

VISTEON CORP
Form 10-K/A
August 13, 2002

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

FORM 10-K/A

(Mark One)

X

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

For the fiscal year ended **December 31, 2001**, or

O

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 **1-15827**

VISTEON CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State of incorporation)

5500 Auto Club Drive, Dearborn, Michigan
(Address or principal executive offices)

38-3519512
(I.R.S. employer
identification no.)
48126
(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 \$1.00 per share | New York Stock Exchange |
| 7.95% Notes due August 1, 2005 | Luxembourg Stock Exchange |
| 8.25% Notes due August 1, 2010 | Luxembourg Stock Exchange |

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

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subject to such filing requirements for the past 90 days.

Yes ii 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.

As of January 31, 2002, the registrant had outstanding 130,422,724 shares of Common Stock. The aggregate market value of such Common Stock held by non-affiliates of the registrant as of such date was \$1,734,622,229, based on the closing price of the Common Stock on that date (\$13.30 a share) as reported by the New York Stock Exchange.

Document Incorporated by Reference*

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

* As stated under various Items of this Report, only certain specified portions of such document are incorporated by reference in this Report.

INTRODUCTORY NOTE

For purposes of this Form 10-K/A, we have amended and revised Part II Item 6 Selected Financial Data and Part IV Item 14 Exhibits, Financial Statements Schedules, and Reports on Form 8-K of the Annual Report on Form 10-K for the year ended December 31, 2001 that was filed on March 29, 2002. This amendment reflects the reissuance of our consolidated financial statements as described further in Note 3 to those consolidated financial statements.

PART II

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of December 31, 2001 and 2000, and for periods subsequent to our spin-off from Ford, reflect our financial condition, results of operations and cash flows. Selected consolidated financial data for the periods prior to our spin-off reflect the historical financial condition, results of operations and cash flows of the businesses that were considered part of the Visteon business of Ford during each respective period. The historical consolidated statement of income data set forth below for periods prior to our spin-off do not reflect many significant changes that occurred in the operations and funding of our company as a result of our spin-off from Ford.

The selected consolidated financial data should be read in conjunction with, and are qualified by reference to, Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and accompanying notes included elsewhere in this report. The consolidated statement of income, cash flow and balance sheet data, set forth below, have been derived from our audited financial statements.

The following financial information may not reflect what our results of operations, financial condition and cash flows would have been had we operated as a separate, stand-alone entity during the periods presented or what our results of operations, financial condition and cash flows will be in the future.

ITEM 6. SELECTED FINANCIAL DATA (Continued)

| | Year Ended December 31, | | | | |
|---|-------------------------|---------------|---------------|---------------|---------------|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| (in millions, except per share amounts and percentages) | | | | | |
| Statement of Income Data: | | | | | |
| Sales: | | | | | |
| Ford and affiliates | \$ 14,656 | \$ 16,448 | \$ 17,105 | \$ 16,350 | \$ 16,003 |
| Other customers | 3,187 | 3,019 | 2,261 | 1,412 | 1,217 |
| Total sales | 17,843 | 19,467 | 19,366 | 17,762 | 17,220 |
| Costs and expenses: | | | | | |
| Costs of sales | 17,148 | 18,025 | 17,503 | 15,969 | 15,794 |
| Selling, administrative and other expenses | 812 | 781 | 674 | 659 | 575 |
| Asset impairment charge | | 220 | | | |
| Total costs and expenses | 17,960 | 19,026 | 18,177 | 16,628 | 16,369 |
| Operating income (loss) | (117) | 441 | 1,189 | 1,134 | 851 |
| Interest income | 55 | 109 | 79 | 38 | 17 |
| Interest expense | 131 | 167 | 143 | 82 | 82 |
| Net interest expense | (76) | (58) | (64) | (44) | (65) |
| Equity in net income of affiliated companies | 24 | 56 | 47 | 26 | 29 |
| Income (loss) before income taxes | (169) | 439 | 1,172 | 1,116 | 815 |
| Provision (benefit) for income taxes | (72) | 143 | 422 | 416 | 305 |
| Income (loss) before minority interests | (97) | 296 | 750 | 700 | 510 |
| Minority interests in net income (loss) of subsidiaries | 21 | 26 | 15 | (3) | (1) |
| Net income (loss) | \$ (118) | \$ 270 | \$ 735 | \$ 703 | \$ 511 |
| Basic and diluted earnings (loss) per share (based on 130,000,000 shares outstanding for periods prior to our spin-off) | | | | | |
| | \$ (0.91) | \$ 2.08 | \$ 5.65 | \$ 5.41 | \$ 3.93 |
| Cash dividends declared per share | \$ 0.24 | \$ 0.12 | | | |
| Statement of Cash Flows Data: | | | | | |
| Cash provided by (used in) operating activities | \$ 436 | \$ (526) | \$ 2,482 | \$ 1,376 | \$ 1,411 |
| Cash (used in) investing activities | (743) | (842) | (1,453) | (940) | (943) |
| Cash (used in) provided by financing activities | (75) | 924 | 290 | (234) | (251) |
| Other Financial Data: | | | | | |
| Depreciation and amortization | \$ 666 | \$ 676 | \$ 651 | \$ 565 | \$ 590 |
| EBITDA, as defined | 741 | 1,337 | 1,840 | 1,699 | 1,441 |
| Capital spending | 752 | 793 | 876 | 861 | 917 |
| After tax return on: | | | | | |
| Sales | (0.5)% | 1.5% | 3.9% | 3.9% | 3.0% |
| Average assets | (0.9)% | 2.5% | 6.8% | 7.8% | 6.3% |

At December 31,

| 2001 | 2000 | 1999 | 1998 | 1997 |
|---------------|------|------|------|------|
| (in millions) | | | | |

Balance Sheet Data:

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| | | | | | |
|---|-----------|-----------|-----------|----------|----------|
| Total assets (Note 3 Consolidated Financial Statements) | \$ 11,162 | \$ 11,405 | \$ 12,542 | \$ 9,373 | \$ 8,471 |
| Total debt | 1,922 | 2,019 | 2,319 | 1,125 | 1,136 |
| Total equity | 3,291 | 3,505 | 1,499 | 1,655 | 1,204 |

EBITDA is defined as income before interest expense and interest income, provision for income taxes, depreciation and amortization, asset impairment charges, equity in net income of affiliated companies and minority interests. In addition, EBITDA for 2001 excludes costs related to restructuring actions of \$192 million. EBITDA is not presented as an alternative measure of operating results or cash flow from operations, as determined in accordance with generally accepted accounting principles, but is presented because we believe it is a widely accepted indicator of our ability to incur and service debt. EBITDA does not give effect to cash used for debt service requirements and thus does not reflect funds available for dividends, reinvestment or other discretionary uses. In addition, EBITDA as presented may not be comparable to similarly titled measures reported by other companies.

Total assets at December 31, 2001, 2000 and 1999 have been adjusted for a revision made to Visteon's inventory recognition practice as discussed in Note 3 to the consolidated financial statements. Total assets at December 31, 1998 and 1997 have not been adjusted as the relevant inventory information from those years is limited and indicates that the amount of such adjustment would not be significant.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

| | <u>Page No.</u> |
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| (a) 1. Consolidated Financial Statements | |
| Report of Independent Accountants | 5 |
| Consolidated Statement of Income for the years ended | |
| December 31, 2001, 2000 and 1999 | 6 |
| Consolidated Balance Sheet at December 31, 2001 and 2000 | 7 |
| Consolidated Statement of Cash Flows for the years ended | |
| December 31, 2001, 2000 and 1999 | 8 |
| Consolidated Statement of Stockholders' Equity for the years ended | |
| December 31, 2001, 2000 and 1999 | 9 |
| Notes to Financial Statements | 10 |
| 2. Financial Statement Schedules | |
| None | |
| 3. Exhibits | |
| Refer to the Exhibit Index on page 33 of this report. | |
| (b) Reports on Form 8-K | |

Visteon filed the following Current Reports on Form 8-K during the quarter ended December 31, 2001:

Current Report on Form 8-K dated October 19, 2001, included information relating to Visteon's third quarter 2001 financial results.

SIGNATURE

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

VISTEON CORPORATION

By: */s/ PHILIP G. PFEFFERLE*

Philip G. Pfefferle
Vice President, Controller and
Chief Accounting Officer
(Principal Accounting Officer)

Date: August 12, 2002

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders

Visteon Corporation

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 3 present fairly, in all material respects, the financial position of Visteon Corporation and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3, the company has revised its consolidated balance sheet at December 31, 2001 and 2000.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Detroit, Michigan

January 16, 2002, except for Note 17,
as to which the date is March 11, 2002,
and Note 3, as to which the date is
August 12, 2002.

VISTEON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

| | For the Years Ended December 31, | | |
|--|--|-----------|-----------|
| | 2001 | 2000 | 1999 |
| | (in millions, except per share amounts) | | |
| Sales (Notes 2 and 11) | | | |
| Ford and affiliates | \$ 14,656 | \$ 16,448 | \$ 17,105 |
| Other customers | 3,187 | 3,019 | 2,261 |
| Total sales | 17,843 | 19,467 | 19,366 |
| Costs and expenses (Notes 2, 11 and 13) | | | |
| Costs of sales | 17,148 | 18,025 | 17,503 |
| Selling, administrative and other expenses | 812 | 781 | 674 |
| Asset impairment charge (Note 13) | | 220 | |
| Total costs and expenses | 17,960 | 19,026 | 18,177 |
| Operating income (loss) | (117) | 441 | 1,189 |
| Interest income | 55 | 109 | 79 |
| Interest expense | 131 | 167 | 143 |
| Net interest expense | (76) | (58) | (64) |
| Equity in net income of affiliated companies (Notes 2 and 13) | 24 | 56 | 47 |
| Income (loss) before income taxes | (169) | 439 | 1,172 |
| Provision (benefit) for income taxes (Note 5) | (72) | 143 | 422 |
| Income (loss) before minority interests | (97) | 296 | 750 |
| Minority interests in net income of subsidiaries | 21 | 26 | 15 |
| Net income (loss) | \$ (118) | \$ 270 | \$ 735 |
| Average number of shares of Common Stock outstanding (Note 2) | 131 | 130 | 130 |
| Earnings (loss) and dividends per share (Note 2) | | | |
| Basic and diluted | \$ (0.91) | \$ 2.08 | \$ 5.65 |
| Cash dividends | \$ 0.24 | \$ 0.12 | \$ |

The accompanying notes are part of the financial statements.

