VISTEON CORP
Form 10-K
February 22, 2008

Table of Contents

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

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007, 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)*	**38-3519512** *(I.R.S. employer identification no.)*
One Village Center Drive, Van Buren Township, Michigan *(Address of principal executive offices)*	**48111** *(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

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes __ No _ü_

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes __ No _ü_

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. _ü_

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer _ü_ Accelerated filer ___ Non-accelerated filer ___ Smaller reporting company ___
(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant s voting and non-voting common equity held by non-affiliates of the registrant on June 29, 2007 (the last business day of the most recently completed second fiscal quarter) was approximately $1 billion.

As of February 15, 2008, the registrant had outstanding 129,650,038 shares of common stock.

Document Incorporated by Reference*

Document	**Where Incorporated**
2008 Proxy Statement	Part III (Items 10, 11, 12, 13 and 14)

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

INDEX

Table of Contents

PART I

ITEM 1. BUSINESS

The Company s Business

Visteon Corporation (Visteon or the Company) is a leading global supplier of automotive systems, modules and components to global vehicle manufacturers and the automotive aftermarket. The Company is headquartered in Van Buren Township, Michigan, has a workforce of approximately 41,500 employees and has a network of manufacturing sites, technical centers, sales offices and joint ventures located in every major geographic region of the world. The Company was incorporated in Delaware in January 2000 as a wholly-owned subsidiary of Ford Motor Company (Ford or Ford Motor Company). Subsequently, Ford transferred the assets and liabilities comprising its automotive components and systems business to Visteon. The Company separated from Ford on June 28, 2000 when all of the Company s common stock was distributed by Ford to its shareholders.

In September 2005, the Company transferred 23 of its North American facilities and certain other related assets and liabilities (the Business) to Automotive Components Holdings, LLC (ACH), an indirect, wholly-owned subsidiary of the Company. On October 1, 2005, the Company sold ACH to Ford for cash proceeds of approximately $300 million, as well as the forgiveness of certain other postretirement employee benefit liabilities and other obligations relating to hourly employees associated with the Business and the assumption of certain other liabilities (together, the ACH Transactions). The transferred facilities included all of the Company s plants that leased hourly workers covered by Ford s Master Agreement with the United Auto Workers (UAW). The Business accounted for approximately $6.1 billion of the Company s total product sales for 2005, the majority being products sold to Ford.

The Company s Industry

The Company supplies a range of integrated systems, modules and components to vehicle manufacturers for use in the manufacture of new vehicles, as well as to the aftermarket for use as replacement and enhancement parts. Historically, large vehicle manufacturers operated internal divisions to provide a wide range of component parts for their vehicles. Vehicle manufacturers have moved toward a competitive sourcing process for automotive parts, including increased purchases from independent suppliers, as they seek lower-priced and/or higher-technology products. Additional significant factors and trends in the automotive industry include:

Globalization Fueled by significant growth of emerging economies and by an ongoing need to reduce costs, vehicle manufacturers are expanding globally through localized vehicle assembly operations. By localizing assembly operations, vehicle manufacturers can achieve advantages including new market entry, existing market expansion, low cost manufacturing capabilities, reduced exposure to currency fluctuations, and enhanced customer responsiveness. As vehicle manufacturers expand globally and localize their assembly operations, they are increasingly interested in buying components and systems from suppliers that can serve multiple markets, support a global vehicle platform and maintain a local presence.

Shift in Original Equipment Manufacturers (OEM) market share Vehicle manufacturers domiciled outside of the United States continued to gain market share at the expense of the domestic vehicle manufacturers. Many of these foreign vehicle manufacturers have strong existing relationships with foreign-based suppliers. This has increased the competitive pressure on domestically domiciled suppliers like Visteon. However, the Company believes that this trend creates growth opportunities for domestically domiciled suppliers, such as Visteon, to leverage existing customer relationships to grow with vehicle manufacturers domiciled in the United States as they penetrate emerging markets and to leverage the Company s innovative and competitively priced technologies to develop new relationships with foreign vehicle manufacturers as they establish local manufacturing and assembly facilities in North America.

Table of Contents

ITEM 1. BUSINESS (Continued)

Pricing and cost pressures Because vehicle manufacturers are under increasing competitive intensity, they must rapidly adjust to changing consumer preferences in order to differentiate their vehicles to maintain and grow their market share. These market dynamics inhibit the ability of vehicle manufacturers to significantly increase vehicle prices, leading vehicle manufacturers to intensify their cost-reduction efforts with their suppliers. In particular, vehicle manufacturers are increasingly searching for lower cost sources of components and systems to maintain and improve profitability.

Additionally, the supply of certain commodities used in the production of automotive parts, primarily metals and petroleum-based products such as plastic resins continues to be constrained resulting in increased costs which cannot be wholly recovered from the vehicle manufacturers. Such constraints and/or disruptions in supply are likely to continue to pressure operating results of automotive part suppliers, including Visteon.

Financial condition In light of market share and end consumer pricing trends certain vehicle manufacturers, particularly in North America and Europe, continue to report significant financial challenges driven by excess production capacity and high fixed cost structures. These vehicle manufacturers continue to implement actions to further reduce capacity and streamline cost structures while investing in new technologies and global vehicle platforms. Vehicle manufacturers continue to look to the supply base to assume additional design, development and service responsibilities for products providing capable suppliers the opportunity to further their commercial position in the OEM supply chain.

In response, automotive suppliers are also investing in similar capacity and cost reduction actions and are investing in new technologies and further integration of the automotive supply chain. However, the declining sales volumes of certain domestic automakers combined with high material and labor costs has adversely impacted the financial condition of several domestic automotive suppliers resulting in significant demands on liquidity, industry consolidation, several supplier bankruptcies, extensive private equity investment and severe tightening of the credit markets making access to future liquidity difficult and costly. These conditions are expected to continue into the foreseeable future, resulting in continued industry consolidation and the possibility of additional supplier bankruptcies. Accordingly, automotive suppliers must work to secure and preserve cost-competitive liquidity, strengthen financial disciplines, accelerate cost and capacity reduction efforts, and focus on diversifying their customer base.

Environmental regulation Vehicle manufacturers are under increasing pressure to improve the fuel efficiency of their vehicles due to concerns over global warming, increased cost of petroleum, and energy security. Recently U.S. Corporate Average Fuel Economy (CAFE) standards for light vehicles were increased from 27.5 mpg in 2007 to 35 mpg by 2020 with the intent of reducing carbon emissions and improving fuel economy. Additionally, during 2007 the European Commission announced a carbon emissions reduction target of 130g/km for automotive fleets. Increases in fuel efficiency and decreases in carbon emissions will likely be achieved through the reduction of average vehicle and related engine size, hybrid-electric and diesel powered light vehicles, continued vehicle weight reduction, improved air and engine control systems, and other powertrain technologies. Successful automotive suppliers will support vehicle manufacturers with world class engineering capabilities and innovative technologies to collectively drive improvements in vehicle performance related to fuel efficiency and carbon emissions.

Consumer-driven growth Despite increased environmental regulation over fuel efficiency and carbon emissions, consumers in more developed economies continue to demand larger and more powerful vehicles, while consumers in emerging markets demand vehicles offered at a lower than traditional entry price. Additionally, consumers are increasingly interested in products that make them feel safer and more secure and include increased electronic and technical content such as in-vehicle communication, navigation and entertainment capabilities. To achieve sustainable profitable growth, automotive part suppliers must effectively support their customers in developing and delivering products and technologies to the end-consumer at competitive prices that provide for differentiation and that address divergent consumer preferences.

Table of Contents

ITEM 1. BUSINESS (Continued)

The Company s Business Strategy

By leveraging the Company s extensive experience, innovative technology and geographic strengths, the Company aims to grow leading positions in its key climate, interiors and electronics product groups and to improve overall margins, long-term operating profitability and cash flows. To achieve these goals and respond to industry factors and trends, the Company is working to restructure its business, improve its operations and achieve profitable growth.

Restructure the Business

Underperforming and non-strategic operations In January 2006, the Company announced a multi-year improvement plan designed to further restructure the business and improve profitability. This improvement plan identified certain underperforming and non-strategic facilities that require significant restructuring or potential sale or exit, as well as other infrastructure and cost reduction initiatives. The majority of the cash expenses for this plan are expected to be funded by the $400 million escrow account established pursuant to the ACH Transactions.

Reduce overhead costs The Company continues to implement actions designed to fundamentally reorganize and streamline its administrative functions and reduce the related cost. Such actions include organizational realignment and consolidation, employee benefit reduction, business system enhancements, resource relocation to more competitive cost locations, selective functional outsourcing, and evaluation of third-party supplier arrangements for purchased services. Additionally, as the Company improves its base operations and restructures underperforming and non-strategic operations, certain administrative functions must be fundamentally restructured to effectively and efficiently support the Company s business.

Improve Operations

Achieving cost efficiencies The Company continues to take actions to lower its manufacturing costs by increasing its focus on production utilization and related investment, closure and consolidation of facilities and relocation of production to lower cost environments to take further advantage of its global manufacturing footprint. The Company has consolidated its regional purchasing activities into a global commodity driven organization to provide increased spending leverage to optimize supplier relationships, and to further standardize its production and related material purchases.

Improve product quality and the health and safety of employees The Company has increased its efforts to ensure that the products provided to its customers are of the highest quality and specification. Processes and standards continue to be implemented to prevent the occurrence of non-conforming production as measured by various industry standard quality ratings such as defective parts per million. The Company s customers have recognized these efforts with various annual supplier quality awards. The health and safety of the Company s employees is of utmost importance and the Company continues to implement programs, training and awareness in all of its operations to limit safety related incidents and to improve lost time case rates.

Capital investment efficiency The Company has enhanced its financial discipline related to the evaluation of investment in and profitability of new customer programs to improve the Company s operating margins and related return on investment and to achieve the best use of its capital.

ITEM 1. BUSINESS (Continued)

Achieve Profitable Growth

Focused product portfolio The global automotive parts industry is highly competitive; winning and maintaining new business requires suppliers to rapidly produce new and innovative products on a cost-competitive basis. Because of the heavy capital and engineering investment needed to maintain this competitiveness, the Company re-examined its broad product portfolio to identify its key growth products considered core to its future success. Based on this assessment, the Company identified interiors, climate and electronics as its key growth products. The Company believes there are opportunities to capitalize on the continuing demand for additional electronics integration and associated products with its product portfolio and technical capabilities.

Customer and geographic diversification The Company is well positioned globally, with a diverse customer base. Although Ford remains the Company s largest customer, the Company has been steadily diversifying its sales with other OEMs. Product sales to customers other than Ford were 61% of total product sales for the year ended December 31, 2007 compared to 55% for the year ended December 31, 2006. The Company s regional sales mix has also become more balanced, with a greater percentage of product sales outside of North America. As a percent of total product sales, the Company s product sales by region for the year ended December 31, 2007 were as follows: North America 32%; Europe 37%; Asia 27%; and South America 4%. In comparison, product sales by region as a percentage of total product sales for the year ended December 31, 2006 were as follows: North America 37%; Europe 36%; Asia 23%; and South America 4%.

Financial Information about Segments

The Company s operations are organized in global product groups, including Climate, Electronics, Interiors and Other. Additionally, the Company operates a centralized administrative function to monitor and facilitate the delivery of transition services in support of divestiture transactions, primarily related to the ACH Transactions.

Further information relating to the Company s reportable segments can be found in Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K (Note 21, Segment Information, to the Company s consolidated financial statements).

The Company s Products

The following discussion provides an overview description of the products associated with major design systems within each of the Company s global product groups.

Electronics Product Group

The Company is one of the leading global suppliers of advanced in-vehicle entertainment, driver information, wireless communication, climate control, body and security electronics and lighting technologies and products.

Electronics Products	**Description**
Audio Systems	The Company produces a wide range of audio systems and components, ranging from base radio head units to integrated premium audio systems and amplifiers. Examples of the Company s latest electronics products include digital and satellite radios, HD Radio™

	broadcast tuners and premium systems.
Driver Information Systems	The Company designs and manufacturers a wide range of displays, from analog-electronic to high-impact instrument clusters that incorporate LCD displays.

Table of Contents

ITEM 1. BUSINESS (Continued)

Electronics Products	**Description**
Infotainment Information, Entertainment and Multimedia	The Company has developed numerous products to assist driving and provide in-vehicle entertainment. A sampling of these technologies include: MACH(R) Voice Link Technology, connectivity solutions for portable devices, and a range of Family Entertainment Systems designed to support a variety of applications and vehicle segments.
Powertrain and Feature Control Modules	The Company designs and manufactures a wide range of powertrain and feature control modules for a worldwide customer base. Powertrain control modules cover a range of applications from single-cylinder small engine control systems to fully-integrated V8/V10 engine and transmission controllers. Feature control modules include products which manage a variety of electrical loads related to powertrain function, including controllers for fuel pumps, 4x4 transfer cases, intake manifold tuning valves, and voltage regulation systems.
Electronic Climate Controls	The Company designs and manufactures a complete line of climate control modules with capability to provide full system integration. The array of modules available varies from single zone manual electronic modules to fully automatic multiple zone modules. The Company also provides integrated audio and climate control assemblies allowing styling and electrical architecture flexibility for various customer applications.
Lighting	The Company designs and builds a wide variety of headlamps (projector, reflector or Advanced Front Lighting Systems), Rear Combination Lamps, Center High-Mounted Stop Lamps (CHMSL) and Fog Lamps. The Company utilizes a variety of light-generating sources including Light Emitting Diode (LED), High Intensity Discharge (HID) and Halogen-based systems.

Climate Product Group

The Company is one of the leading global suppliers in the design and manufacturing of components, modules and systems that provide automotive heating, ventilation, air conditioning and powertrain cooling.

Climate Products	**Description**
Climate Systems	The Company designs and manufactures fully integrated heating, ventilation and air conditioning (HVAC) systems. The Company s proprietary analytical tools and systems integration expertise enables the development of climate-oriented components, subsystems and vehicle-level systems. Products contained in this area include: Heat

	Exchangers, Climate Controls, Compressors, and Fluid Transport Systems.
Powertrain Cooling Systems	Cooling functionality and thermal management for the vehicle s powertrain system (engine and transmission) is provided by powertrain cooling-related technologies.

Interior Product Group

The Company is one of the leading global suppliers of cockpit modules, instrument panels, door and console modules and interior trim components.

Interiors Products	**Description**
Cockpit Modules	The Company s cockpit modules incorporate structural, electronic, climate control, mechanical and safety components. Customers are provided with a complete array of services including advanced engineering and computer-aided design, styling concepts and modeling and in-sequence delivery of manufactured parts. The Company s Cockpit Modules are built around its instrument panels which consist of a substrate and the optional assembly of structure, ducts, registers, passenger airbag system (integrated or conventional), finished panels and the glove box assembly.

Table of Contents

ITEM 1. BUSINESS (Continued)

Interiors Products	Description
Door Panels and Trims	The Company provides a wide range of door panels / modules as well as a variety of interior trim products.
Console Modules	The Company s consoles deliver flexible and versatile storage options to the consumer. The modules are interchangeable units and offer consumers a wide range of storage options that can be tailored to their individual needs.

Other Product Group

The Company also designs and manufactures a variety of other products, including driveline systems including applications for popular all-wheel drive vehicles and powertrain products and systems, which are designed to provide the automotive customer with solutions that enhance powertrain performance, fuel economy and emissions control.

The Company s Customers

The Company sells its products primarily to global vehicle manufacturers as well as to other suppliers and assemblers. In addition, it sells products for use as aftermarket and service parts to automotive original equipment manufacturers and others for resale through independent distribution networks. The Company records revenue when persuasive evidence of an arrangement exists, delivery occurs or services are rendered, the sales price or fee is fixed or determinable and collectibility is reasonably assured.

Vehicle Manufacturers

The Company sells to all of the world s largest vehicle manufacturers including BMW, Chrysler LLC, Daimler AG, Ford, General Motors, Honda, Hyundai/Kia, Mazda, Mitsubishi, Nissan, PSA Peugeot Citroën, Renault, Toyota, and Volkswagen, as well as emerging new vehicle manufacturers in Asia. Ford is the Company s largest customer, and product sales to Ford, including those sales to Auto Alliance International, a joint venture between Ford and Mazda, accounted for approximately 39% of 2007 total product sales. In addition, product sales to Hyundai/Kia accounted for approximately 15% of 2007 total product sales, and product sales to Nissan and Renault accounted for approximately 11% of 2007 total product sales. Sales to customers other than Ford include sales to Mazda, of which Ford holds a 33.4% equity interest.

Price reductions are typically negotiated on an annual basis between suppliers and vehicle manufacturers. Such reductions are intended to take into account expected annual reductions in the overall cost to the supplier of providing products and services to the customer, through such factors as overall increases in manufacturing productivity, material cost reductions, and design-related cost improvements. The Company has agreed to provide specific average price reductions to its largest customer, Ford, for most North America sales through 2008. The Company has an aggressive cost reduction program that focuses on reducing its total costs, which are intended to offset customer price reductions. However, there can be no assurance that such cost reduction efforts will be sufficient to do so, especially considering recent increases in the costs of certain commodities used in the manufacture of the Company s products. The Company records such price reductions when specific facts and circumstances indicate that a price reduction is probable and the amounts are reasonably estimable.

