VISTEON CORP
Form 10-K
February 21, 2019

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

FORM 10-K
(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

Warrants, each exercisable for 1.3 shares of Common Stock at an exercise price of $0.01 (expiring October 1, 2020)
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ü No __
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes __ No ü
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 ü No__
Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ü No __
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ü

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 ü 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 ü

The aggregate market value of the registrant’s voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2018 (the last business day of the most recently completed second fiscal quarter) was approximately $3.8 billion.

As of February 20, 2019, the registrant had outstanding 28,244,086 shares of common stock.

Document Incorporated by Reference

Document	Where Incorporated
2019 Proxy Statement	Part III (Items 10, 11, 12, 13 and 14)

1

Visteon Corporation and Subsidiaries
Index

Part I

Item 1. Business

Description of Business

Visteon Corporation (the "Company" or "Visteon") is a global automotive supplier that designs, engineers and manufactures innovative cockpit electronics and connected car solutions for the world's major vehicle manufacturing including Ford, Mazda, Renault/Nissan, General Motors, Volkswagen, Jaguar/Land Rover, Daimler, Honda and BMW. 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., primarily in Mexico, Bulgaria, Portugal, Germany, India and China.

Visteon is driving the smart, learning, digital cockpit of the future, to improve safety and the user experience. Visteon is the world's leading supplier of cockpit electronics including digital instrument clusters, information displays, infotainment, head-up displays, telematics, SmartCore™ cockpit domain controllers, and the DriveCore™ autonomous driving platform. Visteon also delivers artificial intelligence-based technologies, connected car, cybersecurity, interior sensing, embedded multimedia and smartphone connectivity software solutions.

The Company's Industry

The Company operates in the automotive industry, which is cyclical and highly sensitive to general economic conditions. The Company believes that future success in the automotive industry is, in part, dependent on alignment with customers to support their efforts to effectively meet the challenges associated with the following significant trends and developments in the global automotive industry.

- Electronic content and connectivity - The electronic content of vehicles continues to increase due to various regulatory requirements and consumer demand for increased vehicle performance and functionality. The use of electronic components can reduce weight, expedite assembly, enhance fuel economy, improve emissions, increase safety and enhance vehicle performance. These benefits coincide with vehicles becoming more electric, connected and automated. Additionally, digital and portable technologies have dramatically influenced the lifestyle of today's consumers, who expect products that enable such a lifestyle. Consequently, the vehicle cockpit is transforming into a fully digital environment with device and power connectivity. This requires increased electronic and technical content such as in-vehicle communication, navigation and entertainment capabilities. While original equipment vehicle manufacturers ("OEMs") are taking different paths to connect their vehicles to high-speed broadband internet connections in the short-term, future vehicles are expected to be built with vehicle-to-vehicle connectivity systems. There is momentum by OEMs to integrate discrete electronic control units into a multi-core domain controller to increase efficiency and reduce power consumption, cost and weight.
- Advanced driver assistance systems ("ADAS") and autonomous driving - The industry continues to advance toward semi-autonomous and autonomous vehicles. The Society of Automotive Engineers has defined five levels of autonomy ranging from levels one and two with driver-assist functions whereby the driver is responsible for monitoring the environment, to level five with full autonomy under all conditions. Levels one and two are already popular in the market while levels three and above require a combination of sensors, radars, camera and LiDARs, requiring sensor fusion and machine learning technologies, as the system assumes the role of monitoring the environment. Level three includes features such as highway pilot and parking assist technology, for which a increased market penetration rate is expected over the next several years.
- Safety and security - Governments continue to focus regulatory efforts on safer transportation. Accordingly, OEMs are working to improve occupant and pedestrian safety by incorporating more safety-oriented technology in their vehicles. Additionally, in-vehicle connectivity has increased the need for robust cybersecurity systems to protect data, applications and associated infrastructure. Security features are evolving with advances in sensors and silicon.

Suppliers must enable the security/safety initiatives of their customers including the development of new technologies.

- Vehicle standardization - OEMs continue to standardize vehicle platforms on a global basis, resulting in a lower number of individual vehicle platforms, design cost savings and further scale of economies through the production of a greater number of models from each platform. Having operations in the geographic markets in which OEMs produce global platforms enables suppliers to meet OEMs' needs more economically and efficiently, thus making global coverage a source of significant competitive advantage for suppliers with a diversified global footprint. Additionally, OEMs are looking to suppliers for increased collaboration to lower costs, reduce risks and decrease overall time to market. Suppliers that can provide fully

3

engineered solutions, systems and pre-assembled combinations of component parts are positioned to leverage the trend toward system sourcing. As vehicles become more connected and cockpits more digitized, suppliers that can deliver modular hardware architectures, “open” software architectures and a software platform approach will be poised to help OEMs achieve greater reuse of validated hardware circuitry, design scalability and faster development cycles.

Financial Information about Segments

The Company’s current reportable segment is Electronics. The Company's Electronics segment provides vehicle cockpit electronics products to customers, including instrument clusters, information displays, infotainment systems, audio systems, telematics solutions and head-up displays. Prior to 2017, the Company also had Other operations consisting primarily of South Africa and South America climate operations substantially exited during the fourth quarter of 2016. Future impacts of such legacy operations will be included with the Company's continuing Electronics operations.

Refer to Note 23, “Segment Information” in Item 8 of this Report for more information about the Company’s reportable segment.

The Company’s Products

The Company designs and manufactures vehicle cockpit electronics components, modules and systems further described as follows:

Instrument Clusters

The Company offers a full line of instrument clusters, from standard analog gauge clusters to high-resolution, all-digital, fully reconfigurable, 2-D and 3-D display-based devices. The Company uses a platform approach to accelerate development and manage multiple vehicle variants. These clusters can use a wide range of display technologies, graphic capabilities and decorative elements, including organic light-emitting diode ("OLED"), free-form and curved displays. Premium clusters support complex 3-D graphics and feature embedded functionality such as driver monitoring, camera inputs and ambient lighting.

Information Displays

The Company offers a range of information displays for various applications within the cockpit, incorporating a sleek profile, craftsmanship and touch sensors, designed to deliver high performance for the automotive market. These displays can integrate a range of user interface technologies and graphics management capabilities, such as 3-D, dual view, cameras, optics, haptic feedback, light effects and dual (OLED) displays.

Audio and Infotainment Systems

The Company offers a range of infotainment solutions, including Phoenix™ display audio and embedded infotainment platform, Linux-based embedded infotainment and Android embedded infotainment, an open-source system based on Android Automotive. Visteon’s Phoenix™ display audio entry offering is designed to allow vehicle occupants to easily connect their mobile devices to the system and safely access phone functions, listen to music, stream media and enable mobile connectivity applications through Apple CarPlay®, Android Auto and Baidu CarLife. Additionally, Visteon has developed a voice assistant, "Say ‘n Serve” which enables car and cloud functionality via voice input to be integrated into infotainment systems. Phoenix™ embedded infotainment enables third-party developers to create apps easily through a software development kit and software simulation of the target hardware system. The Phoenix™ platform delivers built-in security and over-the-air updates. It consists of Phoenix InfoCore™ - in-vehicle middleware that maximizes software reuse and upgrades, and Phoenix Studio 2.0 - a PC-based development tool for apps.

Telematics Solutions

The Company provides a cost-optimized, high-speed telematics control unit to enable secure connected car services, software updates and data. The Company’s telematics solution uses a single hardware and flexible software architecture to support regional telematics service providers and mobile networks. The Company’s wireless gateway platform is designed to meet future connectivity requirements including 4G, V2X, Wi-Fi® and next-generation mobile standards such as 5G. The Company also offers a hands-free telephone unit that provides Bluetooth® and Universal Serial Bus ("USB") connectivity.

Head-Up Displays

The Company provides a complete line of head-up displays ("HUD") that present critical information to the driver in a convenient location, at a comfortable focal distance. Combiner HUD projects a virtual image in front of the driver using a compact, transparent screen mounted on top of the instrument panel. Windshield HUD projects the image directly on the vehicle windscreen. The Company has demonstrated an augmented reality system that overlays graphics in the driver’s line of sight to represent objects in the vehicle’s path; provide navigation guidance; and display relevant information, such as a lane departure warning.

SmartCore™ Domain Controller

The Company offers SmartCore™, an automotive-grade, integrated domain controller approach, which can independently operate the infotainment system, instrument cluster, head-up display, rear-seat displays and potentially other features on a single, multi-core chip to improve efficiency and reduce power consumption and cost. Included are: SmartCore™ Runtime, middleware, enabling communication between domains and apps to be shown on any display; and SmartCore™ Studio, a PC-based configuration tool to generate hypervisor configurations.

DriveCore™ Autonomous Driving Controller

DriveCore™ is a complete technology platform for autonomous driving applications of Level 3 and above consisting of the hardware, middleware and frameworks to develop machine learning algorithms. It provides an open platform for the development of sensor-based solutions for the auto industry - through three main components:

- Compute - A modular and scalable computing hardware platform designed to be adapted to all levels of automated driving;
- Runtime - In-vehicle middleware that provides a secure framework enabling applications and algorithms to communicate in a real time, high-performance environment; and
- Studio - A PC-based development environment that enables automakers to create an ecosystem of developers for rapid algorithm development.

The Company’s Customers

The Company's ultimate customers are global vehicle manufacturers including Ford, Mazda, Renault/Nissan, General Motors, Volkswagen, Jaguar/Land Rover, Daimler, Honda and BMW. Ford, Mazda and Renault/Nissan are the Company's largest ultimate customers and in 2018 accounted for sales of approximately 26%, 18% and 12%, respectively. In 2017 and 2016, Ford accounted for 28% and 30% of sales, respectively, Mazda accounted for 17% and 17% of sales in 2017 and 2016, respectively and Renault/Nissan accounted for 14% and 15% of sales for 2017 and 2016, respectively.

The Company typically negotiates product pricing on an annual basis with suppliers and OEMs. Any resulting price reductions are intended to take into account expected annual reductions in the overall cost to the supplier of providing products and services to the customer, through such factors as manufacturing productivity enhancements, material cost-reductions and design-related cost improvements. The Company has an aggressive cost-reduction program that focuses on reducing its total costs, which are intended to offset customer price reductions. However, there can be no assurance that the Company’s cost-reduction efforts will be sufficient to fully offset such price reductions.

The Company’s Competition

The automotive sector is concentrated, but operates under highly competitive conditions resulting from the globalized nature of the industry, high fixed costs and the resulting need for scale economies, market dynamics including share in mature economies and positioning in emerging economies and the low cost of switching for the end consumer. Accordingly, OEMs rigorously evaluate suppliers on the basis of financial viability, product quality, price competitiveness, technical expertise and development capability, new product innovation, reliability and timeliness of delivery, product design and manufacturing capability and flexibility, customer service and overall management. The Company's primary independent competitors include but are not limited to Alpine Electronics, Aptiv PLC, Continental AG, Denso Corporation, Samsung, LG Corporation, Nippon Seiki, Panasonic Corporation, Pioneer Corporation, Mobis, Innolux, Magnetti Marelli, and Robert Bosch GmbH.

The Company's Product Sales Backlog

The Company typically enters into customer agreements at the beginning of a vehicle life cycle with the intent to fulfill customer-purchasing requirements for the entire vehicle production life cycle. The vehicle life cycle typically includes the two to three year pre-production period and production for a term covering the life of such vehicle model or platform, generally between three to five years, although there is no guarantee that this will occur. The Company's customers make no firm commitments regarding volume and may terminate these agreements or orders at any time. Therefore, we believe that these arrangements do not represent firm orders.

