin including unfavorable volumes, customer pricing and product mix, increased net engineering costs and unfavorable currency partially offset by improved cost performance.

## Adjusted EBITDA

Adjusted EBITDA (a non-GAAP financial measure, as defined in Note 19, "Segment Information") was \$71 million for the three months ended September 30, 2018, representing a decrease of \$12 million when compared with Adjusted EBITDA of \$83 million for the same period of 2017. The decrease includes unfavorable volumes and product mix which reduced Adjusted EBITDA by \$43 million. Foreign currency decreased Adjusted EBITDA by \$2 million attributable to the Brazilian Real and Indian Rupee partially offset by the Euro. Favorable net cost performance increased Adjusted EBITDA by \$33 million reflecting material cost efficiencies and lower incentive compensation costs which were partially offset by customer pricing and higher net engineering costs.

The reconciliation of Adjusted EBITDA to net income attributable to Visteon for the three months ended September 30, 2018 and 2017, is as follows:

|  | Three Months Ended    |       |                |
|--|-----------------------|-------|----------------|
|  | September 30          |       |                |
|  | 2018                  | 2017  | Better/(Worse) |
|  | (Dollars in Millions) |       |                |
| Adjusted EBITDA                                      | \$71                  | \$83  | \$ (12 )       |
| Depreciation and amortization                        | (22 )                 | (21 ) | (1 )           |
| Restructuring expense                                | (18 )                 | (6 )  | (12 )          |
| Interest expense, net                                | (2 )                  | (3 )  | 1              |
| Equity in net income of non-consolidated affiliates  | 3                     | 1     | 2              |
| Provision for income taxes                           | (9 )                  | (8 )  | (1 )           |
| Income from discontinued operations, net of tax      | 1                     | —     | 1              |
| Net income attributable to non-controlling interests | (3 )                  | (4 )  | 1              |
| Non-cash, stock-based compensation expense           | (4 )                  | (3 )  | (1 )           |
| Other  | 4                     | 4     | —              |
| Net income attributable to Visteon Corporation       | \$21                  | \$43  | \$ (22 )       |

## Results of Operations - Nine Months Ended September 30, 2018 and 2017

The Company's consolidated results of operations for the nine months ended September 30, 2018 and 2017 were as follows:

|  | Nine Months Ended     |          |          |
|--|-----------------------|----------|----------|
|  | September 30          |          |          |
|  | 2018                  | 2017     | Change   |
|  | (Dollars in Millions) |          |          |
| Sales  | \$2,253               | \$2,349  | \$ (96 ) |
| Cost of sales  | (1,938 )              | (1,995 ) | 57       |
| Gross margin   | 315                   | 354      | (39 )    |
| Selling, general and administrative expenses         | (139 )                | (161 )   | 22       |
| Restructuring expense                                | (28 )                 | (10 )    | (18 )    |
| Interest expense, net                                | (6 )                  | (12 )    | 6        |
| Equity in net income of non-consolidated affiliates  | 10                    | 6        | 4        |
| Other income, net                                    | 17                    | 11       | 6        |
| Provision for income taxes                           | (42 )                 | (34 )    | (8 )     |
| Net income from continuing operations                | 127                   | 154      | (27 )    |
| Income from discontinued operations                  | 2                     | 8        | (6 )     |
| Net income   | 129                   | 162      | (33 )    |
| Net income attributable to non-controlling interests | (8 )                  | (11 )    | 3        |
| Net income attributable to Visteon Corporation       | \$121                 | \$151    | \$ (30 ) |
| Adjusted EBITDA*                                     | \$256                 | \$268    | \$ (12 ) |

\* Adjusted EBITDA is a Non-GAAP financial measure, as further discussed below.