Other Customers

The Company sells products to various customers in the worldwide aftermarket as replacement or enhancement parts, such as body appearance packages and in-car entertainment systems, for current production and older vehicles. The Company s services revenues relate primarily to the supply of leased personnel and transition services to ACH in connection with various agreements pursuant to the ACH Transactions. The Company has also agreed to provide transition services to other customers in connection with certain other divestitures.

Table of Contents

ITEM 1. BUSINESS (Continued)

The Company s Competition

The Company conducts its business in a complex and highly competitive industry. The global automotive parts industry principally involves the supply of systems, modules and components to vehicle manufacturers for the manufacture of new vehicles. Additionally, suppliers provide components to other suppliers for use in their product offerings and to the aftermarket for use as replacement or enhancement parts. As the supplier industry consolidates, the number of competitors decreases fostering extremely competitive conditions. Vehicle manufacturers rigorously evaluate suppliers on the basis of product quality, price competitiveness, technical expertise and development capability, new product innovation, reliability and timeliness of delivery, product design and manufacturing capability and flexibility, customer service and overall management.

A summary of the Company s primary independent competitors is provided below.

Electronics The Company s principal competitors in the Electronics segment include Robert Bosch GmbH; Delphi Corporation; Denso Corporation; Hella KGaA; Koito Manufacturing Co., Ltd (North American Lighting); Matsushita Electric Industrial Co., Ltd. (Panasonic); and Continental AG.

Climate The Company s principal competitors in the Climate segment include Behr GmbH & Co. KG; Delphi Corporation; Denso Corporation; and Valéo S.A.

Interiors The Company s principal competitors in the Interiors segment include Faurecia Group; Johnson Controls, Inc.; Magna International Inc.; International Automotive Components Group; and Delphi Corporation.

Other The Company s principal competitors in the Other segment include American Axle & Manufacturing Holdings, Inc; Robert Bosch GmbH; Dana Corporation; Delphi Corporation; Denso Corporation; Magna International Inc.; Siemens VDO Automotive AG; GKN Plc.; JTEKT Corporation; ZF Friedrichshafen AG; NTN Corporation; Kautex Textron GmbH&Co KG; Inergy Automotive Systems; and TI Automotive.

The Company s Product Sales Backlog

Anticipated net product sales for 2008 through 2010 from new and replacement programs, less net sales from phased-out and canceled programs are approximately $725 million. The Company s estimate of anticipated net sales may be impacted by various assumptions, including vehicle production levels on new and replacement programs, customer price reductions, currency exchange rates and the timing of program launches. In addition, the Company typically enters into agreements with its customers at the beginning of a vehicle s life for the fulfillment of a customers purchasing requirements for the entire production life of the vehicle. These agreements generally may be terminated by customers at any time. Therefore, this anticipated net sales information does not represent firm orders or firm commitments.

Table of Contents

ITEM 1. BUSINESS (Continued)

The Company s International Operations

Financial information about sales and net property by major geographic region can be found in Note 21, Segment Information, to the Company s consolidated financial statements included in Item 8 of this Annual Report on Form 10-K. The attendant risks of the Company s international operations are primarily related to currency fluctuations, changes in local economic and political conditions, and changes in laws and regulations. The following table sets forth the Company s net sales, including product sales and services revenues, and net property and equipment by geographic region as a percentage of total consolidated net sales and total consolidated net property and equipment, respectively:

	Net Sales Year Ended December 31			Net Property and Equipment December 31	
	2007	2006	2005	2007	2006
Geographic region:					
United States	36%	40%	62%	34%	32%
Mexico		2%	2%	2%	4%
Canada	1%	1%	1%	1%	1%
Intra-region eliminations		(1)%	(1)%		
Total North America	37%	42%	64%	37%	37%
Germany	4%	6%	4%	2%	5%
France	8%	8%	6%	9%	7%
United Kingdom	5%	4%	3%	2%	4%
Portugal	5%	5%	4%	5%	4%
Spain	6%	6%	4%	4%	4%
Czech Republic	5%	4%	3%	9%	7%
Hungary	4%	2%	1%	3%	3%
Other Europe	1%	2%	1%	2%	2%
Intra-region eliminations	(2)%	(2)%	(2)%		
Total Europe	36%	35%	24%	36%	36%
Korea	20%	16%	9%	16%	15%
China	2%	2%	1%	3%	3%
India	2%	2%	1%	2%	3%
Japan	2%	2%	1%	1%	2%
Other Asia	2%	1%	1%	2%	
Intra-region eliminations	(1)%	(1)%	(1)%		
Total Asia	27%	22%	12%	24%	23%
South America	5%	5%	3%	3%	4%
Intra-region eliminations	(5)%	(4)%	(3)%		

	100%	100%	100%	100%	100%

Seasonality of the Company s Business

The Company s business is moderately seasonal because its largest North American customers typically cease production for approximately two weeks in July for model year changeovers and approximately one week in December during the winter holidays. Customers in Europe historically shut down vehicle production during a portion of August and one week in December. In addition, third quarter automotive production traditionally is lower as new vehicle models enter production. Accordingly, the Company s third and fourth quarter results may reflect these trends. Refer to Note 22, Summary Quarterly Financial Data to the Company s consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Table of Contents

ITEM 1. BUSINESS (Continued)

The Company s Workforce and Employee Relations

The Company s workforce as of December 31, 2007 included approximately 41,500 persons, of which approximately 14,000 were salaried employees and 27,500 were hourly workers. As of December 31, 2007, the Company leased approximately 2,200 salaried employees to ACH under the terms of the Salaried Employee Lease Agreement.

A substantial number of the Company s hourly workforce in the U.S. are represented by unions and operate under collective bargaining agreements. In connection with the ACH Transactions, the Company terminated its lease from Ford of its UAW Master Agreement hourly workforce. Many of the Company s European and Mexican employees are members of industrial trade unions and confederations within their respective countries. Many of these organizations operate under collectively bargained contracts that are not specific to any one employer. The Company constantly works to establish and maintain positive, cooperative relations with its unions around the world and believes that its relationships with unionized employees are satisfactory. There have been no significant work stoppages in the past five years, except for a brief work stoppage by employees represented by the IUE-CWA Local 907 at a manufacturing facility located in Bedford, Indiana during June 2004.

The Company s Product Research and Development

The Company s research and development efforts are intended to maintain leadership positions in core product lines and provide the Company with a competitive edge as it seeks additional business with new and existing customers. The Company also works with technology development partners, including customers, to develop technological capabilities and new products and applications. Total research and development expenditures were approximately $510 million in 2007, decreasing from $594 million in 2006 and $804 million in 2005. The decrease from 2005 to 2006 is primarily due to the ACH Transactions. The remaining decreases are attributable to divestitures, shifting engineering headcount from high-cost to low-cost countries as well as right-sizing efforts.

The Company s Intellectual Property

The Company owns significant intellectual property, including a large number of patents, copyrights, proprietary tools and technologies and trade secrets and is involved in numerous licensing arrangements. Although the Company s intellectual property plays an important role in maintaining its competitive position, no single patent, copyright, proprietary tool or technology, trade secret or license, or group of related patents, copyrights, proprietary tools or technologies, trade secrets or licenses is, in the opinion of management, of such value to the Company that its business would be materially affected by the expiration or termination thereof. The Company s general policy is to apply for patents on an ongoing basis, in appropriate countries, on its patentable developments which are considered to have commercial significance.

The Company also views its name and mark as significant to its business as a whole. In addition, the Company holds rights in a number of other trade names and marks applicable to certain of its businesses and products that it views as important to such businesses and products.

The Company s Raw Materials and Suppliers

Raw materials used by the Company in the manufacture of its products primarily include steel, aluminum, resins, precious metals, urethane chemicals and electronics components. All of the materials used are generally available from numerous sources. However, the automotive supply industry has experienced significant inflationary pressures, which have placed operational and financial burdens on the entire supply chain. Accordingly, the cost of ensuring the continued supply of certain raw materials, in particular petroleum-based commodities, such as resins, has increased significantly and is expected to continue for the foreseeable future.

ITEM 1. BUSINESS (Continued)

The Company continues to take actions with its customers and suppliers to mitigate the impact of these inflationary pressures. Actions to mitigate inflationary pressures with customers include collaboration on alternative product designs and material specifications, contractual price escalation clauses and negotiated customer recoveries. Actions to mitigate inflationary pressures with suppliers include aggregation of purchase requirements to achieve optimal volume benefits, negotiation of cost reductions, and identification of more cost competitive suppliers. While these actions have allowed the Company to partially offset the impact of these inflationary pressures, the Company cannot provide assurance that it will be able to do so in the future.

In general, the Company does not carry inventories of raw materials in excess of those reasonably required to meet production and shipping schedules. To date, the Company has not experienced any significant shortages of raw materials nor does it anticipate significant interruption in the supply of raw materials. However, the possibilities of such shortages exist, especially in light of the weakened state of the supply base previously described.

Impact of Environmental Regulations on the Company

The Company is subject to the requirements of federal, state, local and foreign environmental and occupational safety and health laws and regulations. These include laws regulating air emissions, water discharge and waste management. The Company is also subject to environmental laws requiring the investigation and cleanup of environmental contamination at properties it presently owns or operates and at third-party disposal or treatment facilities to which these sites send or arranged to send hazardous waste.

At the time of spin-off, the Company and Ford agreed on a division of liability for, and responsibility for management and remediation of environmental claims existing at that time and, further, that the Company would assume all liabilities for existing and future claims relating to sites that were transferred to it and its operation of those sites, including off-site disposal, except as otherwise specifically retained by Ford in the Master Transfer Agreement. In connection with the ACH Transactions, Ford agreed to re-assume these liabilities to the extent they arise from the ownership or operation prior to the spin-off of the locations transferred to ACH (excluding any increase in costs attributable to the exacerbation of such liability by the Company or its affiliates).

The Company is aware of contamination at some of its properties and relating to various third-party Superfund sites at which the Company or its predecessor has been named as a potentially responsible party. It is in various stages of investigation and cleanup at these sites. At December 31, 2007, the Company had recorded a reserve of approximately $9 million for this environmental investigation and cleanup. However, estimating liabilities for environmental investigation and cleanup is complex and dependent upon a number of factors beyond the Company s control and which may change dramatically. Accordingly, although the Company believes its reserve is adequate based on current information, the Company cannot provide any assurance that its ultimate environmental investigation and cleanup costs and liabilities will not exceed the amount of its current reserve.

During 2007, the Company did not make any material capital expenditures relating to environmental compliance.

Table of Contents

ITEM 1. BUSINESS (Continued)

The Company s Website and Access to Available Information

The Company s current and periodic reports filed with the Securities and Exchange Commission, including amendments to those reports, may be obtained through its internet website at www.visteon.com free of charge as soon as reasonably practicable after the Company files these reports with the SEC. A copy of the Company s code of business conduct and ethics for directors, officers and employees of Visteon and its subsidiaries, entitled Ethics and Integrity Policy, the Corporate Governance Guidelines adopted by the Company s Board of Directors and the charters of each committee of the Board of Directors are also available on the Company s website. A printed copy of the foregoing documents may be requested by contacting the Company s Shareholder Relations department in writing at One Village Center Drive, Van Buren Township, MI 48111; by phone (877) 367-6092; or via email at vcstock@visteon.com.

Table of Contents

ITEM 1A. RISK FACTORS

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

A decline in automotive sales could reduce the Company s sales and harm its operations.

Demand for the Company s products is directly related to automotive vehicle production. Automotive sales and production can be affected by general economic conditions, such as employment levels and trends, fuel prices and interest rates, labor relations issues, regulatory requirements, trade agreements and other factors. Automotive industry conditions in North America and Europe continue to be challenging. In North America, the domestic automotive industry is characterized by significant overcapacity, fierce competition, high fixed cost structures and significant employee pension and health care obligations for the domestic automakers. Domestic automakers continue to report market share loss to other vehicle manufacturers resulting in lower annual production volumes and the need to further address their production capacity and cost structure. Any decline in automotive production levels of its current and future customers could reduce the Company s sales and harm its results of operations and financial condition.

Further, certain automakers, particularly in North America and Europe, report significant financial challenges due to the factors described above. These automakers continue to implement actions to further reduce capacity and streamline their cost structure while at the same time investing in new technologies and vehicle platforms. In the United States, Chrysler LLC, Ford Motor Company, and General Motors Corporation have announced on-going restructuring plans aimed at realigning their cost structure in light of current and projected market share and production volumes for the North American market. A significant element of these cost reduction actions includes closing factories and/or reducing the number of production shifts at open factories. The results and effects of these actions and related negotiations continue to be uncertain and, accordingly, could have a material adverse affect on the Company s results of operations and financial condition.

The Company is highly dependent on Ford. Ford is currently undergoing a restructuring plan and further decreases in Ford s vehicle production volume would adversely affect the Company s results.

Ford is the Company s largest customer and accounted for approximately 39% of total product sales in 2007, 45% of total product sales in 2006 and 62% of total product sales in 2005. The Company has made significant progress in diversifying its customer base with other automakers and reducing its sales concentration with Ford. Ford will continue to be the Company s largest customer for the near future. Ford is currently undergoing a restructuring plan and may ultimately restructure its operations in a way that could be adverse to the Company s interests. As in the past, any change in Ford s vehicle production volume will have a significant impact on the Company s sales volume and restructuring efforts.

The Company currently leases approximately 2,200 salaried employees to ACH, a company controlled by Ford, and has an agreement with Ford to reimburse the Company for up to $150 million of the costs related to separating any of the leased employees should they be returned to the Company for any reason. In the event that Ford is unable or unwilling to fulfill its obligations under this agreement, the Company could be adversely affected.

ITEM 1A. RISK FACTORS (Continued)

The discontinuation of, the loss of business with respect to, or a lack of commercial success of a particular vehicle model for which the Company is a significant supplier could affect the Company s estimates of anticipated net sales.

Although the Company has purchase orders from many of its customers, these purchase orders generally provide for the supply of a customer s annual requirements for a particular model and assembly plant and are renewable on a year-to-year basis, rather than for the purchase of a specific quantity of products. Therefore, the discontinuation, loss of business with respect to, or a lack of commercial success, of a particular vehicle model for which the Company is a significant supplier could reduce the Company s sales and affect its estimates of anticipated net sales, including new business and net new business.

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

Downward pricing pressures by automotive manufacturers is a characteristic of the automotive industry. Virtually all automakers have aggressive price reduction initiatives and objectives each year with their suppliers, and such actions are expected to continue in the future. In addition, estimating such amounts is subject to risk and uncertainties as any price reductions are a result of negotiations and other factors. Accordingly, suppliers must be able to reduce their operating costs in order to maintain profitability. The Company has taken steps to reduce its operating costs to offset customer price reductions, in addition to other actions designed to resist such reductions; however, price reductions have impacted the Company s sales and profit margins and are expected to do so in the future. If the Company is unable to offset customer price reductions in the future through improved operating efficiencies, new manufacturing processes, sourcing alternatives and other cost reduction initiatives, the Company s results of operations and financial condition would be adversely affected.

The automotive supplier environment in which the Company operates continues to evolve and be uncertain.

In recent years, the competitive environment among suppliers to the global automotive manufacturers has changed significantly as these manufacturers have sought to outsource more vehicular components, modules and systems. In addition, the number of suppliers worldwide has been declining due to continued consolidation. In the United States, declining sales volumes of certain domestic automakers combined with high raw material and labor costs has adversely impacted the financial condition of several domestic automotive suppliers, including resulting in several significant supplier bankruptcies. The Company expects to respond to these developments by continuing to diversify its customer base through the continued development of innovative products at competitive prices as well as through strategic alliances, joint ventures, acquisitions and divestitures and aggressively restructuring its high cost operations. However, there is no assurance that the Company s efforts will be successful or that competitors with lower cost structures and better access to liquidity sources will not significantly impact the Company s business, results of operations and financial condition.

Severe inflationary pressures impacting ferrous and non-ferrous metals and petroleum-based commodities may adversely affect the Company s profitability and the profitability of the Company s Tier 2 and Tier 3 supply base.

The automotive supply industry has experienced significant inflationary pressures, primarily in ferrous and non-ferrous metals and petroleum-based commodities, such as resins. These inflationary pressures have placed significant operational and financial burdens on automotive suppliers at all levels, and are expected to continue for the foreseeable future. Generally, it has been difficult to pass on, in total, the increased costs of raw materials and components used in the manufacture of the Company s products to its customers. In addition, the Company s need to maintain a continued supply of raw materials and/or components has made it difficult to resist price increases and surcharges imposed by its suppliers.

ITEM 1A. RISK FACTORS (Continued)

Further, this inflationary pressure, combined with other factors, has adversely impacted the financial condition of several domestic automotive suppliers, including resulting in several significant supplier bankruptcies. Because the Company purchases various types of equipment, raw materials and component parts from suppliers, it may be materially and adversely affected by the failure of those suppliers to perform as expected. This non-performance may consist of delivery delays, failures caused by production issues or delivery of non-conforming products, or supplier insolvency or bankruptcy. Consequently, the Company s efforts to continue to mitigate the effects of these inflationary pressures may be insufficient if conditions were to worsen, resulting in a negative impact on the Company s financial results.

The Company could be adversely affected by shortages of components from suppliers.