The Company's backlog, also referred to as forecasted revenue from awarded programs, is the estimated remaining cumulative awarded life-of-program sales. Several factors may change forecasted revenue from awarded programs; namely, new business wins, vehicle production volume changes, customer price reductions, currency exchange rates, component take rates by customers and short cycled or canceled platforms. The Company’s Electronics segment backlog was $21.5 billion as of December 31, 2018.

The Company’s Business is Seasonal and Cyclical

Historically, the Company’s business has been moderately seasonal because its largest North American customers typically cease production for approximately two weeks in July for model year changeovers and approximately one week in December during the winter holidays. Customers in Europe historically shut down vehicle production during a portion of August and one week in December. In China, customers typically shut down approximately one week in early October and one week in January or February. Additionally, third-quarter automotive production traditionally is lower as new vehicle models enter production.

The Company’s Workforce and Employee Relations

The Company’s workforce as of December 31, 2018 included approximately 10,000 persons, of which approximately 6,000 were salaried employees and 4,000 were hourly workers. Many of the Company’s employees are members of industrial trade unions and confederations within their respective countries, including Europe, Asia and South America. Many of these organizations operate under collectively bargained contracts that are not specific to any one employer. The Company constantly works to establish and maintain positive, cooperative relations with its unions and work representatives around the world and believes that its relationships with unionized employees are satisfactory.

The Company’s Product Research and Development

The Company’s research and development efforts are intended to maintain leadership positions in core products and provide the Company with a competitive edge as it seeks additional business with new and existing customers. The Company also works with technology development partners, including customers, to develop technological capabilities and new products and applications.

6

The Company's Intellectual Property

The Company owns significant intellectual property, including a number of patents, copyrights, proprietary tools and technologies and trade secrets and is involved in numerous licensing arrangements. Although the Company's intellectual property plays an important role in maintaining its competitive position, no single patent, copyright, proprietary tool or technology, trade secret or license, or group of related patents, copyrights, proprietary tools or technologies, trade secrets or licenses is, in the opinion of management, of such value to the Company that its business would be materially affected by the expiration or termination thereof. The Company's general policy is to apply for patents on an ongoing basis, in appropriate countries, on its patentable developments that are considered to have commercial significance. The Company also views its name and mark as significant to its business as a whole. In addition, the Company holds rights in a number of other trade names and marks applicable to certain of its businesses and products that it views as important to such businesses and products.

The Company's International Operations

Financial information about sales and net property by major geographic region can be found in Note 23, "Segment Information," included in Item 8 "Financial Statements and Supplementary Data" of this Report. The attendant risks of the Company's international operations are primarily related to currency fluctuations, changes in local economic and political conditions and changes in laws and regulations. The following table presents the Company's sales and net property and equipment by geographic region as a percentage of such consolidated total amounts.

	Sales (a)			Property and Equipment, Net	
	Year Ended December 31			December 31	
	2018	2017	2016	2018	2017
United States	22 %	25 %	26 %	3 %	3 %
Mexico	2 %	2 %	2 %	15 %	14 %
Total North America	24 %	27 %	28 %	18 %	17 %
Portugal	19 %	16 %	14 %	21 %	20 %
Slovakia	8 %	9 %	9 %	10 %	10 %
Tunisia	3 %	3 %	5 %	2 %	3 %
France	2 %	3 %	3 %	2 %	2 %
Germany	— %	— %	— %	1 %	1 %
Other Europe	1 %	1 %	2 %	2 %	3 %
Intra-region eliminations	— %	— %	(1)%	—	—
Total Europe	33 %	32 %	32 %	38 %	39 %
China Domestic	14 %	12 %	10 %	—	—
China Export	10 %	12 %	12 %	—	—
Total China	24 %	24 %	22 %	22 %	23 %
Japan	17 %	16 %	16 %	5 %	6 %
India	4 %	3 %	2 %	8 %	6 %
Thailand	2 %	2 %	3 %	3 %	3 %
Korea	— %	— %	1 %	— %	— %
Intra-region eliminations	— %	— %	— %	—	—
Total Other Asia-Pacific	23 %	21 %	22 %	16 %	15 %
South America	3 %	2 %	3 %	6 %	6 %
Inter-region eliminations	(7)%	(6)%	(7)%	—	—

100 %	100 %	100 %	100%	100%

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

The Company's Raw Materials and Suppliers

Raw materials used by the Company in the manufacture of its products include electronics components, resins, copper and precious metals. All of the materials used are generally available from numerous sources. In general, the Company does not carry inventories of raw materials in excess of those reasonably required to meet production and shipping schedules. As of December 31, 2018, the Company had not experienced significant shortages of raw materials. The Company monitors its supply base and endeavors to work with suppliers and customers to attempt to mitigate the impact of potential material shortages and supply disruptions. While the Company does not anticipate any significant interruption in the supply of raw materials, there can be no assurance that sufficient sources or amounts of all necessary raw materials will be available in the future.

The automotive supply industry is subject to inflationary pressures with respect to raw materials, which have historically placed operational and financial burdens on the entire supply chain. Accordingly, the Company continues to take actions with its customers and suppliers to mitigate the impact of these inflationary pressures in the future. Actions to mitigate inflationary pressures with customers include collaboration on alternative product designs and material specifications, contractual price escalation clauses and negotiated customer recoveries. Actions to mitigate inflationary pressures with suppliers include aggregation of purchase requirements to achieve optimal volume benefits, negotiation of cost-reductions and identification of more cost competitive suppliers. While these actions are designed to offset the impact of inflationary pressures, the Company cannot provide assurance that it will be successful in fully offsetting increased costs resulting from inflationary pressures.

The Company’s Website and Access to Available Information

The Company’s current and periodic reports filed with the United States Securities and Exchange Commission (“SEC”), including amendments to those reports, may be obtained through its internet website at www.visteon.com free of charge as soon as reasonably practicable after the Company files these reports with the SEC. A copy of the Company’s code of business conduct and ethics for directors, officers and employees of Visteon and its subsidiaries, entitled “Ethics and Integrity Policy,” the Corporate Governance Guidelines adopted by the Company’s Board of Directors and the charters of each committee of the Board of Directors are also available on the Company’s website. A printed copy of the foregoing documents may be requested by contacting the Company’s Investor Relations department in writing at One Village Center Drive, Van Buren Township, MI 48111; by phone (734) 710-7893; or via email at investor@visteon.com.

Item 1A. Risk Factors

The risks and uncertainties described below are not the only ones facing the Company. Risks attributable to all registrants are not included below. Additional risks and uncertainties, including those not presently known or that the Company believes to be immaterial, also may adversely affect the Company’s results of operations and financial condition. Should any such risks and uncertainties develop into actual events, these developments could have material adverse effects on the Company’s business and financial results.

The Company’s substantial international operations make it vulnerable to risks associated with doing business in foreign countries.

The Company has manufacturing and distribution facilities in many foreign countries, including Mexico, Europe, South America and Asia. International operations are subject to certain risks inherent in doing business abroad, including:

- changes to international trade agreements;
- local economic conditions, expropriation and nationalization, foreign exchange rate fluctuations and currency controls;
- withholding, border and other taxes on remittances and other payments by subsidiaries;
- investment restrictions or requirements;
- export and import restrictions, including increases in border tariffs; and
- increases in working capital requirements related to long supply chains.

In particular, if the United States withdraws from or materially modifies the North American Free Trade Agreement without ratifying the United States, Mexico, Canada Trade Agreement, or any other international trade agreement with one of the countries in which the Company operates, or implements increases in border tariffs, such as those being considered by the U.S. on some or all imports of automobiles and automotive parts for national security reasons, there could be a significantly adverse effect on the Company's financial condition, operating results and cash flows. Moreover, while the company has mitigated most of the impacts related to the ongoing trade escalation between the United States and China, any significant scope or policy changes by the United States, China or other countries where the company or its customers operate, could also result in a material adverse effect on our financial results.

8

The Company has and is expected to continue to invest significantly in joint ventures with other parties to conduct business in China and elsewhere in Asia. These investments may include manufacturing operations and technical centers as well as research and development activities to support anticipated growth in the region. If the Company is not able to strengthen existing relationships, secure additional customers and develop market-relevant advanced driver assistance and autonomous vehicle technologies, it may fail to realize expected rates of return on these investments. The Company’s ability to repatriate funds from these joint ventures depends not only upon their uncertain cash flows and profits, but also upon the terms of particular agreements with the Company’s joint venture partners and maintenance of the legal and political status quo. As a result, the Company’s exposure to the risks described above is substantial. The likelihood of such occurrences and its potential effect on the Company vary from country to country and are unpredictable. However, any such occurrences could be harmful to the Company’s business and the Company’s profitability and financial condition.

The Company must continue to develop, introduce and achieve market acceptance of new and enhanced products in order to grow its sales in the future.

The growth of the Company's business will be dependent on the demand for innovative automotive electronics products, including but not limited to advanced driver assistance and autonomous vehicle technologies. In order to increase sales in current markets and gain entry into new markets, the Company must innovate to maintain and improve existing products, including software, while successfully developing and introducing distinctive new and enhanced products that anticipate changing customer and consumer preferences and capitalize upon emerging software technologies. However, the Company may experience difficulties that delay or prevent the development, introduction or market acceptance of its new or enhanced products, or undiscovered software errors, bugs and defects in its products may injure the Company's reputation. Furthermore, these new technologies have also attracted increased competition from outside the traditional automotive industry, and any of these competitors may develop and introduce technologies that gain greater customer or consumer acceptance, which could adversely affect the future growth of the Company.

The Company’s ability to effectively operate could be hindered if it fails to attract and retain key personnel.

The Company’s ability to operate its business and implement its strategies effectively depends, in part, on the efforts of its executive officers and other key employees. In addition, the Company’s future success will depend on, among other factors, the ability to attract and retain qualified personnel, particularly engineers and other employees with critical expertise and skills that support key customers and products or in emerging regions. The loss of the services of any key employees or the failure to attract or retain other qualified personnel could have a material adverse effect on the Company’s business.

Warranty claims, product liability claims and product recalls could harm the Company’s business, results of operations and financial condition.

The Company faces the inherent business risk of exposure to warranty and product liability claims in the event that its products fail to perform as expected or such failure results, or is alleged to result, in bodily injury or property damage (or both). In addition, if any of the Company’s designed products are defective or are alleged to be defective, the Company may be required to participate in a recall campaign. As suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, automakers are increasingly expecting them to warrant their products and are increasingly looking to suppliers for contributions when faced with product liability claims or recalls. A successful warranty or product liability claim against the Company in excess of its available insurance coverage and established reserves, or a requirement that the Company participate in a product recall campaign, could have materially adverse effects on the Company’s business, results of operations and financial condition.

Developments or assertions by or against the Company relating to intellectual property rights could materially impact its business.

The Company owns significant intellectual property, including a number of patents, trademarks, copyrights and trade secrets and is involved in numerous licensing arrangements. The Company’s intellectual property plays an important role in maintaining its competitive position in a number of the markets served. The Company may utilize intellectual property in its products that requires a license from a third-party. While the Company believes that such licenses generally can be obtained, there is no assurance that the necessary licenses can be obtained on commercially acceptable terms or at all. Failure to obtain the right to use third-party intellectual property could preclude the Company from selling certain products and have materially adverse effects on the Company’s business, results of operations and financial condition. Developments or assertions by or against the Company relating to intellectual property rights could materially impact the Company’s business. Recently, the Company has seen an increase in patent claims related to connectivity-enabled products where other patent-holding companies are seeking royalties and often enter into litigation based on patent infringement allegations. Significant technological developments by others also could materially and adversely affect the Company’s business and results of operations and financial condition.

The discontinuation or loss of business, or lack of commercial success, with respect to a particular vehicle model for which the Company is a significant supplier could reduce the Company's sales and harm its profitability.

Although the Company has purchase orders from many of its customers, these purchase orders generally provide for the supply of a customer's annual requirements for a particular vehicle model and assembly plant, or in some cases, for the supply of a customer's requirements for the life of a particular vehicle model, rather than for the purchase of a specific quantity of products. In addition, it is possible that customers could elect to manufacture components internally that are currently produced by outside suppliers, such as the Company. The discontinuation of, the loss of business with respect to or a lack of commercial success of a particular vehicle model for which the Company is a significant supplier, could reduce the Company's sales and harm the Company's profitability.

The automotive industry is cyclical and significant declines in the production levels of the Company's major customers could reduce the Company's sales and harm its profitability.

Demand for the Company's products is directly related to the automotive vehicle production of the Company's major customers. Automotive sales and production are cyclical and can be affected by general economic or industry conditions, labor relations issues, fuel prices, regulatory requirements, government initiatives, trade agreements, the cost and availability of credit and other factors.

A disruption in the Company's information technology systems could adversely affect its business and financial performance.

The Company relies on the accuracy, capacity and security of its information technology systems as well as those of its customers, suppliers, partners and service providers to conduct its business. Despite the security and risk-prevention measures the Company has implemented, the Company's systems could be breached, damaged or otherwise interrupted by a system failure, cyber attack, malicious computer software (malware), unauthorized physical or electronic access or other natural or man-made incidents or disasters. The Company is also susceptible to security breaches that may go undetected. Such a breach or interruption could result in business disruption, theft of the Company intellectual property or trade secrets and unauthorized access to personnel information. To the extent that business is interrupted or data is lost, destroyed or inappropriately used or disclosed, such disruptions could adversely affect the Company's competitive position, relationships with customers, financial condition, operating results and cash flows.

The Company is highly dependent on Ford Motor Company and decreases in this customer's vehicle production volumes would adversely affect the Company.

Ford is one of the Company's largest ultimate customers and accounted for 26%, 28% and 30% of sales in 2018, 2017 and 2016, respectively. Accordingly, any change in Ford's vehicle production volumes may have a significant impact on the Company's sales volume and profitability.

The Company's inability to effectively manage the timing, quality and costs of new program launches could adversely affect its financial performance.

In connection with the award of new business, the Company often obligates itself to deliver new products and services that are subject to its customers' timing, performance and quality standards. Additionally, as a Tier 1 supplier, the Company must effectively coordinate the activities of numerous suppliers in order to launch programs successfully. Given the complexity of new program launches, especially involving new and innovative technologies, the Company may experience difficulties managing product quality, timeliness and associated costs. In addition, new program launches require a significant ramp up of costs; however, the sales related to these new programs generally are dependent upon the timing and success of the introduction of new vehicles by the Company's customers. The Company's inability to effectively manage the timing, quality and costs of these new program launches could adversely affect its financial condition, operating results and cash flows.

The Company's pension expense and funding levels of pension plans could materially deteriorate or the Company may be unable to generate sufficient excess cash flow to meet increased pension benefit obligations.

The Company's assumptions used to calculate pension obligations as of the annual measurement date directly impact the expense to be recognized in future periods. While the Company's management believes that these assumptions are appropriate, significant differences in actual experience or significant changes in these assumptions may materially affect the Company's pension obligations and future expense. For more information on sensitivities to changing assumptions, please see “Critical Accounting Estimates” in Item 7 and Note14, “Employee Benefit Plans” in Item 8 of this report.

10

The Company’s expected annual effective tax rate could be volatile and could materially change as a result of changes in mix of earnings and other factors.

Changes in the Company’s debt and capital structure, among other items, may impact its effective tax rate. The Company is in a position whereby losses incurred in certain tax jurisdictions generally provide no current financial statement benefit. In addition, certain jurisdictions have statutory rates greater than or less than the United States statutory rate. As such, changes in the mix and source of earnings between jurisdictions could have a significant impact on the Company’s overall effective tax rate in future periods. Changes in tax law and rates, changes in rules related to accounting for income taxes or adverse outcomes from tax audits that regularly are in process in any of the jurisdictions in which the Company operates could also have a significant impact on the Company’s overall effective rate in future periods.

The Company may not be able to fully utilize its U.S. net operating losses and other tax attributes.

Visteon's emergence from bankruptcy in 2010 resulted in a change of ownership within the meaning of Internal Revenue Code (“IRC”) Sections 382 and 383, causing the use of Visteon's pre-emergence U.S. federal net operating loss (“NOL”) and various other tax attributes to be limited in the post-emergence period. However, NOLs and other tax attributes generated in the post-emergence period are generally not limited by the emergence from bankruptcy, but could be limited if there is a subsequent change of ownership. If the Company were to have another change of ownership within the meaning of IRC Sections 382 and 383, its post-emergence NOL and other tax attributes could be limited to an amount equal to its market capitalization at the time of the subsequent ownership change multiplied by the federal long-term tax exempt rate. The Company cannot provide any assurance that such an ownership change will not occur, in which case the availability of the Company's NOLs and other tax attributes could be significantly limited or possibly eliminated. Certain tax benefit preservation provisions of its corporate documents could delay or prevent a change of control, even if that change would be beneficial to stockholders.

Recent changes in the U.S. federal income tax rules could adversely affect us and our shareholders.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law, making significant changes to the U.S. Internal Revenue Code. Changes include, but are not limited to, a corporate income tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the migration from a worldwide tax system to a territorial tax system with a one-time transition tax on cumulative post-1986 foreign earnings, a modification of the characterization and treatment of certain intercompany transactions and the creation of a new U.S. corporate minimum tax on certain earnings of foreign subsidiaries. The Company reflected the necessary provisional impact of the Act in our financial statements for 2017, the year of enactment. Since then, the Company has continued to examine the impact the Act may have on its business and has not identified any material adjustments to the previously recorded provisional amounts. The Company urges its shareholders to consult with their legal and tax advisors with respect to the Act and the potential tax consequences of investing in our common stock.

Privacy and security concerns relating to the Company's current or future products and services could damage its reputation and deter current and potential users from using them.

The Company may gain access to sensitive, confidential or personal data or information that is subject to privacy and security laws, regulations and customer-imposed controls. Concerns about the Company's practices with regard to the collection, use, disclosure, or security of personal information or other privacy related matters, even if unfounded, could damage its reputation and adversely affect its operating results.

Furthermore, regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning cybersecurity and data protection. In addition, the interpretation and application of consumer and data protection laws in the U.S., Europe and elsewhere are often uncertain and in flux. Complying with these various laws could cause the Company to incur substantial costs.

Escalating price pressures from customers may adversely affect the Company’s business.

Downward pricing pressures by automotive manufacturers, while characteristic of the automotive industry, are increasing. Virtually all automakers have implemented aggressive price-reduction initiatives and objectives each year with their suppliers, and such actions are expected to continue in the future. In addition, estimating such amounts is subject to risk and uncertainties because any price reductions are a result of negotiations and other factors.

Accordingly, suppliers must be able to reduce their operating costs in order to maintain profitability. The Company has taken steps to reduce its operating costs and other actions to offset customer price reductions; however, price reductions have impacted the Company’s sales and profit margins and are expected to continue to do so in the future. If the Company is unable to offset customer price reductions in the future through improved operating efficiencies, new manufacturing processes, sourcing alternatives and other cost-reduction initiatives, the Company’s results of operations and financial condition will likely be adversely affected.

The Company could be negatively impacted by the distress of its supplier or other shortages.

In an effort to manage and reduce the costs of purchased goods and services, the Company, like many suppliers and automakers, has been consolidating its supply base. In addition, certain materials and components used by the Company are in high demand but of limited availability. As a result, the Company is dependent on single or limited sources of supply for certain components used in the manufacture of its products. The Company selects its suppliers based on total value (including price, delivery and quality), taking into consideration production capacities and financial condition. However, there can be no assurance that strong demand, capacity limitations or other problems experienced by the Company’s suppliers will not result in occasional shortages or delays in the supply of components. If the Company were to experience a significant or prolonged shortage of critical components from any of its suppliers, particularly those who are sole sources, and could not procure the components from other sources, the Company would be unable to meet its production schedules for some of its key products or to ship such products to its customers in a timely fashion, which would adversely affect sales, margins and customer relations. Furthermore, unfavorable economic or industry conditions could result in financial distress within the Company's supply base, thereby increasing the risk of supply disruption. Although market conditions generally have improved in recent years, uncertainty remains and another economic downturn or other unfavorable industry conditions in one or more of the regions in which the Company operates could cause a supply disruption and thereby adversely affect the Company's financial condition, operating results and cash flows.

Work stoppages and similar events could significantly disrupt the Company’s business.

Because the automotive industry relies heavily on just-in-time delivery of components during the assembly and manufacture of vehicles, a work stoppage at one or more of the Company’s manufacturing and assembly facilities could have material adverse effects on the business. Similarly, if one or more of the Company’s customers were to experience a work stoppage, that customer would likely halt or limit purchases of the Company’s products, which could result in the shutdown of the related manufacturing facilities. A significant disruption in the supply of a key component due to a work stoppage at one of the Company’s suppliers or any other supplier could have the same consequences, and accordingly, have a material adverse effect on the Company’s financial results.

The Company may incur significant restructuring charges.

The Company has taken, and expects to take, restructuring actions to realign and resize its production capacity and cost structure to meet current and projected operational and market requirements. Charges related to these actions could have a material adverse effect on the Company's financial condition, operating results and cash flows. Moreover, there can be no assurances that any future restructuring will be completed as planned or achieve the desired results.

The Company is involved from time to time in legal proceedings and commercial or contractual disputes, which could have an adverse effect on its business, results of operations and financial position.

The Company is involved in legal proceedings and commercial or contractual disputes that, from time to time, are significant. These are typically claims that arise in the normal course of business including, without limitation, commercial or contractual disputes (including disputes with suppliers), intellectual property matters, personal injury claims and employment matters. No assurances can be given that such proceedings and claims will not have a material adverse impact on the Company’s profitability and financial position.

The Company is subject to significant foreign currency risks and foreign exchange exposure.

As a result of Visteon's global presence, a significant portion of the Company's revenues and expenses is denominated in currencies other than the U.S. dollar. The Company is therefore subject to foreign currency risks and foreign exchange exposure. The Company's primary exposures are to the Euro, Japanese Yen, and Chinese Renminbi. While the Company employs financial instruments to hedge transactional foreign exchange exposure, including multi-year contracts, exchange rates are difficult to predict and such actions may not insulate the Company' completely from those exposures. As a result, volatility in certain exchange rates could adversely impact Visteon financial results and comparability of results from period to period.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Company's principal executive offices are located in Van Buren Township, Michigan. At December 31, 2018, the Company and its consolidated subsidiaries owned or leased approximately:

- 33 corporate offices, technical and engineering centers and customer service centers in eleven countries around the world, of which 32 were leased and 1 was owned.
- 14 Electronics manufacturing and/or assembly facilities in Mexico, Portugal, Russia, Slovakia, Tunisia, India, Japan, China, Thailand and Brazil, of which 11 were leased and 3 were owned.

In addition, the Company's non-consolidated affiliates operate approximately 6 manufacturing and/or assembly locations, primarily in the Asia Pacific region. The Company considers its facilities to be adequate for its current uses.

Item 3.Legal Proceedings

Certain legal proceedings in which the Company is involved are discussed in Note 21, "Commitments and Contingencies" of Part II, Item 8, "Financial Statements and Supplementary Data" and should be considered an integral part of Part I, Item 3, "Legal Proceedings."

Item 4.Mine Safety Disclosures

None

Item 4A. Executive Officers and Key Employees

The following table shows information about the executive officers of the Company and other key employees. Ages are as of February 1, 2019:

Name	Age	Position
Sachin S. Lawande	51	Director, President and Chief Executive Officer
Christian A. Garcia	55	Executive Vice President and Chief Financial Officer
Sunil K. Bilolikar	57	Senior Vice President, Operations and Procurement
Matthew M. Cole	49	Senior Vice President, Product Development Engineering
Brett D. Pynnonen	50	Senior Vice President and General Counsel
Markus J. Schupfner	49	Senior Vice President and Chief Technology Officer
Kristin E. Trecker	53	Senior Vice President and Chief Human Resources Officer
Robert R. Vallance	58	Senior Vice President, Customer Business Groups

Sachin S. Lawande has been Visteon’s Chief Executive Officer, President and a director of the Company since June 29, 2015. Before joining Visteon, Mr. Lawande served as Executive Vice President and President, Infotainment Division of Harman International Industries, Inc., an automotive supplier, from July 2013 to June 2015. From July 2011 to June 2013, he served as Executive Vice President and President of Harman’s Lifestyle Division, and from July 2010 to June 2011 as Executive Vice President and Co-President, Automotive Division. Prior to that he served as Harman’s Executive Vice President and Chief Technology Officer since February 2009. Mr. Lawande joined Harman International in 2006, following senior roles at QNX Software Systems and 3Com Corporation. He also serves on the board of directors of DXC Technology Company.

Christian A. Garcia has been Visteon’s Executive Vice President and Chief Financial Officer since October 2016. Prior to joining the Company, Mr. Garcia served as Senior Vice President, Finance and Acting Chief Financial Officer of Halliburton Company, a global provider of products and services to the energy sector, from January 2015 to August 2016. From January 2014 to December 2015, he served as Halliburton’s Chief Accounting Officer and from September 2011 to December 2014 as Halliburton’s Treasurer. Prior to that, he was Senior Vice President, Investor Relations of Halliburton from January 2011 to August 2011. He also held a series of senior financial positions with Landmark Graphics, a software and consulting provider that was acquired by Halliburton. Prior to joining Landmark Graphics, he worked at Bell and Howell and San Miguel Corp. in the Philippines in various roles. Mr. Garcia also serves on the board of directors of Keane Group, Inc.

Sunil K. Bilolikar has been Visteon’s Senior Vice President, Operations and Purchasing since December 2016. Prior to that, he was Group Vice President, Operations and Purchasing since July 2014, Global Director, Operations and Purchasing from January 2012 to June 2014, Global Director, Operations from 2005 to 2012. During his career with Visteon and Ford Motor Company, he has held several engineering and operations leadership positions in the U.S., Canada, India, Portugal and Germany.

Matthew M. Cole has been Visteon’s Senior Vice President, Product Development since December 2016. Prior to that, he was Vice President, Product Development upon rejoining the Company in July 2014. From July 2011 to June 2014, he served as Vice President, Engineering at Johnson Controls, Inc., an automotive supplier. From July 2010 to June 2011, he served as Johnson Controls' Vice President, Product Management. Prior to that, he spent 19 years at Ford Motor Company and Visteon in product development, engineering and leadership positions in the U.S. and Asia.

Brett D. Pynnonen has been Visteon’s Senior Vice President and General Counsel since December 2016. Prior to that, he was Vice President and General Counsel since joining the Company in March 2016. Before joining Visteon he was Senior Vice President, General Counsel and Corporate Secretary of Federal-Mogul Holdings Corporation, a global automotive supplier, from November 2007 to March 2016. Prior to that, he was General Counsel and Secretary of Covansys Corporation, a technology services company, and an attorney at the law firm of Butzel Long.

Markus J. Schupfner has been Visteon’s Senior Vice President and Chief Technology Officer since December 2016. Prior to that, he was Vice President and Chief Technology Officer since joining the Company in April 2016. Before joining Visteon he was Executive Vice President of Operations at Elektrobit Automotive GmbH, a supplier of embedded software solutions and services, since February 2014, and from November 2009 to January 2014, he was Elektrobit’s Vice President, Infotainment Solutions. Prior to that, he served as Vice President of Navigation for the

Infotainment Division of Harman International Industries and held director-level roles at Siemens VDO and Siemens.

Kristin E. Trecker has been Visteon’s Senior Vice President and Chief Human Resources Officer ("CHRO") since joining the Company in May 2018. Before joining Visteon, she served as Executive Vice President and CHRO for Integer Holdings Corp. (formerly Greatbatch, Inc.),a medical device outsource manufacturer, from November 2015 to May 2017, and as Senior Vice President and CHRO of MTS Systems Corp., a global engineering firm, from February 2012 to October 2015. Prior to that Ms. Trecker spent 16 years with Lawson Software, Inc. in roles of increasing responsibility, ranging from Director of Compensation and Benefits to Senior Vice President of Human Resources.

Robert R. Vallance has been Visteon’s Senior Vice President, Customer Business Groups since December 2016. Prior to that, he was Vice President, Customer Business Groups upon rejoining the Company in July 2014. From February 2008 to June 2015, he served as Vice President, Electronics Business Group of Johnson Controls, Inc., an automotive supplier. Prior to that, he spent 23 years at Ford Motor Company and Visteon in product development, program and commercial management, strategy and planning, product marketing and manufacturing.

Part II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

On December 14, 2017, the Company's Board of Directors (the "Board") approved the Company to be voluntarily de-listed from The New York Stock Exchange (“NYSE”) at the close of trading on December 26, 2017 and to transfer the listing of its common stock to The NASDAQ Stock Market (“NASDAQ”) to commence trading on December 27, 2017. Visteon’s common stock continues to trade under the stock symbol “VC.” As of February 20, 2019, the Company had 28,244,086 shares of its common stock, $0.01 par value per share, outstanding, which were owned by 4,061 shareholders of record.

No dividends were paid by the Company on its common stock during the years ended December 31, 2018 and 2017. The Company’s Board evaluates the Company’s dividend policy based on all relevant factors. The Company’s credit agreements limit the amount of cash payments for dividends that may be made. Additionally, the ability of the Company’s subsidiaries to transfer assets is subject to various restrictions, including regulatory requirements and governmental restraints. Refer to Note 17, “Stockholders’ Equity and Non-controlling Interests,” in Item 8 of this Report.

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 fourth 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
Oct. 1, 2018 to Oct. 31, 2018	—	$0.00	—	$0.00
Nov. 1, 2018 to Nov. 30, 2018	314,720	$79.64	—	$0.00
Dec. 1, 2018 to Dec. 31, 2018	400,885	$62.35	—	$0.00
Total	715,605	$69.94	—	$0.00

(1) This column includes 981 shares surrendered to the Company by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock units made pursuant to the Visteon Corporation 2010 Incentive Plan.

(2) On January 15, 2018, the Company's Board authorized an additional $500 million share repurchases to be completed through 2020. As of December 31, 2018, there is $400 million remaining on this authorization. Additional repurchases of common stock, if any, may occur at the discretion of the Company.

The following information in Item 5 is not deemed to be “soliciting material” or be “filed” with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 (“Exchange Act”) or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent the Company specifically incorporates it by reference into such a filing.

16

Performance Graph

The following graph compares the cumulative total stockholder return from December 31, 2013, through December 31, 2018, for Visteon's existing common stock, the S&P 500 Index and the Dow Jones U.S. Auto Parts Index. The graph below assumes that $100 was invested on December 31, 2013, in each of the Company's common stock, the stocks comprising the S&P 500 Index and the stocks comprising the Dow Jones U.S. Auto Parts Index, and that all that dividends have been reinvested.

	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
Visteon Corporation	$100.00	$135.60	$145.30	$173.10	$269.70	$129.90
Dow Jones U.S. Auto & Parts Index	$100.00	$106.80	$103.90	$105.80	$129.80	$100.70
S&P 500	$100.00	$116.90	$118.50	$132.60	$161.60	$154.50

The above comparisons are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of the Company's common stock or the referenced indices.

Item 6. Selected Financial Data

The following statement of operations, statement of cash flows and balance sheet data were derived from the Company's consolidated financial statements for the years ended December 31, 2018, 2017, 2016, 2015 and 2014. This information should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data" in this Report.

	Year Ended December 31 2018	Year Ended December 31 2017	Year Ended December 31 2016	Year Ended December 31 2015	Year Ended December 31 2014
	(Dollars in Millions, Except Per Share Amounts)				
Statement of Operations Data:					
Net sales	$2,984	$ 3,146	$ 3,161	$ 3,245	$ 2,586
Net income (loss) from continuing operations	173	175	131	42	(75)
Net income (loss) from discontinued operations, net of tax	1	17	(40)	2,286	(131)
Net income (loss) attributable to Visteon Corporation	$164	$ 176	$ 75	$ 2,284	$ (295)
Basic earnings (loss) per share					
Continuing operations	$5.53	$ 5.03	$ 3.28	$ 0.52	$ (2.14)
Discontinued operations	0.03	0.54	(1.14)	53.48	(4.30)
Basic earnings (loss) attributable to Visteon Corporation	$5.56	$ 5.57	$ 2.14	$ 54.00	$ (6.44)
Diluted earnings (loss) per share					
Continuing operations	$5.49	$ 4.94	$ 3.25	$ 0.51	$ (2.14)
Discontinued operations	0.03	0.53	(1.13)	52.12	(4.30)
Diluted earnings (loss) attributable to Visteon Corporation	$5.52	$ 5.47	$ 2.12	$ 52.63	$ (6.44)
Balance Sheet Data:					
Total assets	$2,007	$ 2,304	$ 2,373	$ 4,681	$ 5,323
Total debt, excluding held for sale	$405	$ 393	$ 382	$ 383	$ 616
Total Visteon Corporation stockholders' equity	$465	$ 637	$ 586	$ 1,057	$ 865
Statement of Cash Flows Data:					
Cash provided from operating activities	$204	$ 215	$ 116	$ 338	$ 284
Cash (used by) provided from investing activities	$(98)	$ (173)	$ 302	$ 2,358	$ (740)
Cash used by financing activities	$(335)	$ (234)	$ (2,262)	$ (774)	$ (359)

Year Ended December 31, 2017

On December 1, 2017, the Company completed an asset sale related to an Electronics facility in France to a third party (the "France Transaction"). In connection with the France Transaction, the Company recorded pre-tax losses of approximately $33 million including a cash contribution of $13 million, long-lived asset impairment charges of $13 million and other working capital and transaction related impacts of $7 million.

Year Ended December 31, 2016

On December 1, 2016, the Company completed the sale of its Interiors operations in Argentina and Brazil, incurring a loss of $19 million representing the final working capital cash contribution and related contractual obligations, completing the Interiors Divestiture.

During the fourth quarter of 2016, the Company sold its South Africa climate operations and recorded a loss of $11 million related to foreign currency translation amounts previously recorded in accumulated other comprehensive loss. On December 9, 2015, the Company declared a special distribution of $43.40 per share of its common stock outstanding as of January 15, 2016, or approximately $1.75 billion in the aggregate. As of December 31, 2018 the total distribution has been paid.

Year Ended December 31, 2015

On June 9, 2015, Visteon completed the sale of all of its shares of Halla Visteon Climate Control Corporation, a Korean corporation (“HVCC”). The Company received net cash proceeds of approximately $2.7 billion and recognized a pretax gain of approximately $2.3 billion in connection with the closing of the Climate Transaction in the second quarter of 2015.

On December 1, 2015, Visteon completed the Germany Interiors Divestiture. The Company recognized a pretax loss on divestiture of $105 million during the year ended December 31, 2015, related to foreign currency translation and pension benefit plan amounts previously recorded in accumulated other comprehensive loss in 2015. Although the divestiture represented a continuation of the Company’s exit from the Interiors business, the divestiture was not considered a strategic shift given the size of the operations representing $86 million in 2015 sales. Therefore, the operations did not qualify for discontinued operations presentation and operating results prior to the sale were classified within Other as continuing operations.

Year Ended December 31, 2014

During 2014, the Company divested the majority of its global Interiors business (the "Interiors Divestiture"). The Company recorded losses totaling $326 million during the year ended December 31, 2014. The operating results of Interiors businesses subject to the Interiors Divestiture have been reclassified to Net income (loss) from discontinued operations, net of tax for all periods presented. These losses included an asset impairment loss of $190 million recorded during the second quarter of 2014 pursuant to execution of the Purchase Agreement and additional losses of $136 million during the fourth quarter of 2014 pursuant to the Master Closing on November 1, 2014 and the completion of the sale of an Interiors operation in India on December 1, 2014. The operating results of Interiors businesses subject to the Interiors Divestiture were reclassified to Net income (loss) from discontinued operations, net of tax for all periods presented.

On July 1, 2014, the Company completed the acquisition of substantially all of the global automotive electronics business of Johnson Controls Inc. for an aggregate purchase price of $299 million, including $31 million of cash and equivalents at the acquired business. The Company commenced consolidation of the acquired business from date of acquisition.

Item 7.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 consolidated financial statements and related notes appearing in Item 8 “Financial Statements and Supplementary Data” of this Report.

Executive Summary

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, expected to grow by more than 1.5 times over the next five years. The industry is shifting from analog to digital, towards device and cloud connectivity, towards electric vehicles and from ADAS to autonomous.

The Company has laid out the following strategic priorities:

- Transformation of the Automotive Cockpit as a Smart Mobile Digital Assistant - The Company is an established global leader in cockpit electronics and is positioned to provide solutions as the industry transitions to the next generation automotive cockpit experience. The cockpit is becoming fully digital, connected, automated, learning, and voice enabled. Visteon's broad portfolio of cockpit electronics technology and the development of the DriveCore advanced safety platform positions Visteon to support these macro trends in automotive.
- Long-Term Growth and Margin Expansion - Visteon has continued to win an increasing level of business by demonstrating product quality, technical and development capability, new product innovation, reliability and timeliness, product design and manufacturing capability and flexibility, as well as overall customer service.

The Company reported Adjusted EBITDA of 11.1% and 11.8% for 2018 and 2017 respectively. The Company is focused on delivering continued cost efficiencies by streamlining selling, general and administrative costs and engineering costs, improving free cash flow, optimizing the capital structure and driving savings benefits as revenue grows.

- Enhance Shareholder Returns - The Company has returned $3.25 billion to shareholders since 2015 through a combination of ongoing share repurchases and a one time special dividend in 2016. The Company has $400 million of remaining authorization from the Board of Directors. This authorization is in place through the end of 2020

Financial Results

The pie charts below highlight the sales breakdown for Visteon for the year ended December 31, 2018.

*Regional sales are based on the geographic region where sale originates and not where customer is located (excludes inter-regional eliminations).

Global Automotive Market Conditions and Production Levels

During 2018 global light vehicle production decreased 1.1% over the same period last year with declines in all regions except Other Asia-Pacific which increased 2% from 2017.

Light vehicle production levels for 2018 and 2017 by geographic region are provided below (units in millions):

	Light Vehicle Production		
	2018	2017	Change
Global	94.1	95.2	(1.1)%
China	26.9	28.0	(4.1)%
Other Asia-Pacific	22.4	22.0	2.0 %
Europe	22.0	22.2	(1.1)%
Americas	20.3	20.4	— %
Other	2.5	2.6	(2.3)%

Source: IHS Automotive

Global production volumes are expected to decline year over year in the first half of 2019, particularly in China and Europe as these regions continue to face uncertainties. In China, production volumes are expected to decline as a result of continued low consumer confidence and continued uncertainty around the trade dispute between the U.S. and China. In Europe, production volumes are also expected to be lower in the first half of the year as a result of the uncertainty related to Brexit and increased emission regulations. Overall, North America is expected to be flat in the first half of the year, but certain key customers are forecasted to decline on a year over year basis as the shift from sedans to sport utility vehicle continues.

Significant highlights of the Company's results for the year ended December 31, 2018, include the following.

- The Company recorded sales of $2,984 million representing a decrease of $162 million compared with the year ended December 31, 2017.
- Gross margin was $411 million or 13.8% of sales for the year ended December 31, 2018, compared to $491 million or 15.6% of sales for the same period of 2017.
- Net income attributable to Visteon was $164 million for the year ended December 31, 2018, compared to net income of $176 million for the same period of 2017.
- Total cash was $467 million, including $4 million of restricted cash as of December 31, 2018, $242 million lower than $709 million, including $3 million of restricted cash as of December 31, 2017.

- China domestic sales grew 6% as compared to 2017, outperforming the market decline of 4%.

The Company's consolidated results of operations for the years ended December 31, 2018 and 2017 were as follows:

	Year Ended December 31		
	2018	2017	Change
	(Dollars in Millions)		
Sales	$2,984	$3,146	$(162)
Cost of sales	(2,573)	(2,655)	82
Gross margin	411	491	(80)
Selling, general and administrative expenses	(193)	(226)	33
Restructuring expense, net	(29)	(14)	(15)
Interest expense, net	(7)	(16)	9
Equity in net income of non-consolidated affiliates	13	7	6
Loss on divestiture	—	(33)	33
Other income (expense), net	21	14	7
Provision for income taxes	(43)	(48)	5
Net income from continuing operations	173	175	(2)
Net income (loss) from discontinued operations, net of tax	1	17	(16)
Net income	174	192	(18)
Net income attributable to non-controlling interests	(10)	(16)	6
Net income attributable to Visteon Corporation	$164	$176	$(12)
Adjusted EBITDA*	$330	$370	$(40)

* Adjusted EBITDA is a Non-GAAP financial measure, as defined in Note 23.

Results of Operations - 2018 Compared with 2017

Sales and Cost of Sales

	Sales	Cost of Sales
	(Dollars in Millions)	
December 31, 2017	$3,146	$(2,655)
Volume, mix, and net new business	(151)	42
VFAE consolidation	13	(9)
Currency	48	(31)
Customer pricing and other	(72)	—
Engineering cost, net	—	(21)
Net cost performance	—	101
December 31, 2018	$2,984	$(2,573)

Sales for the year ended December 31, 2018 totaled $2,984 million, which represents a decrease of $162 million compared with the same period of 2017. Unfavorable volumes, and product mix, net of new business decreased sales by $151 million. Product mix reflects the Company-specific content across product lines. Favorable currency increased sales by $48 million, primarily attributable to the Euro and Chinese Renminbi, partially offset by the Brazilian Real. The consolidation of a previously non-consolidated affiliate, Changchun Visteon FAWAY Auto Electronics Co., Ltd, ("VFAE"), during 2018 increased sales $13 million. Other reductions were primarily associated with customer pricing.

Cost of sales decreased $82 million for the year ended December 31, 2018, when compared with the same period in 2017. Lower volumes and product mix, net of new business decreased cost of sales by $42 million. Foreign currency increased cost of sales by $31 million primarily attributable to the Euro. The consolidation of VFAE during 2018 increased cost of sales $9 million. Net cost performance, including material, design and usage economics, lower warranty costs, and a favorable antitrust settlement, partially offset by legal expenses related to former employees at a closed plant in Brazil and non-recurrence of certain intellectual property settlements, decreased cost of sales by $101 million.

Cost of sales includes net engineering costs of $286 million related to forward model program development and advanced engineering activities. Net engineering costs for the year ended December 31, 2018, excluding currency, were $21 million higher than the same period of 2017 to support our new business wins as well as investment in new technologies.

Gross Margin

The Company's gross margin was $411 million or 13.8% of sales for the year ended December 31, 2018, compared to $491 million or 15.6% of sales for the same period of 2017. The $80 million decrease in gross margin included $109 million from unfavorable volumes, and product mix, net of new business. Currency increased gross margin by $17 million as the impact of the Euro and Chinese Renminbi more than offset the impact of the Brazilian Real. The consolidation of VFAE during 2018 increased gross margin by $4 million. Gross margin was impacted by favorable net cost performance of $8 million primarily due to favorable material cost efficiencies, lower warranty costs, and a favorable antitrust settlement, partially offset by higher engineering expense, legal expenses related to former employees at a closed plant in Brazil and customer pricing reductions.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses were $193 million, or 6.5% of sales, and $226 million, or 7.2% of sales, during the years ended December 31, 2018 and 2017, respectively. The decrease of $33 million is related to lower incentive compensation costs, the resolution of a legal matter as further described in Note 21, "Commitments and Contingencies," and net cost efficiencies, partially offset by higher equity based incentive compensation costs and 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 $19 million, net of reversals, in relation to the program and expects to incur up to $25 million under this 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, net of reversals, 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. The Company has recorded approximately $5 million and $14 million of restructuring expenses, net of reversals, respectively under this program during the years ended December 31, 2018 and 2017.

Other and Discontinued Operations: During the year ended December 31, 2018, the Company recorded $1 million associated with a former European Interiors facility related to settlement of employee severance litigation.

Interest Expense, Net

Net interest expense for the year ended December 31, 2018, was $7 million, representing a decrease of $9 million when compared to $16 million for the same period of 2017. The decrease is primarily due to lower effective interest rates on debt and the non-recurrence of 2017 refinancing fees.

Equity in Net Income of Non-Consolidated Affiliates

Equity in net income of non-consolidated affiliates was $13 million and $7 million for the years ended December 31, 2018 and 2017, respectively. The increase in income is primarily attributable to the Company's equity interest in Yanfeng Visteon Investment Company due to increased sales volume.

Loss on Divestiture

On December 1, 2017, the Company completed an asset sale related to an Electronics facility in France to a third party (the "France Transaction"). In connection with the France Transaction, the Company recorded pre-tax losses of approximately $33 million including a cash contribution of $13 million, long-lived asset impairment charges of $13 million and other working capital and transaction related impacts of $7 million.

Other Income (Expense), Net

Other income (expense), net consists of the following:

	Year Ended December 31	
	2018	2017
	(Dollars in Millions)	
Pension financing benefits, net	$ 13	$ 12
Transformation initiatives	4	(2)
Gain on non-consolidated affiliate transactions, net	4	4
	$ 21	$ 14

Pension financing benefits, net, includes income from return on assets net of interest costs and other amortization.

Transformation initiative costs 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 2018, the Company recognized a $4 million benefit related to the resolution of a legal matter as further described in Note 21, "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, "Business Acquisitions."

During 2017, the Company disposed of its cost method investments resulting in a net pretax gain of $4 million, as further described in Note 6, "Non-Consolidated Affiliates."

Income Taxes

The Company's provision for income tax was $43 million for year ended December 31, 2018 and reflects income tax expense related to those 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 tax expense for pretax income in certain jurisdictions (including the U.S.) due to valuation allowances, and other non-recurring tax items.

The Company's provision for income taxes decreased $5 million for the year ended December 31, 2018, compared with 2017. The decrease is primarily attributable to favorable audit developments in connection with uncertain tax positions related to goodwill tax amortization at an affiliate in Asia, $6 million, and the non-recurrence of $3 million adverse valuation allowance assessments in 2017 resulting from revised profit projections primarily in Mexico and France. Other changes in the Company’s deferred tax asset valuation allowances did not materially impact net tax expense during the years ended December 31, 2018 or 2017. The

decreases in the tax provision were partially offset primarily by the year-over-year increase in the effective tax rate in profitable jurisdictions driven by the mix of earnings and differing tax rates between jurisdictions.
On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law making significant changes to the U.S. Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the migration from a worldwide tax system to a territorial system, which institutes a dividends received deduction for foreign earnings with a one-time transition tax on cumulative post-1986 foreign earnings, a modification of the characterization and treatment of certain intercompany transactions and creates a new U.S. corporate minimum tax on certain earnings of foreign subsidiaries. At December 31, 2018, the Company had completed its accounting for the tax effects of the Act. The adjustments to the provisional amounts did not have a significant impact to income tax expense due to the U.S. valuation allowance; see Note 16 to the Consolidated Financial Statements for additional information.

Discontinued Operations

During the first quarter of 2018, the Company recognized a $3 million benefit related to the resolution of a legal matter as further described in Note 21, "Commitments and Contingencies." During 2018 the Company recorded a $4 million charge for legal expenses related to former employees at a closed plant in Brazil.

The Company recorded a $4 million income tax benefit during 2018 related to uncertain tax positions in connection with the Climate transaction, resulting from statute expiration.

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.

In connection with the Interiors Divestiture, the Company negotiated a settlement with the Buyer for certain non-income tax items and recognized a gain on divestiture of $7 million for the year ended December 31, 2017.

Net Income

Net income attributable to Visteon was $164 million for the year ended December 31,2018, compared to net income of $176 million for the same period of 2017. The decrease of $12 million is primarily attributable to the decrease in gross margin including unfavorable volumes, higher engineering expense, customer pricing and product mix, partially offset by net new business, improved cost performance and favorable currency. The decrease in gross margin was partially offset by lower selling, general and administrative expense, and the non-recurrence of a loss on divestiture in 2017.

Adjusted EBITDA

Adjusted EBITDA (a non-GAAP financial measure, as defined in Note 23) was $330 million for the year ended December 31, 2018, representing a decrease of $40 million when compared with Adjusted EBITDA of $370 million for the same period of 2017. The decrease is primarily attributable to unfavorable volumes, higher engineering expense, customer pricing and product mix, partially offset by net new business, lower selling, general and administrative expense, improved cost performance and favorable currency.

The reconciliation of Adjusted EBITDA to net income attributable to Visteon for the years ended December 31, 2018 and 2017 is as follows:

	Year Ended December 31		
	2018	2017	Change
	(Dollars in Millions)		
Net income attributable to Visteon Corporation	$164	$176	$ (12)
Depreciation and amortization	91	87	4
Restructuring expense, net	29	14	15
Interest expense, net	7	16	(9)
Equity in net income of non-consolidated affiliates	(13)	(7)	(6)
Loss on divestiture	—	33	(33)
Provision for income taxes	43	48	(5)
Net (income) loss from discontinued operations, net of tax	(1)	(17)	16
Net income attributable to non-controlling interests	10	16	(6)
Non-cash, stock-based compensation expense	8	12	(4)
Other	(8)	(8)	—
Adjusted EBITDA	$330	$370	$ (40)

Results of Operations - 2017 Compared with 2016

The Company's consolidated results of operations for the years ended December 31, 2017 and 2016 were as follows:

	Year Ended December 31		
	2017	2016	Change
	(Dollars in Millions)		
Sales	$3,146	$3,161	$ (15)
Cost of sales	(2,655)	(2,705)	50
Gross margin	491	456	35
Selling, general and administrative expenses	(226)	(224)	(2)
Restructuring expense, net	(14)	(49)	35
Interest expense, net	(16)	(12)	(4)
Equity in net income of non-consolidated affiliates	7	2	5
Loss on divestiture	(33)	—	(33)
Other income (expense), net	14	(12)	26
Provision for income taxes	(48)	(30)	(18)
Net income from continuing operations	175	131	44
Net income (loss) from discontinued operations, net of tax	17	(40)	57
Net income	192	91	101
Net income attributable to non-controlling interests	(16)	(16)	—
Net income attributable to Visteon Corporation	$176	$75	$ 101
Adjusted EBITDA*	$370	$337	$ 33

* Adjusted EBITDA is a Non-GAAP financial measure, as defined in Note 23.

Results of Operations - 2017 Compared with 2016

Prior to 2017, the Company also had Other operations consisting primarily of the South Africa and the South America climate operations substantially exited during the fourth quarter of 2016.

Sales

	Electronics	Other	Total
	(Dollars in Millions)		
December 31, 2016	$3,107	$ 54	$3,161
Volume, mix, and net new business	127	—	127
Currency	5	—	5
Exit of climate operations	—	(54)	(54)
Customer pricing and other	(93)	—	(93)
December 31, 2017	$3,146	$ —	$3,146

Sales for the year ended December 31, 2017 totaled $3,146 million, which represents a decrease of $15 million compared with the same period of 2016. Favorable volumes, product mix, and net new business increased sales by $127 million. Product mix reflects the Company-specific content across product lines. Favorable currency increased sales by $5 million, primarily attributable to the Euro, Brazilian Real and Indian Rupee, partially offset by the Chinese Renminbi. The exit of other climate operations in 2016 decreased sales by $54 million. Other reductions were primarily associated with customer pricing.

27

Cost of Sales

	Electronics	Other	Total
	(Dollars in Millions)		
December 31, 2016	$(2,642)	$(63)	$(2,705)
Volume, mix, and net new business	(123)	—	(123)
Currency	(12)	—	(12)
Exit of climate operations	—	63	63
Net cost performance	122	—	122
December 31, 2017	$(2,655)	$—	$(2,655)

Cost of sales decreased $50 million for the year ended December 31, 2017, when compared with the same period in 2016. Increased volumes, product mix, and net new business increased cost of sales by $123 million. Foreign currency increased cost of sales by $12 million primarily attributable to the Euro, Brazilian Real, and Thai Baht, partially offset by the Chinese Renminbi, Japanese Yen, and Mexican Peso. The exit and wind-down of other climate operations decreased cost of sales by $63 million. Net cost performance, including material, design and usage economics, lower net engineering expense, warranty costs, and certain intellectual property settlements, partially offset by higher manufacturing and other cost performance, decreased cost of sales by $122 million.

Cost of sales includes net engineering costs of $259 million related to forward model program development and advanced engineering activities. Net engineering costs for the year ended December 31, 2017 were $44 million lower than the same period of 2016.

Gross Margin

The Company's gross margin was $491 million or 15.6% of sales for the year ended December 31, 2017, compared to $456 million or 14.4% of sales for the same period of 2016. The $35 million increase in gross margin included $4 million from favorable volumes and net new business partially offset by product mix, and $9 million related to the exit of climate operations. Currency decreased gross margin by $7 million as the impact of the Chinese Renminbi and Euro more than offset the impact of the Indian Rupee, Mexican Peso, and Brazilian Real. Gross margin also included net cost performance of $29 million, including favorable material cost efficiencies, lower engineering expense and certain intellectual property settlements, partially offset by customer pricing reductions, and higher manufacturing costs.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses were $226 million, or 7.2% of sales, and $224 million, or 7.1% of sales, during the years ended December 31, 2017 and 2016, respectively. The increase of $2 million is primarily related to increased equity based incentive compensation costs and an increase in allowance for doubtful accounts, partially offset by net cost efficiencies.

Restructuring Expense

Electronics: 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. For the years ended December 31, 2017 and 2016, the Company recorded restructuring expenses of approximately $14 million and $26 million, net of reversals, respectively.

During the first quarter of 2016, the Company announced a restructuring program to transform the Company's engineering organization and supporting functional areas to focus on execution and technology. The organization will be comprised of regional engineering, product management and advanced technologies, and global centers of competence. During 2016, the Company recorded approximately $11 million restructuring expenses, net of reversals.

Other and Discontinued Operations: During the year ended December 31, 2016, the Company recorded $16 million of restructuring expenses related to severance and termination benefits related to the wind-down of certain operations in South America.

Interest Expense, Net

Net interest expense for the year ended December 31, 2017, was $16 million, an increase of $4 million when compared to $12 million for the same period of 2016. Interest expense was $21 million and $18 million for the years ended December 31, 2017 and 2016, respectively. The increase in net interest expense includes lower interest income due to lower cash balances, refinancing fees for the amended credit facilities as further described in Note 13, "Debt" and termination impacts of the Company's interest rate swap as further described in Note 20, "Financial Instruments."

Equity in Net Income of Non-Consolidated Affiliates

Equity in net income of non-consolidated affiliates was $7 million and $2 million for the years ended December 31, 2017 and 2016, respectively. The income is primarily attributable to the Company's equity interest in Yanfeng Visteon Investment Company, which increased due to sales volume as well as higher royalty and engineering recoveries.

Loss on Divestiture

On December 1, 2017, the Company completed an asset sale related to an Electronics facility in France to a third party (the "France Transaction"). In connection with the France Transaction, the Company recorded pre-tax losses of approximately $33 million including a cash contribution of $13 million, long-lived asset impairment charges of $13 million and other working capital and transaction related impacts of $7 million.

Other Income (Expense), Net

Other income (expense), net consists of the following:

	Year Ended December 31	
	2017	2016
	(Dollars in Millions)	
Pension financing benefits, net	$12	$12
Transformation initiatives	(2)	(9)
Gain on non-consolidated transactions	4	—
Foreign currency translation charge	—	(11)
Integration costs	—	(2)
Loss on asset contributions	—	(2)
	$14	$(12)

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

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

During 2017, the Company disposed of its cost method investments resulting in a net pretax gain of $4 million, as further described in Note 6, "Non-Consolidated Affiliates."

During 2016, the Company agreed to sell a 50% interest in an equity investment for approximately $7 million and recorded an impairment loss of approximately $5 million related to this transaction. Also in 2016, the Company sold a cost method investment to a third party for proceeds of approximately $11 million. The Company recorded a pre-tax gain of $5 million related to this transaction during the year ended December 31, 2016.

During the year ended December 31, 2016, the Company recorded a charge of approximately $11 million related to foreign currency translation amounts recorded in accumulated other comprehensive loss associated with the sale of the Company's South Africa climate operations.

29

During the year ended December 31, 2016, the Company recorded $2 million of costs to integrate the businesses associated with the acquisition of substantially all of the global automotive electronics business of Johnson Controls Inc. (the "Electronics Acquisition"). Integration costs included re-branding, facility modification, information technology readiness and related professional services.

In connection with the closure of the Climate facility in Argentina, the Company contributed land and buildings with a net book value of $2 million to the local municipality for the benefit of former employees.

Income Taxes

The Company's provision for income tax was $48 million for year ended December 31, 2017 and reflects income tax expense related to those 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 tax expense for pretax income in certain jurisdictions (including the U.S.) due to valuation allowances, and other non-recurring tax items.

The Company's provision for income taxes increased $18 million for the year ended December 31, 2017, compared with 2016. The increase is primarily attributable to the non-recurrence of an $11 million tax benefit recognized in 2016 related to the ability to carryback the 2016 U.S. tax loss against 2015 U.S. tax liabilities (both current and FIN 48) as a result of triggering a worthless stock deduction (“WSD”) for U.S. tax purposes relating to Visteon SA. Other increases include the overall increase in year-over-year changes in the mix of earnings and differing tax rates between jurisdictions, as well as changes in valuation allowance related to revised profit projections primarily in Mexico and France. Other changes in the Company’s deferred tax asset valuation allowances did not materially impact net tax expense during the years ended December 31, 2017 or 2016.

The increases in the tax provision were partially offset by $2 million of year-over-year changes in unrecognized tax benefits, including interest and penalties, related primarily to the non-recurrence of unfavorable adjustments in 2016, primarily in connection with intercompany transactions between the U.S. and non-U.S. taxing jurisdictions.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law making significant changes to the U.S. Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the migration from a worldwide tax system to a territorial system, which institutes a dividends received deduction for foreign earnings with a one-time transition tax on cumulative post-1986 foreign earnings, a modification of the characterization and treatment of certain intercompany transactions and creates a new U.S. corporate minimum tax on certain earnings of foreign subsidiaries. The Company has calculated its best estimate of the impact of the Act in its year-end income tax provision in accordance with the guidance available. Accordingly, the Company has recognized a provisional income tax charge of $250 million, the impact of which was entirely offset by a corresponding income tax benefit associated with a reduction in the U.S. valuation allowance. The provisional amount related to the remeasurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future, was $267 million. The provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was $19 million, which was more than offset by the $36 million reversal of the Company’s existing deferred tax liability (net of foreign tax credits) associated with repatriation of unremitted foreign earnings. The Company continues to gather information related to estimates 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. Any subsequent adjustment to these amounts is not expected to have a significant impact to income tax expense due to the U.S. valuation allowance.

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.

In connection with the Interiors Divestiture, the Company negotiated a settlement with the Buyer for certain non-income tax items and recognized a gain on divestiture of $7 million for the year ended December 31, 2017.

Net Income

Net income attributable to Visteon was $176 million for the year ended December 31, 2017, compared to net income of $75 million for the same period of 2016. The increase of $101 million includes higher net income due to the non-recurrence of 2016 losses from discontinued operations of $40 million, 2017 income from discontinued operations of $17 million, lower restructuring charges of $35 million, the non-recurrence of charges associated with the 2016 South Africa climate disposition of $11 million, higher equity in net income of non-consolidated affiliates of $5 million and gains on the sale of non-consolidated affiliates of $4 million. These improvements were partially offset by higher income taxes of $18 million and a loss on the France divestiture of $33 million in 2017.

Adjusted EBITDA

Adjusted EBITDA (a non-GAAP financial measure, as defined in Note 23) was $370 million for the year ended December 31, 2017, representing an increase of $33 million when compared with Adjusted EBITDA of $337 million for the same period of 2016. The increase is primarily attributable to favorable volumes, improved net cost performance including higher engineering recoveries, partially offset by exchange, customer pricing and product mix.

The reconciliation of Adjusted EBITDA to net income attributable to Visteon for the years ended December 31, 2017 and 2016 is as follows:

	Year Ended December 31		
	2017	2016	Change
	(Dollars in Millions)		
Net income attributable to Visteon Corporation	$176	$75	$ 101
Depreciation and amortization	87	84	3
Restructuring expense, net	14	49	(35)
Interest expense, net	16	12	4
Equity in net income of non-consolidated affiliates	(7)	(2)	(5)
Loss on divestiture	33	—	33
Provision for income taxes	48	30	18
Net (income) loss from discontinued operations, net of tax	(17)	40	(57)
Net income attributable to non-controlling interests	16	16	—
Non-cash, stock-based compensation expense	12	8	4
Other	(8)	25	(33)
Adjusted EBITDA	$370	$337	$ 33

Liquidity

Overview

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, royalties, intercompany loan arrangements and other distributions and advances 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

31

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 13, "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. As of December 31, 2018, these lines had availability of approximately $29 million.

Cash Balances
As of December 31, 2018, the Company had total cash of $467 million, including $4 million of restricted cash. Cash balances totaling $289 million were located in jurisdictions outside of the United States, of which approximately $135 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.
Restructuring
During the year ended December 31, 2018, the Company paid $30 million related to restructuring activities. See Note 7, "Restructuring Activities" to the Company's consolidated financial statements included in Item 8 of this Report for further information.
Other Items Affecting Liquidity
In 2018, the Company entered into various programs with third-party financial institutions to purchase an aggregate amount of $300 million of the Company's common stock. Under these programs the Company purchased 2,805,531 shares at an average price of $106.92, as further described below in Note 17, "Stockholders' Equity and Non-controlling Interests." As of December 31, 2018, $400 million of authorization remains outstanding through 2020.
During the year ended December 31, 2018, cash contributions to the Company's U.S. and non-U.S. defined benefit pension plans were $8 million. The Company expects to make cash contributions to its defined benefit pension plans of $7 million in 2019.

Cash Flows

Operating Activities

Including discontinued operations, the Company generated $204 million of cash from operating activities during the year ended December 31, 2018, as compared to $215 million during the same period of 2017 representing an $11 million decrease in cash provided from operations. The decrease in operating cash flows is primarily due to lower net income of $18 million, excluding a 2017 non-cash loss of $33 million and unfavorable changes in other assets and liabilities of $32 million, primarily attributable to incentive compensation payments and increased royalty payments, partially offset by a decrease in China bank notes during 2018. These items are partially offset by favorable changes to trade working capital during the year ended as compared to the same period of 2017 of $73 million.

Including discontinued operations, the Company generated $215 million of cash from operating activities during the year ended December 31, 2017, compared to $116 million during the same period of 2016 for a increase of $99 million. The increase in operating cash flows is attributable to higher net income of $101 million and lower cash tax payments, net of expense of $79 million primarily due to the non-recurrence of transaction related taxes incurred in 2016, partially offset by higher working capital use of $48 million, higher warranty payments net of expense of $23 million and an increase in China bank notes of $5 million.

Investing Activities

Net cash used by investing activities during the year ended December 31, 2018 totaled $98 million, compared to net cash used by investing activities of $173 million in the same period in 2017, representing a reduction of cash used by investing activities of $75 million. Net cash used by investing activities during year ended December 31, 2018, included capital expenditures of $127, partially offset by cash acquired from the consolidation of VFAE of $16 million and $13 million of other net proceeds primarily attributable to the settlement of certain agreements related to the Interiors Divestiture.

Cash used by investing activities during the year ended December 31, 2017 totaled $173 million, compared to net cash provided from investing activities of $302 million in the same period in 2016 for a decrease of $475 million. Net cash used by investing activities during the year ended December 31, 2017, includes the purchase of the India electronics operations associated with the Climate Transaction for $47 million, payments of $48 million primarily related to the Germany Interiors Divestiture and France Transaction and capital expenditures of $99 million. These outflows were partially offset by proceeds for divestitures of equity and cost based investments in China and Europe of $15 million and net investment hedge settlement proceeds of $5 million

Cash provided from investing activities during the year ended December 31, 2016, includes the Climate Transaction withholding tax recovery of $356 million, liquidation of short-term investments of $47 million, and proceeds from a cost-basis investment of $11 million. These increases were partially offset by capital expenditures of $75 million, payments related to the South America Interiors divestiture of $10 million and a three-year term loan of $10 million provided to the buyer, the acquisition of AllGo Embedded Systems Private Limited of $15 million and net loans to non-consolidated affiliates of $8 million.

Financing Activities

Cash used by financing activities during the year ended December 31, 2018, totaled $335 million, compared to $234 million for the same period in 2017 for a increase in cash used by financing activities of $101 million. Increased cash used by financing activities during the year ended December 31, 2018 as compared to the same period last year is primarily attributable to higher share repurchase transactions of $100 million. Activity during 2018 also includes dividends paid to non-controlling interests of $28 million, distribution payments of $14 million and proceeds from an increase in short term debt of $12 million.

Cash used by financing activities during the year ended December 31, 2017, totaled $234 million, compared to $2,262 million for the same period in 2016 for a decrease in cash used by financing activities of $2,028 million. Cash used by financing activities during the year ended December 31, 2017, included share repurchases of $200 million and dividends paid to non-controlling interests of $38 million.

Cash used by financing activities during the year ended December 31, 2016 included a distribution payment of $1,736 million, share repurchases of $500 million, stock based compensation tax withholding payments of $11 million, non-controlling interest dividends of $13 million, and capital lease and net debt payments of $2 million.

Debt and Capital Structure

See "Liquidity" above and also see Note 13, "Debt" and Note 17, "Stockholders' Equity and Non-controlling Interests" to the Company's consolidated financial statements included in Item 8 of this Report for further information.

Off-Balance Sheet Arrangements

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

Fair Value Measurements

The Company uses fair value measurements in the preparation of its financial statements, utilizing various inputs including those that can be readily observable, corroborated or are generally unobservable. The Company utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Company applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. See Note 19, "Fair Value Measurements" to the consolidated financial statements included in Item 8 for additional information.

33

Contractual Obligations

The following table summarizes the Company's contractual obligations existing as of December 31, 2018:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(Dollars in Millions)				
Debt, including capital leases	$407	$57	$—	$ —	$350
Purchase obligations	149	63	65	19	2
Interest payments on long-term debt	63	11	22	27	3
Operating leases	186	37	53	37	59
Total contractual obligations	$805	$168	$140	$ 83	$414

Excluded from the contractual obligations table above are open purchase orders as of December 31, 2018, for raw materials and supplies in the normal course of business, joint venture agreements and other contracts without express funding requirements.

This table excludes amounts related to the Company's income tax liabilities associated with uncertain tax positions impacting the effective rate of $4 million as the Company is unable to make reasonable estimates for the periods in which these liabilities may become due.

The Company also has minimum funding requirements with respect to pension obligations. The Company may elect to make contributions in excess of the minimum funding requirements in response to investment performance or changes in interest rates. During 2019, the Company expects to make cash contributions to its U.S. defined benefit and non-U.S. defined benefit pension plans of $1 million and $6 million, respectively. The Company’s expected 2019 contributions may be revised.

Critical Accounting Estimates

The Company’s significant accounting policies have been disclosed in the consolidated financial statements and accompanying notes under Note 2, “Summary of Significant Accounting Policies.” Certain policies relate to estimates that involve matters that are highly uncertain at the time the accounting estimate is made and different estimates or changes to an estimate could have a material impact on the reported financial position, changes in financial condition or results of operations. Such critical estimates are discussed below. For these, materially different amounts could be reported under varied conditions and assumption. Other items in the Company's consolidated financial statements require estimation, however, in our judgment, they are not as critical as those discussed below.