## Sales and Cost of Sales

|                                      | Sales                 | Cost of Sales |
|--------------------------------------|-----------------------|---------------|
|                                      | (Dollars in Millions) |               |
| Nine months ended September 30, 2017 | \$2,349               | \$(1,995)     |
| Volume, mix, and net new business    | (98 )                 | 25            |
| Currency                             | 64                    | (47 )         |
| VFAE consolidation                   | 3                     | (3 )          |
| Customer pricing and other           | (65 )                 | —             |
| Net cost performance                 | —                     | 82            |
| Nine months ended September 30, 2018 | \$2,253               | \$(1,938)     |

Sales for the nine months ended September 30, 2018 totaled \$2,253 million, which represents a decrease of \$96 million compared with the same period of 2017. Favorable currency increased sales by \$64 million, primarily attributable to the Euro, Chinese Renminbi, Japanese Yen and Thai Baht, partially offset by the Brazilian Real and Indian Rupee. Unfavorable volumes, and product mix, net of new business decreased sales by \$98 million primarily attributable to lower customer production volumes in North America, China and Japan. Product mix reflects the Company specific content across product lines. Other reductions were primarily associated with customer pricing. The consolidation of VFAE during the third quarter of 2018 increased sales \$3 million.

Cost of sales decreased by \$57 million for the nine months ended September 30, 2018 when compared with the same period in 2017. Volume, product mix and net new business decreased cost of sales \$25 million. Foreign currency increased cost of sales by \$47 million primarily attributable to the Euro, Chinese Renminbi, Brazilian Real, Thai Baht and Mexican Peso partially offset by the Japanese Yen. Net efficiencies, including material, design and usage economics and lower incentive compensation costs decreased cost of sales by \$82 million.



Cost of sales includes net engineering costs of \$224 million related to forward model program development and advanced engineering activities. Net engineering costs for the nine months ended September 30, 2018 were \$10 million higher than the same period of 2017 to support our new business wins as well as investment in new technologies.

#### Gross Margin

Gross margin was \$315 million or 14.0% of sales for the nine months ended September 30, 2018 compared to \$354 million or 15.1% of sales for the same period of 2017. Gross margin was impacted by \$73 million from unfavorable volumes and product mix. Favorable currency of \$17 million reflected the Euro, Chinese Renminbi and Japanese Yen, partially offset by the Brazilian Real, Indian Rupee and Mexican Peso. Gross margin also included favorable net cost performance of \$17 million, primarily due to favorable material cost efficiencies and lower incentive compensation costs, partially offset by customer price reductions.

#### Selling, General and Administrative Expenses

Selling, general, and administrative expenses were \$139 million or 6.2% of sales and \$161 million or 6.9% of sales during the nine months ended September 30, 2018 and 2017, respectively. The decrease includes approximately \$10 million related to the resolution of a legal matter as further described in Note 17, "Commitments and Contingencies," and lower incentive compensation costs, partially offset by unfavorable currency.

#### Restructuring Expense

During the third quarter of 2018, the Company approved a restructuring program impacting engineering and administrative functions to optimize operations. The Company recorded approximately \$18 million for the nine months ended September 30, 2018.

During the second quarter of 2018, the Company recorded employee severance and termination benefit expenses of approximately \$3 million related to legacy employees at a South America facility and \$2 million associated with employees at North America manufacturing facilities due to the wind-down of certain products.

During the fourth quarter of 2016, the Company approved a restructuring program impacting engineering and administrative functions to further align the Company's footprint with its core product technologies and customers.

During the nine months ended September 30, 2018, the Company recorded approximately \$5 million of restructuring expenses under this program and it is considered substantially complete.

#### Interest Expense, Net

Interest expense, net was \$6 million and \$12 million for the nine months ended September 30, 2018 and 2017, respectively. The decrease in net interest expense is primarily resulting from lower effective interest rates on debt, interest income on the settlement of a note receivable and the non-recurrence of the 2017 interest rate swap settlement expense.

#### Equity in Net Income of Non-Consolidated Affiliates

Equity in net income of non-consolidated affiliates was \$10 million and \$6 million for the nine month periods ending September 30, 2018 and 2017, respectively. The income is primarily attributable to the Company's equity interest in Yanfeng Visteon Investment Company, which increased due to lower net engineering expenses, including increased recoveries.

#### Other Income, Net

Other income, net consists of the following:

|  | Nine<br>Months<br>Ended<br>September<br>30 |      |
|--|--|------|
|  | 2018                                       | 2017 |
| Pension financing benefits, net                      | \$9  | \$8  |
| Transformation initiatives                           | 4  | (1)  |
| Gain on non-consolidated affiliate transactions, net | 4  | 4    |
|  | \$17                                       | \$11 |



Pension financing benefits, net include return on assets net of interest costs and other amortization.