In an effort to manage and reduce the costs of purchased goods and services, the Company, like many suppliers and automakers, has been consolidating its supply base. As a result, the Company is dependent on single or limited sources of supply for certain components used in the manufacture of its products. The Company selects its suppliers based on total value (including price, delivery and quality), taking into consideration their production capacities and financial condition. However, there can be no assurance that strong demand, capacity limitations or other problems experienced by the Company s suppliers will not result in occasional shortages or delays in their supply of components. If the Company was to experience a significant or prolonged shortage of critical components from any of its suppliers, particularly those who are sole sources, and could not procure the components from other sources, the Company would be unable to meet its production schedules for some of its key products and to ship such products to its customers in timely fashion, which would adversely affect sales, margins and customer relations.

Work stoppages or similar difficulties could significantly disrupt the Company s operations.

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

ITEM 1A. RISK FACTORS (Continued)

The Company has a history of significant losses; the Company is in the process of implementing a multi-year improvement plan but may be unable to successfully improve its performance or attain profitability.

The Company incurred net losses of $372 million, $163 million and $270 million for 2007, 2006 and 2005, respectively. The Company s ability to improve its financial performance and return to profitability is dependent on its ability to implement its multi-year improvement plan, and realize the benefits of such plan. The Company expects to fund the majority of the cash restructuring costs contemplated by its multi-year plan with reimbursements from the $400 million escrow account established by Ford upon the completion of the ACH Transactions. However, it is possible that actual cash restructuring costs could vary significantly from the Company s initial projections as the plan progresses, which could result in unexpected costs in future periods that may be in excess of amounts available from the escrow account resulting in an adverse impact on the Company s financial results. Further, the Company cannot provide assurances that it will realize the expected benefits in the time periods projected, or at all, from its restructuring actions, or that such actions will improve its financial performance or return the Company to profitability in the near term or at all. In addition, a significant portion of the Company s hourly workforce is unionized. Labor contracts with these unions can significantly restrict the Company s ability to restructure or close plants and divest unprofitable, noncompetitive businesses as well as limit its ability to change local work rules and practices at a number of the Company s facilities, constraining the implementation of cost-saving measures. These restrictions and limitations could have adverse effects on the Company s results of operations and competitive position and could slow or alter the Company s improvement plans.

Moreover, the Company recorded asset impairment charges of $95 million, $22 million and $1,504 million in 2007, 2006 and 2005, respectively, to adjust the carrying value of certain assets to their estimated fair value. Additional asset impairment charges in the future may result in the event that the Company does not achieve its internal financial plans, and such charges could materially affect the Company s results of operations and financial condition in the period(s) recognized. In addition, the Company cannot provide assurance that it will be able to recover its remaining net deferred tax assets which is dependent upon achieving future taxable income in certain foreign jurisdictions. Failure to achieve its taxable income targets may change the Company s assessment of the recoverability of its remaining net deferred tax assets and would likely result in an increase in the valuation allowance in the applicable period. Any increase in the valuation allowance would result in additional income tax expense, would reduce stockholders equity and could have a significant impact on the Company s earnings going forward.

Sources of financing may not be available to the Company in the amount or terms required.

The Company s business is highly dependent upon the ability to access the credit and capital markets. Access to, and the costs of borrowing in, these markets depend in part on the Company s credit ratings, which are currently below investment grade. There can be no assurance that the Company s credit ratings will not decline further in the future. Further downgrades of these ratings would increase the Company s costs of borrowing and could adversely affect its liquidity. Additionally, the current state of the credit and capital markets has resulted in severely constrained liquidity conditions owing to a reevaluation of risk attributable primarily, but not limited, to the U.S. sub-prime mortgage crisis. Continuation of such constraints may increase the Company s costs of borrowing and could restrict the Company s access to this potential source of future liquidity.

Table of Contents

ITEM 1A. RISK FACTORS (Continued)

The Company s working capital requirements and cash provided by operating activities can vary greatly from quarter to quarter and from year to year, depending in part on the level, variability and timing of its customers worldwide vehicle production and the payment terms with the Company s customers and suppliers. The Company cannot provide assurance that it will be able to satisfy its capital expenditure requirements during 2008 or subsequent years, or during any particular quarter, from cash provided by operating activities. If the Company s working capital needs and capital expenditure requirements exceed its cash flows from operations, the Company would look to its cash balances and availability for borrowings to satisfy those needs, as well as the need to raise additional capital, which may not be available on satisfactory terms and in adequate amounts. For a discussion of these and other factors affecting the Company s liquidity, refer to Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity.

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

Substantially all of the Company s employees participate in defined benefit pension plans or retirement/termination indemnity plans. The Company also sponsors other postretirement employee benefit (OPEB) plans in the United States. The Company s worldwide pension and OPEB obligations exposed the Company to approximately $985 million in unfunded liabilities as of December 31, 2007, of which approximately $131 million and $311 million was attributable to unfunded U.S. and Non-U.S. pension obligations, respectively and $543 million was attributable to unfunded OPEB obligations.

The Company has previously experienced declines in interest rates and pension asset values. Future declines in interest rates or the market values of the securities held by the plans, or certain other changes, could materially deteriorate the funded status of the Company s plans and affect the level and timing of required contributions in 2008 and beyond. Additionally, a material deterioration in the funded status of the plans could significantly increase pension expenses and reduce the Company s profitability.

The Company funds its OPEB obligations on a pay-as-you-go basis; accordingly, the related plans have no assets. The Company is subject to increased OPEB cash outlays and costs due to, among other factors, rising health care costs. Increases in the expected cost of health care in excess of current assumptions could increase actuarially determined liabilities and related OPEB expenses along with future cash outlays.

The Company s assumptions used to calculate pension and OPEB obligations as of the annual measurement date directly impact the expense to be recognized in future periods. While the Company s management believes that these assumptions are appropriate, significant differences in actual experience or significant changes in these assumptions may materially affect the Company s pension and OPEB obligations and future expense. For more information on sensitivities to changing assumptions, please see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 15 to the Company s consolidated financial statements.

The Company s ability to generate sufficient cash to satisfy our obligations may be impacted by the factors discussed herein.

ITEM 1A. RISK FACTORS (Continued)

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

Changes in the Company s debt and capital structure, among other items, may impact its effective tax rate. The Company s overall effective tax rate is equal to consolidated tax expense as a percentage of consolidated earnings before tax. However, tax expense and benefits are not recognized on a global basis but rather on a jurisdictional basis. Further, the Company is in a position whereby losses incurred in certain tax jurisdictions generally provide no current financial statement benefit. In addition, certain jurisdictions have statutory rates greater than or less than the United States statutory rate. As such, changes in the mix and source of earnings between jurisdictions could have a significant impact on the Company s overall effective tax rate in future periods. Changes in tax law and rates, changes in rules related to accounting for income taxes, or adverse outcomes from tax audits that regularly are in process in any of the jurisdictions in which the Company operates could also have a significant impact on the Company s overall effective rate in future periods.

If Visteon were to have a change of ownership within the meaning of Section 382 of the Internal Revenue Code, under current conditions, its annual federal net operating loss (NOL) utilization could be limited to an amount equal to its market capitalization at the time of the ownership change multiplied by the federal long-term tax exempt rate. Visteon cannot provide any assurance that such an ownership change will not occur, in which case the availability of Visteon s substantial NOL carryforward and other federal income tax attributes would be significantly limited or possibly eliminated.

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

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

The Company s international operations, including Asian joint ventures, are subject to various risks that could adversely affect the Company s business, results of operations and financial condition.

The Company has operating facilities, and conducts a significant portion of its business, outside the United States. The Company has invested significantly in joint ventures with other parties to conduct business in South Korea, China and elsewhere in Asia. The Company s ability to repatriate funds from these joint ventures depends not only upon their uncertain cash flows and profits, but also upon the terms of particular agreements with the Company s joint venture partners and maintenance of the legal and political *status quo.* The Company risks expropriation in China and the instability that would accompany civil unrest or armed conflict within the Asian region. More generally, the Company s Asian joint ventures and other foreign investments could be adversely affected by changes in the political, economic and financial environments in host countries, including fluctuations in exchange rates, political instability, changes in foreign laws and regulations (or new interpretations of existing laws and regulations) and changes in trade policies, import and export restrictions and tariffs, taxes and exchange controls. Any one of these factors could have an adverse effect on the Company s business, results of operations and financial condition. In addition, the Company s consolidated financial statements are denominated in U.S. dollars and require translation adjustments, which can be significant, for purposes of reporting results from, and the financial condition of, its foreign investments.

Table of Contents

ITEM 1A. RISK FACTORS (Continued)

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

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

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

The Company is involved in legal proceedings and commercial or contractual disputes that, from time to time, are significant. These are typically claims that arise in the normal course of business including, without limitation, commercial or contractual disputes (including disputes with suppliers), intellectual property matters, personal injury claims and employment matters. In addition, the Company, certain directors, officers and employees have been named in lawsuits alleging violations of the federal securities laws, ERISA and fiduciary obligations. No assurances can be given that such proceedings and claims will not have a material adverse impact on the Company s profitability and financial position.

The Company could be adversely impacted by environmental laws and regulations.

The Company s operations are subject to U.S. and non-U.S. environmental laws and regulations governing emissions to air; discharges to water; the generation, handling, storage, transportation, treatment and disposal of waste materials; and the cleanup of contaminated properties. Currently, environmental costs with respect to former, existing or subsequently acquired operations are not material, but there is no assurance that the Company will not be adversely impacted by such costs, liabilities or claims in the future either under present laws and regulations or those that may be adopted or imposed in the future.

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

The Company owns significant intellectual property, including a large number of patents, trademarks, copyrights and trade secrets, and is involved in numerous licensing arrangements. The Company s intellectual property plays an important role in maintaining its competitive position in a number of the markets served. Developments or assertions by or against the Company relating to intellectual property rights could materially impact the business. Significant technological developments by others also could materially and adversely affect the Company s business and results of operations and financial condition.

The Company s business and results of operations could be affected adversely by terrorism.

Terrorist-sponsored attacks, both foreign and domestic, could have adverse effects on the Company s business and results of operations. These attacks could accelerate or exacerbate other automotive industry risks such as those described above and also have the potential to interfere with the Company s business by disrupting supply chains and the delivery of products to customers.

Table of Contents

ITEM 1A. RISK FACTORS (Continued)

A failure of the Company s internal controls could adversely affect the Company s ability to report its financial condition and results of operations accurately and on a timely basis. As a result, the Company s business, operating results and liquidity could be harmed.

Because of the inherent limitations of any system of internal control, including the possibility of human error, the circumvention or overriding of controls or fraud, even an effective system of internal control may not prevent or detect all misstatements. In the event of an internal control failure, the Company s ability to report its financial results on a timely and accurate basis could be adversely impacted, which could result in a loss of investor confidence in its financial reports or have a material adverse affect on the Company s ability to operate its business or access sources of liquidity.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

The Company s principal executive offices are located in Van Buren Township, Michigan. Set forth below is a listing of the Company s most significant manufacturing and/or assembly facilities that are owned or leased by the Company and its consolidated subsidiaries as of December 31, 2007.

Interiors

Alabama	Tuscaloosa(L)
Michigan	Benton Harbor(O)
Michigan	Benton Harbor(L)
Michigan	Highland Park(L)
Mississippi	Canton(L)
Mississippi	Durant(L)
Missouri	Eureka(L)
Tennessee	LaVergne(L)
Tennessee	Sparta(O)
Belgium	Genk(L)
Brazil	Camacari, Bahia(L)
France	Aubergenville(L)
France	Blainville(L)
France	Brebieres(L)
France	Carvin(O)
France	Gondecourt(O)
France	Noyal-Chatillon-sur-Seiche(L)
France	Oyonnax(L)
France	Rougegoutte(O)
Germany	Berlin(L)
Poland	Swarzedz(L)
Slovakia	Nitra(L)
South Korea	Choongnam, Asan(O)
South Korea	Kangse-gu, Busan-si(L)
South Korea	Kangse-gu, Busan-si(L)
South Korea	Shinam-myon, Yesan-gun, Choongnam(O)
South Korea	Ulsan-si, Ulsan(O)
Spain	Almussafes, Valencia(L)
Spain	Barcelona(L)
Spain	Igualada(O)
Spain	Medina de Rioseco, Valladolid(O)
Spain	Pontevedra(O)
Thailand	Amphur Pluakdaeng, Rayong(O)
Thailand	Bangsaothoong, Samutprakam(L)
United Kingdom	Enfield, Middlesex(L)
United Kingdom	Enfield, Middlesex(L)
United Kingdom	Liverpool(L)

Climate

Alabama	Shorter(L)

Indiana	Connersville(O)
Argentina	General Pacheco, Buenos Aires(O)
Argentina	Quilmes, Buenos Aires(O)
Argentina	Rio Grande, Terra del Fuego(O)
Canada	Belleville, Ontario(O)
China	Chongqing(L)
China	Chongqing(L)
China	Nanchang, Jiangxi Province(O)
China	Beijing(L)
France	Charleville, Mezieres Cedex(O)
India	Chennai(L)
India	Bhiwadi(L)
India	Maharashtra(L)
Mexico	Juarez, Chihuahua(O)
Mexico	Juarez, Chihuahua(L)
Mexico	Juarez, Chihuahua(L)
Portugal	Palmela(O)
Slovakia	Dubnica(L)
South Africa	Port Elizabeth(L)
South Korea	Pyungtaek(O)
South Korea	Namgo, Ulsan(O)
South Korea	Taedok-Gu, Taejon(O)
Thailand	Amphur Pluakdaeng, Rayong(O)
Turkey	Gebze, Kocaeli(L)
United Kingdom	Basildon(O)

ITEM 2. PROPERTIES (Continued)

Electronics

Pennsylvania	Lansdale(L)
Brazil	Guarulhos, Sao Paulo(O)
Brazil	Manaus, Amazonas(L)
Czech Republic	Hluk(O)
Czech Republic	Novy Jiein(O)
Czech Republic	Rychvald(O)
Hungary	Szekesfehervar(O)
Japan	Higashi, Hiroshima(O)
Mexico	Apodaca, Nuevo Leon(O)
Mexico	Apodaca, Nuevo Leon(O)
Mexico	Chihuahua, Chihuahua(L)
Portugal	Palmela(O)
Spain	Cadiz(O)

Other

Indiana	Bedford(O)
Missouri	Concordia(L)
Ohio	Springfield(L)
Germany	Emden, Niedersachsen(L)
Germany	Glauchau, North Rhine Westfalia(L)
Mexico	Tamaulipas, Reynosa(L)
Philippines	Santa Rosa, Laguna(L)
United Kingdom	Belfast, Northern Ireland(L)
United Kingdom	Swansea(O)

(O) indicates owned facilities; (L) indicates leased facilities

As of December 31, 2007, the Company also owned or leased 42 corporate and sales offices, technical and engineering centers and customer service centers in thirteen countries around the world, 37 of which were leased and 5 which were owned. Although the Company believes that its facilities are suitable and adequate and have sufficient productive capacity to meet its present needs, additional facilities may be needed to meet future needs. The majority of the Company s facilities are operating at normal levels based on respective capacities, with the exception of facilities that are in the process of being closed or restructured.

In addition, the Company s non-consolidated affiliates operate over 31 manufacturing and/or assembly locations, primarily in the Asia Pacific region.

ITEM 3. LEGAL PROCEEDINGS

Securities and Related Matters

In February 2005, a shareholder lawsuit was filed in the U.S. District Court for the Eastern District of Michigan against the Company and certain current and former officers of the Company. In July 2005, the Public Employees Retirement System of Mississippi was appointed as lead plaintiff in this matter. In September 2005, the lead plaintiff filed an amended complaint, which alleges, among other things, that the Company and its independent registered public accounting firm, PricewaterhouseCoopers LLP, made misleading statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. The named plaintiff seeks to represent a class consisting of purchasers of the Company s securities during the period between June 28, 2000 and January 31, 2005. Class action status has not yet been certified in this litigation. On August 31, 2006, the defendants motion to dismiss the amended complaint for failure to state a claim was granted. The plaintiffs have appealed this decision.

Table of Contents

ITEM 3. LEGAL PROCEEDINGS (Continued)

In March 2005, a number of current and former directors and officers were named as defendants in two shareholder derivative suits pending in the State of Michigan Circuit Court for the County of Wayne. As is customary in derivative suits, the Company has been named as a defendant in these actions. As a nominal defendant, the Company is not liable for any damages in these suits nor is any specific relief sought against the Company. The complaints allege that, among other things, the individual defendants breached their fiduciary duties of good faith and loyalty and aided and abetted such breaches during the period between January 23, 2004 and January 31, 2005 in connection with the Company s conduct concerning, among other things, the matters alleged in the securities class action discussed immediately above. On February 15, 2008 the Court approved the settlement of the shareholder derivative suits and ordered their dismissal with prejudice. Pursuant to the settlement, the Company will, among other things, pay for the defendants attorneys fees and expenses in the amount of $250,000.

The Company and its current and former directors and officers intend to contest the foregoing lawsuit vigorously. However, at this time the Company is not able to predict with certainty the final outcome of the foregoing lawsuit or its potential exposure with respect to such lawsuit. In the event of an unfavorable resolution of these matters, the Company s financial results and cash flows in one or more periods could be materially affected to the extent any such loss is not covered by insurance or applicable reserves.