VISTEON CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

| | December 31, | |
|--|-----------------------------|------------------|
| | 2001 | 2000 |
| | (restated) (in millions) | |
| Assets | | |
| Cash and cash equivalents | \$ 1,024 | \$ 1,412 |
| Marketable securities | 157 | 65 |
| | <hr/> | <hr/> |
| Total cash and marketable securities | 1,181 | 1,477 |
| Accounts receivable - Ford and affiliates | 1,560 | 1,333 |
| Accounts receivable - other customers | 834 | 857 |
| | <hr/> | <hr/> |
| Total receivables | 2,394 | 2,190 |
| Inventories (Note 3) | 942 | 1,028 |
| Deferred income taxes | 167 | 192 |
| Prepaid expenses and other current assets | 153 | 198 |
| | <hr/> | <hr/> |
| Total current assets | 4,837 | 5,085 |
| Equity in net assets of affiliated companies | 158 | 142 |
| Net property (Note 4) | 5,329 | 5,497 |
| Deferred income taxes | 322 | 100 |
| Other assets | 516 | 581 |
| | <hr/> | <hr/> |
| Total assets | \$ 11,162 | \$ 11,405 |
| | <hr/> | <hr/> |
| Liabilities and Stockholders' Equity | | |
| Trade payables (Note 3) | \$ 1,915 | \$ 2,029 |
| Accrued liabilities (Note 6) | 945 | 1,086 |
| Income taxes payable | 30 | 65 |
| Debt payable within one year (Note 8) | 629 | 622 |
| | <hr/> | <hr/> |
| Total current liabilities | 3,519 | 3,802 |
| Long-term debt (Note 8) | 1,293 | 1,397 |
| Postretirement benefits other than pensions (Note 7) | 2,079 | 1,829 |
| Other liabilities (Note 6) | 967 | 854 |
| Deferred income taxes | 13 | 18 |
| | <hr/> | <hr/> |
| Total liabilities | 7,871 | 7,900 |
| Stockholders' equity | | |
| Capital stock (Note 9) | | |
| Preferred Stock, par value \$1.00, 50 million shares authorized, none outstanding | | |
| Common Stock, par value \$1.00, 500 million shares authorized, 131 million shares issued, 130 million and 131 million shares outstanding, respectively | 131 | 131 |
| Capital in excess of par value of stock | 3,311 | 3,311 |
| Accumulated other comprehensive income | (231) | (179) |
| Other | (25) | (12) |
| Earnings retained for use in business | 105 | 254 |
| | <hr/> | <hr/> |

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| | | |
|---|-------------------|-------------------|
| Total stockholders' equity | 3,291 | 3,505 |
| | <u> </u> | <u> </u> |
| Total liabilities and stockholders' equity | \$ 11,162 | \$ 11,405 |
| | <u> </u> | <u> </u> |

The accompanying notes are part of the financial statements.

VISTEON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

| | For the Years Ended December 31, | | |
|---|-------------------------------------|-----------------|-----------------|
| | 2001 | 2000 | 1999 |
| | (in millions) | | |
| Cash and cash equivalents at January 1 | \$ 1,412 | \$ 1,849 | \$ 542 |
| Cash flows provided by (used in) operating activities (Note 14) | 436 | (526) | 2,482 |
| Cash flows from investing activities | | | |
| Capital expenditures | (752) | (793) | (876) |
| Acquisitions and investments in joint ventures, net | (7) | (28) | (579) |
| Purchases of securities | (346) | (126) | |
| Sales and maturities of securities | 260 | 61 | |
| Other | 102 | 44 | 2 |
| Net cash used in investing activities | (743) | (842) | (1,453) |
| Cash flows from financing activities | | | |
| Cash distributions from (to) prior owner | | 85 | (558) |
| Commercial paper issuances, net | 8 | 352 | |
| Payments on short-term debt | (1) | (1,775) | |
| Proceeds from issuance of short-term debt | 1 | 1,374 | 493 |
| Proceeds from issuance of other debt | 114 | 1,279 | 816 |
| Principal payments on other debt | (144) | (290) | (361) |
| Purchase of treasury stock | (25) | | |
| Cash dividends | (31) | (16) | |
| Other | 3 | (85) | (100) |
| Net cash (used in) provided by financing activities | (75) | 924 | 290 |
| Effect of exchange rate changes on cash | (6) | 7 | (12) |
| Net (decrease) increase in cash and cash equivalents | (388) | (437) | 1,307 |
| Cash and cash equivalents at December 31 | \$ 1,024 | \$ 1,412 | \$ 1,849 |

The accompanying notes are part of the financial statements.

VISTEON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

| | Common Stock | | Capital In Excess of Par Value | Earnings Retained for Use in Business | Accumulated Other Comprehensive Income | Prior Owner s Net Investment | Other | | Total |
|---|--------------|--------|--|--|---|---------------------------------------|-------------------|-----------------------------------|----------|
| | Shares | Amount | | | | | Treasury Stock | Unearned Stock Compensation | |
| (in millions) | | | | | | | | | |
| Year Ended December 31, 1999 | | | | | | | | | |
| Beginning balance | | \$ | \$ | \$ | \$ (25) | \$ 1,680 | \$ | \$ | \$ 1,655 |
| Comprehensive income | | | | | | | | | |
| Net income | | | | | | 735 | | | 735 |
| Foreign currency translation | | | | | (42) | | | | (42) |
| Comprehensive income | | | | | | | | | 693 |
| Net transfers to prior owner | | | | | | (849) | | | (849) |
| Ending balance | | \$ | \$ | \$ | \$ (67) | \$ 1,566 | \$ | \$ | \$ 1,499 |
| Year Ended December 31, 2000 | | | | | | | | | |
| Beginning balance | | \$ | \$ | \$ | \$ (67) | \$ 1,566 | \$ | \$ | \$ 1,499 |
| Comprehensive income | | | | | | | | | |
| Net income | | | | 270 | | | | | 270 |
| Foreign currency translation | | | | | (112) | | | | (112) |
| Comprehensive income | | | | | | | | | 158 |
| Net transfers and settlements of balances with prior owner | | | | | | 1,864 | | | 1,864 |
| Capitalization/ reclassification of prior owner s net investment | 130 | 130 | 3,300 | | | (3,430) | | | 0 |
| Deferred stock-based compensation | 1 | 1 | 11 | | | | | (12) | 0 |
| Cash dividends | | | | (16) | | | | | (16) |
| Ending balance | 131 | \$ 131 | \$ 3,311 | \$ 254 | \$ (179) | \$ 0 | \$ | \$ (12) | \$ 3,505 |
| Year Ended December 31, 2001 | | | | | | | | | |
| Beginning balance | 131 | \$ 131 | \$ 3,311 | \$ 254 | \$ (179) | \$ 0 | \$ | \$ (12) | \$ 3,505 |
| Comprehensive income | | | | | | | | | |
| Net (loss) | | | | (118) | | | | | (118) |
| Foreign currency translation | | | | | (53) | | | | (53) |
| Realized and unrealized gains/losses on derivatives, net of tax | | | | | 5 | | | | 5 |
| Change in unrealized loss on marketable securities, net of tax | | | | | (2) | | | | (2) |
| Minimum pension liability, net of tax | | | | | (2) | | | | (2) |
| Comprehensive (loss) | | | | | | | | | (170) |
| Purchase of treasury stock | | | | | | | (25) | | (25) |
| Deferred stock-based compensation | | | | | | | 13 | (13) | 0 |
| Amortization and adjustment of deferred stock-based | | | | | | | | 9 | 9 |

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| | | | | | | | | | |
|--------------------------|-----|--------|----------|--------|----------|------|--------|---------|----------|
| compensation, net | | | | | | | | | |
| Exercise of common stock | | | | | | | 3 | | 3 |
| options | | | | | | | | | |
| Cash dividends | | | | (31) | | | | | (31) |
| Ending balance | 131 | \$ 131 | \$ 3,311 | \$ 105 | \$ (231) | \$ 0 | \$ (9) | \$ (16) | \$ 3,291 |

The accompanying notes are part of the financial statements.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 1. Background and Basis of Presentation

Visteon Corporation (Visteon) is a leading, global supplier of automotive systems, modules and components. Visteon sells products primarily to global vehicle manufacturers, and also sells to the worldwide aftermarket for replacement and vehicle appearance enhancement parts. Visteon became an independent company when Ford Motor Company (Ford) established Visteon as a wholly-owned subsidiary in January 2000 and subsequently transferred to Visteon the assets and liabilities comprising Ford 's automotive components and systems business. Ford completed its spin-off of Visteon on June 28, 2000 (the spin-off). Prior to incorporation, Visteon operated as Ford 's automotive components and systems business.

In connection with Visteon 's separation from Ford, Visteon and Ford entered into a series of agreements outlining the business relationship between the two companies following the spin-off which are further discussed in Note 11.

Basis of Presentation

The consolidated financial statements as of December 31, 2001 and 2000 and for periods subsequent to the spin-off include the accounts of Visteon and its wholly-owned and majority-owned subsidiaries. The consolidated financial statements of Visteon for periods prior to the spin-off reflect the historical results of operations and cash flows of the businesses that were considered part of the Visteon business of Ford. Certain amounts for prior periods were reclassified to conform with present period presentation.