Transformation initiatives include information technology separation costs, integration of acquired business, and financial and advisory services incurred in connection with the Company's transformation into a pure play cockpit electronics business. During the nine months ended September 30, 2018, the Company recognized a \$4 million benefit related to the resolution of a legal matter as further described in Note 17, "Commitments and Contingencies."

On September 1, 2018, Visteon acquired an additional 1% ownership interest in VFAE, a former non-consolidated affiliate, resulting in a total 51% controlling interest and a non-cash gain of \$4 million as further described in Note 3, "Acquisitions."

The gain on non-consolidated affiliate transactions for 2017 represents the Company's sale of three cost method investments and an equity method investment during the nine months ended September 30, 2017 as further described in Note 5, "Non-Consolidated Affiliates."

#### Income Taxes

The Company's provision for income taxes of \$42 million for the nine months ended September 30, 2018 represents an increase of \$8 million when compared with \$34 million in the same period of 2017. The increase in tax expense is attributable to several items which total approximately \$13 million and relate primarily to the year-over-year increase in the Company's estimated annual effective tax rate driven by the mix of earnings and differing tax rates between jurisdictions and changes in uncertain tax positions, including interest. These increases were partially offset by approximately \$3 million reduction in tax expense related to the year-over-year reduction in profits and the non-recurrence of \$2 million of tax in 2017 in connection with changes in assessments regarding the realization of certain deferred tax assets.

The reduction of the U.S. federal statutory income tax rate from 35% to 21% under the Tax Cuts and Jobs Act (the "Act") enacted in December 2017, did not have a significant impact to income tax expense for the nine months ended September 30, 2018 due to the U.S. valuation allowance. The Company's income tax expense reflects the estimated impacts of other provisions of the Act including the global minimum income tax and base erosion tax provisions related to offshore activities and affiliated party payments neither of which had a significant impact to income tax expense for the nine months ended September 30, 2018.

#### Discontinued Operations

In connection with the Climate Transaction, the Company completed the repurchase of the electronics operations located in India during the first quarter of 2017 for \$47 million, recognizing a \$7 million gain on settlement of purchase commitment contingencies.

#### Net Income

Net income attributable to Visteon was \$121 million for the nine months ended September 30, 2018, compared to net income of \$151 million for the same period of 2017. The decrease of \$30 million includes lower gross margin of \$39 million and an increase in restructuring expense of \$18 million. These decreases are partially offset by lower selling, general and administrative expenses of \$22 million.

#### Adjusted EBITDA

Adjusted EBITDA (a non-GAAP financial measure, as defined in Note 19, "Segment Information") was \$256 million for the nine months ended September 30, 2018, representing a decrease of \$12 million when compared with Adjusted EBITDA of \$268 million for the same period of 2017. Favorable net cost performance increased Adjusted EBITDA by \$48 million reflecting material cost efficiencies and lower incentive compensation costs which were partially offset by customer pricing. Foreign currency increased Adjusted EBITDA by \$13 million attributable to the Euro, Chinese Renminbi and Japanese Yen, partially offset by the Brazilian Real, Indian Rupee and Mexican Peso. Unfavorable volumes and product mix decreased Adjusted EBITDA by \$73 million.

The reconciliation of Adjusted EBITDA to net income attributable to Visteon for the nine months ended September 30, 2018 and 2017, is as follows:

|  | Nine Months Ended     |       |                |
|--|-----------------------|-------|----------------|
|  | September 30          |       |                |
|  | 2018                  | 2017  | Better/(Worse) |
|  | (Dollars in Millions) |       |                |
| Adjusted EBITDA                                      | \$256                 | \$268 | \$ (12 )       |
| Depreciation and amortization                        | (67 )                 | (62 ) | (5 )           |
| Restructuring expense                                | (28 )                 | (10 ) | (18 )          |
| Interest expense, net                                | (6 )                  | (12 ) | 6              |
| Equity in net income of non-consolidated affiliates  | 10                    | 6     | 4              |
| Provision for income taxes                           | (42 )                 | (34 ) | (8 )           |
| Income from discontinued operations, net of tax      | 2                     | 8     | (6 )           |
| Net income attributable to non-controlling interests | (8 )                  | (11 ) | 3              |
| Non-cash, stock-based compensation expense           | (4 )                  | (9 )  | 5              |
| Other  | 8                     | 7     | 1              |
| Net income attributable to Visteon Corporation       | \$121                 | \$151 | \$ (30 )       |

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## Liquidity

The Company's primary sources of liquidity are cash flows from operations, existing cash balances, and borrowings under available credit facilities, if necessary. The Company believes that funds generated from these sources will be adequate to fund its liquidity for current business requirements.