Other Matters

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

Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. Reserves have been established by the Company for matters discussed in the immediately foregoing paragraph where losses are deemed probable and reasonably estimable. It is possible, however, that some of the matters discussed in the foregoing paragraph could be decided unfavorably to the Company and could require the Company to pay damages or make other expenditures in amounts, or a range of amounts, that cannot be estimated at December 31, 2007 and that are in excess of established reserves. The Company does not reasonably expect, except as otherwise described herein, based on its analysis, that any adverse outcome from such matters would have a material effect on the Company s financial condition, results of operations or cash flows, although such an outcome is possible.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Table of Contents

ITEM 4A. EXECUTIVE OFFICERS OF VISTEON

The following table shows information about the executive officers of the Company. All ages are as of February 15, 2008:

Name	Age	Position
Michael F. Johnston	60	Chairman and Chief Executive Officer
Donald J. Stebbins	50	President and Chief Operating Officer
William G. Quigley III	46	Executive Vice President and Chief Financial Officer
John Donofrio	46	Senior Vice President and General Counsel
Robert Pallash	56	Senior Vice President and President, Global Customer Group
Dorothy L. Stephenson	58	Senior Vice President, Human Resources
Terrence G. Gohl	46	Vice President, Interiors, Lighting & Global Manufacturing Operations
Joy M. Greenway	47	Vice President, Climate Product Group
Steve Meszaros	44	Vice President, Electronics Product Group
Michael J. Widgren	39	Vice President, Corporate Controller and Chief Accounting Officer

Michael F. Johnston has been Visteon s Chairman of the Board and Chief Executive Officer since June 2005, and a member of the Board of Directors since May 2002. Prior to that, he was Chief Executive Officer and President since July 2004, and President and Chief Operating Officer since joining the Company in September 2000. Mr. Johnston is also a director of Flowserve Corporation and Whirlpool Corporation.

Donald J. Stebbins has been Visteon s President and Chief Operating Officer since joining the Company in May 2005, and a member of the Board of Directors since December 2006. Before joining Visteon, Mr. Stebbins served as President and Chief Operating Officer of operations in Europe, Asia and Africa for Lear Corporation since August 2004 and prior to that he was President and Chief Operating Officer of Lear s operations in the Americas since September 2001. Mr. Stebbins is also a director of WABCO Holdings.

William G. Quigley III has been Visteon s Executive Vice President and Chief Financial Officer since November 2007. Prior to that he was Senior Vice President and Chief Financial Officer since March 2007 and Vice President, Corporate Controller and Chief Accounting Officer since joining the company in December 2004. Before joining Visteon, he was Vice President and Controller Chief Accounting Officer of Federal-Mogul Corporation since June 2001.

John Donofrio has been Visteon s Senior Vice President and General Counsel since joining the Company in June 2005. Before joining Visteon, he was Vice President and General Counsel, Honeywell Aerospace of Honeywell International since 2000, where he also served as Vice President and Deputy General Counsel of Honeywell International from 1996 through 2005. Prior to that he was a partner at the law firm, Kirkland & Ellis LLP. Mr. Donofrio is also a director of FARO Technologies, Inc.

Robert C. Pallash has been Visteon s Senior Vice President and President, Global Customer Group since January 2008 and Senior Vice President, Asia Customer Group since August 2005. Prior to that, he was Vice President and President, Asia Pacific since July 2004, and Vice President, Asia Pacific since joining the Company in September 2001. Before joining Visteon, Mr. Pallash served as president of TRW Automotive Japan since 1999, and president of Lucas Varity Japan prior thereto.

Dorothy L. Stephenson has been Visteon s Senior Vice President, Human Resources since joining the Company in May 2006. Prior to that, she was a human resources consultant since May 2003, and Vice President, Human Resources for Bethlehem Steel prior thereto.

Table of Contents

ITEM 4A. EXECUTIVE OFFICERS OF VISTEON (Continued)

Terrence G. Gohl has been Visteon s Vice President of Interiors, Lighting and Global Manufacturing Operations since July 2007. Prior to that he was Vice President, Global Manufacturing Operations, Quality, MP&L and Business Practices since October 2005, and Vice President, North America Manufacturing Operations since joining the Company in August 2005. Before joining Visteon, Mr. Gohl served as Senior Vice President of North American Operations for Tower Automotive since August 2004, and Vice President, North American Operations for Lear Corporation since 2001.

Joy M. Greenway has been Visteon s Vice President, Climate Product Group since August 2005. Prior to that, she was Director, Powertrain since March 2002, and Director of Visteon s Ford truck customer business group since April 2001. She joined Visteon in 2000 as Director of Fuel Storage and Delivery Strategic Business Unit.

Steve Meszaros has been Visteon s Vice President, Electronics Product Group since August 2005. Prior to that, he was Managing Director, China Operations and General Manager, Yanfeng Visteon since February 2001. Prior to that, he was based in Europe, where he was responsible for Visteon s interior systems business in the United Kingdom and Germany since 1999.

Michael J. Widgren has been Visteon s Vice President, Corporate Controller and Chief Accounting Officer since May 2007. Prior to that, he was Assistant Corporate Controller since joining the Company in October 2005. Before joining Visteon, Mr. Widgren served as Chief Accounting Officer for Federal-Mogul Corporation.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company s common stock is listed on the New York Stock Exchange in the United States under the symbol VC. As of February 15, 2008, the Company had 129,650,038 shares of its common stock $1.00 par value outstanding, which were owned by 97,950 shareholders of record. The table below shows the high and low sales prices for the Company s common stock as reported by the New York Stock Exchange for each quarterly period for the last two years.

	2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common stock price per share				
High	$ 9.24	$ 10.08	$ 8.08	$ 6.35
Low	$ 7.56	$ 7.53	$ 4.66	$ 3.84

	2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common stock price per share				
High	$ 6.84	$ 7.93	$ 9.99	$ 8.60

Low	$ 4.28	$ 4.07	$ 6.53	$ 7.26

24

Table of Contents

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES (Continued)

On February 9, 2005, the Company s Board of Directors suspended the Company s quarterly cash dividend on its common stock. Accordingly, no dividends were paid by the Company during the years ended December 31, 2007 or 2006. The Board evaluates the Company s dividend policy based on all relevant factors. The Company s credit agreements limit the amount of cash payments for dividends that may be made. Additionally, the ability of the Company s subsidiaries to transfer assets is subject to various restrictions, including regulatory requirements and governmental restraints. Refer to Note 11, Non-Consolidated Affiliates, to the Company s consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

The following table summarizes information relating to purchases made by or on behalf of the Company, or an affiliated purchaser, of shares of Visteon common stock during the fourth quarter of 2007.

Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased(1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1, 2007 to October 31, 2007		$		
November 1, 2007 to November 30, 2007				
December 1, 2007 to December 31, 2007	150,770	4.26	150,000	1,850,000
Total	150,770	$ 4.26	150,000	1,850,000

(1) This column includes 770 shares surrendered to the Company by employees to satisfy tax withholding obligations in connection with the vesting of restricted share awards made pursuant to the Visteon Corporation 2004 Incentive Plan. This column also includes 150,000 shares purchased in the open market pursuant to a publicly announced program approved by the Board of Directors on December 12, 2007, which authorized the purchase of up to 2 million shares of the Company s common stock during the subsequent 24 months to be used solely to satisfy obligations under the Company s employee benefit programs.

Table of Contents

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES (Continued)

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

The following graph compares the cumulative total return on the Company s common stock over a five year period with the cumulative total return on the Standard and Poor s 500 Composite Index and the Standard and Poor s Supercomposite Auto Parts & Equipment Index. For comparison purposes, we have also included in the accompanying graph a Peer Group Index that Visteon developed and used in the preceding fiscal year. The Peer Group Index is comprised of ArvinMeritor, Inc., American Axle & Manufacturing Holdings, Inc., Borg-Warner Automotive, Inc., Johnson Controls, Inc., Lear Corporation and Magna International, Inc.

The graph assumes an initial investment of $100 and reinvestment of cash dividends. The comparisons in this table are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of the Company s common stock or the referenced indices.

Comparison of Five-Year Cumulative Total Return

	December 31					
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Visteon Corporation	$ 100.00	$ 153.02	$ 147.14	$ 94.28	$ 127.71	$ 66.11
S&P 500	100.00	128.42	142.20	149.10	172.37	181.83
S&P 500 Auto Parts	100.00	146.46	147.61	118.00	123.76	150.21
Peer Group	100.00	125.55	132.61	125.39	144.19	178.40

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following table presents information from the Company s consolidated financial statements for each of the five years ended December 31, 2007. This information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and Financial Statements and Supplementary Data included under Items 7 and 8, respectively, of this Annual Report on Form 10-K.

	2007	2006	2005	2004	2003
	(Dollars in Millions, Except Per Share Amounts and Percentages)				
Statement of Operations Data					
Net sales	$ 11,266	$ 11,253	$ 16,750	$ 18,354	$ 17,374
Gross margin	573	753	544	882	565
Net loss from continuing operations before change in accounting and extraordinary item	(348)	(145)	(262)	(1,537)	(1,102)
(Loss) income from discontinued operations, net of tax	(24)	(22)	(8)	1	(127)
Net loss before change in accounting and extraordinary item	(372)	(167)	(270)	(1,536)	(1,229)
Cumulative effect of change in accounting, net of tax		(4)			
Net loss before extraordinary item	(372)	(171)	(270)	(1,536)	(1,229)
Extraordinary item, net of tax		8			
Net loss	$ (372)	$ (163)	$ (270)	$ (1,536)	$ (1,229)
Basic and diluted per share data:					
Loss from continuing operations before change in accounting and extraordinary item	$ (2.69)	$ (1.13)	$ (2.08)	$ (12.27)	$ (8.76)
(Loss) income from discontinued operations, net of tax	(0.18)	(0.17)	(0.06)	0.01	(1.01)
Loss before change in accounting and extraordinary item	(2.87)	(1.30)	(2.14)	$ (12.26)	(9.77)
Cumulative effect of change in accounting, net of tax		(0.03)			
Loss before extraordinary item	(2.87)	(1.33)	(2.14)	(12.26)	(9.77)
Extraordinary item, net of tax		0.06			
Basic and diluted loss per share	$ (2.87)	$ (1.27)	$ (2.14)	$ (12.26)	$ (9.77)
Cash dividends per share	$	$	$	$ 0.24	$ 0.24
Balance Sheet Data					
Total assets	$ 7,205	$ 6,938	$ 6,736	$ 10,292	$ 11,024

Total debt	$	2,840	$	2,228	$	1,994	$	2,021	$	1,818
Total (deficit)/equity	$	(90)	$	(188)	$	(48)	$	320	$	1,812
Statement of Cash Flows Data										
Cash provided from operating activities	$	293	$	281	$	417	$	418	$	363
Cash used by investing activities	$	(177)	$	(337)	$	(231)	$	(782)	$	(781)
Cash provided from (used by) financing activities	$	547	$	214	$	(51)	$	135	$	128

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis (MD&A) is intended to help the reader understand the results of operations, financial condition, and cash flows of Visteon Corporation (Visteon or the Company). MD&A is provided as a supplement to, and should be read in conjunction with, the Company s consolidated financial statements and related notes appearing in Item 8 of this Annual Report on Form 10-K.

Description of the Business

Visteon is a leading global supplier of climate, interiors, electronics and other automotive systems, modules and components to vehicle manufacturers as well as the automotive aftermarket. The Company sells to the world s largest vehicle manufacturers including BMW, Chrysler LLC, Daimler AG, Ford, General Motors, Honda, Hyundia/Kia, Nissan, PSA Peugeot Citroën, Renault, Toyota and Volkswagen. The Company has a broad network of manufacturing, technical engineering and joint venture operations throughout the world, supported by approximately 41,500 employees dedicated to the design, development, manufacture and support of its product offering and its global customers.

Visteon was incorporated in Delaware in January 2000 as a wholly-owned subsidiary of Ford Motor Company (Ford or Ford Motor Company). Subsequently, Ford transferred the assets and liabilities comprising its automotive components and systems business to Visteon. The Company separated from Ford on June 28, 2000 when all of the Company s common stock was distributed by Ford to its shareholders.

On May 24, 2005, the Company and Ford entered into a non-binding Memorandum of Understanding (MOU), setting forth a framework for the transfer of 23 North American facilities and related assets and liabilities (the Business) to a Ford-controlled entity. In September 2005, the Company and Ford entered into several definitive agreements, and the Company completed the transfer of the Business to Automotive Components Holdings, LLC (ACH), an indirect, wholly-owned subsidiary of the Company.

On June 30, 2005, following the signing of the MOU, the Company classified the manufacturing facilities and associated assets, including inventory, machinery, equipment and tooling, to be sold as held for sale. The liabilities to be assumed or forgiven by Ford pursuant to the MOU, including employee liabilities and postemployment benefits payable to Ford, were classified as Liabilities associated with assets held for sale in the Company s consolidated balance sheet following the signing of the MOU. Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets, requires long-lived assets that are considered held for sale to be measured at the lower of their carrying value or fair value less cost to sell and future depreciation of such assets is ceased. During the second quarter of 2005, the Company recorded a non-cash impairment charge of $920 million to write-down those assets considered held for sale to their aggregate estimated fair value less cost to sell. Fair values were determined primarily based on prices for similar groups of assets determined by third-party valuation firms and management estimates.

On October 1, 2005, Visteon sold ACH to Ford for cash proceeds of approximately $300 million, as well as forgiveness of certain other postretirement employee benefit (OPEB) liabilities and other obligations relating to hourly employees associated with the Business, and the assumption of certain other liabilities with respect to the Business (together, the ACH Transactions). Additionally, on October 1, 2005, Ford acquired from the Company warrants to acquire 25 million shares of the Company s common stock and agreed to provide $550 million to be used in the Company s further restructuring.

The Business accounted for approximately $6.1 billion of the Company s total 2005 product sales, the majority being products sold to Ford. Also, the transferred facilities included all of the Company s plants that leased hourly workers covered by Ford s Master Agreement with the UAW. The ACH Transactions addressed certain strategic and structural challenges of the business, although the Company expects additional restructuring activities and business improvement actions will be needed in the foreseeable future for the Company to achieve sustainable success in an increasingly challenging environment.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Business Strategy

By leveraging the Company s extensive experience, innovative technology and geographic strengths, the Company aims to grow leading positions in its key climate, interiors and electronics product groups and to improve overall margins, long-term operating profitability and cash flows. To achieve these goals and respond to industry factors and trends, the Company is working to restructure its business, improve its operations and achieve profitable growth. Visteon has embarked upon a multi-phase, multi-year plan to implement this strategy.

Restructure the business The Company remains focused on executing its previously announced multi-year improvement plan designed to address under performing and non-strategic operations, reducing overhead cost structure and improving efficiency. As the Company executes its multi-year improvement plan, certain administrative functions are also being fundamentally reorganized to effectively and efficiently support the Company s restructured business. Additionally, the Company continues to reduce engineering costs through relocation of its engineering capability to more competitive cost locations.

Improve operations The Company continues to take actions to improve its operations by lowering its manufacturing costs, increasing its focus on production utilization and related investment, closure and consolidation of facilities and relocation of production to lower cost environments to take further advantage of its global manufacturing footprint. The Company is also working to improve product quality and the health and safety of employees. Processes and standards continue to be implemented to prevent the occurrence of non-conforming production as measured by various industry standard quality ratings such as defective parts per million. Additionally, the Company continues to implement programs, training and awareness in all of its operations to limit safety related incidents and to improve lost time case rates.

Grow the business The Company is well positioned to achieve profitable growth on a global basis and has focused its resources to achieve growth in core climate, electronics and interiors products. The Company is focused on further diversifying its customer base, leveraging its expansive global footprint, offering innovative technologies and solutions, and providing world class engineering support to customers. The Company believes there are opportunities to capitalize on the continuing demand for additional electronics integration and associated products with its product portfolio and technical capabilities. Although Ford remains the Company s largest customer, the Company has been steadily diversifying its sales with growing OEMs and is well positioned globally with capabilities in every major geographic region in the world, including a significant presence in emerging markets in Asia.

Organizational Structure

The Company views its organizational structure as an important enabler of its business strategy. Accordingly, and in late 2005, the Company announced a new operating structure to manage the business following the ACH Transactions. The new organizational structure was designed to achieve a global product focus and a regional customer focus. The global product focus is achieved through a product group structure which provides for financial and operating responsibility over the design, development and manufacture of the Company s product portfolio. The regional customer focus is achieved through a customer group structure, which provides for the marketing, sales and service of the Company s product portfolio to its customer base. Additionally, certain functions such as procurement, information technology and other administrative activities are managed on a global basis with regional deployment.

In 2006 the Company completed the process of realigning systems and reporting structures to facilitate financial reporting under the revised organizational structure. The Company s global product groups as of December 31, 2007 are as follows:

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Climate The Company s Climate product group includes facilities that primarily manufacture climate air handling modules, powertrain cooling modules, climate controls, heat exchangers, compressors, fluid transport, and engine induction systems. Climate accounted for approximately 28%, 26%, and 25% of the Company s total net sales, excluding ACH and intra-product group eliminations, in 2007, 2006 and 2005, respectively.

Electronics The Company s Electronics product group includes facilities that primarily manufacture audio systems, infotainment systems, driver information systems, powertrain and feature control modules, electronic control modules and lighting. Electronics accounted for approximately 30%, 29% and 31% of the Company s total net sales, excluding ACH and intra-product group eliminations, in 2007, 2006 and 2005, respectively.

Interiors The Company s Interiors product group includes facilities that primarily manufacture instrument panels, cockpit modules, door trim and floor consoles. Interiors accounted for approximately 26%, 25% and 27% of the Company s total net sales, excluding ACH and intra-product group eliminations, in 2007, 2006 and 2005, respectively.