Operating costs and expenses for periods prior to the spin-off from Ford include allocations of general corporate overhead related to Ford 's corporate headquarters and common support activities including information systems, product development, accounting and finance, corporate insurance programs, treasury, facilities, legal and human resources. These costs were assessed to Visteon based on usage or similar allocation methodologies. Although Visteon believes the allocations and charges for such services were reasonable, the costs of these services charged to Visteon are not necessarily indicative of the costs that would have been incurred if Visteon had been a stand-alone entity or what they would be in the future.

NOTE 2. Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the company and its majority-owned subsidiaries. Intra-Visteon transactions have been eliminated in consolidation. Companies that are 20% to 50% owned by Visteon are accounted for on an equity basis. Use of estimates and assumptions as determined by management are required in the preparation of financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates and assumptions.

Revenue Recognition

Sales are recognized when there is evidence of a sales agreement, the delivery of goods has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Significant retroactive price adjustments are recognized in the period when such amounts become probable. Visteon generally records sales upon shipment of product to customers and transfer of title under standard commercial terms.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2. Accounting Policies (Continued)

Other Costs

Advertising and sales promotion costs are expensed as incurred. Advertising costs were \$19 million in 2001, \$29 million in 2000 and \$42 million in 1999.

Research and development costs are expensed as incurred and were \$1,119 million in 2001, \$1,198 million in 2000 and \$1,115 million in 1999.

Pre-production design and development costs relating to long-term supply arrangements are expensed as incurred.

Income (Loss) Per Share of Common Stock

Basic income per share of common stock is calculated by dividing the income attributable to common stock by the average number of shares of common stock outstanding during the applicable period, adjusted for restricted stock. The average number of shares of restricted stock outstanding was about 1,390,000 and 460,000 shares in 2001 and 2000, respectively. The calculation of diluted income per share takes into account the effect of dilutive potential common stock, such as stock options and restricted stock. For the year ended December 31, 2001 potential common stock of about 343,000 shares are excluded as the effect would have been antidilutive. For purposes of the earnings per share calculations, 130 million shares of common stock are treated as outstanding for periods prior to the spin-off from Ford.

Derivative Financial Instruments

Visteon has operations in every major region of the world and is exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates, interest rates and commodity prices. These financial exposures are monitored and managed by the company as an integral part of the company's overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on the company's results. Visteon's primary commodity-price exposures are aluminum, copper and natural gas, which are managed primarily through fixed-price contracts with suppliers. The company uses derivative financial instruments to manage the exposures in exchange rates, interest rates and commodity prices. All derivative financial instruments are classified as held for purposes other than trading. Company policy specifically prohibits the use of leveraged derivatives or use of any derivatives for speculative purposes.

Visteon's primary foreign currency exposures, in terms of net corporate exposure are in the euro, Mexican peso and British pound. Agreements to manage foreign currency exposure typically would include forward contracts, swaps and options. The company uses these derivative instruments to hedge expected future cash flows in foreign currencies and firm commitments. Gains and losses on cash flow hedges are initially reported as a component of other comprehensive income (outside earnings) and subsequently reclassified into earnings when the forecasted transaction affects earnings. All other gains and losses are recognized in costs of sales. These instruments usually mature in two years or less, consistent with the underlying transactions. The effect of changes in exchange rates may not be fully offset by gains or losses on currency derivatives, depending on the extent to which the exposures are hedged.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2. Accounting Policies (Continued)

During 2001, the company entered into interest rate swaps to manage its interest rate risk. As a result of these swaps, approximately 45% of the company's borrowings are on a fixed rate basis, with the balance on a variable rate basis, subject to changes in short term interest rates.

Visteon adopted Statement of Financial Accounting Standards No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities, on January 1, 2001. SFAS 133 (as amended by SFAS 137 and 138) establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires recognition of all derivatives as either assets or liabilities on the balance sheet and measurement of the instruments at fair value. The change in fair value of a derivative is required to be recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction and if so, the type of hedge transaction.

The impact of implementing this new standard on Visteon's results of operations and financial condition for the year ended December 31, 2001, was not material.

Foreign Currency Translation

Assets and liabilities of Visteon's non-U.S. businesses generally are translated to U.S. Dollars at end-of-period exchange rates. The effects of this translation for Visteon are reported in other comprehensive income. Remeasurement of assets and liabilities of Visteon's non-U.S. businesses that use the U.S. Dollar as their functional currency are included in income as transaction gains and losses. Income statement elements of Visteon's non-U.S. businesses are translated to U.S. Dollars at average-period exchange rates and are recognized as part of revenues, costs and expenses. Also included in income are gains and losses arising from transactions denominated in a currency other than the functional currency of the business involved. Net transaction gains and losses, as described above, increased net income \$6 million in 2001 and \$2 million in 2000 and decreased net income \$24 million in 1999.

Cash and Cash Equivalents

Visteon considers all highly liquid investments purchased with a maturity of three months or less, including short-term time deposits and government agency and corporate obligations, to be cash equivalents. For periods prior to the spin-off, cash and cash equivalents consisted primarily of a share of Ford's cash and cash equivalents.

Marketable Securities

Marketable securities are classified as available-for-sale. The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities, for which there are no quoted market prices, is based on similar types of securities that are traded in the market. Book value approximates fair value for all securities.

Impairment of Long-Lived Assets and Certain Identifiable Intangibles

Visteon periodically evaluates the carrying value of long-lived assets and long-lived assets to be disposed of for potential impairment. Visteon considers projected future undiscounted cash flows, trends and other circumstances in making such estimates and evaluations.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2. Accounting Policies (Continued)

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies and is amortized using the straight-line method for periods up to 20 years. Total goodwill included in other assets was \$357 million and \$394 million at December 31, 2001 and 2000, respectively, net of accumulated amortization of \$79 million and \$58 million as of those same dates.

Visteon evaluates the carrying value of goodwill for potential impairment on an ongoing basis. Such evaluations compare operating income before amortization of goodwill to the amortization recorded for the operations to which the goodwill relates. Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets, was issued by the Financial Accounting Standards Board in July 2001. SFAS 142 establishes a new accounting standard for goodwill acquired in a business combination. SFAS 142 would continue to require recognition of goodwill as an asset but would no longer permit amortization of goodwill. In addition, SFAS 142 establishes a new method of testing goodwill and other intangible assets for impairment by using a fair-value based approach. Under this statement, existing intangible assets will be evaluated for possible impairment on the date of transition and periodically, thereafter. In accordance with the provisions of SFAS 142, goodwill shall no longer be amortized starting in the first quarter of 2002. We have not yet determined the effect of adopting SFAS 142 on Visteon's results of operations and financial condition. Amortization expense related to goodwill for the year ended December 31, 2001 was \$23 million.

NOTE 3. Inventories

Generally, Visteon's policy is to organize arrangements with suppliers to support its production inventory needs with just-in-time deliveries of materials and not take ownership from or authorize payment to suppliers until such time as the materials have been utilized in the production process. During the second quarter of 2002, Visteon became aware that the terms of its purchase orders with certain suppliers did not adequately reflect its understanding of the terms of its pay on production agreements. Accordingly, Visteon has revised its inventory recognition practice related to inventory received from these suppliers to reflect inventory, and the corresponding trade payable, upon receipt rather than when the material is utilized in the production process. As a result, Visteon has revised the following line items in the consolidated balance sheet, with no revision of Visteon's consolidated statement of income or statement of cash flows:

| | As Restated December 31, | | As Originally Reported December 31, | |
|----------------|-----------------------------|----------|---|--------|
| | 2001 | 2000 | 2001 | 2000 |
| | (in millions) | | | |
| Inventories | \$ 942 | \$ 1,028 | \$ 858 | \$ 948 |
| Trade Payables | 1,915 | 2,029 | 1,831 | 1,949 |

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3. Inventories (Continued)

The following quarterly information is presented for informational purposes as of the following dates:

| | <u>As Restated</u> | <u>As Originally Reported</u> |
|---------------------------|------------------------------|-----------------------------------|
| | (unaudited) (in millions) | |
| March 31, 2001 | | |
| Inventories | \$ 1,054 | \$ 940 |
| Trade Payables | 2,252 | 2,138 |
| June 30, 2001 | | |
| Inventories | \$ 1,017 | \$ 908 |
| Trade Payables | 2,188 | 2,079 |
| September 30, 2001 | | |
| Inventories | \$ 1,128 | \$ 1,022 |
| Trade Payables | 1,975 | 1,869 |

Company management is in the process of obtaining formal documentation of these pay on production terms from our vendors and we will reflect vendor agreements when obtained, on a prospective basis.

| | <u>As Restated December 31,</u> | |
|---|-------------------------------------|-----------------|
| | <u>2001</u> | <u>2000</u> |
| | (in millions) | |
| Raw materials, work-in-process and supplies | \$ 812 | \$ 909 |
| Finished products | 130 | 119 |
| Total inventories | \$ 942 | \$ 1,028 |
| U.S. inventories | \$ 589 | \$ 642 |

Inventories are stated at the lower of cost or market. The cost of most U.S. inventories is determined by the last-in, first-out (LIFO) method. The cost of the remaining inventories is determined primarily by the first-in, first-out (FIFO) method.

If the FIFO method had been used instead of the LIFO method, inventories would have been higher by \$86 million and \$83 million at December 31, 2001 and 2000, respectively.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4. Net Property, Depreciation and Amortization

| | December 31, | |
|------------------------------------|-----------------|-----------------|
| | 2001 | 2000 |
| | (in millions) | |
| Land | \$ 117 | \$ 117 |
| Buildings and land improvements | 1,495 | 1,389 |
| Machinery, equipment and other | 8,162 | 8,512 |
| Construction in progress | 306 | 306 |
| | <u>10,080</u> | <u>10,324</u> |
| Total land, plant and equipment | 10,080 | 10,324 |
| Accumulated depreciation | (5,090) | (5,130) |
| | <u>4,990</u> | <u>5,194</u> |
| Net land, plant and equipment | 4,990 | 5,194 |
| Special tools, net of amortization | 339 | 303 |
| | <u>\$ 5,329</u> | <u>\$ 5,497</u> |
| Net property | \$ 5,329 | \$ 5,497 |

Property, equipment and special tools are depreciated principally using the straight-line method of depreciation over the estimated useful life of the asset. On average, buildings and land improvements are depreciated based on a 30-year life; machinery and equipment are depreciated based on a 14-year life. Special tools are amortized using the straight-line method over periods of time representing the estimated life of those tools.