A portion of the Company's cash flows from operations are generated outside of the U.S. Accordingly, the Company utilizes a combination of cash repatriation strategies, including dividends and distributions, royalties, and intercompany arrangements to provide the funds necessary to meet obligations globally. The Company's ability to access funds from its subsidiaries is subject to, among other things, customary regulatory and statutory requirements and contractual arrangements including joint venture agreements and local credit facilities. Moreover, repatriation efforts may be modified by the Company according to prevailing circumstances.

The Company's ability to generate operating cash flow is dependent on the level, variability and timing of its customers' worldwide vehicle production, which may be affected by many factors including, but not limited to, general economic conditions, specific industry conditions, financial markets, competitive factors and legislative and regulatory changes. The Company monitors the macroeconomic environment and its impact on vehicle production volumes in relation to the Company's specific cash needs. The Company's intra-year needs are impacted by seasonal effects in the industry, such as mid-year shutdowns, the subsequent ramp-up of new model production and year-end shutdowns at key customers.

In the event that the Company's funding requirements exceed cash provided by its operating activities, the Company will meet such requirements by reduction of existing cash balances, by drawing on its \$300 million Revolving Credit Facility or other affiliate working capital lines, by seeking additional capital through debt or equity markets, or some combination thereof.

Access to additional capital through the debt or equity markets is influenced by the Company's credit ratings. During the first quarter of 2018, Moody's upgraded the Company's credit rating to Ba2 from Ba3 and Standard & Poor's Ratings Services reaffirmed the Company's credit rating of 'BB'. See Note 11 "Debt" to the accompanying consolidated financial statements for a more comprehensive discussion of the Company's debt facilities. Incremental funding requirements of the Company's consolidated foreign entities are primarily accommodated by intercompany cash pooling structures. Affiliate working capital lines are primarily used by the Company's consolidated joint ventures, which had availability of \$25 million as of September 30, 2018.

## Cash Balances

As of September 30, 2018, the Company had total cash of \$442 million, including \$3 million of restricted cash. Cash balances totaling \$276 million were located in jurisdictions outside of the United States, of which approximately \$130 million is considered permanently reinvested for funding ongoing operations outside of the U.S. If such permanently reinvested funds were repatriated to the U.S., no U.S. federal taxes would be imposed on the distribution of such foreign earnings due to U.S. tax reform enacted in December 2017, but the Company would be required to accrue additional tax expense, primarily related to foreign withholding taxes.

## Other Items Affecting Liquidity

On January 15, 2018, Visteon's Board of Directors authorized the repurchase of an additional \$500 million for a total authorization of \$700 million of shares of the Company's common stock through 2020. As of September 30, 2018, the Company has completed the repurchase of \$250 million and \$450 million of the authorization through 2020 remains outstanding. Additional discussion regarding the Company's share repurchase activity is provided in Note 14, "Shareholders Equity and Non-Controlling Interests."

During the nine months ended September 30, 2018, cash contributions to the Company's defined benefit plans were approximately \$1 million for the U.S. plans and \$4 million for the non-U.S. plans. The Company estimates that cash contributions to its defined benefit pension plans will be \$7 million in 2018.

Management's ongoing efforts to drive further operational improvements may cause the Company to incur additional restructuring charges.



## Cash Flows

### Operating Activities

The Company generated \$107 million of cash from operating activities during the nine months ended September 30, 2018, compared to cash generated by operations of \$129 million during the same period of 2017, representing a \$22 million decrease. The decrease in operating cash flows is primarily due to lower net income of \$33 million, and greater use of cash related to other current assets and liabilities of \$40 million which includes increases in capitalized engineering and third party royalty payments. These items are partially offset by reductions in trade working capital of \$52 million during the nine months ended September 30, 2018 as compared to the same period of 2017.