Other The Company s Other product group includes facilities that primarily manufacture fuel products, powertrain products, and parts sold and distributed to the automotive aftermarket. Other accounted for approximately 11%, 15% and 16% of the Company s total net sales, excluding ACH and intra-product group eliminations, in 2007, 2006 and 2005, respectively.

Services The Company s Services operations provide various transition services in support of divestiture transactions, principally related to the ACH Transactions and Chassis Divestiture. The Company supplies leased personnel and transition services as required by certain agreements entered into by the Company with ACH as a part of the ACH Transactions. Pursuant to the Master Services Agreement and the Salaried Employee Lease Agreement the Company, has agreed to provide ACH with certain information technology, personnel and other services to enable ACH to conduct its business. Services to ACH are provided at a rate approximately equal to the Company s cost until such time the services are no longer required by ACH or the expiration of the related agreement. In addition to services provided to ACH, the Company has also agreed to provide certain transition services related to the Chassis Divestiture for up to 18 months.

2007 Overview and Financial Results

The automotive industry remained challenging during 2007, particularly in North America and Europe, with continued market share pressures concentrated with U.S. vehicle manufacturers, which has resulted in declining sales volumes of certain domestic automakers. The combination of declining sales and sustained high material and labor costs, has adversely impacted the financial condition of several domestic automotive suppliers resulting in extensive restructuring, significant demands on liquidity, industry consolidation, several supplier bankruptcies, and extensive private equity investment. These industry conditions have been exacerbated by severe tightening of the credit markets making access to future liquidity difficult and costly. Throughout 2007 the Company has maintained its focus on executing its previously announced multi-year improvement plan designed to restructure the business, improve operations and grow the business. Efforts during 2007 have resulted in a reduced dependency on the North American market, an increased diversity of its customer base, improved cost performance and a significant cash balance as of December 31, 2007 allowing management the flexibility to continue to execute its multi-year improvement plan.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

In connection with the multi-year improvement plan, the Company identified 30 facilities for closure, divestiture or other actions designed to improve operations and profitability. During 2007 the Company completed the closure of 3 facilities and completed the sale of 4 facilities. The Company also continued to implement actions designed to fundamentally reorganize and streamline its administrative functions and reduce the related cost, including resource relocation to more competitive cost locations. The percentage of the Company s manufacturing headcount and engineering headcount in high cost geographies decreased by approximately 20% and 16%, respectively, during 2007.

Improvements to the Company s base operations are focused on improving product quality, improving the health and safety of employees and improving investment efficiency. The Company continued to make progress in these areas as evidenced by improvements in key metrics during 2007 including quality performance as measured in defective parts per million, which improved by 38% and safety performance as measured in lost time case rates, which improved by 29%.

Efforts to grow the business during 2007 resulted in about $1 billion of new business wins, which marks the second consecutive year the Company has achieved this level. The Company s new business wins for 2007 include 40% attributable to the Climate product group, 38% attributable to the Interiors product group and 22% attributable to the Electronics product group. Geographically, 25% of the new business wins are in Asia, while the remaining 75% is evenly split between North America and Europe.

While the Company continues its efforts to improve its operations, restructure its business, and achieve profitable growth, there can be no assurances that the results of these efforts alone will be sufficient to address the impact of current industry and market trends. The Company will continue to monitor such industry and market trends taking action as necessary, including, but not limited to, additional restructuring activities and global capacity rationalization.

The Company s product sales for 2007 were adversely affected by a decline in Ford North America production volume of approximately 192,000 units or 6%, and year-over-year production declines of certain Nissan vehicles produced for the North American market. These pressures were partially offset by an increase in Ford Europe production volumes and new business launches and continued growth in the Company s Asia Pacific operations.

In addition to the vehicle production volume declines, the Company s gross margin during 2007 was also adversely affected by the impact of unfavorable vehicle and product mix, weakening aftermarket business in North America and the performance of certain Western European manufacturing facilities, partially offset by manufacturing efficiencies and savings associated with the Company s ongoing restructuring activities.

The Company generated $293 million of cash from operating activities during 2007. The Company also secured additional financing of approximately $640 million during 2007, including an additional $500 million seven year term loan and the issuance of two separate unsecured bonds due November 27, 2009 and 2010 through its 70% owned subsidiary Halla Climate Control Corporation. As of December 31, 2007 the Company had total cash balances of approximately $1.8 billion.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Key financial highlights as of and for the year ended December 31, 2007 are summarized as follows (dollars in millions):

Statement of Operations Data	
Net sales	
Products	$ 10,721
Services	545
	11,266
Gross margin	573
Selling, general and administrative expenses	636
Restructuring expenses	152
Reimbursement from escrow account	142
Balance Sheet Data	
Cash and equivalents	$ 1,758
Total debt	$ 2,840
Statement of Cash Flows Data	
Cash provided from operating activities	$ 293
Cash used by investing activities	$ (177)
Cash provided from financing activities	$ 547

Net Sales

The Company recorded total net sales from continuing operations of $11.3 billion, including product sales of $10.7 billion and services revenues of $545 million for the year ended December 31, 2007. Total net sales for 2007 were essentially flat when compared to 2006 and included $569 million of favorable currency, which was more than offset by the impact of divestitures, lower North American volumes, customer pricing and changes in vehicle mix. The Company s sales are well balanced across its core strategic product groups with Climate sales of $3.4 billion or 29% of total product sales, Electronics sales of $3.5 billion or 31% of total product sales and Interiors sales of $3.1 billion or 27% of total product sales.

Following the ACH Transactions, the Company s sales have become more balanced by geographic region, with a greater percentage of product sales outside of North America. For the year ended December 31, 2007 the Company recorded net sales in North America of approximately $4.2 billion or 37%, Europe of approximately $4.1 billion or 36%, and Asia of approximately $3.0 billion or 27%.

Additionally, the Company s product sales have become more diversified by customer. Although Ford remains the Company s largest customer, the Company has been steadily diversifying its sales with other Original Equipment Manufacturers (OEM). Product sales to Ford were $4.1 billion or 39% of total product sales for the year ended December 31, 2007 compared to $4.8 billion or 45% of total product sales for the year December 31, 2006. Continued declines in Ford s vehicle production could materially affect the Company s operating results, and the Company continues to work with other vehicle manufacturers to further its sales growth and diversification. During 2007, the Company was awarded new forward year programs across all of its product groups by other vehicle manufacturers as well as Ford. These new programs will further diversify the Company s sales base in future years.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Gross Margin

The Company s gross margin was $573 million in 2007, compared with $753 million in 2006, representing a decrease of $180 million or 24%. The decrease in gross margin was attributable to lower Ford and Nissan production volumes in North America and unfavorable product mix, primarily at the Company s Electronics facilities, partially offset by higher Ford Europe volumes and net new business in Asia. Additionally, the non-recurrence of 2006 cost benefits, including postretirement benefit relief resulting from the assumption of such obligation by Ford related to Company employees transferred to Ford in connection with two ACH manufacturing facilities, reduced gross margin. These reductions were offset by cost efficiencies achieved through manufacturing, purchasing, and ongoing restructuring efforts.

The Company continues to take actions to lower its manufacturing costs by increasing its focus on production utilization and related investment, closure and consolidation of facilities and relocation of production to lower cost environments to take further advantage of its global manufacturing footprint. The Company has consolidated its regional purchasing activities into a global commodity driven organization to provide increased spending leverage and to further standardize its production and related material purchases. The Company has increased its focus and financial discipline in the evaluation of and bidding on new customer programs to improve operating margins and continues to take actions to address lower margin customer programs.

Restructuring Activities

During 2007 the Company completed the closure of 3 facilities and completed the sale of 4 facilities as part of the multi-year improvement plan. Specific closure and divestiture activities during 2007 include the following:

Closed its Chicago, IL, Chesapeake, VA and Connersville, IN facilities in response to customer sourcing actions. Annual sales from these facilities were approximately $700 million.

Completed the sale of certain chassis operations, including plants in Dueren and Wuelfrath, Germany, and Prazska, Poland (the Chassis Divestiture). Annual sales from these facilities were approximately $600 million, approximately 70% of which were to Ford.

Completed the sale of Visteon Powertain Control Systems India (VPCSI) operation located in Chennai, India (the VPCSI Divestiture). Annual sales from this facility were approximately $100 million.

As of December 31, 2007, cumulatively, the Company had closed 9 facilities, had sold 6 facilities and had completed other improvement actions at 3 facilities under the multi-year improvement plan. As a result of these actions, the Company has recognized cumulative savings of approximately $210 million since the inception of the multi-year improvement plan. The Company continues to evaluate alternative courses of action related to the remaining 12 facilities, including the possibility of divestiture, closure or renegotiated commercial and/or labor arrangements. However, there is no assurance that a transaction or other arrangement will occur in the near term or at all. The Company s ultimate course of action for these facilities will be dependent upon that which provides the greatest long-term return to shareholders.

As the Company executes its multi-year improvement plan, related general and administrative functions are being fundamentally reorganized to effectively and efficiently support the Company s restructured business. Additionally, the Company continues to reduce engineering costs through relocation of its engineering capability to more competitive cost locations. Throughout 2007, the Company continued to undertake administrative and engineering related restructuring activities to further reduce such costs.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The Company has incurred $275 million in cumulative restructuring costs related to the multi-year improvement plan including $97 million, $90 million, $58 million and $30 million for the Other, Interiors, Climate and Electronics product groups, respectively. The Company estimates that the total cash cost associated with the multi-year improvement plan will be approximately $555 million. However, the Company continues to achieve targeted reductions at a lower cost than anticipated due to higher levels of employee attrition and lower per employee benefits resulting from changes to certain employee benefit plans. The Company expects that approximately $420 million of cash costs incurred under the multi-year improvement plan will be reimbursed from the escrow account pursuant to the terms of the Escrow Agreement. It is possible that actual cash restructuring costs could vary significantly from the Company s estimates resulting in unexpected costs in future periods. Generally, charges are recorded as elements of the plan are finalized and the timing of activities and the amount of related costs are not likely to change.

While the Company continues its efforts to improve its operations, restructure its business, and achieve profitable growth, there can be no assurances that the results of these efforts alone will be sufficient to address the impact of current industry and market trends. The Company will continue to monitor such industry and market trends taking action as necessary, including, but not limited to, additional restructuring activities and global capacity rationalization.

Liquidity, Debt and Capital Structure

The Company monitors and evaluates its debt and capital structure on an ongoing basis and in consideration of liquidity needs and capital market conditions enters into transactions designed to enhance liquidity, improve financial flexibility and reduce associated costs of capital. As of December 31, 2007, the Company had cash balances totaling $1.8 billion compared to $1.1 billion as of December 31, 2006. The increase of $700 million is primarily attributable to an increase in debt related to two significant borrowing transactions during 2007.

On November 27, 2007, the Company s 70% owned subsidiary, Halla Climate Control Corporation (HCCC), issued two separate unsecured bonds due November 27, 2009 (Korean Won 60 billion) and due November 27, 2010 (Korean Won 70 billion) for total proceeds of Korean Won 130 million or approximately $139 million. The proceeds from these bond issuances, combined with existing cash balances, were used to subscribe for an ownership interest in a newly formed Korean company that holds interests in certain of the Company s climate control operations in India, China and the United States. In December 2007 Visteon redeemed its ownership interest in the newly formed Korean company in exchange for approximately $292 million.

On April 10, 2007, the Company entered into an agreement to amend and restate its Credit Agreement (Amended Credit Agreement) to provide an additional $500 million seven-year term loan. Consistent with the existing $1 billion seven-year term loan, the additional $500 million seven-year term loan bears interest at a Eurodollar rate plus 3% and will mature on December 13, 2013.

During 2007, the Company received cash reimbursements of $186 million for qualifying restructuring expenses from an escrow account established pursuant to the ACH Transactions for use in the Company s further restructuring. Effective in October 2007, the Company s restructuring cost reimbursement match was reduced to fifty percent of qualifying expenses pursuant to the Escrow Agreement.

In addition to debt service, the Company s cash and liquidity needs are affected by its efforts to restructure the business, improve operations and achieve profitable growth. Accordingly, the Company continues to explore opportunities to enhance liquidity, improve financial flexibility and reduce the long-term costs of capital.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Critical Accounting Estimates

The Company s consolidated financial statements and accompanying notes as included in Item 8 of this Annual Report on Form 10-K have been prepared in conformity with accounting principles generally accepted in the United States. Accordingly, the Company s significant accounting policies have been disclosed in the consolidated financial statements and accompanying notes under Note 2. The Company provides enhanced information that supplements such disclosures for accounting estimates when:

The estimate involves matters that are highly uncertain at the time the accounting estimate is made; and

Different estimates or changes to an estimate could have a material impact on the reported financial position, changes in financial condition, or results of operations.

When more than one accounting principle, or the method of its application, is generally accepted, management selects the principle or method that it considers to be the most appropriate given the specific circumstances. Application of these accounting principles requires the Company s management to make estimates about the future resolution of existing uncertainties. Estimates are typically based upon historical experience, current trends, contractual documentation, and other information, as appropriate. Due to the inherent uncertainty involving estimates, actual results reported in the future may differ from those estimates. In preparing these financial statements, management has made its best estimates and judgments of the amounts and disclosures included in the financial statements.

Pension Plans and Other Postretirement Employee Benefit Plans

Using appropriate actuarial methods and assumptions, the Company s defined benefit pension and non-pension postretirement employee benefit plans are accounted for in accordance with Statement of Financial Accounting Standards No. 87 (SFAS 87), Employers Accounting for Pensions, and Statement of Financial Accounting Standards No. 106 (SFAS 106), Employers Accounting for Postretirement Benefits Other Than Pensions, respectively, and as amended by Statement of Financial Accounting Standards No. 158 (SFAS 158), Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. Disability, early retirement and other postretirement employee benefits are accounted for in accordance with Statement of Financial Accounting Standards No. 112 (SFAS 112), Employer Accounting for Postemployment Benefits.

The determination of the Company s obligation and expense for its pension and other postretirement employee benefits, such as retiree health care and life insurance, is dependent on the Company s selection of certain assumptions used by actuaries in calculating such amounts. Selected assumptions are described in Note 15 Employee Retirement Benefits to the Company s consolidated financial statements, which are incorporated herein by reference, including the discount rate, expected long-term rate of return on plan assets and rates of increase in compensation and health care costs.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

In accordance with accounting principles generally accepted in the United States, actual results that differ from assumptions used are accumulated and amortized over future periods and, accordingly, generally affect recognized expense in future periods. Therefore, assumptions used to calculate benefit obligations as of the annual measurement date directly impact the expense to be recognized in future periods. The primary assumptions affecting the Company s accounting for employee benefits under SFAS Nos. 87, 106, 112 and 158 as of December 31, 2007 are as follows:

Long-term rate of return on plan assets: The expected long-term rate of return is used to calculate net periodic pension cost. The required use of the expected long-term rate of return on plan assets may result in recognized returns that are greater or less than the actual returns on those plan assets in any given year. Over time, however, the expected long-term rate of return on plan assets is designed to approximate actual earned long-term returns. The expected long-term rate of return for pension assets has been chosen based on various inputs, including historical returns for the different asset classes held by the Company s trusts and its asset allocation, as well as inputs from internal and external sources regarding expected capital market returns, inflation and other variables. In determining its pension expense for 2007, the Company used long-term rates of return on plan assets ranging from 3% to 10.6% outside the U.S. and 8% in the U.S.

Actual returns on U.S. pension assets for 2007, 2006 and 2005 were 8%, 8% and 14%, respectively, compared to the expected rate of return assumption of 8%, 8.5% and 9% respectively, for each of those years. The Company s market-related value of pension assets reflects changes in the fair value of assets over a five-year period, with a one-third weighting to the most recent year.

Discount rate: The discount rate is used to calculate pension and postretirement employee benefit obligations. The discount rate assumption is based on market rates for a hypothetical portfolio of high-quality corporate bonds rated Aa or better with maturities closely matched to the timing of projected benefit payments for each plan at its annual measurement date. The Company used discount rates ranging from 2% to 10.25% to determine its pension and other benefit obligations as of December 31, 2007, including weighted average discount rates of 6.25% for U.S. pension plans, 5.7% for non-U.S. pension plans, and 6.05% for postretirement employee health care and life insurance plans.

Health care cost trend: For postretirement employee health care plan accounting, the Company reviews external data and Company specific historical trends for health care costs to determine the health care cost trend rate assumptions. In determining the projected benefit obligation for postretirement employee health care plans as of December 31, 2007, the Company used health care cost trend rates of 9%, declining to an ultimate trend rate of 5.0% in 2013.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

While the Company believes that these assumptions are appropriate, significant differences in actual experience or significant changes in these assumptions may materially affect the Company s pension and other postretirement employee benefit obligations and its future expense. The following table illustrates the sensitivity to a change in certain assumptions for Company sponsored U.S. and non-U.S. pension plans on its 2007 funded status and 2008 pre-tax pension expense (excludes certain salaried employees that are covered by a Ford sponsored plan):

	Impact on U.S. 2008 Pre-tax Pension Expense	Impact on U.S. Plan 2007 Funded Status	Impact on Non-U.S. 2008 Pre-tax Pension Expense	Impact on Non-U.S. Plan 2007 Funded Status
25 basis point decrease in discount rate(a)	+$ 2 million	−$ 44 million	+$ 4 million	−$ 38 million
25 basis point increase in discount rate(a)	−$ 3 million	+$ 41 million	−$ 3 million	+$ 36 million
25 basis point decrease in expected return on assets(a)	+$ 3 million		+$ 2 million	
25 basis point increase in expected return on assets(a)	−$ 3 million		−$ 2 million	

(a) Assumes all other assumptions are held constant.