Product Warranty and Recall

The Company accrues for warranty obligations for products sold based on management estimates, with support from the Company’s sales, engineering, quality and legal functions, of the amount that eventually will be required to settle such obligations. This accrual is based on several factors, including contractual arrangements, past experience, current claims, production changes, industry developments and various other considerations. The Company accrues for product recall claims related to potential financial participation in customer actions to provide remedies as a result of actual or threatened regulatory or court actions or the Company’s determination of the potential for such actions. The Company's accrual for recall claims is based on specific facts and circumstances underlying individual claims with support from the Company’s engineering, quality and legal functions. Amounts accrued are based upon management’s best estimate of the amount that will ultimately be required to settle such claims. See Note 21, "Commitments and Contingencies" in Item 8 of this Report for additional information.

Restructuring

The Company accrued costs in connection with its restructuring of the engineering and administration organization. These accruals include estimates primarily related to employee headcount, local statutory benefits, and other employee termination costs. Actual costs may vary from these estimates. These accruals are reviewed on a quarterly basis and changes to restructuring actions are appropriately recognized when identified. See Note 7, “Restructuring Activities” in Item 8 of this report for additional information.

Pension Plans

Many of the Company’s employees participate in defined benefit pension plans or retirement/termination indemnity plans. The Company has approximately $243 million in unfunded net pension liabilities as of December 31, 2018, of which approximately $193 million and $50 million are attributable to U.S. and non-U.S. pension plans, respectively. The determination of the Company’s obligations and expense for its pension plans is dependent on the Company’s selection of certain assumptions used by actuaries in calculating such amounts. Selected assumptions are described in Note 14, “Employee Retirement Benefits” to the Company’s consolidated financial statements included in Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K, which are incorporated herein by reference, including the discount rate, expected long-term rate of return on plan assets and rate of increase in compensation.

Actual results that differ from assumptions used are accumulated and amortized over future periods and, accordingly, generally affect recognized expense in future periods. Therefore, assumptions used to calculate benefit obligations as of the annual measurement date directly impact the expense to be recognized in future periods. The primary assumptions affecting the Company’s accounting for employee benefits, as of December 31, 2018, are as follows:

- Long-term rate of return on plan assets: The expected long-term rate of return is used to calculate net periodic pension cost. The required use of the expected long-term rate of return on plan assets may result in recognized returns that are greater or less than the actual returns on those plan assets in any given year. Over time the expected long-term rate of return on plan assets is designed to approximate actual returns. The expected long-term rate of return for pension assets has been estimated based on various inputs, including historical returns for the different asset classes held by the Company’s trusts and its asset allocation, as well as inputs from internal and external sources regarding expected capital market returns, inflation and other variables.

In determining its pension expense for 2018, the Company used long-term rates of return on plan assets. For non-U.S. plans, the Company used expected rates of return ranging from 2.8% to 9.75%. For U.S. plans, the Company used an expected rate of return of 6.74%. The Company has set the long-term rates of return assumptions for its 2019 pension expense which range from 2.6% to 8.95% outside the U.S. and 6.78% in the U.S. Actual returns on U.S. pension assets for 2018, 2017 and 2016 were (4.5%), 16.1% and 8.4%, respectively.

- Discount rate: The Company uses the spot rate method to estimate the service and interest components of net periodic benefit cost for pension benefits for its U.S. and certain non-U.S. plans. The Company has elected to utilize an approach that discounts individual expected cash flows underlying interest and service costs using the applicable spot rates derived from the yield curve used to determine the benefit obligation to the relevant projected cash flows. The discount rate assumption is based on market rates for a hypothetical portfolio of high-quality corporate bonds rated Aa or better with maturities closely matched to the timing of projected benefit payments for each plan at its annual measurement date. The Company used discount rates ranging from .35% to 10.65% to determine its pension and other benefit obligations as of December 31, 2018, including weighted average discount rates of 4.33% for U.S. pension plans, and 3.34% for non-U.S. pension plan.

While the Company believes that these assumptions are appropriate, significant differences in actual experience or significant changes in these assumptions may materially affect the Company's pension benefit obligations and its future expense. The following table illustrates the sensitivity to a change in certain assumptions for Company sponsored U.S. and non-U.S. pension plans on its 2018 funded status and 2019 pretax pension expense.

	Impact on U.S. 2019 Pretax Pension Expense	Impact on U.S. Plan 2018 Funded Status	Impact on Non-U.S. 2019 Pretax Pension Expense	Impact on Non-U.S. Plan 2018 Funded Status
25 basis point decrease in discount rate (a)(b)	-$1 million	-$24 million	Less than -$1 million	-$11 million
25 basis point increase in discount rate (a)(b)	+ $1 million	+$23 million	Less than +$1 million	+$10 million
25 basis point decrease in expected return on assets (a)	+$1.4 million		Less than +$1 million	
25 basis point increase in expected return on assets (a)	-$1.4 million		Less than -$1 million	

(a) Assumes all other assumptions are held constant.
(b) Excludes impact of assets used to hedge discount rate volatility.

Income Taxes

The Company is subject to income taxes in the U.S. and numerous non-U.S. jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against the Company's net deferred tax assets. Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.
Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a valuation allowance to reduce deferred tax assets when, based on all available evidence, both positive and negative, it is more likely than not that such assets will not be realized. This assessment, which is completed on a jurisdiction-by-jurisdiction basis, requires significant judgment, and in making this evaluation, the evidence considered by the Company includes, historical and projected financial performance, as well as the nature, frequency and severity of recent losses along with any other pertinent information.
In the ordinary course of the Company's business, there are many transactions and calculations where the final tax determination is uncertain. The Company is regularly audited by tax authorities. Where appropriate, the Company accrues for contingencies related to income tax risks and non-income tax risks. See Note 16 "Income Taxes" in Item 8 of this Report for additional information.

Fair Value Measurements

The Company uses fair value measurements in the preparation of its financial statements, utilizing various inputs including those that can be readily observable, corroborated or are generally unobservable. The Company utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Company applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. See Note 19, "Fair Value Measurements" in Item 8 of this Report for additional information.

Recent Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies" to the accompanying consolidated financial statements under Item 8 of this Report for a discussion of recent accounting pronouncements.

36

Forward-Looking Statements

Certain statements contained or incorporated in this Annual Report on Form 10-K 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 mea 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 including those discussed in Item 1A under the heading "Risk Factors" and elsewhere in this report. 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.

Item 7A.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 per clearly defined 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 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, 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 flow 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 pretax gain or loss in fair value from a 10% favorable or adverse change in quoted currency exchange rates would be approximately $32 million and $29 million for foreign currency derivative financial instruments as of December 31, 2018 and 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 20, "Financial Instruments" to the consolidated financial statements included in Item 8 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 8. Financial Statements and Supplementary Data

Visteon Corporation and Subsidiaries

Index to Consolidated Financial Statements

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined under Rule 13a-15(f) of the Securities Exchange Act of 1934. Under the supervision and with the participation of the principal executive and financial officers of the Company, an evaluation of the effectiveness of internal control over financial reporting was conducted based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations ("the COSO 2013 Framework") of the Treadway Commission.

Based on the evaluation performed under the COSO 2013 Framework as of December 31, 2018, management has concluded that the Company's internal control over financial reporting is not effective. The Company identified a material weakness in the controls over accounting for judicial deposits related to former employee litigation at a closed plant in Brazil. Additionally, Ernst & Young LLP, an independent registered public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2018, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm
To the Shareholders and the Board of Directors of Visteon Corporation

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Visteon Corporation and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, cash flows and changes in equity for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule included in Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 21, 2019 expressed an adverse opinion thereon.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP
We have served as the Company’s auditor since 2012.
Detroit, Michigan
February 21, 2019

42

Report of Independent Registered Public Accounting Firm
To the Shareholders and the Board of Directors of Visteon Corporation

Opinion on Internal Control over Financial Reporting
We have audited Visteon Corporation and subsidiaries' internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, Visteon Corporation and subsidiaries (the Company) has not maintained effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in its internal controls over accounting for judicial deposits related to former employee litigation at a closed plant in Brazil.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2018 consolidated financial statements of the Company. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2018 consolidated financial statements, and this report does not affect our report dated February 21, 2019, which expressed an unqualified opinion thereon.

Basis for Opinion
The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding

prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Detroit, Michigan
February 21, 2019

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31		
	2018	2017	2016
	(Dollars in Millions, Except Per Share Amounts)		
Sales	$2,984	$3,146	$3,161
Cost of sales	(2,573)	(2,655)	(2,705)
Gross margin	411	491	456
Selling, general and administrative expenses	(193)	(226)	(224)
Restructuring expense, net	(29)	(14)	(49)
Interest expense	(14)	(21)	(18)
Interest income	7	5	6
Equity in net income of non-consolidated affiliates	13	7	2
Loss on divestiture	—	(33)	—
Other income (expense), net	21	14	(12)
Income before income taxes	216	223	161
Provision for income taxes	(43)	(48)	(30)
Net income from continuing operations	173	175	131
Net income (loss) from discontinued operations, net of tax	1	17	(40)
Net income	174	192	91
Net income attributable to non-controlling interests	(10)	(16)	(16)
Net income attributable to Visteon Corporation	$164	$176	$75
Basic earnings (loss) per share:			
Continuing operations	$5.53	$5.03	$3.28
Discontinued operations	0.03	0.54	(1.14)
Basic earnings per share attributable to Visteon Corporation	$5.56	$5.57	$2.14
Diluted earnings (loss) per share:			
Continuing operations	$5.49	$4.94	$3.25
Discontinued operations	0.03	0.53	(1.13)
Diluted earnings per share attributable to Visteon Corporation	$5.52	$5.47	$2.12

See accompanying notes to the consolidated financial statements.

44

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31		
	2018	2017	2016
	(Dollars in Millions)		
Net income	$174	$192	$91
Foreign currency translation adjustments	(46)	68	(11)
Net investment hedge	7	(22)	6
Benefit plans, net of tax (a)	(8)	12	(39)
Unrealized hedging gains (losses), net of tax (b)	1	6	(6)
Other comprehensive (loss) income, net of tax	(46)	64	(50)
Comprehensive income	128	256	41
Comprehensive income attributable to non-controlling interests	6	21	9
Comprehensive income attributable to Visteon Corporation	$122	$235	$32

(a) Other comprehensive (loss) income is net of tax expense of $1 million for the year ended December 31, 2018, tax expense of $1 million for the year ended December 31,2017, and a tax benefit of $3 million for the year ended December 31, 2016.
(b) Other comprehensive (loss) income is net of tax expense of less than $1 million for the year ended December 31, 2018, tax expense of $1 million for the year ended December 31, 2017, and a tax benefit of $2 million for the year ended December 31, 2016.

See accompanying notes to the consolidated financial statements.

45

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2018	2017
	(Dollars in Millions)	
ASSETS		
Cash and equivalents	$463	$706
Restricted cash	4	3
Accounts receivable, net	486	530
Inventories, net	184	189
Other current assets	159	175
Total current assets	1,296	1,603
Property and equipment, net	397	377
Intangible assets, net	129	132
Investments in non-consolidated affiliates	42	41
Other non-current assets	143	151
Total assets	$2,007	$2,304
LIABILITIES AND EQUITY		
Short-term debt, including current portion of long-term debt	$57	$46
Accounts payable	436	470
Accrued employee liabilities	67	105
Other current liabilities	161	180
Total current liabilities	721	801
Long-term debt	348	347
Employee benefits	257	277