### Investing Activities

Cash used by investing activities during the nine months ended September 30, 2018 totaled \$67 million, compared to net cash used by investing activities of \$95 million for the same period in 2017. Net cash used by investing activities during the nine months ended September 30, 2018, included capital expenditures of \$96 million, partially offset by cash acquired from the consolidation of VFAE of \$16 million and \$10 million of proceeds primarily related to the settlement of certain agreements related to the Interiors Divestiture.

Cash used by investing activities during the nine months ended September 30, 2017 included capital expenditures of \$69 million and \$47 million of cash used to repurchase the Company's India operations partially offset by \$21 million of proceeds associated with certain non-recurring items, primarily comprised of proceeds from the sale of non-consolidated affiliates.

### Financing Activities

Cash used by financing activities during the nine months ended September 30, 2018, totaled \$294 million, compared to a use of cash of \$198 million during the same period in 2017, for an increase of cash used by financing activities of \$96 million. The increase in use of cash is attributable to higher share repurchase transactions of \$80 million, a net reduction in short term debt of \$13 million as compared to a \$8 million increase during the same period last year, and higher distribution payments of \$13 million, partially offset by lower dividends paid to non-controlling interests of \$17 million.

### Debt and Capital Structure

See Note 11, "Debt" to the consolidated financial statements included in Item 1.

### Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

### Fair Value Measurement

See Note 16, "Fair Value Measurements and Financial Instruments" to the consolidated financial statements included in Item 1.

### Recent Accounting Pronouncements

See Note 2 "Summary of Significant Accounting Policies" to the accompanying consolidated financial statements in Item 1.

### Forward-Looking Statements

Certain statements contained or incorporated in this Quarterly Report on Form 10-Q which are not statements of historical fact constitute “Forward-Looking Statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Reform Act”). Forward-looking statements give current expectations or forecasts of future events. Words such as “anticipate”, “expect”, “intend”, “plan”, “believe”, “seek”, “estimate” and other words and terms of similar meaning in connection with discussions of future operating or financial performance signify forward-looking statements. These statements reflect the Company’s current views with respect to future events and are based on assumptions and estimates, which are subject to risks and uncertainties. Accordingly, undue reliance should not be placed on these forward-looking statements. Also, these forward-looking statements represent the Company’s estimates and assumptions only as of the date of this report. The Company does not intend to update any of these forward-looking statements to reflect circumstances or events that occur after the statement is made and qualifies all of its forward-looking statements by these cautionary statements.

You should understand that various factors, in addition to those discussed elsewhere in this document, could affect the Company’s future results and could cause results to differ materially from those expressed in such forward-looking statements, including:

Visteon’s ability to satisfy its future capital and liquidity requirements; Visteon’s ability to access the credit and capital markets at the times and in the amounts needed and on terms acceptable to Visteon; Visteon’s ability to comply with covenants applicable to it; and the continuation of acceptable supplier payment terms.

Visteon’s ability to satisfy its pension and other postretirement employee benefit obligations, and to retire outstanding debt and satisfy other contractual commitments, all at the levels and times planned by management.

Visteon’s ability to access funds generated by its foreign subsidiaries and joint ventures on a timely and cost-effective basis.

Changes in the operations (including products, product planning and part sourcing), financial condition, results of operations or market share of Visteon’s customers.

Changes in vehicle production volume of Visteon’s customers in the markets where it operates.

Increases in commodity costs or disruptions in the supply of commodities, including resins, copper, fuel and natural gas.

Visteon’s ability to generate cost savings to offset or exceed agreed-upon price reductions or price reductions to win additional business and, in general, improve its operating performance; to achieve the benefits of its restructuring actions; and to recover engineering and tooling costs and capital investments.

Visteon’s ability to compete favorably with automotive parts suppliers with lower cost structures and greater ability to rationalize operations; and to exit non-performing businesses on satisfactory terms, particularly due to limited flexibility under existing labor agreements.

Restrictions in labor contracts with unions that restrict Visteon’s ability to close plants, divest unprofitable, noncompetitive businesses, change local work rules and practices at a number of facilities and implement cost-saving measures.

The costs and timing of facility closures or dispositions, business or product realignments, or similar restructuring actions, including potential asset impairment or other charges related to the implementation of these actions or other adverse industry conditions and contingent liabilities.

Significant changes in the competitive environment in the major markets where Visteon procures materials, components or supplies or where its products are manufactured, distributed or sold.

Legal and administrative proceedings, investigations and claims, including shareholder class actions, inquiries by regulatory agencies, product liability, warranty, employee-related, environmental and safety claims and any recalls of products manufactured or sold by Visteon.

Changes in economic conditions, currency exchange rates, changes in foreign laws, regulations or trade policies or political stability in foreign countries where Visteon procures materials, components or supplies or where its products are manufactured, distributed or sold.



Shortages of materials or interruptions in transportation systems, labor strikes, work stoppages or other interruptions to or difficulties in the employment of labor in the major markets where Visteon purchases materials, components or supplies to manufacture its products or where its products are manufactured, distributed or sold.

Changes in laws, regulations, policies or other activities of governments, agencies and similar organizations, domestic and foreign, that may tax or otherwise increase the cost of, or otherwise affect, the manufacture, licensing, distribution, sale, ownership or use of Visteon's products or assets.

Possible terrorist attacks or acts of war, which could exacerbate other risks such as slowed vehicle production, interruptions in the transportation system or fuel prices and supply.

The cyclical and seasonal nature of the automotive industry.

- Visteon's ability to comply with environmental, safety and other regulations applicable to it and any increase in the requirements, responsibilities and associated expenses and expenditures of these regulations.

Visteon's ability to protect its intellectual property rights, and to respond to changes in technology and technological risks and to claims by others that Visteon infringes their intellectual property rights.

Visteon's ability to quickly and adequately remediate control deficiencies in its internal control over financial reporting.

Other factors, risks and uncertainties detailed from time to time in Visteon's Securities and Exchange Commission filings.

- Caution should be taken not to place undue reliance on our forward-looking statements, which represent our view only as of the date of this presentation, and which we assume no obligation to update. Backlog does not represent firm orders or firm commitments from customers, but are based on various assumptions, including the timing and duration of product launches, vehicle production levels, customer cancellations, installation rates, customer price reductions and currency exchange rates.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary market risks to which the Company is exposed include changes in foreign currency exchange rates, interest rates and certain commodity prices. The Company manages these risks through derivative instruments and various operating actions including fixed price contracts with suppliers and cost sourcing arrangements with customers. The Company's use of derivative instruments is limited to mitigation of market risks, including hedging activities. However, derivative instruments are not used for speculative or trading purposes, as defined by risk management policies. Additionally, the Company's use of derivative instruments creates exposure to credit loss in the event of non-performance by the counter-party to the derivative financial instruments. The Company limits this exposure by entering into agreements directly with a variety of major financial institutions with high credit standards and that are expected to fully satisfy their obligations under the contracts. Additionally, the Company's ability to utilize derivatives to manage market risk is dependent on credit conditions and market conditions given the current economic environment.

#### Foreign Currency Risk

The Company's net cash inflows and outflows that are exposed to the risk of adverse changes in exchange rates as related to the sale of products in countries other than the manufacturing source, foreign currency denominated supplier payments, debt and other payables, subsidiary dividends, investments in subsidiaries and anticipated foreign currency denominated transaction proceeds. Where possible, the Company utilizes derivative financial instruments to manage foreign currency exchange rate risks. Forward and option contracts may be utilized to reduce the impact to the Company's cash flows from adverse movements in exchange rates. Foreign currency exposures are reviewed periodically and any natural offsets are considered prior to entering into a derivative financial instrument. The Company's current primary hedged foreign currency exposures include the Japanese Yen, Euro, Thai Baht, and Mexican Peso. Where possible, the Company utilizes a strategy of partial coverage for transactions in these currencies. The Company's policy requires that hedge transactions relate to a specific portion of the exposure not to exceed the aggregate amount of the underlying transaction.

In addition to the transactional exposure described above, the Company's operating results are impacted by the translation of its foreign operating income into U.S. dollars. The Company does not enter into foreign exchange contracts to mitigate this exposure.