The following table illustrates the sensitivity to a change in the discount rate assumption related to Visteon sponsored postretirement employee health care and life insurance plans expense (excludes certain salaried that employees are covered by a Ford sponsored plan):

	Impact on 2008 Pre-tax OPEB Expense	Impact on Visteon Sponsored Plan 2007 Funded Status
25 basis point decrease in discount rate(a)	+$ 1 million	−$ 13 million
25 basis point increase in discount rate(a)	−$ 1 million	+$ 12 million

(a) Assumes all other assumptions are held constant.

The following table illustrates the sensitivity to a change in the assumed health care trend rate related to Visteon sponsored postretirement employee health expense (excludes certain salaried employees that are covered by a Ford sponsored plan):

	Total Service and Interest Cost	APBO

100 basis point increase in health care trend rate(a)	+$ 4 million	+$ 55 million
100 basis point decrease in health care trend rate(a)	−$ 3 million	−$ 47 million

(a) Assumes all other assumptions are held constant.

Effective October 1, 2005 and in connection with the ACH Transactions, Ford relieved the Company of all liabilities associated with postretirement employee health care and life insurance related obligations for Visteon-assigned Ford-UAW employees and retirees and for salaried retirees who retired prior to May 24, 2005. The amount of benefit relief pursuant to the ACH transactions totaled $2.2 billion. The Company continues to have a financial obligation to Ford for the cost of providing selected health care and life insurance benefits to certain Visteon salaried employees who retire after May 24, 2005. The health care and life insurance costs for these employees are calculated using Ford s assumptions.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Impairment of Long-Lived Assets and Certain Identifiable Intangibles

Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144) requires that long-lived assets and intangible assets subject to amortization are reviewed for impairment when certain indicators of impairment are present. Impairment exists if estimated future undiscounted cash flows associated with long-lived assets are not sufficient to recover the carrying value of such assets. Generally, when impairment exists the long-lived assets are adjusted to their respective fair values.

In assessing long-lived assets for an impairment loss, assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Asset grouping requires a significant amount of judgment. Accordingly, facts and circumstances will influence how asset groups are determined for impairment testing. In assessing long-lived assets for impairment, management considered the Company s product line portfolio, customers and related commercial agreements, labor agreements and other factors in grouping assets and liabilities at the lowest level for which identifiable cash flows are largely independent. Additionally, in determining fair value of long-lived assets, management uses appraisals, management estimates or discounted cash flow calculations.

Product Warranty and Recall

The Company accrues for warranty obligations for products sold based on management estimates, with support from the Company s sales, engineering, quality and legal functions, of the amount that eventually will be required to settle such obligations. This accrual is based on several factors, including contractual arrangements, past experience, current claims, production changes, industry developments and various other considerations.

The Company accrues for product recall claims related to potential financial participation in customers actions to provide remedies related primarily to safety concerns as a result of actual or threatened regulatory or court actions or the Company s determination of the potential for such actions. The Company accrues for recall claims for products sold based on management estimates, with support from the Company s engineering, quality and legal functions. Amounts accrued are based upon management s best estimate of the amount that will ultimately be required to settle such claims.

Environmental Matters

The Company is subject to the requirements of federal, state, local and international environmental and occupational safety and health laws and regulations. These include laws regulating air emissions, water discharge and waste management. The Company is also subject to environmental laws requiring the investigation and cleanup of environmental contamination at properties it presently owns or operates and at third-party disposal or treatment facilities to which these sites send or arranged to send hazardous waste.

At the time of spin-off, the Company and Ford agreed on a division of liability for, and responsibility for management and remediation of, environmental claims existing at that time, and, further, that the Company would assume all liabilities for existing and future claims relating to sites that were transferred to it and its operation of those sites, including off-site disposal, except as otherwise specifically retained by Ford in the Master Transfer Agreement. In connection with the ACH Transactions, Ford agreed to re-assume these liabilities to the extent they arise from the ownership or operation prior to the spin-off of the locations transferred to ACH (excluding any increase in costs attributable to the exacerbation of such liability by the Company or its affiliates).

38

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The Company is aware of contamination at some of its properties and relating to various third-party superfund sites at which the Company or its predecessor has been named as a potentially responsible party. The Company is in various stages of investigation and cleanup at these sites. At December 31, 2007, the Company had recorded a reserve of approximately $9 million for this environmental investigation and cleanup. However, estimating liabilities for environmental investigation and cleanup is complex and dependent upon a number of factors beyond the Company s control and which may change dramatically. Accordingly, although the Company believes its reserve is adequate based on current information, the Company cannot provide any assurance that its ultimate environmental investigation and cleanup costs and liabilities will not exceed the amount of its current reserve.

Income Taxes

The Company, which is subject to income taxes in the U.S. and numerous non-U.S. jurisdictions, accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Significant judgment is required in determining the Company s worldwide provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against the Company s net deferred tax assets. Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a valuation allowance on deferred tax assets by tax jurisdiction when it is more likely than not that such assets will not be realized. In determining the need for a valuation allowance, the historical and projected financial performance of the entity recording the net deferred tax asset is considered along with any other pertinent information.

Uncertain Tax Positions

In the ordinary course of the Company s business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities. Accruals for tax contingencies are provided for in accordance with the requirements of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 and Statement of Financial Accounting Standards No. 5 Accounting for Contingencies where appropriate.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations

2007 Compared with 2006

	Sales			Gross Margin		
	2007	2006	Change	2007	2006	Change
			(Dollars in Millions)			
Climate	$ 3,370	$ 3,123	$ 247	$ 233	$ 170	$ 63
Electronics	3,528	3,408	120	254	364	(110)
Interiors	3,130	3,004	126	68	60	8
Other	1,349	1,819	(470)	32	82	(50)
Eliminations	(656)	(648)	(8)			
Total products	10,721	10,706	15	587	676	(89)
Services	545	547	(2)	6	5	1
Total segments	11,266	11,253	13	593	681	(88)
Reconciling Items						
Corporate				(20)	72	(92)
Total consolidated	$ 11,266	$ 11,253	$ 13	$ 573	$ 753	$ (180)

Net Sales

The Company s consolidated net sales during the year ended December 31, 2007 were essentially flat when compared to the same period of 2006. Changes in currency resulted in an increase of $569 million, primarily related to the strengthening of the Euro, Korean Won, Brazil Real, and British Pound during 2007. Divestitures and closures, including the Chassis Divestiture, Chicago, IL plant closure, and the Chennai, India divestiture reduced sales by $675 million in the aggregate. North America sales volumes decreased by $434 million related to lower Ford and Nissan volumes in North America and the result of customer sourcing actions, primarily in the Electronics product group. Sales in Asia increased $537 million, including $269 million of directed source content related to Hyundai/Kia production and net new business wins. Higher Ford and Premium Auto Group production volumes in Europe contributed to an increase in sales of $136 million.

Net sales for Climate were $3.4 billion in 2007, compared with $3.1 billion in 2006, representing an increase of $247 million or 8%. Sales increased in Asia by $237 million, principally attributable to new business and higher production volumes. Climate sales increased in Europe by $68 million principally related to higher Ford vehicle production volumes. Sales were lower in North America by $121 million due to lower Ford North America vehicle production volume and unfavorable product mix partially offset by new business. Net customer price reductions were more than offset by favorable currency of $153 million.

Net sales for Electronics were $3.5 billion in 2007, compared with $3.4 billion in 2006, representing an increase of $120 million or 4%. Sales in 2007 included higher sales in Europe of $171 million due to increased Ford vehicle production volumes, partially offset by lower Ford North American vehicle production volumes and adverse product mix related to past customer sourcing actions of $197 million. Net customer price reductions were more than offset by favorable currency of $198 million.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Net sales for Interiors were $3.1 billion in 2007, compared with $3.0 billion in 2006, representing an increase of $126 million or 4%. Increased sales in Asia of $300 million, primarily due to an increase in directed source content for Hyundai/Kia production, were partially offset by lower sales in North America of $297 million, primarily due to lower Ford and Nissan vehicle production volumes as well as the impact of lost volume related to the closure of the Chicago facility. Net customer price reductions were more than offset by customer commercial settlements and favorable currency of $165 million.

Net sales for Other was $1.3 billion in 2007, compared with $1.8 billion in 2006, representing a decrease of $470 million or 26%. The decrease is largely attributable to 2007 divestiture activities including the Chassis Divestiture, which resulted in a decrease of $390 million and the Chennai, India divestiture, which resulted in a decrease of $35 million. Sales decreased by $83 million with reductions in all regions related to lower vehicle production volumes and adverse product mix. Net customer price reductions were more than offset by favorable currency of $53 million.

Services revenues relate to information technology, engineering, administrative and other business support services provided by the Company under the terms of various transition agreements. Such services are generally provided at an amount that approximates cost. Services revenues totaled $545 million for the year ended December 31, 2007 compared with $547 million for the year ended December 31, 2006.

Gross Margin

The Company s gross margin was $573 million for the year ended December 31, 2007, compared with $753 million for the year ended December 31, 2006, representing a decrease of $180 million or 24%. The decrease resulted from the following items:

Non-recurrence of certain benefits recorded in 2006, including $72 million of postretirement benefit relief related to the transfer of certain Visteon salaried employees to Ford, commercial agreements of $39 million, and non-income tax reserve adjustments of $27 million.

Non-recurrence of certain expense items recorded in 2006, including $11 million of employee benefit curtailment expense included in cost of sales but reimbursed from the escrow account and a $9 million litigation settlement.

Certain 2007 benefits, including OPEB curtailment gains related to restructuring activities of $58 million, commercial agreements of $35 million, and gains on the sale of land and buildings in the UK of $24 million.

Certain 2007 expense items, including accelerated depreciation of $50 million resulting from the Company s restructuring activities, $23 million of employee benefit curtailment and settlement expense included in cost of sales but reimbursed from the escrow account, and $20 million of pension settlement expenses related to a previously closed Canadian facility.

The Chassis Divestiture resulted in a reduction in gross margin of $33 million.

The remainder was related to vehicle production volume and mix, past sourcing actions and customer pricing partially offset by improved operating performance.

Gross margin for Climate was $233 million in 2007, compared with $170 million in 2006, representing an increase of $63 million or 37%. Material and manufacturing cost reduction activities, lower OPEB expenses and restructuring savings were partially offset by customer pricing and increases in raw material costs resulting in a net increase in gross margin of $101 million. Favorable currency increased gross margin by $9 million. These increases were partially offset by $47 million related to unfavorable vehicle and product mix, lower vehicle production volumes, in North America and accelerated depreciation.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Gross margin for Electronics was $254 million in 2007, compared with $364 million in 2006, representing a decrease of $110 million or 30%. Vehicle production volume and mix was unfavorable $126 million in North America primarily related to lower Ford vehicle production volumes and the impact of past Ford sourcing actions. However, vehicle production volume and mix was favorable $49 million in other regions, primarily in Europe reflecting increased Ford Europe vehicle production volume. Accelerated depreciation related to restructuring activities reduced gross margin by $20 million. Material and manufacturing cost reduction activities, lower OPEB expenses and restructuring savings were more than offset by premium launch costs, net customer price reductions, and increases in raw material costs resulting in a decrease in gross margin of $35 million. Favorable currency increased gross margin by $22 million.

Gross margin for Interiors was $68 million in 2007, compared with $60 million in 2006, representing an increase of $8 million or 13%. Customer commercial settlements, material and manufacturing cost reduction activities, lower OPEB expenses and restructuring savings were partially offset by customer pricing and increases in raw material costs resulting in a net increase in gross margin of $8 million. Additionally, the Company s Interiors operations recorded a gain on the sale of a building located in the UK, which increased gross margin by $12 million. Favorable currency further increased gross margin by $11 million. These increases were partially offset by vehicle production volume and mix of $17 million reflecting lower Ford and Nissan vehicle production volumes in North America, partially offset by increases in Europe related to Ford Europe production and in Asia related to net new business. Accelerated depreciation related to restructuring activities reduced gross margin by $6 million.

Gross margin for Other was $32 million in 2007, compared with $82 million in 2006, representing a decrease of $50 million or 61%. This decrease includes unfavorable vehicle production volume and mix of $49 million, Chassis Divestiture of $33 million and $12 million of net pension curtailment and settlement expense included in cost of sales but reimbursed from the escrow account. These decreases were partially offset by $22 million related to the net of material and manufacturing cost reduction activities, lower OPEB expense, and restructuring savings, partially offset by customer price reductions and increases in raw material costs. Additionally, the gross margin decrease for Other was partially offset by the non-recurrence of a 2006 litigation settlement of $9 million and the 2007 sale of buildings in the UK for a gain of $13 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $636 million in 2007, compared with $713 million in 2006, representing a decrease of $77 million or 11%. The decrease resulted from $60 million in efficiency actions, primarily related to salaried headcount reductions implemented during the fourth quarter of 2006 and the first quarter of 2007, lower stock-based compensation expense of $22 million, and $12 million of lower bad debt and other expenses, partially offset by $17 million of unfavorable currency

Restructuring Expenses and Reimbursement from Escrow Account

The following is a summary of the Company s consolidated restructuring reserves and related activity for the year ended December 31, 2007, including amounts related to its discontinued operations. Substantially all of the Company s restructuring expenses are related to employee severance and termination benefit costs.

	Interiors	Climate	Electronics	Other	Total
			(Dollars in Millions)		

December 31, 2006	$ 18	$ 21	$ 2	$ 12	$ 53
Expenses	66	27	9	60	162
Utilization	(26)	(25)	(4)	(48)	(103)
December 31, 2007	$ 58	$ 23	$ 7	$ 24	$ 112

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

During the year ended December 31, 2007 the Company recorded restructuring expenses of $162 million, including $10 million related to discontinued operations, compared to $95 million, including $2 million related to discontinued operations, for the year ended December 31, 2006. Pursuant to the terms of the Escrow Agreement, approximately $100 million of these restructuring costs were fully reimbursable, while $62 million of these costs were reimbursable at a rate of fifty percent as the Company entered into the cost-sharing portion of the Escrow Agreement during the fourth quarter of 2007. Significant restructuring actions under the multi-year improvement plan for the year ended December 31, 2007 include the following:

$31 million of employee severance and termination benefit costs associated with the elimination of approximately 300 salaried positions.

$27 million of employee severance and termination benefit costs for approximately 300 employees at a European Interiors facility related to the announced 2008 closure of that facility.

$21 million of employee severance and termination benefit costs for approximately 600 hourly and 100 salaried employees related to the announced 2008 closure of a North American Other facility.

$14 million was recorded related to the December 2007 closure of a North American Climate facility for employee severance and termination benefits, contract termination and equipment move costs.

$12 million of expected employee severance and termination benefit costs associated with approximately 100 hourly employees under a plant efficiency action at a European Climate facility.

$10 million of employee severance and termination benefit costs associated with the exit of brake manufacturing operations at a European Other facility. Approximately 160 hourly and 20 salaried positions were eliminated as a result of this action.

$10 million of employee severance and termination benefit costs were recorded for approximately 40 hourly and 20 salaried employees at various European facilities.

The Company recorded an estimate of employee severance and termination benefit costs under the multi-year improvement plan of approximately $34 million for the probable payment of such post-employment benefit costs.

Utilization of $103 million for the year ended December 31, 2007 includes $79 million of payments for severance and other employee termination benefits, $16 million of special termination benefits reclassified to pension and other postretirement employee benefit liabilities where such payments are made from the Company s benefit plans and $8 million in payments related to contract termination and equipment relocation costs.

Impairment of Long-Lived Assets

During the fourth quarter of 2007 the Company recorded impairment charges of $16 million to reduce the net book value of long-lived assets associated with the Company s fuel products to their estimated fair value. This amount was recorded pursuant to impairment indicators including lower than anticipated current and near term future customer volumes and the related impact on the Company s current and projected operating results and cash flows resulting from a change in product technology.

During the third quarter of 2007, the Company completed the sale of its Visteon Powertrain Control Systems India (VPCSI) operation located in Chennai, India. The Company determined that assets subject to the VPCSI divestiture including inventory, intellectual property, and real and personal property met the held for sale criteria of SFAS 144. Accordingly, these assets were valued at the lower of carrying amount or fair value less cost to sell, which resulted in asset impairment charges of approximately $14 million.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

During the first quarter of 2007, the Company determined that assets subject to the Chassis Divestiture including inventory, intellectual property, and real and personal property met the held for sale criteria of SFAS 144. Accordingly, these assets were valued at the lower of carrying amount or fair value less cost to sell, which resulted in asset impairment charges of approximately $28 million.

In connection with the Company s announced exit of the brake manufacturing business at its Swansea, UK facility, an asset impairment charge of $16 million was recorded to reduce the net book value of certain long-lived assets at the facility to their estimated fair value. The Company s estimate of fair value was based on market prices, prices of similar assets, and other available information.

During 2007 the Company entered into agreements to sell two Electronics buildings located in Japan. The Company determined that these buildings met the held for sale criteria of SFAS 144 and were recorded at the lower of carrying value or fair value less cost to sell, which resulted in asset impairment charges of approximately $15 million.