Depreciation and amortization expenses related to property, equipment and special tools, excluding amortization expense of goodwill and other intangible assets, were as follows:

| | 2001 | 2000 | 1999 |
|--------------|---------------|---------------|---------------|
| | (in millions) | | |
| Depreciation | \$ 562 | \$ 585 | \$ 572 |
| Amortization | 79 | 68 | 66 |
| | <u>\$ 641</u> | <u>\$ 653</u> | <u>\$ 638</u> |
| Total | \$ 641 | \$ 653 | \$ 638 |

Maintenance, repairs and rearrangement costs are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. Pre-production costs related to new facilities are expensed as incurred.

At December 31, 2001 Visteon had the following minimum rental commitments under non-cancelable operating leases (in millions): 2002 \$80; 2003 \$50; 2004 \$35; 2005 \$27; 2006 \$19; thereafter \$85.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5. Income Taxes

Income (loss) before income taxes for U.S. and non-U.S. operations, excluding equity in net income of affiliated companies, was as follows:

| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|---|-------------------|-------------------|-------------------|
| | (in millions) | | |
| U.S. | \$ (343) | \$ 104 | \$ 974 |
| Non-U.S. | 150 | 279 | 151 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total income (loss) before income taxes | \$ (193) | \$ 383 | \$ 1,125 |
| | <u> </u> | <u> </u> | <u> </u> |

The provision (benefit) for income taxes was calculated as follows:

| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|----------------------------------|-------------------|-------------------|-------------------|
| | (in millions) | | |
| Current tax provision (benefit) | | | |
| U.S. federal | \$ (6) | \$ 127 | \$ 264 |
| Non-U.S. | 77 | 91 | 112 |
| State and local | | 12 | 26 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total current | 71 | 230 | 402 |
| | <u> </u> | <u> </u> | <u> </u> |
| Deferred tax provision (benefit) | | | |
| U.S. federal | (115) | (91) | 47 |
| Non-U.S. | (24) | 7 | (27) |
| State and local | (4) | (3) | |
| | <u> </u> | <u> </u> | <u> </u> |
| Total deferred | (143) | (87) | 20 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total provision (benefit) | \$ (72) | \$ 143 | \$ 422 |
| | <u> </u> | <u> </u> | <u> </u> |

A reconciliation of the provision (benefit) for income taxes compared with amounts at the U.S. statutory tax rate is shown below:

| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|---|-------------------|-------------------|-------------------|
| Tax provision (benefit) at U.S. statutory rate of 35% | (35)% | 35% | 35% |
| Effect of: | | | |
| Tax on non-U.S. income | | | 2 |
| State and local income taxes | (2) | 2 | 2 |
| Tax credits | (6) | (3) | (1) |
| Other | 6 | 3 | |
| | <u> </u> | <u> </u> | <u> </u> |
| Provision (benefit) for income taxes | (37)% | 37% | 38% |



Deferred taxes are provided for earnings of non-U.S. subsidiaries. Deferred tax assets and liabilities reflect the estimated tax effect of accumulated temporary differences between assets and liabilities for financial reporting purposes and those amounts as measured by tax laws and regulations.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5. Income Taxes (Continued)

The components of deferred income tax assets and liabilities at December 31 were as follows:

| | December 31, | |
|--|---------------|---------------|
| | 2001 | 2000 |
| | (in millions) | |
| Deferred tax assets | | |
| Employee benefit plans | \$ 961 | \$ 902 |
| Customer allowances and claims | 34 | 30 |
| Net operating losses and other carryforwards | 245 | 36 |
| All other | 202 | 148 |
| | <u>1,442</u> | <u>1,116</u> |
| Deferred tax liabilities | | |
| Depreciation and amortization | 724 | 713 |
| Employee benefit plans | 10 | 10 |
| All other | 232 | 119 |
| | <u>966</u> | <u>842</u> |
| Net deferred tax assets | <u>\$ 476</u> | <u>\$ 274</u> |

The anticipated tax benefit of U.S. net operating loss carryforwards is \$118 million at December 31, 2001. These losses will expire in 2021. U.S. tax credit carryforwards are \$24 million at December 31, 2001. These credits will expire in 2021. The anticipated tax benefit of non-U.S. net operating loss carryforwards is \$103 million at December 31, 2001. The majority of these losses have indefinite carryforward periods. For financial statement purposes, the tax benefit of net operating loss and credit carryforwards is recognized as a deferred tax asset, subject to appropriate valuation allowances when it is determined that recovery of the deferred tax asset is unlikely. The company evaluates the tax benefits of operating loss carryforwards on an ongoing basis. Such evaluations include a review of historical and projected future operating results, the eligible carryforward period and other circumstances.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6. Liabilities*Current Liabilities*

Included in accrued liabilities at December 31 were the following:

| | December 31, | |
|---|---------------|--------------|
| | 2001 | 2000 |
| | (in millions) | |
| Salaries, wages and employer taxes | \$ 105 | \$ 338 |
| Employee benefits | 308 | 321 |
| Postretirement benefits other than pensions | 38 | 32 |
| Other | 494 | 395 |
| | <u>945</u> | <u>1,086</u> |
| Total accrued liabilities | \$ 945 | \$ 1,086 |

Noncurrent Liabilities

Included in other liabilities at December 31 were the following:

| | December 31, | |
|--|---------------|------------|
| | 2001 | 2000 |
| | (in millions) | |
| Employee benefits | \$ 418 | \$ 423 |
| Minority interests in net assets of subsidiaries | 109 | 93 |
| Other | 440 | 338 |
| | <u>967</u> | <u>854</u> |
| Total other liabilities | \$ 967 | \$ 854 |

NOTE 7. Employee Retirement Benefits*Employee Retirement Plans*

In the U.S., Visteon hourly employees represented by the UAW and other collective bargaining groups earn noncontributory benefits based on employee service. Visteon salaried employees earn similar noncontributory benefits as well as contributory benefits related to pay and service. In accordance with the separation agreements, Ford retained the past service obligations for those transferred salaried employees who were eligible to retire in 2000 as well as those whose combined age and years of service was at least 60 at the date of the separation from Ford. For all other transferred salaried employees, Visteon assumed the pension obligations as well as assets with a fair value at least equal to the related projected benefit obligation but no less than the amount required to be transferred under applicable laws and regulations. Certain of the non-U.S. subsidiaries sponsor separate plans that provide similar types of benefits to their employees. For these non-U.S. plans, Visteon has assumed all plan benefit obligations for Visteon employees as well as assets that approximate the benefit obligations for funded plans.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7. Employee Retirement Benefits (Continued)

In general, the company's plans are funded with the exception of certain supplemental benefit plans for executives and a plan in Germany; in such cases the unfunded liability is recorded. The company's policy for funded plans is to contribute annually, at a minimum, amounts required by applicable law, regulation or union agreement. Plan assets consist principally of investments in stocks, and government and other fixed income securities.

Visteon-assigned Ford-UAW employees, comprising about 23,000 people, participate in the Ford-UAW Retirement Plan, sponsored by Ford. By agreement, Visteon compensates Ford for the pension expense incurred by Ford for Visteon-assigned employees.

Most U.S. salaried employees are eligible to participate in a defined contribution plan (Visteon Investment Plan) by contributing a portion of their compensation which is partially matched by Visteon. Matching contributions were \$31 million in 2001 and were suspended effective January 1, 2002.

Postretirement Health Care and Life Insurance Benefits

In the U.S., Visteon has a financial obligation for the cost of providing selected health care and life insurance benefits to its employees, as well as Visteon-assigned Ford-UAW employees who retire after July 1, 2000. The estimated cost for these benefits is accrued over periods of employee service on an actuarially determined basis. Ford retained the financial obligation and related prepayments for postretirement health care and life insurance benefits to its employees who retired on or before July 1, 2000.

Under the terms of the separation agreements with Ford and in addition to regular benefit payments, Visteon is required to pre-fund postretirement health care and life insurance benefit obligations related to Visteon-assigned Ford-UAW hourly employees as well as many transferred salaried employees. The required pre-funding is over a 15 year period beginning in 2006 for the Visteon-assigned Ford-UAW hourly employees, and over a 10 year period beginning in 2011 for those salaried employees. The annual pre-funding requirement during this period will be determined based upon amortization of the unfunded liability at the beginning of the period, plus annual expense. The unfunded liability at December 31, 2001 of about \$1.6 billion is included in our recorded postretirement health care and life insurance benefit liability. Based upon estimates of the unfunded liabilities and the related expense, the first required pre-funding annual payment will be about \$410 million in 2006, which is about \$340 million higher than payments on a pay-as-you-go basis. In December 2000, the company pre-funded a portion of this obligation by contributing \$25 million to a Voluntary Employees' Beneficiary Association (VEBA) trust.

Effective January 1, 2002, the company revised the eligibility requirement for retiree health insurance coverage for most U.S. employees to 10 years of service after attaining the age of 45.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7. Employee Retirement Benefits (Continued)

The company's expense for retirement benefits was as follows:

| | Retirement Plans | | | | | | Health Care and Life Insurance Benefits | | |
|---|-----------------------------------|---------------|--------------|----------------|--------------|--------------|---|---------------|---------------|
| | U.S. Plans | | | Non-U.S. Plans | | | 2001 | 2000 | 1999 |
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 | | | |
| | (in millions, except percentages) | | | | | | | | |
| Costs Recognized in Income | | | | | | | | | |
| Service cost | \$ 45 | \$ 55 | \$ 72 | \$ 19 | \$ 37 | \$ 34 | \$ 28 | \$ 26 | \$ 29 |
| Interest cost | 50 | 82 | 167 | 34 | 41 | 67 | 53 | 61 | 75 |
| Expected return on plan assets | (64) | (106) | (248) | (49) | (58) | (95) | | | |
| Amortization of: | | | | | | | | | |
| Transition (asset) obligation | (4) | (7) | (16) | | | (1) | | 1 | |
| Plan amendments | 8 | 12 | 18 | 6 | 6 | 13 | (1) | | (1) |
| (Gains) losses and other | (3) | (9) | 11 | (8) | | 12 | 2 | | 6 |
| Special termination benefits | 52 | | | 1 | 7 | | 19 | | |
| Curtailments | (3) | | | 1 | | | | | |
| Expense for Visteon-assigned Ford-UAW employees | 58 | 74 | 53 | | | | 181 | 170 | 206 |
| Net pension/postretirement expense | \$ 139 | \$ 101 | \$ 57 | \$ 4 | \$ 33 | \$ 30 | \$ 282 | \$ 258 | \$ 315 |
| Discount rate for expense | 7.75% | 7.75% | 6.25% | 6.25% | 6.10% | 5.70% | 7.50% | 7.75% | 6.50% |
| Assumed long-term rate of return on assets | 9.50% | 9.00% | 9.00% | 10.00% | 9.40% | 9.30% | 6.00% | 6.00% | 6.00% |
| Initial health care cost trend rate | | | | | | | 8.97% | 8.75% | 7.00% |
| Ultimate health care cost trend rate | | | | | | | 5.00% | 5.00% | 5.00% |
| Number of years to ultimate trend rate | | | | | | | 7 | 8 | 9 |

Pension and postretirement health care and life insurance benefit expense for 1999 included the costs of Visteon-assigned Ford employees who retired on or before July 1, 2000. Pension expense for 1999 also included an allocated benefit for plan assets in excess of benefit obligations. Under the terms of the separation agreement, Ford generally retained plan assets in excess of actuarially determined benefit obligations for pensions and retained all plan assets related to postretirement health care and life insurance benefits. During 2000, asset and liability transfers between Ford and Visteon postretirement benefit plans reduced Visteon's net pension and postretirement related liabilities by about \$1.6 billion. In addition, Ford retained about \$573 million of prepaid health care amounts relating to active employees.

Increasing the assumed health care cost trend rates by one percentage point is estimated to increase the aggregate service and interest cost components of Visteon's net postretirement benefit expense for 2001 by about \$52 million and the accumulated postretirement benefit obligation at December 31, 2001 by about \$455 million. A decrease of one percentage point would reduce service and interest costs by \$40 million and decrease the December 31, 2001 obligation by about \$375 million.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7. Employee Retirement Benefits (Continued)

The status of these plans as of their most recent measurement dates was as follows:

| | Retirement Plans | | | | Health Care and Life Insurance Benefits | |
|--|-----------------------------------|----------------|----------------|----------------|---|-------------------|
| | U.S. Plans | | Non-U.S. Plans | | 2001 | 2000 |
| | 2001 | 2000 | 2001 | 2000 | | |
| | (in millions, except percentages) | | | | | |
| Change in Benefit Obligation | | | | | | |
| Benefit obligation beginning | \$ 624 | \$ 478 | \$ 514 | \$ 23 | \$ 2,232 | \$ 4,141 |
| Service cost | 45 | 32 | 19 | 19 | 87 | 64 |
| Interest cost | 50 | 40 | 34 | 20 | 166 | 170 |
| Amendments/other | 9 | 14 | 72 | (7) | (31) | (24) |
| Actuarial (gain) loss | 6 | (5) | 30 | (147) | 254 | 267 |
| Effects of separation from Ford | | 93 | | 624 | | (2,293) |
| Special termination benefits | 3 | | 3 | | 19 | |
| Curtailement | (3) | | | | | |
| Foreign exchange translation | | | (22) | (17) | (1) | |
| Benefits paid | (31) | (28) | (9) | (1) | (19) | (93) |
| Benefit obligation ending | <u>\$ 703</u> | <u>\$ 624</u> | <u>\$ 641</u> | <u>\$ 514</u> | <u>\$ 2,707</u> | <u>\$ 2,232</u> |
| Change in Plan Assets | | | | | | |
| Plan assets beginning | \$ 680 | \$ 760 | \$ 508 | \$ 26 | \$ 25 | \$ 419 |
| Actual return on plan assets | (76) | 35 | (111) | 7 | 1 | 6 |
| Contributions | 23 | 2 | 40 | 12 | 19 | 118 |
| Effects of separation from Ford | | (89) | | 482 | | (425) |
| Foreign exchange translation | | | (5) | (18) | | |
| Benefits paid/other | (32) | (28) | (10) | (1) | (19) | (93) |
| Plan assets ending | <u>\$ 595</u> | <u>\$ 680</u> | <u>\$ 422</u> | <u>\$ 508</u> | <u>\$ 26</u> | <u>\$ 25</u> |
| Funded Status of the Plans | | | | | | |
| Plan assets in excess of (less than) benefit obligations | \$ (108) | \$ 56 | \$ (219) | \$ (6) | \$ (2,681) | \$ (2,207) |
| Unrecognized: | | | | | | |
| Net (gains) losses | (37) | (191) | 41 | (165) | 599 | 351 |
| Prior service cost/other | 58 | 62 | 110 | 77 | (35) | (5) |
| Net amount recognized | <u>\$ (87)</u> | <u>\$ (73)</u> | <u>\$ (68)</u> | <u>\$ (94)</u> | <u>\$ (2,117)</u> | <u>\$ (1,861)</u> |
| Amount Recognized in Balance Sheet | | | | | | |
| Prepaid assets | \$ 8 | \$ 13 | \$ 7 | \$ | \$ | \$ |
| Accrued liabilities | (145) | (86) | (121) | (98) | (2,117) | (1,861) |
| Intangible assets | 49 | | 43 | 4 | | |
| Deferred income taxes | 1 | | 1 | | | |
| Accumulated other comprehensive income | | | 2 | | | |

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| | | | | | | |
|-----------------------|---------|---------|---------|---------|------------|------------|
| Net amount recognized | \$ (87) | \$ (73) | \$ (68) | \$ (94) | \$ (2,117) | \$ (1,861) |
|-----------------------|---------|---------|---------|---------|------------|------------|

Assumptions

| | | | | | | |
|--|-------|-------|-------|--------|-------|-------|
| Discount rate | 7.50% | 7.75% | 6.00% | 6.25% | 7.25% | 7.50% |
| Expected rate of return on assets | 9.50% | 9.50% | 9.00% | 10.00% | 6.00% | 6.00% |
| Rate of increase in compensation | 4.50% | 5.00% | 3.75% | 3.75% | | |
| Initial health care cost trend rate | | | | | 9.45% | 8.97% |
| Ultimate health care cost trend rate | | | | | 5.00% | 5.00% |
| Number of years to ultimate trend rate | | | | | 6 | 7 |

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for employee retirement plans with accumulated benefit obligations in excess of plan assets were \$789 million, \$720 million and \$556 million, respectively, for 2001 and \$118 million, \$81 million and \$47 million, respectively, for 2000.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8. Debt

Debt at December 31 was as follows:

| | Maturity | Weighted Average Interest Rate | | Book Value | |
|-------------------------------------|-----------|--------------------------------|------|------------|----------|
| | | 2001 | 2000 | 2001 | 2000 |
| (in millions) | | | | | |
| Debt payable within one year | | | | | |
| Commercial paper | | 3.1% | 7.3% | \$ 360 | \$ 352 |
| Other short-term | | 5.5% | 6.9% | 210 | 191 |
| Current portion of long-term debt | | 5.8% | 6.9% | 59 | 79 |
| Total debt payable within one year | | | | 629 | 622 |
| Long-term debt | | | | | |
| Unsecured debt securities | 2005-2010 | 7.4% | 8.1% | 1,191 | 1,200 |
| Other | 2003-2018 | 7.6% | 8.5% | 102 | 197 |
| Total long-term debt | | | | 1,293 | 1,397 |
| Total debt | | | | \$ 1,922 | \$ 2,019 |

On August 3, 2000, Visteon completed a public offering of unsecured term debt securities totaling \$1.2 billion with maturities of five years and ten years. The offering included \$500 million of securities maturing on August 1, 2005 and \$700 million of securities maturing on August 1, 2010. The five and ten year securities were issued at a slight discount to the stated rates of interest of 7.95% and 8.25%, respectively. Interest rate swaps have been entered into for the unsecured term debt securities maturing on August 1, 2005, which effectively convert the securities from fixed interest rate to variable interest rate instruments, as further described in Note 12. The weighted average interest rates as presented include the effects of interest rate swaps. Interest is payable semi-annually on February 1 and August 1. The unsecured term debt securities agreement contains certain restrictions including, among others, a limitation relating to liens and sale lease-back transactions, as defined in the agreement. In the opinion of management, Visteon was in compliance with all of these restrictions.

Under Visteon's commercial paper program, \$360 million and \$352 million was outstanding at December 31, 2001 and 2000, respectively, with a weighted average remaining maturity of 34 and 12 days at December 31, 2001 and 2000, respectively.

In June 2001, Visteon renewed financing arrangements with third-party lenders to provide up to \$2 billion of contractually committed, unsecured revolving credit facilities. The financing arrangements consist of 364-day revolving credit lines and long-term revolving credit lines providing funding until June 2006. Any borrowings under the revolving credit facilities would bear interest based on a variable interest rate option selected at the time of borrowing. As of December 31, 2001, there were no amounts outstanding under the revolving credit facilities. The credit facilities contain certain affirmative and negative covenants including a covenant not to exceed a specified leverage ratio. In the opinion of management, Visteon has been in compliance with all covenants since the inception of the revolving credit facilities.

The company has additional debt arrangements with respect to a number of its non-U.S. operations, a portion of which are payable in non-U.S. currencies.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8. Debt (Continued)

We have guaranteed about \$26 million of borrowings held by unconsolidated joint ventures of Visteon as of December 31, 2001. In addition, we have guaranteed about \$6 million of a Tier Two supplier's debt to ensure the continued supply of essential parts.

Prior to the spin-off from Ford, Visteon had a number of debt and support facility arrangements directly with Ford or its wholly-owned subsidiaries, including a revolving loan arrangement under which Visteon could borrow up to \$1,250 million. Interest on this debt was determined quarterly based on Ford's average interest rate on its U.S. Dollar denominated, publicly traded automotive debt. Upon completing the spin-off from Ford, all debt and support facility arrangements with Ford were terminated. Amounts outstanding under the revolving loan arrangement of about \$1,120 million were converted into an equity investment by Ford, and any remaining amounts outstanding under the arrangements were repaid by Visteon to Ford.

Debt at December 31, 2001 included maturities as follows (in millions): 2002 \$629; 2003 \$39; 2004 \$47; 2005 \$495; 2006 \$3; thereafter \$709.

NOTE 9. Capital Stock and Stock Award Plans

Visteon was incorporated in Delaware in January 2000 with an initial capitalization of 10,000 shares of \$1.00 par value common stock authorized and 1,000 shares of common stock outstanding. Through an amendment to its certificate of incorporation, the number of common shares authorized and outstanding was increased to 500 million and 130 million, respectively. In addition, 50 million shares of preferred stock, par value \$1.00 per share, were authorized, none of which have been issued.

The Visteon Corporation 2000 Incentive Plan (Incentive Plan), which is administered by the Compensation Committee of the Board of Directors, provides for the grant of incentive and nonqualified stock options, stock appreciation rights, performance stock rights and stock and various other rights based on stock. The Visteon Corporation Employees Equity Incentive Plan (EEIP), which is administered by an Administrator appointed by the Board of Directors, provides for the grant of nonqualified stock options, stock appreciation rights, performance stock rights and stock and various other rights based on stock. The Visteon Corporation Restricted Stock Plan for Non-Employee Directors provides for the grant of restricted stock to non-employee directors. The total number of shares of common stock subject to awards under the Incentive Plan and EEIP is 13 million and 6.5 million shares of common stock, respectively. At December 31, 2001, there were 9.4 million and 5.1 million shares of common stock available for grant under the Incentive Plan and EEIP, respectively. The plans were approved by the shareholders.

Stock options granted under the Incentive Plan or the EEIP have an exercise price equal to the average of the highest and lowest prices at which Visteon common stock was traded on the New York Stock Exchange on the date of grant. Stock options that have been granted become exercisable one-third after one year from the date of grant, an additional one-third after two years and in full after three years, and expire 10 years from the date of grant.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9. Capital Stock and Stock Award Plans (Continued)

Effective at the date of spin-off and subject to shareholder approval, Visteon granted under the Incentive Plan to some employees about 2 million stock options with an exercise price equal to the average of the highest and lowest prices at which Visteon common stock was traded on the New York Stock Exchange on that date. Shareholder approval was obtained in May 2001 for the grant of these stock options. The difference between the exercise price and the average price of Visteon common stock on the date of shareholder approval will be recognized as compensation expense over the vesting period. Compensation expense was \$4 million in 2001.

Information concerning stock options is as follows:

| | Shares | Weighted Average Exercise Price |
|--|----------------|---------------------------------------|
| | (in thousands) | |
| Outstanding at December 31, 2000 | | \$ |
| Granted | 5,193 | 15.60 |
| Exercised | (172) | 13.09 |
| Terminated | (89) | 15.08 |
| Outstanding at December 31, 2001 | 4,932 | 15.74 |
| Outstanding but not exercisable at December 31, 2001 | 4,424 | |
| Exercisable at December 31, 2001 | 508 | 13.12 |

The following is a summary of the range of exercise prices for stock options that are outstanding and exercisable at December 31, 2001:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|-----------------------------|-----------------------|--|---------------------------------------|-----------------------|---------------------------------------|
| | Number Outstanding | Weighted Average Remaining Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| | (in thousands) | | | (in thousands) | |
| \$10.00 - \$16.00 | 1,900 | 8.5 | \$ 13.12 | 508 | \$ 13.12 |
| \$16.01 - \$22.00 | 3,032 | 9.4 | 17.38 | | |
| | 4,932 | | 15.74 | 508 | 13.12 |

Visteon measures compensation cost related to stock options using the intrinsic value method. Accordingly, and because option exercise price is set at fair value at the date of grant, no compensation cost for stock options has been recognized, other than expense related to those stock options which were granted subject to shareholder approval discussed above. If compensation cost had been determined based on the estimated fair value of stock options in accordance with the provisions of SFAS 123, Accounting for Stock-Based Compensation, Visteon's 2001 net loss and loss per share (on both a basic and diluted basis) would have been increased by \$5 million, or \$0.04 per share. The average fair value of each stock option granted in 2001 was \$6.83 for options in which the exercise price equaled the market price of the stock on the grant date, and \$7.94 for options in which the exercise price was less than the market price of the stock on the grant date. The fair values were

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estimated at the grant date using an option-pricing model with the following weighted average assumptions for 2001: risk-free interest rate of 4.7%, expected life of 4.7 years, volatility of 42.8%, and a dividend yield of 1.4%.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9. Capital Stock and Stock Award Plans (Continued)

Under the Incentive Plan, Visteon has granted restricted stock to certain employees. Restricted stock awards vest after a designated period of time, which is generally five years, or upon the achievement of applicable performance goals at the completion of a performance period, which is generally three years. Performance goals are related to return on equity and quality measures. Compensation expense related to performance-based restricted stock awards is recognized over the performance period based upon an estimate of the likelihood of achieving the performance goals and also reflects changes in the price of Visteon common stock. Restricted stock awards issued to the company's Board of Directors vest on the third anniversary of the date of the grant. Deferred stock compensation expense was \$9 million in 2001. About 1,650,000 shares of restricted common stock were outstanding at December 31, 2001.

NOTE 10. Litigation and Claims

Various legal actions, governmental investigations and proceedings and claims are pending or may be instituted or asserted in the future against Visteon, including those arising out of alleged defects in Visteon's products; governmental regulations relating to safety; employment-related matters; customer, supplier and other contractual relationships; intellectual property rights; product warranties; and environmental matters. Some of the foregoing matters involve or may involve compensatory, punitive, or antitrust or other treble damage claims in very large amounts, or demands for recall campaigns, environmental remediation programs, sanctions, or other relief which, if granted, would require very large expenditures.

Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. Reserves have been established by Visteon for matters discussed in the foregoing paragraph where losses are deemed probable. It is reasonably possible, however, that some of the matters discussed in the foregoing paragraph for which reserves have not been established could be decided unfavorably to Visteon and could require Visteon to pay damages or make other expenditures in amounts, or a range of amounts, that cannot be estimated at December 31, 2001. Visteon does not reasonably expect, based on its analysis, that any adverse outcome from such matters would have a material effect on future consolidated financial statements for a particular year, although such an outcome is possible.

Visteon has been working with Ford to resolve a number of outstanding commercial issues. See Note 17 for further discussion of some of the commercial issues with Ford under the supply agreement and pricing letter agreement.

NOTE 11. Transactions with Ford and its Affiliates

Revenues from Ford and its affiliates approximated 82% in 2001, 84% in 2000 and 88% in 1999 of total sales.

In connection with Visteon's separation from Ford, Visteon and Ford have entered into a series of agreements outlining the terms of separation and the relationship between Visteon and Ford on an ongoing basis. The following summary of certain of these agreements is qualified in all respects by the actual terms of the respective agreements.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11. Transactions with Ford and its Affiliates (Continued)

Master Transfer Agreement

The master transfer agreement, effective as of April 1, 2000, provided for Ford to transfer to Visteon and/or its subsidiaries, all assets used exclusively by Visteon, including but not limited to real property interests, personal property and ownership interests in subsidiaries and joint ventures.

In addition, Visteon and Ford agreed to a division of liabilities including liabilities related to product liability, warranty and recall, environmental, intellectual property claims and other general litigation claims. Visteon and Ford agreed on a division of responsibility for product liability, warranty and recall matters as follows: (a) Ford will retain liability for all product liability, warranty or recall claims that involve parts made or sold by Visteon for 1996 or earlier model year Ford vehicles, (b) Visteon is liable for all product liability, warranty or recall claims that involve parts made or sold by Visteon for 1997 or later model year Ford vehicles in accordance with Ford's global standard purchase order terms as applied to other Tier 1 suppliers and (c) Visteon has assumed all responsibility for product liability, warranty or recall claims relating to parts made or sold by Visteon to any non-Ford customers.

Supply Agreement and Pricing Letter Agreement

The supply agreement provides that Visteon's existing purchase orders with Ford as of January 1, 2000 will generally remain in effect at least through the end of 2003, subject to Ford's right to terminate any particular purchase order for quality, service, delivery and technology. In addition, the pricing letter required a one-time 5% price reduction on products that Visteon was supplying to Ford as of January 1, 2000 based on a market pricing review conducted by Ford and Visteon. The pricing letter also requires productivity price adjustments in each of 2000, 2001, 2002 and 2003 to reflect competitive price reductions obtained each year by Ford from its other Tier 1 suppliers. Visteon and Ford agreed on a 3.5% productivity price reduction for 2000 on such products, which is consistent with (i) price reductions between Visteon and Ford in prior years and (ii) the amount of annual productivity improvement that Ford generally expects from its other Tier 1 suppliers.

See Note 17 for further discussion of some of the commercial issues with Ford under the supply agreement and pricing letter agreement.

Master Separation Agreement

The master separation agreement provides for Ford to provide transitional services to Visteon until December 31, 2001, of which certain information technology services continue through June 30, 2005. These services include information technology, human resources, accounting, customs, product development technology and real estate services which have been historically provided to Visteon by Ford. Visteon has agreed to pay Ford amounts which reflect its fully accounted cost for these services, including a reasonable allocation of internal overhead costs, as well as any direct costs incurred from outside suppliers. Visteon may terminate any transitional service upon six months' written notice. Certain transitional services were extended an additional six months to June 30, 2002. Visteon is working with Ford to extend some human resource and payroll services beyond June 2002. For periods prior to and including our spin-off, assessments for these services totaled approximately \$179 million and \$211 million in 2000 and 1999, respectively.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11. Transactions with Ford and its Affiliates (Continued)

Hourly Employee Assignment Agreement

The hourly employee assignment agreement sets forth a number of rights and obligations with respect to the United States hourly employees of Ford who (i) were represented by the UAW, (ii) were covered by the Ford UAW Master Collective Bargaining Agreement dated as of September 30, 1999, (iii) were employed in one of Visteon's facilities as of the date of the spin-off and (iv) after Visteon's spin-off were assigned to work for Visteon.

Under this agreement, Visteon exercises day-to-day supervision over the covered individuals and Ford will continue to provide the same employee benefits generally offered to other hourly employees of Ford who are represented by the UAW. Visteon reimburses Ford for the wage, benefit and other costs incurred by Ford related to these individuals. However, Visteon's liability for profit sharing based on Ford's profits is limited to \$50 million per year in each of 2000-2004. After 2004, Visteon will be liable for the full amount of profit sharing based on Ford's profits.

NOTE 12. Financial Instruments

Estimated fair value amounts have been determined using available market information and various valuation methods depending on the type of instrument. In evaluating the fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and/or different valuation techniques may have a material effect on the estimated fair value amounts. Further, it should be noted that fair value at a particular point in time gives no indication of future gain or loss, or what the dimensions of that gain or loss are likely to be.

The fair value of debt was \$1,954 million at December 31, 2001, based on quoted market prices or current rates for similar debt with the same remaining maturities, compared with book value of \$1,922 million. The fair value of debt approximated \$2,028 million at December 31, 2000. The notional amount of interest rate swaps was \$500 million at December 31, 2001. The fair market value of the interest rate swaps was a liability of \$9 million at December 31, 2001 with an offsetting amount recorded in long-term debt.

The fair value of foreign currency instruments was estimated using current market rates provided by outside quotation services. The notional amount of foreign currency instruments was \$949 million and \$1,178 million at December 31, 2001 and 2000, respectively. The notional amount represents the contract amount, not the amount at risk. The fair value of the company's foreign currency instruments was an asset of \$9 million at year-end 2001 and was a liability of approximately \$19 million at year-end 2000.

The fair market value of commodity derivatives, which were first instituted in fourth quarter 2001, was not material at December 31, 2001.

It is anticipated that approximately \$8 million of deferred net gains will be reclassified from accumulated other comprehensive income to earnings over the next 12 months as the anticipated underlying transactions occur.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 13. Acquisitions, Dispositions and Special Charges

During the third quarter of 2001, Visteon recorded a pre-tax charge of \$34 million related to special voluntary retirement and separation programs offered to hourly employees located at Visteon's Nashville Glass plant. This action resulted in the separation of about 245 employees during the third quarter of 2001. As of December 31, 2001, Visteon has spent or utilized about \$28 million related to this charge, which includes \$20 million incurred related to special pension and other postretirement benefits, and \$8 million of cash payments mainly related to severance pay. The pre-tax charge of \$34 million (\$21 million after-tax) is recorded in costs of sales and by the Glass Operations segment.

During the second quarter of 2001, Visteon recorded a pre-tax charge of \$146 million related to the elimination of more than 2,000 salaried positions worldwide. About 90% of the separations were completed in the second quarter of 2001. Substantially all the remaining separations were completed prior to the end of 2001. In addition, Visteon recorded a pre-tax charge in the second quarter of 2001 of \$12 million related to the planned closure of two European facilities, ZEM in Poland and Wickford in the U.K., and other actions. Of the total pre-tax charges of \$158 million (\$100 million after-tax), \$81 million is recorded in selling, administrative and other expenses and \$77 million is recorded in costs of sales, and \$142 million is recorded by the Automotive Operations segment and \$16 million is recorded by the Glass Operations segment. As of December 31, 2001, Visteon has spent or utilized about \$141 million related to these charges, which includes \$86 million of cash payments mainly for severance pay, \$50 million incurred related to special pension and other postretirement benefits and \$5 million related to the non-cash write-down to fair value of certain plant assets.

Visteon recorded a pre-tax charge of approximately \$13 million (\$8 million after-tax) and \$5 million (\$3 million after-tax) in the second and third quarters of 2000, respectively, for Visteon employees that were part of special voluntary retirement and separation programs.

In December 2000, Visteon recorded a pre-tax, non-cash impairment write-down of \$220 million (\$138 million after-tax) to reduce the net book value of the assets associated with the Glass Operations segment to estimated fair value. The write-down reflects revised operating projections following the end of discussions regarding a joint venture involving the business, which reflected continuing pressures on costs and prices.

In October 2000, the sale of Visteon's 49% interest in the Conix Group, comprised of Conix Corporation, Conix Canada Inc., Conix Belgium N.V. and Conix U.K. Limited, to Decoma International, Inc., was completed. The sale price for the Visteon interest was \$140 million, which was satisfied by a cash payment of \$50 million and \$90 million of 9.5% subordinated Decoma debentures due in 2003, resulting in an after-tax gain of about \$20 million, which is included in equity in net income of affiliated companies on the Consolidated Statement of Income. Visteon received payment of the 9.5% subordinated Decoma debentures in 2001.

In June 1999, Visteon acquired the automotive interiors division of Compagnie Plastic Omnium for approximately 2.9 billion French Francs, net of cash acquired. This business consisted of 14 facilities located in four countries: France, Spain, Italy and the United Kingdom, and generated 1998 revenues of approximately 2.8 billion French Francs. The acquisition was accounted for as a purchase with the purchase price allocated to the assets acquired and liabilities assumed based on estimated fair values as of the acquisition date. The excess of the purchase price over the estimated fair value of the net assets acquired approximated \$300 million and is being amortized on a straight-line basis over 20 years. The assets purchased, liabilities assumed and the results of operations, since the date of acquisition, are included in the financial statements on a consolidated basis.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 14. Cash Flows

The reconciliation of net income to cash flows provided by (used in) operating activities is as follows:

| | 2001 | 2000 | 1999 |
|--|-------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| | (in millions) | | |
| Net income (loss) | \$ (118) | \$ 270 | \$ 735 |
| Adjustment to reconcile net income (loss) to cash flows from operating activities: | | | |
| Depreciation and amortization | 666 | 676 | 651 |
| Asset impairment charge | | 220 | |
| Earnings of affiliated companies in excess of dividends remitted | (12) | (39) | (23) |
| Foreign currency adjustments | 17 | 8 | 32 |
| Provision for deferred income taxes | (143) | (87) | 20 |
| Changes in assets and liabilities: | | | |
| Increase in accounts receivable and other current assets | (197) | (85) | (285) |
| Decrease (increase) in inventory | 86 | (205) | (62) |
| Increase (decrease) in accounts payable, accrued and other liabilities | 71 | (1,447) | 1,494 |
| Other | 66 | 163 | (80) |
| | <u> </u> | <u> </u> | <u> </u> |
| Cash flows provided by (used in) operating activities | \$ 436 | \$ (526) | \$ 2,482 |
| | <u> </u> | <u> </u> | <u> </u> |

Cash paid for interest and income taxes was as follows:

| | 2001 | 2000 | 1999 |
|--------------|-------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| | (in millions) | | |
| Interest | \$ 131 | \$ 138 | \$ 143 |
| Income taxes | 44 | 243 | 281 |

NOTE 15. Segment Information

Statement of Financial Accounting Standards No. 131 (SFAS 131), Disclosures about Segments of an Enterprise and Related Information, establishes standards for reporting information about operating segments in annual financial statements and requires reporting selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services and geographic operations.

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers, or a decision making group, in deciding how to allocate resources and in assessing performance. Visteon's chief operating decision-making group is the Strategy Council, which is comprised of the Chairman and Chief Executive Officer and six other senior executives.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 15. Segment Information (Continued)

In the second quarter of 2001, Visteon implemented a new organization which is focused on customer business groups, and supported by centralized product development, manufacturing and administrative functions. Consistent with the new organization, Visteon's reportable operating segments are Automotive Operations and Glass Operations. Automotive Operations provides various automotive systems and components mainly to OEM customers; Glass Operations supplies architectural and flat glass to a broad customer base, including OEMs. The new segments replace the previous product-oriented reportable operating segments. Prior year information has been restated to conform with the new organization.

The accounting policies for the operating segments are the same as those described in Note 2, Accounting Policies. Visteon evaluates the performance of its operating segments based primarily on sales, income before taxes and net income.

Financial information for the reportable operating segments is summarized as follows:

| | <u>Automotive Operations</u> | <u>Glass Operations</u> | <u>Total Visteon</u> |
|----------------------------|----------------------------------|-----------------------------|--------------------------|
| | (in millions) | | |
| 2001 | | | |
| Sales | \$ 17,222 | \$ 621 | \$ 17,843 |
| Income (loss) before taxes | (110) | (59) | (169) |
| Net income (loss) | (83) | (35) | (118) |
| Depreciation/amortization | 661 | 5 | 666 |
| Capital expenditures | 744 | 8 | 752 |
| Unconsolidated affiliates: | | | |
| Equity in net income | 19 | 5 | 24 |
| Investments in | 140 | 18 | 158 |
| Average assets | 10,985 | 299 | 11,284 |
| 2000 | | | |
| Sales | \$ 18,721 | \$ 746 | \$ 19,467 |
| Income (loss) before taxes | 689 | (250) | 439 |
| Net income (loss) | 426 | (156) | 270 |
| Depreciation/amortization | 641 | 35 | 676 |
| Capital expenditures | 771 | 22 | 793 |
| Unconsolidated affiliates: | | | |
| Equity in net income | 50 | 6 | 56 |
| Investments in | 122 | 20 | 142 |
| Average assets | 11,443 | 531 | 11,974 |
| 1999 | | | |
| Sales | \$ 18,593 | \$ 773 | \$ 19,366 |
| Income before taxes | 1,170 | 2 | 1,172 |
| Net income | 732 | 3 | 735 |
| Depreciation/amortization | 616 | 35 | 651 |
| Capital expenditures | 832 | 44 | 876 |
| Unconsolidated affiliates: | | | |
| Equity in net income | 39 | 8 | 47 |
| Investments in | 184 | 21 | 205 |
| Average assets | 10,276 | 682 | 10,958 |

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 15. Segment Information (Continued)

Visteon's major geographic areas are the United States and Europe. Other geographic areas (primarily Canada, Mexico, South America and Asia Pacific) individually are not material. Financial information segregated by geographic area is as follows:

| Geographic Areas | United States | Europe | All Other | Total Visteon |
|------------------|---------------|----------|-----------|------------------|
| (in millions) | | | | |
| 2001 | | | | |
| Sales | \$ 12,677 | \$ 2,781 | \$ 2,385 | \$ 17,843 |
| Net property | 3,179 | 1,249 | 901 | 5,329 |
| 2000 | | | | |
| Sales | \$ 14,374 | \$ 2,560 | \$ 2,533 | \$ 19,467 |
| Net property | 3,253 | 1,339 | 905 | 5,497 |
| 1999 | | | | |
| Sales | \$ 14,814 | \$ 2,732 | \$ 1,820 | \$ 19,366 |
| Net property | 3,592 | 1,274 | 923 | 5,789 |

NOTE 16. Summary Quarterly Financial Data (Unaudited)

| | 2001 | | | | 2000 | | | |
|---|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| (in millions, except per share amounts) | | | | | | | | |
| Sales | \$ 4,723 | \$ 4,905 | \$ 3,722 | \$ 4,493 | \$ 5,225 | \$ 5,309 | \$ 4,404 | \$ 4,529 |
| Operating income (loss) | 68 | (42) | (131) | (12) | 253 | 268 | 93 | (173) |
| Income (loss) before taxes | 55 | (57) | (146) | (21) | 237 | 266 | 82 | (146) |
| Net income (loss) | 31 | (40) | (95) | (14) | 147 | 162 | 48 | (87) |
| Earnings (loss) per share | \$ 0.24 | \$ (0.31) | \$ (0.74) | \$ (0.11) | \$ 1.13 | \$ 1.25 | \$ 0.37 | \$ (0.67) |

Results for the fourth quarter of 2001 include approximately \$40 million of pre-tax income related to adjustments made to estimated provisions for various employee fringe benefit accruals recorded during the first nine months of 2001.

As discussed further in Note 13, Visteon recorded a pre-tax charge of \$158 million in the second quarter of 2001 related to the elimination of more than 2,000 salaried positions worldwide and the closure of two European facilities and other actions. In addition, Visteon recorded a pre-tax charge of \$34 million in the third quarter of 2001 for special voluntary retirement and separation programs.

As discussed further in Note 13, results for the fourth quarter of 2000 include a pre-tax, non-cash impairment write-down of \$220 million to reduce the net book value of the assets associated with the Glass Operations segment and an after-tax gain of about \$20 million related to the sale of Visteon's 49% interest in the Conix Group of companies.

Visteon recorded pre-tax charges of \$13 million and \$5 million in the second and third quarters of 2000, respectively, for special voluntary and involuntary employee retirement and separation programs.

VISTEON CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 17. Subsequent Events

In January 2002, Visteon completed an arrangement with a special-purpose entity, owned by an affiliate of a bank, to lease land in Southeast Michigan suitable for a potential headquarters facility. The lease has an initial lease term through June 30, 2002 at which time Visteon has the option to renew the lease on terms mutually acceptable to Visteon and the lessor, purchase the land, or arrange for the sale of the property. Visteon has a contingent liability for up to about \$23 million in the event the property is sold for less than full cost.

In February 2002, Visteon entered into a definitive agreement with Autoliv, Inc., to sell its restraint electronics business. The sale includes Visteon's North American and European order book of approximately \$150 million in annual sales to Ford Motor Company and its affiliates, including associated manufacturing operations in Markham, Ontario, as well as related assets and liabilities. As part of the sale, approximately 250 employees from Markham and 100 engineers from Dearborn, Michigan will be transferred to Autoliv. The remaining 825 employees at Markham will be separated from Visteon as the company moves nearly all of the remaining business to facilities in Mexico. In addition, Visteon will eliminate about 400 engineering positions worldwide to reduce research and development costs. These actions are expected to result in net charges in 2002 of as much as \$150 million before taxes (\$95 million after taxes).

Visteon has been working with Ford to resolve a number of outstanding commercial issues. Visteon's supply agreement and related pricing letter with Ford Motor Company require Visteon to provide Ford with productivity price adjustments for 2001, 2002 and 2003. In March 2002, Visteon and Ford reached an agreement resolving North American pricing for 2001 that is consistent with Visteon's previously established reserves. The agreement also included a consensus on the productivity price adjustment for 2002 calendar year as well as agreement that the companies will negotiate all future year price adjustments in a manner consistent with that followed by other Tier One suppliers. There remains a difference of opinion between Visteon and Ford under the supply agreement and related pricing letter with respect to the pricing and sourcing of products supplied to Ford of Europe. The amount in dispute in this regard for 2001 is approximately \$50 million before taxes, representing a unilateral reduction in prices assessed by Ford of Europe. Visteon and Ford are continuing settlement discussions regarding this matter, have recently participated in a mediation process, and are intending to proceed with arbitration of this issue if the parties cannot reach agreement, as specified in the supply agreement. Although the outcome of this matter is not fully predictable, we believe our established reserves are adequate. The final amounts, however, could differ materially from the recorded estimates.

EXHIBIT INDEX

| Exhibit Number | Exhibit Name |
|-------------------|---|
| 3.1 | Amended and Restated Certificate of Incorporation (1) |
| 3.2 | Amended and Restated By-laws (2) |
| 4.1 | Indenture dated as of June 23, 2000 with Bank One Trust Company, N.A., as Trustee (3) |
| 4.2 | Form of Visteon Common Stock Certificate (4) |
| 10.1 | Master Transfer Agreement (5) |
| 10.2 | Purchase and Supply Agreement (5) |
| 10.3 | Letter Relating to Price Reductions (5) |
| 10.4 | Master Separation Agreement (6) |
| 10.5 | Aftermarket Relationship Agreement (4) |
| 10.6 | Hourly Employee Assignment Agreement (4) |
| 10.7 | Employee Transition Agreement (4) |
| 10.8 | Tax Sharing Agreement (5) |
| 10.9 | Long-Term Incentive Plan (5) |
| 10.10 | Form of Revised Change in Control Agreement (7) |
| 10.11 | Issuing and Paying Agency Agreement (1) |
| 10.12 | Master Note (1) |
| 10.13 | Letter Loan Agreement (1) |
| 10.14 | Deferred Compensation for Non-Employee Directors (7) |
| 10.15 | Restricted Stock Plan for Non-Employee Directors (7) |
| 10.16 | Deferred Compensation Plan (7) |
| 10.17 | Form of Savings Parity Plan (7) |
| 10.18 | Form of Pension Parity Plan (7) |
| 10.19 | Form of Supplemental Executive Retirement Plan (7) |
| 10.20 | Executive Employment Agreement dated as of September 15, 2000 (8) |
| 12.1 | Statement re: Computation of Ratios (8) |
| 21.1 | Subsidiaries of Visteon (8) |
| 23.1 | Consent of PricewaterhouseCoopers LLP |
| 24.1 | Powers of Attorney (see signature pages hereof) (8) |
| 99.1 | Risk Factors (8) |
| 99.2 | Written Statement of Chief Executive Officer dated August 12, 2002 |
| 99.3 | Written Statement of Chief Financial Officer dated August 12, 2002 |

- (1) Incorporated by reference to the exhibit of the same name filed with Visteon's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000, filed July 24, 2000 (File No. 001-15827).
- (2) Incorporated by reference to the exhibit of the same name filed with Visteon's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001, filed November 14, 2001 (File No. 001-15827).
- (3) Incorporated by reference to exhibit 4.1 filed with Visteon's Current Report on Form 8-K, dated July 31, 2000, filed August 16, 2000 (File No. 001-15827).
- (4) Incorporated by reference to the exhibit of the same name filed with Amendment No. 1 to Visteon's Registration Statement on Form 10, filed May 19, 2000 (File No. 001-15827).
- (5) Incorporated by reference to the exhibit of the same name filed with Visteon's Registration Statement on Form S-1, filed June 2, 2000 (File No. 333-38388).
- (6) Incorporated by reference to the exhibit of the same name filed with Amendment No. 1 to Visteon's Registration Statement on Form S-1, filed June 6, 2000 (Registration No. 333-38388).
- (7)

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Incorporated by reference to the exhibit of the same name filed with Visteon's Annual Report on Form 10-K for the period ended December 31, 2000, filed February 27, 2001 (File No. 001-15827).

- (8) Incorporated by reference to the exhibit of the same name filed with Visteon's Annual Report on Form 10-K for the period ended December 31, 2001, filed March 29, 2002 (File No. 001-15827).

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