The hypothetical pre-tax gain or loss in fair value from a 10% favorable or adverse change in quoted currency exchange rates would be approximately \$28 million and \$29 million for foreign currency derivative financial instruments as of September 30, 2018 and December 31, 2017, respectively. These estimated changes assume a parallel shift in all currency exchange rates and include the gain or loss on financial instruments used to hedge investments in subsidiaries. Because exchange rates typically do not all move in the same direction, the estimate may overstate the impact of changing exchange rates on the net fair value of the Company's financial derivatives. It is also important to note that gains and losses indicated in the sensitivity analysis would generally be offset by gains and losses on the underlying exposures being hedged.

#### Interest Rate Risk

See Note 16 "Fair Value Measurements and Financial Instruments" to the consolidated financial statements included in Item 1 for additional information.

#### Commodity Risk

The Company's exposures to market risk from changes in the price of production material are managed primarily through negotiations with suppliers and customers, although there can be no assurance that the Company will recover all such costs. The Company continues to evaluate derivatives available in the marketplace and may decide to utilize derivatives in the future to manage select commodity risks if an acceptable hedging instrument is identified for the Company's exposure level at that time, as well as the effectiveness of the financial hedge among other factors.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in periodic reports filed with the SEC under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is

accumulated and communicated to the Company's management, including its Chief Executive Officer and Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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As of September 30, 2018, an evaluation was performed under the supervision and with the participation of the Company's management, including its Chief Executive and Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2018.

**Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Part II

## Other Information

## Item 1. Legal Proceedings

See the information above under Note 17, "Commitments and Contingencies," to the consolidated financial statements which is incorporated herein by reference.

## Item 1A. Risk Factors

For information regarding factors that could affect the Company's results of operations, financial condition and liquidity, see the risk factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. See also, "Forward-Looking Statements" included in Part I, Item 2 of this Quarterly Report on Form 10-Q.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes information relating to purchases made by or on behalf of the Company, or an affiliated purchaser, of shares of the Company's common stock during the third quarter of 2018.

| Period                         | Total Number of Shares (or Units) Purchased (1) | Average Price Paid per Share (or Unit) | Total Number of Shares (or units) Purchased as Part of Publicly Announced Plans or Programs (2) | Approximate Dollar Value of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in millions) |
|--------------------------------|---|--|---|---|
| Jul. 1, 2018 to Sept. 30, 2018 | 486,422   | \$109.22                               | 462,210   | \$0   |
| Total                          | 486,422   | \$109.22                               | 462,210   | \$0   |

This column includes shares surrendered to the Company by employees to satisfy tax withholding obligations in (1) connection with the vesting of restricted stock units made pursuant to the Company's equity compensation programs.

(2) The Company spent \$50 million during the quarter to repurchase 462,210 shares at an average price of \$108.16.

## Item 6. Exhibits

The exhibits listed on the "Exhibit Index" on Page 50 hereof are filed with this report or incorporated by reference as set forth therein.

Exhibit Index

Exhibit No. Description

|             |  |
|-------------|--|
| <u>31.1</u> | <u>Rule 13a-14(a) Certification of Chief Executive Officer dated October 25, 2018.</u>                           |
| <u>31.2</u> | <u>Rule 13a-14(a) Certification of Executive Vice President, Chief Financial Officer dated October 25, 2018.</u> |
| <u>32.1</u> | <u>Section 1350 Certification of Chief Executive Officer dated October 25, 2018</u>                              |
| <u>32.2</u> | <u>Section 1350 Certification of Executive Vice President, Chief Financial Officer dated October 25, 2018.</u>   |
| 101.INS     | XBRL Instance Document.**  |
| 101.SCH     | XBRL Taxonomy Extension Schema Document.**   |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document.**   |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document.**   |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document.**  |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document.**  |

\* Indicates that exhibit is a management contract or compensatory plan or arrangement.

\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files as Exhibit 101 hereto are deemed not filed or part of a registration

statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes

of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

In lieu of filing certain instruments with respect to long-term debt of the kind described in Item 601(b)(4) of Regulation S-K, Visteon agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.

Signatures

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Visteon Corporation has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

VISTEON CORPORATION

By: /s/ Christian A. Garcia

Christian A. Garcia

Executive Vice President and Chief Financial Officer

Date: October 25, 2018