Interest

Interest expense, net was $164 million for the year ended December 31, 2007 compared to $159 million for the year ended December 31, 2006. Interest expense increased $35 million due to higher average debt levels in 2007. Interest income was $61 million for the year ended December 31, 2007 compared to $31 million for the year ended December 31, 2006. Interest income increased $30 million due to higher average cash balances in 2007.

Income Taxes

The Company s 2007 provision for income taxes of $20 million represents a decrease of $5 million when compared with 2006. The income tax provisions for the years ended December 31, 2007 and 2006 reflect income tax expense related to those countries where the Company is profitable, accrued withholding taxes, certain non-recurring and other discrete items and the inability to record a tax benefit for pre-tax losses in the U.S. and certain foreign countries to the extent not offset by other categories of income in those jurisdictions.

The Company s 2007 income tax provision includes income tax expense items totaling $140 million including the following:

$72 million for unrecognized tax benefits resulting from positions taken in tax returns filed during the year, as well as those expected to be taken in future tax returns, including interest and penalties.

$50 million related to certain countries where the Company is profitable, accrued withholding taxes, and the inability to record a tax benefit for pre-tax losses in the U.S. and certain foreign countries to the extent not offset by other categories of income in those jurisdictions.

$18 million resulting from significant tax law changes in Mexico, enacted in October 2007.

These 2007 income tax expense items were partially offset by income tax benefits totaling $120 million including the following:

$91 million related to offsetting pre-tax operating losses against current year net pre-tax income from other categories of income or loss, in particular pre-tax other comprehensive income primarily attributable to re-measurement of pension and OPEB obligations and foreign currency translation.

$18 million net tax benefit resulting from the Company s redemption of its ownership interest in a newly formed Korean company as part of a legal restructuring of its climate control operations in Asia. In connection with this redemption, the Company concluded that a portion of its earnings in Halla Climate Control Korea, a 70% owned affiliate of the Company, were permanently reinvested resulting in a $30 million reduction of previously accrued withholding taxes. This benefit was partially offset by $12 million of income tax expense related to a taxable gain from the restructuring.

$11 million related to favorable tax law changes in Portugal enacted in the fourth quarter of 2007.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The Company s 2006 income tax provision of $25 million reflects income tax expense of $122 million related to certain countries where the Company is profitable, accrued withholding taxes, and the inability to record a tax benefit for pre-tax losses in certain foreign countries and pre-tax losses in the U.S. to the extent not offset by U.S. pre-tax other comprehensive income. These income tax expense items were partially offset by income tax benefits of $97 million, including $68 million related to offsetting U.S. pre-tax operating losses against current year U.S. pre-tax other comprehensive income primarily attributable to foreign currency translation, $15 million related to a reduction of the Company s dividend withholding taxes accrued for unremitted earnings of Spain and the Czech Republic as a result of legal entity restructuring, and $14 million related to the restoration of deferred tax assets associated with the Company s operations in Brazil.

2006 Compared with 2005

	Sales			Gross Margin		
	2006	2005	Change	2006	2005	Change
	(Dollars in Millions)					
Climate	$ 3,123	$ 2,931	$ 192	$ 170	$ 175	$ (5)
Electronics	3,408	3,615	(207)	364	316	48
Interiors	3,004	3,160	(156)	60	29	31
Other	1,819	1,829	(10)	82	64	18
Eliminations	(648)	(1,001)	353			
Total products	10,706	10,534	172	676	584	92
Services	547	164	383	5	1	4
Total segments	11,253	10,698	555	681	585	96
Reconciling Items						
ACH		6,052	(6,052)		(41)	41
Corporate				72		72
Total consolidated	$ 11,253	$ 16,750	$ (5,497)	$ 753	$ 544	$ 209

Net Sales

The Company s consolidated net sales decreased by approximately $5.5 billion or 33% during the year ended December 31, 2006 when compared to the same period of 2005. The ACH Transactions resulted in a decrease of $6.1 billion, which was partially offset by an increase in services revenues of $383 million. Excluding the ACH Transactions and related eliminations and revenues from services provided to ACH, product sales decreased by $218 million. The decrease included favorable currency of $91 million year-over-year. Sales were significantly lower in North America reflecting decreased Ford vehicle production volume and unfavorable product mix, lower non-Ford vehicle production volume, principally Nissan products, and lower aftermarket sales. This decrease was partially offset by a significant sales increase in Asia Pacific reflecting growth in that region and new business launched in 2006.

Net sales for Climate were $3.1 billion in 2006, compared with $2.9 billion in 2005, representing an increase of $192 million or 7%. Continued growth in the Company s Asia Pacific consolidated subsidiaries increased net sales by $307 million. This growth was primarily driven by new business and included favorable currency of $70 million partially offset by customer price reductions. Net sales in North America were $115 million lower year-over-year, reflecting lower Ford North America vehicle production volumes and unfavorable product mix, partially offset by the launch of a new manufacturing facility in Alabama. Net sales in Europe increased $41 million reflecting higher Ford Europe vehicle production volume partially offset by lower vehicle production volumes by other customers.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Net sales for Electronics were $3.4 billion in 2006, compared with $3.6 billion in 2005, representing a decrease of $207 million or 6%. Vehicle production volume and mix decreased net sales by $153 million, primarily attributable to lower Ford and Nissan vehicle production volume and unfavorable product mix in North America and lower sales in Asia Pacific. This reduction was partially offset by higher Ford Europe vehicle production volume. Net customer price reductions were more than offset by favorable currency of $24 million, primarily in South America.

Net sales for Interiors were $3.0 billion in 2006, compared with $3.2 billion in 2005, representing a decrease of $156 million or 5%. Vehicle production volume and product mix decreased net sales by $186 million. The decrease was attributable to lower Ford and Nissan vehicle production volume and unfavorable product mix in North America of $258 million and lower vehicle production by certain Europe OEM s of $92 million, partially offset by increased sales in Asia Pacific of $163 million. The increase in Asia Pacific sales reflected increased directed source content sales at a consolidated joint venture. Net customer price reductions were more than offset by price increases resulting from favorable customer settlements, raw material cost recoveries, and product design actions. Favorable currency increased year-over-year sales by $5 million.

Net sales for Other was $1.8 billion in 2006, compared with $1.8 billion in 2005. Vehicle production volume and product mix decreased net sales by $85 million. Lower Ford vehicle production volume in North America, lower non-Ford vehicle production in Europe, and lower aftermarket sales decreased net sales by $125 million. This decrease was partially offset by higher vehicle production volume in Asia Pacific. Customer price reductions were more than offset by price increases resulting from favorable customer settlements, raw material cost recoveries, and product design actions. Unfavorable currency of $6 million, primarily in Europe, decreased sales year-over-year.

Services revenues related to information technology, engineering, administrative and other business support services provided by the Company to ACH, pursuant to agreements associated with the October 1, 2005 ACH Transactions, were $547 million in 2006, compared with $164 million in 2005.

Gross Margin

The Company s gross margin was $753 million in 2006, compared with $544 million in 2005, representing an increase of $209 million or 38%. The increase in gross margin is primarily attributable to postretirement benefit relief of $72 million related to the transfer of certain Visteon salaried employees supporting two ACH manufacturing facilities that were transferred to Ford in January 2006, lower depreciation and amortization expense of $73 million (primarily reflecting the impact of the 2005 asset impairments), the benefit of eliminating loss making operations transferred to ACH of $42 million, improved operating performance, and lower non-income based taxes (primarily reflecting a reserve adjustment of $23 million for the completion of regulatory tax audits and the lapse of certain statutory limitation periods). These increases were partially offset by unfavorable vehicle production volumes of $135 million, net customer price reductions, unfavorable currency of $17 million and a litigation settlement of $9 million in excess of previously provided reserves.

Gross margin for Climate was $170 million in 2006, compared with $175 million in 2005, representing a decrease of $5 million or 3%. Although net sales increased during the year, unfavorable North America product mix partially offset by continued growth of the Company s Asia Pacific consolidated subsidiaries resulted in a net decrease in gross margin of $7 million. Material and manufacturing cost reduction activities, lower depreciation and amortization expense reflecting the impact of the 2005 asset impairments, and lower OPEB expenses increased gross margin by $97 million. This performance was partially offset by net customer price reductions and increases in raw material costs (principally aluminum) of $89 million. Unfavorable currency reduced gross margin by $6 million.

46

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Gross margin for Electronics was $364 million in 2006, compared with $316 million in 2005, representing an increase of $48 million or 15%. Lower vehicle production volumes and unfavorable product mix reduced gross margin by $92 million, primarily attributable to lower volumes in North America. Material and manufacturing cost reduction activities, lower depreciation and amortization expense reflecting the impact of the 2005 asset impairments, and lower OPEB expenses increased gross margin by $181 million. This performance was partially offset by net customer price reductions and increases in raw material costs of $31 million. Unfavorable currency reduced gross margin by $10 million.

Gross margin for Interiors was $60 million in 2006, compared with $29 million in 2005, representing an increase of $31 million or 107%. Lower vehicle production volume and unfavorable product mix reduced gross margin by $24 million, primarily attributable to lower PSA Peugeot Citroën production in Europe. Material and manufacturing cost reduction activities, lower depreciation and amortization expense reflecting the impact of the 2005 asset impairments, and lower OPEB expenses increased gross margin by $55 million. Additionally, favorable customer agreements, raw material cost recoveries, and product design actions more than offset customer price reductions and raw material cost increases, increasing gross margin by $2 million. Unfavorable currency reduced gross margin by $2 million.

Gross margin for Other was $82 million in 2006, compared with $64 million in 2005, representing an increase of $18 million or 28%. Vehicle production volumes and product mix was favorable by $3 million. Material and manufacturing cost reduction activities, lower depreciation and amortization expense reflecting the impact of the 2005 asset impairments, and lower OPEB expenses increased gross margin by $19 million, despite unfavorable operating performance at certain Western Europe manufacturing facilities engaged in ongoing restructuring initiatives. This performance was partially offset by net customer price reductions and increases in raw material costs of $5 million. Favorable currency increased gross margin $1 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $713 million in 2006, compared with $945 million in 2005, representing a decrease of $232 million or 25%. Under the terms of various agreements between the Company and ACH, expenses previously classified as selling, general and administrative expenses incurred to support the business of ACH are now classified as Cost of sales in the consolidated statements of operations, comprising $175 million of the decrease. Bad debt expense improved year over year primarily reflecting the non-recurrence of a charge of approximately $41 million related to the bankruptcy of a customer in the second quarter of 2005. Furthermore, selling, general and administrative expenses decreased by $39 million reflecting lower OPEB and pension expenses, net cost efficiencies, and favorable currency. Increases to selling, general and administrative expenses during the year included fees associated with the implementation of the Company s European securitization facility of $10 million and increased expenses related to the Company s stock-based incentive compensation plans of $15 million.

Restructuring Expenses and Reimbursement from Escrow Accounts

The following is a summary of the Company s consolidated restructuring reserves and related activity for the year ended December 31, 2006, including amounts related to its discontinued operations. Substantially all of the Company s restructuring expenses are related to employee severance and termination benefit costs.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

	Interiors	Climate	Electronics	Other	Total
			(Dollars in Millions)		
December 31, 2005	$	$	$ 4	$ 10	$ 14
Expenses	24	31	16	24	95
Utilization	(6)	(10)	(18)	(22)	(56)
December 31, 2006	$ 18	$ 21	$ 2	$ 12	$ 53

During the year ended December 31, 2006 the Company recorded restructuring expenses of $95 million, including $2 million related to discontinued operations, compared to $26 million for the year ended December 31, 2005. Pursuant to the terms of the Escrow Agreement the restructuring costs incurred during the year ended December 31, 2006 were fully reimbursable. Significant restructuring actions under the multi-year improvement plan for the year ended December 31, 2006 include the following:

$20 million in employee severance and termination benefit costs related to the 2007 closure of a North American Climate manufacturing facility. These costs are associated with approximately 170 salaried and 750 hourly employees.

$19 million in employee severance and termination benefit costs related to an announced plan to reduce the Company s salaried workforce in higher cost countries. These costs are associated with approximately 800 salaried positions.

$9 million in employee severance and termination benefit costs related to certain hourly employee headcount reductions attributable to approximately 600 employees at Climate facilities in North America and 70 employees at certain European manufacturing facilities.

$7 million related to the announced closure of a European Interiors manufacturing facility. Costs include employee severance and termination benefits for approximately 150 hourly and salaried employees and certain non-employee related costs associated with closing the facility.

$7 million of employee severance and termination benefit costs related to a workforce reduction effort at a European Interiors manufacturing facility. These costs relate to approximately 110 hourly employees.

$6 million related to workforce reduction activities in Electronics manufacturing facilities in Mexico and Portugal. These costs include employee severance and termination benefits for approximately 500 hourly and 50 salaried employees.

$6 million related to a restructuring initiative at a North American Electronics manufacturing facility. These costs include severance and termination benefit costs for approximately 1,000 employees.

$5 million related to the announced closure of a North American Interiors manufacturing facility, including employee severance and termination benefit costs for 265 hourly employees, 26 salaried employees, and a lease termination penalty.

$3 million related to the closure of a North American Climate manufacturing facility, including severance and termination benefit costs for approximately 350 hourly and salaried employees.

Utilization of $56 million for the year ended December 31, 2006 includes $49 million payments for severance and other employee termination benefits and $7 million of special termination benefits reclassified to pension and other postretirement employee benefit liabilities where such payments are made from the Company s benefit plans.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Impairment of Long-Lived Assets

During the second quarter of 2006 the Company announced the closure of a European Interiors facility. In connection with this action, the Company recorded an asset impairment of $10 million to reduce the net book value of certain long-lived assets to their estimated fair value. Also during the second quarter of 2006 and in accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, the Company determined that an other than temporary decline in the fair market value of its investment in Vitro Flex, S.A. de C.V. (Vitro Flex) had occurred. Consequently, the Company reduced the carrying value of its investment in Vitro Flex by approximately $12 million to its estimated fair market value at June 30, 2006.

Interest

Interest expense for the year ended December 31, 2006 was $190 million, representing an increase of $34 million or 22% from $156 million in 2005. The increase was due to higher average interest rates on outstanding debt and a write-off of unamortized deferred charges of $7 million. Interest income for the year ended December 31, 2006 was $31 million, representing an increase of $7 million or 29% when compared to the year ended December 31, 2005. The increase in interest income was attributable to higher average cash balances during 2006.

Other

The Company recorded a gain on early debt extinguishment of approximately $8 million during the year ended December 31, 2006 related to the repurchase of $150 million of its 8.25% bonds due in 2010.

Income Taxes

The Company s 2006 income tax provision of $25 million reflects income tax expense of $122 million related to certain countries where the Company is profitable, accrued withholding taxes, and the inability to record a tax benefit for pre-tax losses in certain foreign countries and pre-tax losses in the U.S. to the extent not offset by U.S. pre-tax other comprehensive income. These income tax expense items were partially offset by income tax benefits of $97 million, including $68 million related to offsetting U.S. pre-tax operating losses against current year U.S. pre-tax other comprehensive income primarily attributable to foreign currency translation, $15 million related to a reduction of the Company s dividend withholding taxes accrued for unremitted earnings of Spain and the Czech Republic as a result of legal entity restructuring, and $14 million related to the restoration of deferred tax assets associated with the Company s operations in Brazil.

The Company s 2005 income tax provision of $64 million reflects income tax expense related to those countries where the Company is profitable, accrued withholding taxes, certain non-recurring and other discrete tax items and the inability to record a tax benefit for pre-tax losses in the U.S. and certain foreign countries. Non-recurring and other discrete tax items recorded in 2005 resulted in a net benefit of $31 million, including $28 million for a reduction in income tax reserves corresponding with the conclusion of U.S. Federal income tax audits for 2002, 2003 and certain pre-spin periods, as well as a net benefit of $3 million consisting primarily of benefits related to a change in the estimated benefit associated with tax losses in Canada and the favorable resolution of tax matters in Mexico.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Liquidity

Overview

The Company s cash and liquidity needs are impacted by the level, variability, and timing of its customers worldwide vehicle production, which varies based on economic conditions and market shares in major markets. Additionally, the Company s cash and liquidity needs are impacted by seasonal factors, including OEM shutdown periods and new model year production launches. These seasonal factors generally require the use of liquidity resources during the first and third quarters. The Company expects to fund its working capital, restructuring and capital expenditure needs with cash flows from operations. To the extent that the Company s liquidity needs exceed cash from operations, the Company would look to its cash balances and availability for borrowings to satisfy those needs, as well as the need to raise additional capital. However, the Company s ability to fund its working capital, restructuring and capital expenditure needs may be adversely affected by many factors including, but not limited to, general economic conditions, specific industry conditions, financial markets, competitive factors and legislative and regulatory changes. Therefore, assurance cannot be provided that Visteon will generate sufficient cash flow from operations or that available borrowings will be sufficient to enable the Company to meet its liquidity needs.

The Company s business is highly dependent upon the ability to access the credit and capital markets. Access to, and the costs of borrowing in, these markets depend in part on the Company s credit ratings, which are currently below investment grade. Moody s current corporate rating of the Company is B3, and the SGL rating is 3. The rating on senior unsecured debt is Caa2 with a negative outlook. The current corporate rating of the Company by S&P is B and the short term liquidity rating is B-3, with a negative outlook on the rating. Fitch s current rating on the Company s senior secured debt is B with a negative outlook. Any further downgrade in the Company s credit ratings could reduce its access to capital, increase the costs of future borrowings, and increase the possibility of more restrictive terms and conditions contained in any new or replacement financing arrangements or commercial agreements or payment terms with suppliers. Additionally, the current state of the credit and capital markets has resulted in severely constrained liquidity conditions owing to a reevaluation of risk attributable primarily, but not limited to, the U.S. sub-prime mortgage crisis. Continuation of such constraints may increase the Company s costs of borrowing and could restrict the Company s access to this potential source of future liquidity.

Cash and Equivalents

As of December 31, 2007 and 2006, the Company s consolidated cash balances totaled $1.8 billion and $1.1 billion, respectively. Approximately 68% and 41% of these consolidated cash balances are located within the U.S. as of December 31, 2007 and 2006, respectively. As the Company s operating profitability has become more concentrated with its foreign subsidiaries and joint ventures, the Company s cash generated from operations and related balances located outside of the U.S. continue to be significant. The Company s ability to efficiently access cash balances in certain foreign jurisdictions is subject to local regulatory and statutory requirements.

Escrow Account

In connection with the ACH Transactions, Ford paid $400 million into an escrow account for use by the Company to restructure its businesses subject to the terms and conditions of the Escrow Agreement, dated October 1, 2005, among the Company, Ford and Deutsche Bank Trust Company Americas. The Escrow Agreement provides that the Company will be reimbursed from the escrow account for the first $250 million of reimbursable restructuring costs, as defined in the Escrow Agreement, and up to one half of the next $300 million of such costs.

50

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Effective October 2007, the Company s restructuring cost reimbursement match was reduced to fifty percent of qualifying expenses pursuant to the terms of the Escrow Agreement. As of December 31, 2007, the Company had received cumulative reimbursements from the escrow account of $288 million and $144 million was available for reimbursement pursuant to the terms of the Escrow Agreement.

Asset Securitization

The Company transfers certain customer trade account receivables originating from subsidiaries located in Germany, Portugal, Spain, France and the UK (Sellers) pursuant to a European securitization agreement (European Securitization). The European Securitization agreement extends until August 2011 and provides up to $325 million in funding from the sale of receivables originated by the Sellers and transferred to Visteon Financial Centre P.L.C. (the Transferor). The Transferor is a bankruptcy-remote qualifying special purpose entity. Receivables transferred from the Sellers are funded through cash obtained from the issuance of variable loan notes to third-party lenders and through subordinated loans obtained from a wholly-owned subsidiary of the Company, which represent the Company s retained interest in the receivables transferred.

Availability of funding under the European Securitization depends primarily upon the amount of trade account receivables, reduced by outstanding borrowings under the program and other characteristics of those receivables that affect their eligibility (such as bankruptcy or the grade of the obligor, delinquency and excessive concentration). As of December 31, 2007, approximately $248 million of the Company s transferred receivables were considered eligible for borrowing under this facility, $99 million was outstanding and $149 million was available for funding.

Revolving Credit

The Company s Revolving Credit Agreement allows for available borrowings of up to $350 million. The amount of availability at any time is dependent upon various factors, including outstanding letters of credit, the amount of eligible receivables, inventory and property and equipment. Borrowings under the Revolving Credit Agreement bear interest based on a variable rate interest option selected at the time of borrowing. The Revolving Credit Agreement expires on August 14, 2011.

As of December 31, 2007, there were no outstanding borrowings under the Revolving Credit Agreement. The total facility availability for the Company was $257 million, with $159 million of available borrowings after $98 million of obligations under letters of credit.

Obligations under the Revolving Credit Agreement are collateralized by a first-priority lien on certain assets of the Company and most of its domestic subsidiaries, including real property, accounts receivable, inventory, equipment and other tangible and intangible property, including the capital stock of nearly all direct and indirect domestic subsidiaries (other than those domestic subsidiaries the sole assets of which are capital stock of foreign subsidiaries), as well as a second-priority lien on substantially all other material tangible and intangible assets of the Company and most of its domestic subsidiaries which collateralize the Company s seven-year term loan agreement. The terms of the Revolving Credit Agreement limit the obligations collateralized by certain U.S. assets to ensure compliance with the Company s bond indenture.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Cash Flows

Operating Activities

Cash provided from operating activities during 2007 totaled $293 million, compared with $281 million for the same period in 2006. The increase is largely attributable to improved commercial payment terms and collections, higher rate of escrow account reimbursements received in excess of restructuring payments, increased dividends from non-consolidated affiliates, and non-recurrence of the settlement of outstanding balances with ACH plants in 2006, partially offset by a reduction in receivables sold, a higher net loss, as adjusted for non-cash items, incentive compensation payments made in 2007 for 2006 accruals, and an increase in Ford North America receivable payment terms.

Investing Activities

Cash used in investing activities was $177 million during 2007, compared with $337 million for 2006. The decrease in cash usage primarily resulted from an increase in proceeds from divestitures and other asset sales. The proceeds from divestitures and other asset sales for 2007, which included proceeds from the Chassis Divestiture and the Chennai divestiture, totaled $207 million compared to $42 for 2006. Capital expenditures, excluding capital leases, increased slightly to $376 in 2007 compared with $373 in 2006. The Company s credit agreements limit the amount of capital expenditures the Company may make.

Financing Activities

Cash provided from financing activities totaled $547 million in 2007, compared with $214 million in 2006. Cash provided from financing activities in 2007 primarily resulted from the proceeds from the additional $500 million seven-year term loan and approximately $139 million from two new separate unsecured Korean bonds, partially offset by reductions in affiliate debt and book overdrafts. Cash provided from financing activities in 2006 reflects the borrowing on the $1 billion seven-year term loan and $350 million on an 18-month term loan in January 2006. Financing cash uses in 2006 included repayment of $347 million on the short-term revolving credit facility, repayment and termination of the Company s $241 million five-year term loan, repurchase of $150 million of its outstanding 8.25% interest bearing notes due August 1, 2010, and repayment and termination of its $350 million 18-month term loan issued in January 2006. The Company s credit agreements limit the amount of cash payments for dividends the Company may make.

Debt and Capital Structure

Debt

Information related to the Company s debt and related agreements is set forth in Note 14 Debt to the consolidated financial statements which are included in Item 8 of this Annual Report on Form 10-K.

Covenants and Restrictions

Subject to limited exceptions, each of the Company s direct and indirect, existing and future, domestic subsidiaries, as well as a limited number of foreign subsidiaries act as guarantor under its term loan credit agreement. The obligations under the credit agreement are secured by a first-priority lien on certain assets of the Company and most of its domestic subsidiaries, including intellectual property, intercompany debt, the capital stock of nearly all direct and indirect domestic subsidiaries, and at least 65% of the stock of most foreign subsidiaries and 100% of the stock of certain foreign subsidiaries that are guarantors, as well as a second-priority lien on substantially all other material tangible and intangible assets of the Company and most of its domestic subsidiaries.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The obligations under the ABL credit agreement are secured by a first-priority lien on certain assets of the Company and most of its domestic subsidiaries, including real property, accounts receivable, inventory, equipment and other tangible and intangible property, including the capital stock of nearly all direct and indirect domestic subsidiaries (other than those domestic subsidiaries the sole assets of which are capital stock of foreign subsidiaries), as well as a second-priority lien on substantially all other material tangible and intangible assets of the Company and most of its domestic subsidiaries which secure the Company s term loan credit agreement.

The terms relating to both credit agreements specifically limit the obligations to be secured by a security interest in certain U.S. manufacturing properties and intercompany indebtedness and capital stock of U.S. manufacturing subsidiaries in order to ensure that, at the time of any borrowing under the Credit Agreement and other credit lines, the amount of the applicable borrowing which is secured by such assets (together with other borrowings which are secured by such assets and obligations in respect of certain sale-leaseback transactions) do not exceed 15% of Consolidated Net Tangible Assets (as defined in the indenture applicable to the Company s outstanding bonds and debentures).

The credit agreements contain, among other things, mandatory prepayment provisions for certain asset sales, recovery events, equity issuances and debt incurrence, covenants, representations and warranties and events of default customary for facilities of this type. Such covenants include certain restrictions on the incurrence of additional indebtedness, liens, acquisitions and other investments, mergers, consolidations, liquidations and dissolutions, sales of assets, dividends and other repurchases in respect of capital stock, voluntary prepayments of certain other indebtedness, capital expenditures, transactions with affiliates, changes in fiscal periods, hedging arrangements, lines of business, negative pledge clauses, subsidiary distributions and the activities of certain holding company subsidiaries, subject to certain exceptions. The ability of the Company s subsidiaries to transfer assets is subject to various restrictions, including regulatory, governmental and contractual restraints.

Under certain conditions amounts outstanding under the credit agreements may be accelerated. Bankruptcy and insolvency events with respect to the Company or certain of its subsidiaries will result in an automatic acceleration of the indebtedness under the credit agreements. Subject to notice and cure periods in certain cases, other events of default under the credit agreements will result in acceleration of indebtedness under the credit agreements at the option of the lenders. Such other events of default include failure to pay any principal, interest or other amounts when due, failure to comply with covenants, breach of representations or warranties in any material respect, non-payment or acceleration of other material debt, entry of material judgments not covered by insurance, or a change of control of the Company.

At December 31, 2007, the Company was in compliance with applicable covenants and restrictions, as amended, although there can be no assurance that the Company will remain in compliance with such covenants in the future.

Off-Balance Sheet Arrangements

Guarantees

The Company has guaranteed approximately $35 million of debt capacity held by subsidiaries, and $95 million for lifetime lease payments held by consolidated subsidiaries. In addition, at December 31, 2007, the Company has guaranteed certain Tier 2 suppliers debt and lease obligations and other third-party service providers obligations of up to $2 million, to ensure the continued supply of essential parts. These guarantees have not, nor does the Company expect they are reasonably likely to have, a material current or future effect on the Company s financial position, results of operations or cash flows.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Asset Securitization

Transfers under the European Securitization, for which the Company receives consideration other than a beneficial interest, are accounted for as true sales under the provisions of Statement of Financial Accounting Standards No. 140 (SFAS 140), Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and are removed from the balance sheet. Transfers under the European Securitization, for which the Company receives a beneficial interest are not removed from the balance sheet and total $434 million and $482 million as of December 31, 2007 and 2006, respectively. Such amounts are recorded at fair value and are subordinated to the interests of third-party lenders. Securities representing the Company s retained interests are accounted for as trading securities under Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities.

Availability of funding under the European Securitization depends primarily upon the amount of trade receivables reduced by outstanding borrowings under the program and other characteristics of those trade receivables that affect their eligibility (such as bankruptcy or the grade of the obligor, delinquency and excessive concentration). As of December 31, 2007, approximately $248 million of the Company s transferred trade receivables were considered eligible for borrowing under this facility, $99 million was outstanding and $149 million was available for funding. The Company recorded losses of $8 million and $2 million for the years ended December 31, 2007 and 2006, respectively related to trade receivables sold under the European Securitization. The table below provides a reconciliation of changes in interests in account receivables transferred for the period.

	December 31	
	2007	2006
	(Dollars in Millions)	
Beginning balance	$ 482	$
Receivables transferred	3,321	1,389
Proceeds from new securitizations	(41)	(76)
Proceeds from collections reinvested in securitization	(522)	(101)
Cash flows received on interests retained	(2,806)	(730)
Ending balance	$ 434	$ 482

United States Securitization

In December 2005, the Company terminated its revolving accounts receivable securitization facility in the United States (facility agreement). Formerly, under this facility agreement, the Company could sell a portion of its U.S. account receivables from customers other than Ford to Visteon Receivables, LLC (VRL), a wholly-owned consolidated special purpose entity. VRL may then have sold, on a non-recourse basis (subject to certain limited exceptions), an undivided interest in the receivables to an asset-backed, multi-seller commercial paper conduit, which is unrelated to the Company or VRL. The conduit typically financed the purchases through the issuance of commercial paper, with back-up purchase commitments from the conduit s financial institution. The sale of the undivided interest in the receivables from VRL to the conduit was accounted for as a sale under the provisions of SFAS 140. When VRL sold an undivided interest to the conduit, VRL retained the remaining undivided interest. The carrying value of the remaining undivided interests approximated the fair market value of these receivables. The value of the undivided interest sold to the conduit was excluded from the Company s consolidated balance sheets and reduced the accounts receivable balances. The Company performed the collection and administrative functions related to the accounts receivable.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

At the time VRL sold the undivided interest to the conduit, the sale was recorded at fair market value with the difference between the carrying amount and fair value of the assets sold included in operating income as a loss on sale. This difference between carrying value and fair value was principally the estimated discount inherent in the facility agreement, which reflected the borrowing costs as well as fees and expenses of the conduit, and the length of time the receivables were expected to be outstanding. Gross proceeds from new securitizations were $237 million during the year ended December 31, 2005. Collections and repayments to the conduit were $292 million during the year ended December 31, 2005. This resulted in net payments and net proceeds of $55 million for the year ended December 31, 2005. Losses on the sale of these receivables was approximately $1 million for the year ended December 31, 2005 and are included under the caption Selling, general and administrative expenses in the Company s consolidated statements of operations.

Other

During 2006 and 2005, the Company sold account receivables without recourse under a European sale of receivables agreement. As of December 31, 2006 and 2005, the Company had sold approximately 62 million Euro ($81 million) and 99 million Euro ($117 million), respectively. This European sale of receivables agreement was terminated in December 2006. Losses on these receivable sales were approximately $3 million and $2 million for the years ended December 31, 2006 and 2005, respectively.

As of December 31, 2005, the Company had sold 830 million Japanese Yen ($7 million) of account receivables, without recourse, under a Japanese sale of receivables agreement initiated in the first quarter of 2005. This Japanese sale of receivables agreement was terminated in January 2006.

Contractual Obligations

The following table summarizes the Company s contractual obligations existing as of December 31, 2007:

	Total	2008	2009-2010	2011-2012	2013 & After
Debt, including capital leases	$ 2,840	$ 95	$ 720	$ 20	$ 2,005
Purchase obligations(a)	827	200	342	259	26
Interest payments on long-term debt(b)	1,047	191	347	283	226
Capital expenditures	228	199	29		
Operating leases	185	48	73	28	36
Postretirement funding commitments(c)	121	5	17	18	81
Total contractual obligations(d)	$ 5,248	$ 738	$ 1,528	$ 608	$ 2,374

(a) Purchase obligations include amounts related to a 10 year Master Service Agreement (MSA) with IBM in January 2003. Pursuant to this agreement, the Company outsourced most of its information technology needs on a global basis. During 2006, the Company and IBM modified this agreement, resulting in certain changes to the service delivery model and related service charges. Accordingly, the Company estimates that service charges under the modified MSA are expected to aggregate approximately $700 million during the remaining term of the MSA, subject to decreases and increases based on the Company s actual consumption of services to meet its then current business needs. The outsourcing agreement may be terminated also for the Company s business convenience under the agreement for a scheduled termination fee.

(b) Payments include the impact of interest rate swaps, and do not assume the replenishment of retired debt.

(c) Postretirement funding commitments include the estimated liability to Ford for postretirement employee health care and life insurance benefits of certain salaried employees as discussed in Note 15 to the consolidated financial statements, which is incorporated by reference herein.

(d) Excludes any reserve for income taxes under FIN 48 since the Company is unable to specify the future periods in which it may be obligated to settle such amounts.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Additionally, the Company has guaranteed approximately $35 million of debt capacity held by subsidiaries and $95 million for lifetime lease payments held by consolidated subsidiaries. At December 31, 2007, the Company has also guaranteed certain Tier 2 suppliers debt and lease obligations and other third-party service providers obligations of up to $2 million to ensure the continued supply of essential parts.

Recent Accounting Pronouncements

See Note 2 to the accompanying consolidated financial statements under Item 8 of this Annual Report on Form 10-K for a discussion of recent accounting pronouncements.

FORWARD-LOOKING STATEMENTS

Certain statements contained or incorporated in this Annual Report on Form 10-K which are not statements of historical fact constitute Forward-Looking Statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). Forward-looking statements give current expectations or forecasts of future events. Words such as anticipate , expect , intend , plan , believe , seek , estimate and other words and terms of simila connection with discussions of future operating or financial performance signify forward-looking statements. These statements reflect the Company s current views with respect to future events and are based on assumptions and estimates, which are subject to risks and uncertainties including those discussed in Item 1A under the heading Risk Factors and elsewhere in this report. Accordingly, undue reliance should not be placed on these forward-looking statements. Also, these forward-looking statements represent the Company s estimates and assumptions only as of the date of this report. The Company does not intend to update any of these forward-looking statements to reflect circumstances or events that occur after the statement is made and qualifies all of its forward-looking statements by these cautionary statements.

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

Visteon s ability to satisfy its future capital and liquidity requirements; Visteon s ability to access the credit and capital markets at the times and in the amounts needed and on terms acceptable to Visteon, which is influenced by Visteon s credit ratings (which have declined in the past and could decline further in the future); Visteon s ability to comply with covenants applicable to it; and the continuation of acceptable supplier payment terms.

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

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

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

Changes in vehicle production volume of Visteon s customers in the markets where we operate, and in particular changes in Ford s North American and European vehicle production volumes and platform mix.

Visteon s ability to profitably win new business from customers other than Ford and to maintain current business with, and win future business from, Ford, and, Visteon s ability to realize expected sales and profits from new business.

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

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

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

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

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

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

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

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

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

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

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

The cyclical and seasonal nature of the automotive industry.

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

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

Visteon s ability to provide various employee and transition services in accordance with the terms of existing agreements, as well as Visteon s ability to recover the costs of such services.

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK