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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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**AMENDMENT NO. 1**

TO  
**FORM S-1**  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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**VISTEON CORPORATION**

(Exact name of Registrant as specified in its charter)

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**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**3714**  
(Primary Standard Industrial  
Classification Code Number)

**38-3519512**  
(I.R.S. Employer  
Identification No.)

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5500 Auto Club Drive  
Dearborn, Michigan 48126  
Telephone: 800-847-8366  
(Address, including zip code, and telephone number, including area code of registrant's principal executive offices)

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**Stacy L. Fox, Esq.**  
**Senior Vice President, General Counsel and Secretary**  
**Visteon Corporation**  
5500 Auto Club Drive  
Dearborn, Michigan 48126  
Telephone: 800-847-8366  
(Name, address, including zip code, and telephone number, including area code of agent for service)

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*Copies of all communications to:*  
**Jeffrey Small, Esq.**  
**Davis Polk & Wardwell**  
**450 Lexington Avenue**  
**New York, New York 10017**  
**Telephone: 212-450-4000**

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**Approximate date of commencement of proposed sale to the public:**

As soon as practicable after the registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering.  \_\_\_\_\_

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earliest effective registration statement for the same offering.  \_\_\_\_\_

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

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**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a)**

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**FORD MOTOR COMPANY LOGO**

June , 2000

Dear Fellow Ford Stockholder:

In January of this year, we announced as one of our milestones the goal for Visteon to achieve independence. Towards achieving this goal, we established Visteon Corporation as a wholly-owned subsidiary and transferred to it the assets and liabilities comprising our automotive components and systems business. To complete the goal of independence, on June 2, 2000, a special committee of our Board of Directors, pursuant to full Board authorization, approved a pro rata distribution (or spin-off) to Ford common and Class B stockholders of all shares of Visteon common stock owned by Ford.

In the spin-off, you will receive \_\_\_\_\_ shares of Visteon common stock for each share of Ford common or Class B stock that you held of record at the close of business on June 12, 2000. Your current shares of Ford common or Class B stock will continue to represent your ownership position in Ford.

We have concluded that the spin-off is in the best interests of Ford, the Visteon business and Ford stockholders, because:

- as an independent company, Visteon will be better able to pursue business with non-Ford customers;
- it will reduce Ford's automotive assets and capital requirements;
- it will provide Visteon's management increased strategic flexibility and decision-making power, including the ability to manage Visteon's product portfolio over the long-term based on Visteon's own strategic objectives;
- having two separate public companies will enable the financial markets to evaluate each company more effectively, thereby maximizing stockholder value over the long term for both Ford and Visteon;
- separate management and ownership structures for Visteon will provide incentives to Visteon's management and direct accountability to public investors; and
- a spin-off allows Visteon to achieve independence in the shortest possible time.

Shares of Visteon's common stock trade on the New York Stock Exchange under the ticker symbol "VC."

The enclosed information statement explains the spin-off in detail and provides important information regarding Visteon. We urge you to read it carefully. Please note that general stockholder approval is not required for the spin-off, and holders of Ford common and Class B stock are not required to take any action to participate in the spin-off. Thus, we are not asking you for a proxy.

Very truly yours,

/S/ William Clay Ford, Jr.  
William Clay Ford, Jr.  
*Chairman of the Board*  
*Ford Motor Company*

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**VISTEON CORPORATION**

June , 2000

Dear Visteon Stockholder:

We welcome you as a "founding" stockholder of Visteon, which began trading publicly on a "when-issued" basis for the first time on June 8, 2000.

We are the world's second largest supplier of automotive systems, modules and components to global vehicle manufacturers. We have become a leader in the global automotive parts industry by capitalizing on the extensive experience we have gained as the largest supplier to Ford, the world's largest producer of trucks and the second largest producer of cars and trucks combined. We have been the largest supplier of automotive parts to Ford for most of Ford's history, and even as we continue to broaden our base of customers and products, we expect to continue to be the primary supplier to Ford for many years to come. We have a broad global presence, with a workforce of over 81,000 and a network of manufacturing sites, technical centers, sales offices and joint ventures located in every major region of the world.

This is a very exciting time, and we are enthusiastic about what the future holds. We believe that Visteon has a great opportunity to grow, and as a new Visteon stockholder, like our customers, you have an opportunity to grow with us. We are committed to building value for you, our new stockholders, and we look forward to many years of growth.

Congratulations on becoming one of the "founding" stockholders of Visteon!

Very truly yours,

/S/ Peter J. Pestillo  
Peter J. Pestillo,  
*Chairman of the Board, Chief Executive Officer  
and President*  
Visteon Corporation

*The information in this prospectus is not complete and may be changed. We may not distribute these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to distribute these securities and we are not soliciting offers to receive these securities in any state where the offer or distribution is not permitted.*

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# VISTEON CORPORATION

**130,000,000 Shares**

**COMMON STOCK**

**(par value \$1.00 per share)**

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At this time, Visteon Corporation is wholly-owned by Ford Motor Company. In this spin-off, Ford will distribute all of its shares of our common stock on a pro rata basis to the holders of Ford common and Class B stock. Each of you, as a holder of Ford common or Class B stock, will receive \_\_\_\_\_ shares of our common stock for each share of Ford common or Class B stock that you held at the close of business on June 12, 2000, the record date for the spin-off. Immediately after the spin-off is completed, we will be an independent public company.

We are sending you this prospectus to describe the spin-off. We expect the spin-off to occur on June 28, 2000. On or shortly after the June 28, 2000 distribution date:

- holders of record of Ford common and Class B stock on the record date will have credited to a book-entry account established for them by, and maintained at, EquiServe Trust Company, N.A. (the registrar and transfer agent for Visteon common stock) their proportionate number of shares of Visteon common stock;
- holders of record of fewer than eight shares of Ford common and Class B stock on the record date, which would entitle them to receive less than one whole share of Visteon common stock, will receive a check for the cash value of any such fractional shares; and
- beneficial owners of Ford common and Class B stock on the record date should have credited to their brokerage, custodian or similar account through which they own their Ford stock, their proportionate number of shares of Visteon common stock or cash in lieu of a fractional share of Visteon common stock.

No general stockholder vote is required for the spin-off to occur. No stockholder action is necessary for you to receive the shares of our common stock to which you are entitled in the spin-off. This means that:

- you do not need to pay any consideration to Ford or to Visteon; and
- you do not need to surrender any shares of Ford common or Class B stock to receive your shares of our common stock.

Before June 8, 2000, there was no trading market for our common stock. On that date, trading of shares of our common stock on a “when issued” basis began. Our common stock trades on the New York Stock Exchange under the ticker symbol “VC.”

**As you review this prospectus, you should carefully consider the matters described in “Risk Factors” beginning on page 8.**

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**The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

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The date of this prospectus is \_\_\_\_\_, 2000.

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**SUMMARY**

*This summary highlights information relating to our company and the common stock being distributed in the spin-off. More detailed discussions of this information are contained in this prospectus. In some places in this prospectus, we have presented pro forma information, adjusted to reflect the terms of our spin-off from Ford and changes in our operations occurring as a result of the spin-off. You should read the entire prospectus, including the risk factors and our consolidated historical and pro forma financial statements and notes to those statements appearing elsewhere in this prospectus.*

**VISTEON**

**Our Company**

We are the world's second largest supplier of automotive systems, modules and components to global vehicle manufacturers, according to the latest available industry data. Our 1999 sales were \$19.4 billion, or, on a pro forma basis, \$18.7 billion. We have become a leader in the global automotive parts industry by capitalizing on the extensive experience we have gained as the largest supplier to Ford, the world's largest producer of trucks and the second largest producer of cars and trucks combined.

We have been the largest supplier of automotive parts to Ford for most of Ford's history. Ford produces cars and trucks that are marketed and sold under the Ford, Lincoln, Mercury, Volvo, Jaguar and Aston Martin brands. We began using the Visteon name in 1997. Before the spin-off, we have been a division of Ford and, more recently, a wholly-owned subsidiary of Ford. After our spin-off from Ford, we will be an independent supplier. We believe that our independence will enhance our ability to increase sales to non-Ford vehicle manufacturers over time.

In recent years, our goal has been to pursue new business growth opportunities with Ford and non-Ford vehicle manufacturers, or VMs, as well as with non-automotive customers. Non-Ford business as a percentage of our total sales has grown from about 7% in 1997 to about 12% in 1999. We have a goal of expanding our non-Ford business to 20% of our sales by 2002. We believe that our spin-off from Ford will facilitate our achievement of this goal. We have a broad global presence — about 23.5% of our total 1999 sales were derived from products manufactured outside of the United States.

We have a broad global presence, with a workforce of over 81,000 and a network of manufacturing sites, technical centers, sales offices and joint ventures located in every major region of the world. We operate in three business segments: Comfort, Communication & Safety, Dynamics & Energy Conversion and Glass, and are a leading Tier 1 supplier in the first two of these three segments.

**Our Strategy**

Our objective is to be the world's leading consumer-focused, technology-driven automotive systems company. Whether we are selling to VMs or directly to consumers, we regard the consumer as our ultimate customer. We systematically gather and analyze consumer information that helps us to anticipate new trends and consumer preferences. We then can anticipate our VM customers' needs with regard to new products and help introduce these products to consumers, gaining acceptance for our products. We believe that our extensive global presence and systems capabilities provide us with a substantial competitive advantage as we pursue new business around the world. This is especially true as VMs move to global vehicle platforms, or world cars. We believe that our extensive experience and expertise with Ford also gives us many benefits as we pursue non-Ford business. We believe that our consumer focus, global reach and

the following strategies, described in more detail under “Business — Strategy” on pages 45-52, will allow us to capitalize on the industry trends described above and to achieve our objective:

- *Capitalize on Our Core Ford Business*
- *Improve Our Operating Performance*
- *Expand Our Non-Ford Business*
- *Use E-Commerce to Lower Costs and Enhance Sales*
- *Exploit Our Technology and Systems Engineering Leadership*
- *Grow Our Aftermarket Business*
- *Streamline and Focus Our Product Portfolio*

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We were incorporated in Delaware on January 5, 2000. References in this prospectus to “Visteon,” “we,” “our” and “us” collectively refer to Visteon Corporation and its consolidated subsidiaries. Our principal executive offices are located at 5500 Auto Club Drive, Dearborn, Michigan 48126, and our telephone number is (800) VISTEON. We maintain an Internet site at <http://www.visteon.com>. Our website and the information contained on that site, or connected to that site, is not incorporated into this prospectus. Visteon® is a registered trademark, and Carlite®, ClimatePro™, RoadFx™, NavMate® and the Visteon logo are trademarks of Visteon. Ford®, Lincoln®, Mercury®, Volvo®, Jaguar® and Aston Martin® are all registered trademarks owned by or licensed to Ford or its subsidiaries. Each trademark, trade name or service mark of any other company appearing in this prospectus belongs to its holder.

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## THE SPIN-OFF

The following is a brief summary of the terms of the spin-off.

<b>Distributing Company</b>	Ford Motor Company. After the spin-off, Ford will not own any shares of our stock.
<b>Spun-Off Company</b>	Visteon Corporation, currently a wholly-owned subsidiary of Ford. After the spin-off, Visteon will be an independent public company.
<b>Securities to Be Distributed</b>	130,000,000 shares of Visteon common stock, which is all of the shares of Visteon common stock owned by Ford. Immediately after the spin-off, we estimate that about 190,000 stockholders of record will hold shares of our common stock, although some of the shares may be registered in the name of a single stockholder who represents a number of stockholders.
<b>Distribution Ratio</b>	___ shares of our common stock for each share of Ford common or Class B stock that you hold at the close of business on June 12, 2000, the record date for the spin-off.
<b>Record Date</b>	June 12, 2000 (close of business).
<b>Spin-Off Date</b>	June 28, 2000
<b>Distribution Agent</b>	First Chicago Trust Company of New York, which is the registrar and transfer agent for Ford common stock and an affiliate of EquiServe Trust Company, N.A. (the registrar and transfer agent for Visteon common stock)
<b>New York Stock Exchange Symbol</b>	VC
<b>Trading Market</b>	Before June 8, 2000, there was no trading market for our common stock. On that date, trading of shares of our common stock on a “when issued” basis began.
<b>Tax Consequences</b>	It is the opinion of Davis Polk & Wardwell that the spin-off should qualify as a tax-free distribution for U.S. federal income tax purposes. See “The Spin-Off — Material Federal Income Tax Consequences of the Spin-Off” for a more detailed description of the federal income tax consequences of the spin-off.

## Book-Entry Shareholding

Ford common and Class B stockholders will receive \_\_\_\_\_ shares of Visteon common stock for each share of Ford common or Class B stock they held at the close of business on June 12, 2000 (the record date for the spin-off). On or shortly after the June 28, 2000 distribution date:

- holders of record of \_\_\_\_ or more shares of Ford common and Class B stock on the record date will have credited to a book-entry account established for them by, and maintained at, EquiServe Trust Company, N.A. (the registrar and transfer agent for Visteon common stock) their proportionate number of shares of Visteon common stock;
- holders of record of fewer than eight shares of Ford common and Class B stock on the record date, which would entitle

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them to receive less than one whole share of Visteon common stock, will receive a check for the cash value of any such fractional shares; and

- beneficial owners of Ford common and Class B stock on the record date should have credited to their brokerage, custodian or similar account through which they own their Ford stock, their proportionate number of shares of Visteon common stock or cash in lieu of a fractional share of Visteon common stock.

## Relationship Between Visteon and Ford After the Spin-Off

Ford will remain our largest customer for the foreseeable future. We and Ford have entered into a supply agreement and other agreements described in the section entitled “Relationship with Ford.” We and Ford may enter into additional or modified agreements, arrangements and transactions after the spin-off, which will be negotiated at arm’s length.

## No Proceeds from the Spin-Off

Since this is not an offering for cash, there will be no proceeds from the spin-off.

## Our Management and Management Compensation After the Spin-Off

The compensation, awards and other benefits payable to selected members of management after the spin-off are described in “Management.”

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***You should carefully read the “Risk Factors” beginning on page 8.***

If you have any questions relating to the spin-off, you should contact EquiServe Trust Company, N.A. at:

Visteon Shareholder Services  
EquiServe Trust Company, N.A.  
P.O. Box 2747  
Jersey City, NJ 07303-2747  
Tel: (877) 881-5962 (within U.S. and Canada)  
Tel: (201) 536-8058 (outside U.S. and Canada)  
Fax: (201) 222-4177  
E-mail: [visteonteam@equiserve.com](mailto:visteonteam@equiserve.com)

After the spin-off, if you are a stockholder of Visteon and have questions relating to the spin-off, you can contact us directly. Our contact information is:

Visteon Corporation  
5500 Auto Club Drive  
Dearborn, MI 48126  
Tel: (800) 311-8608  
Fax: (313) 390-1877  
Attention: Investor Relations

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The following summary consolidated financial data reflect the historical results of operations and cash flows of the businesses that were part of the Visteon business during each respective period. Our results for 1999 and for the three months ended March 31, 2000 also are presented on a pro forma basis to give effect to the spin-off and the terms of our separation from Ford. See “Unaudited Pro Forma Condensed Consolidated Financial Statements” for additional discussion of these pro forma adjustments.

	Three Months Ended March 31,			Year Ended December 31,					
	Pro Forma 2000	2000	1999	Pro Forma 1999	1999	1998	1997	1996	1995
<b>(in millions, except per share amounts, percentages and as noted)</b>									
<b>Statement of Income Data:</b>									
Sales:									
Ford and affiliates	\$4,476	\$4,476	\$4,355	\$16,424	\$17,105	\$16,350	\$16,003	\$15,129	\$13,634
Other customers	749	749	417	2,252	2,261	1,412	1,217	1,368	1,481
Total sales	5,225	5,225	4,772	18,676	19,366	17,762	17,220	16,497	15,115
Operating income	228	253	298	539	1,189	1,134	851	620	398
Net income	124	147	205	281	735	703	511	384	245
Basic and diluted earnings per share based on									
130,000,000 shares outstanding	\$ .95	\$ 1.13	\$ 1.58	\$ 2.16	\$ 5.65	\$ 5.41	\$ 3.93	\$ 2.95	\$ 1.89
<b>Statement of Cash Flows Data:</b>									
Cash provided by (used in)									
operating activities		\$ (846)	\$ 432		\$ 2,482	\$ 1,376	\$ 1,411	\$ 1,178	n/a
Cash (used in) investing activities		(125)	(307)		(1,453)	(940)	(943)	(996)	n/a
Cash provided by (used in) financing activities		58	(100)		290	(234)	(251)	(189)	n/a
<b>Other Financial Data:</b>									
Depreciation and amortization		\$ 166	\$ 149		\$ 651	\$ 565	\$ 590	\$ 510	\$ 459
EBITDA		419	447		1,840	1,699	1,441	1,130	857
Capital spending		115	196		876	861	917	969	n/a
Capital spending as a percentage of revenue		2.2%	4.1%		4.5%	4.8%	5.3%	5.9%	n/a
After tax return on:									
Sales		2.9%	4.2%		3.9%	3.9%	3.0%	2.3%	1.6%
Average assets		5.0%	8.3%		6.9%	7.8%	6.3%	4.9%	n/a
Sales per employee (in thousands)		n/a	n/a		\$ 244	\$ 235	\$ 237	n/a	n/a
<b>At March 31,</b>									
<b>At December 31,</b>									
	Pro Forma 2000	2000	1999	1998	1997	1996	1995		
<b>(in millions)</b>									
<b>Balance Sheet Data:</b>									
Total assets		\$10,886	\$11,790	\$12,449	\$9,373	\$8,471	\$7,967	\$7,510	
Total debt		2,200	2,452	2,319	1,125	1,136	1,136	1,140	
Total equity		2,915	1,540	1,499	1,655	1,204	977	802	

“Sales per employee” includes Ford UAW employees working in Visteon facilities.

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

*You should carefully consider each of the following risks and all of the other information set forth in this prospectus. Some of the following risks relate principally to establishing our company as independent from Ford. Other risks relate principally to our business. Finally, we describe risks relating principally to the securities markets and ownership of our stock. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business.*

*If any of the following risks and uncertainties develop into actual events, this could have a material adverse effect on our business, financial condition or results of operations. In that case, the trading price of our common stock could decline.*

## **Risk Factors Relating to Establishing Our Company as Independent from Ford**

### **We may not be able to increase our non-Ford sales as much or as quickly as expected**

We cannot assure you that we will increase our non-Ford sales as we expect after our spin-off from Ford. We believe that some of Ford's competitors have been concerned that awarding contracts to us would benefit Ford and that Ford might obtain access, through us, to confidential information regarding their vehicle design and manufacturing processes. Although Ford will be divesting its ownership of Visteon in the spin-off, Ford will remain our largest customer for a significant period of time and we will continue to have a variety of contractual relationships with Ford, including the supply agreement. We also have limited experience at winning business with non-Ford customers. Accordingly, we cannot assure you as to the amount or timing of our sales to non-Ford customers.

Even if we successfully increase our sales to non-Ford customers, these sales, if any, will likely not be realized for several years because the vast majority of VM parts purchases are sourced at least several years in advance of production.

In addition, because we have historically operated as a division of Ford, substantially all of our existing contracts with our non-Ford customers were signed by Ford, not Visteon, and require the consent of the customer in order to assign or transfer the contract, including from Ford to Visteon. Although we have had discussions with all of our major non-Ford customers regarding our spin-off from Ford, we do not currently intend to seek consent from these customers to the assignment from Ford to us of their existing contracts or to enter into replacement contracts; we intend to continue to perform under these contracts as if they were made with us.

### **We must streamline and focus our product portfolio to improve our operating results, but we are limited in this regard by contractual restrictions**

We have entered into agreements with our largest unions that, as a practical matter, restrict our ability to eliminate product lines, close plants and divest businesses. These agreements also can limit our ability to change local work rules and practices at a number of our facilities. In addition, in connection with our spin-off from Ford, we have entered into a tax sharing agreement with Ford that contains restrictive covenants, including limits on our ability to make acquisitions or divestitures. These covenants generally expire two years after the spin-off. All of these restrictions could, individually or in the aggregate, have a material adverse effect on the conduct of our business and our ability to pursue our business objectives.

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### **We must increase our competitiveness to improve our operating results, but we are limited in this regard by our labor arrangements**

As part of the Ford UAW master collective bargaining agreement, we will be subject to a number of restrictions relating to employees (current and future) at our UAW-represented facilities. We are also subject to restrictions with respect to employees at our European facilities. In addition, under an agreement between Ford and us, we have agreed to reimburse Ford for the costs of the Ford employees working in our facilities. This includes amounts (limited to \$50 million per year in each of 2000-2004) for profit sharing, which may be based in whole or in part on Ford's profits. Our reimbursement obligations apply to all these employees even if we do not need or utilize all of them for any reason, including if we lose business from Ford or another VM. See "Business — Workforce" and "Relationship with Ford — Hourly Employee Assignment Agreement."

In the United States, as employees covered under the Ford collective bargaining agreement, the Visteon assigned employees earned essentially the same wages and benefits as other hourly workers under the UAW contract, including those employed by DaimlerChrysler Corporation, General Motors Corporation and Delphi Automotive Systems Corporation. Wages vary significantly among comparable Tier 1 and Tier 2 suppliers, depending on union representation, geographical location, vertical integration, and other factors. Visteon may incur wage differentials of 20-40% higher than the average competitor whose employees are not covered by a master UAW contract. Visteon's strategy includes blending such labor costs among our existing facilities worldwide to meet labor cost budgets. Despite our management of our hourly employee compensation costs resulting from these arrangements, these costs could have a material impact on our results of operations or financial condition.

### **When we operate as a separate company after the spin-off, our results may be substantially different from those indicated by our historical and pro forma financial statements**

The financial information included in this prospectus may not be representative of our results of operations, financial position and cash flows had we operated as a separate, stand-alone entity during the periods presented or of our results of operations, financial position and cash flows in the future. This is because:

- in preparing this information, we have made adjustments and allocations because Ford did not account for us as, and we were not operated as, a stand-alone business for all periods presented;
- the information does not reflect many changes that will occur in our funding and operations as a result of our spin-off from Ford;
- a pricing letter we have entered into with Ford requires a one-time 5% price reduction on products that we were supplying to Ford as of January 1, 2000 based on a market pricing review conducted by Ford and us; the pricing letter also requires productivity price adjustments in each of 2000, 2001, 2002 and 2003; we and Ford have agreed on a 3.5% productivity price reduction for 2000 on such products, which is consistent with (1) price reductions between Visteon and Ford in prior years and (2) the amount of annual productivity improvement that Ford generally expects from its other Tier 1 suppliers; although the pricing letter contains a methodology for calculating price adjustments in 2001, 2002 and 2003 (see “Relationship with Ford — Supply Agreement and Related Pricing Letter”), we cannot predict what future annual price reductions we will be required to provide to Ford; and
- we are unable to predict the level of future price reductions that may be imposed upon us by non-Ford vehicle manufacturers.

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We cannot assure you that the adjustments and allocations we have made in preparing our historical and pro forma consolidated financial statements appropriately reflect our operations during those periods as if we had in fact operated as a stand-alone entity or what the actual effect of our spin-off from Ford will be.

**Most of our management may have conflicts of interest when faced with decisions that could have different implications for our company and Ford because of their ownership of Ford stock; this could cause them to act in the interest of Ford rather than Visteon**

Most of our management own Ford stock and/or options to purchase Ford stock because of their current or prior relationships with Ford. This ownership could create, or appear to create, potential conflicts of interest when our executive officers are faced with decisions that could have different implications for our company and Ford. Our board will consist of a majority of directors who are independent from both Ford and Visteon. See “Management.”

**Provisions in our agreements with Ford could delay or prevent a change in control of our company, including an acquisition of our company, which could adversely affect the price of our common stock or cause you not to receive a premium that a potential acquiror might have otherwise paid for your shares**

Our supply agreement with Ford may be terminated by Ford if 35% or more of our company becomes owned or controlled by a competitor of Ford in the business of manufacturing automotive vehicles. Termination of the supply agreement, upon which we rely for a substantial portion of our future sales, would likely have a material adverse effect on our company. We have also entered into an agreement providing for us to indemnify Ford for tax liabilities arising out of a change in control of Visteon that occurs within two years of the spin-off. A change in control could subject Ford to material tax liabilities in connection with the spin-off; our indemnification of Ford for these amounts would likely be material to our financial condition and results of operations.

## **Risk Factors Relating to Our Business**

**We are dependent on Ford’s continued success and on maintaining our current business and winning future business with Ford; decreases in our sales to Ford will adversely affect our results**

We are highly dependent on Ford as our largest customer. Ford accounted for about 88%, 92% and 93% of our total sales in 1999, 1998 and 1997, respectively. We expect that Ford will continue to be our largest customer for the foreseeable future, and, therefore, for the foreseeable future any changes in Ford’s sales volume will have a significant impact on our sales volumes. In addition, our ability to realize future sales to Ford is subject to a number of risks. These risks include uncertainties relating to our business under the supply agreement that we have entered into with Ford. In addition, the uncertainties that we identify in this prospectus as being generally applicable to supplier-customer relationships in our industry will be heightened in the case of our relationship with Ford because it is our largest customer. Accordingly, we cannot assure you as to the amount of our future business with Ford.

Under our supply agreement with Ford, all of our existing purchase orders with Ford as of January 1, 2000 will remain in effect at least through the end of 2003, subject to Ford’s right to terminate any particular purchase order if we fail to maintain specified performance standards. The supply agreement also requires Ford to offer us the opportunity to supply on competitive terms the first

replacement cycle of existing product programs. When bidding on this replacement business, other suppliers' bids may include offers of substantial price reductions to Ford on

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these products or new technologies that Visteon does not offer. To the extent we cannot match these terms or product offerings, we may not win the replacement business.

**We are required to provide price reductions to Ford and other customers, but we have significant restrictions on our ability to achieve corresponding cost reductions; if we are unsuccessful, our gross margins will be adversely affected**

VMs are applying substantial and continuing pressure on suppliers like Visteon to reduce the price of suppliers' products. As a result, we are forced to reduce prices both in the initial bidding process and during the term of the contractual arrangements. Our pricing letter with Ford requires price reductions. In addition to these price reductions, we have agreed to use our best efforts to achieve design and engineering improvements in our products sold to Ford so as to further reduce their cost to Ford by 1.5% to 2.5% each year. We do not believe that we can fully offset the 2000 price reductions with cost reductions. As a result, we expect our profitability in 2000 and beyond to be significantly lower than that achieved in our 1999 actual results. During the terms of the current UAW contract and the next two renewals, we will be restricted in our ability to significantly reduce our UAW labor costs from period-to-period. We cannot assure you that we will be able to generate cost savings and operational improvements in the future sufficient to offset required price reductions and price reductions necessary to win additional business. As a result, our gross margins could be adversely affected. Alternatively, if we are unwilling to reduce our margins to win business, our products may not be priced competitively, and this may reduce our sales and have an adverse effect on our results of operations.

VMs often seek further price reductions on existing contracts with a supplier in the context of awarding new business to that supplier. In addition, our ability to pass increased raw material costs on to our customers is limited, with cost recovery generally less than 100% and often on a delayed basis.

**We are subject to work stoppages at our facilities or those of our principal customers, which could seriously impact our business**

We may experience work stoppages at our facilities. As of December 31, 1999, about 75% of our hourly workforce was represented by about 29 unions, including the UAW, which is our largest union. It is likely that our hourly workforce will remain highly unionized for the foreseeable future. A work stoppage at one or more of our plants may have a material adverse effect on our business.

If one or more of our customers, particularly Ford, experiences a material work stoppage, that customer may halt or limit purchases of our products. This could cause us to shutdown production facilities relating to those products, which could have a material adverse effect on our business.

**If we are unable to realize our business strategy of improving our operating performance, our results will be adversely affected**

We continue to implement several important strategic initiatives designed to improve our operating performance. We cannot assure you that we will be able to successfully implement or realize the expected benefits of any of these initiatives or that we will be able to sustain any improvements we have made. In addition, the Ford UAW agreement may limit our ability to improve our operating performance. If we are not successful at these initiatives, this would have a material adverse effect on our business, particularly because we rely on these initiatives to offset pricing pressures from our customers. These initiatives are subject in many cases to participation by labor unions and other third parties, including Ford.

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**We may incur unrecovered costs relating to engineering expenses and may incur additional substantial costs for new tooling expenses, reducing our margins and affecting our liquidity and cash flows**

As VMs have looked to suppliers to bear increasing responsibility for the design, engineering and manufacture of automotive systems, they have systematically shifted both financial risk and potential liability associated with those systems to the suppliers as well. This trend is likely to continue, and is most evident in the areas of engineering cost reimbursement, sharing of product warranty and recall costs and product liability. More recently, VMs have discussed the possibility of also shifting to suppliers costs and risks related to program tooling.

New vehicle programs require significant up-front investments in engineering, design and tooling. Historically, these investments were fully reimbursed by the VM. Over the past few years, VMs have moved away from lump sum reimbursement of

engineering expenses toward reimbursement of these expenses on a per component, or piece price, basis. Because this form of reimbursement requires the supplier to recoup its investment in engineering and tooling through anticipated component sales, piece price reimbursement has the effect of delaying reimbursement and shifting volume risk associated with the vehicle program from the VM to the supplier.

Recently, VMs have begun discussions with their suppliers to similarly shift costs of program tooling. Traditionally, VMs have fully reimbursed suppliers for, and retained ownership of, all tooling relating to their vehicle programs. The VMs' strategy to transfer ownership and costs of tooling of suppliers represents a material change in the way suppliers have historically conducted business with the VMs. Specifically, Ford has informed us that it desires to cease reimbursing us (as well as other Tier 1 suppliers) for tooling in connection with products produced for Ford. With respect to other Ford-owned tooling, Ford has agreed that we will be treated in accordance with Ford's global terms and conditions, to be treated by Ford as any other third party supplier, and in accordance with customary practice. To the extent that we are required to accept revised tooling terms, we will, as in the case of engineering expenses, assume volume and cancellation risks associated with that investment. Furthermore, while we would hope to recover our tooling investment through component piece pricing over the life of the program, we have no guarantee that this piece price reimbursement formula will properly reflect our cost of capital over the life of the program. The need to finance this additional tooling could have a material impact on our liquidity. In addition, we would be required to amortize the cost of this tooling over a relatively short time, generally three to five years.

### **Our business is highly cyclical and our results would be adversely impacted by a downturn in general economic conditions**

Almost all of our business is directly related to automotive sales and production by our customers, which are highly cyclical and depend on general economic conditions and other factors, including consumer spending and preferences. Because a large portion of our costs are fixed, as opposed to variable, we are particularly susceptible to cyclical declines in demand for our products. The global economy, in particular the United States economy, where the majority of our sales are concentrated, has been expanding at a rapid rate in recent years. This expansion has created increased consumer income and wealth, which generally leads to increased automobile purchases. If the economy in any of our major markets were to experience a slowdown or a downturn, this would likely result in reduced demand for automobiles and cause our customers to reduce their automotive production, which would have a material adverse effect on our business.

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### **The automotive parts industry is very competitive; we may be unable to compete favorably, causing us to lose sales to our competitors**

We compete with a number of automotive parts suppliers that produce systems, modules and components for sale to VMs and in the aftermarket as replacement parts. Most of our competitors have lower cost structures, particularly with respect to wages and benefits, than our company. They may also be more able to close underperforming facilities or otherwise rationalize their operations. In addition, there is no contractual prohibition preventing Ford from competing with us in the future.

### **Vehicle manufacturers are implementing Internet-based purchasing initiatives; this may increase pressure on the prices we charge VMs, reducing our margins**

Recently, Ford, General Motors, DaimlerChrysler, Renault and Nissan announced an initiative to establish an Internet-based marketplace for most, if not all, of their purchases. It is likely that other major VMs will join this marketplace or announce competing initiatives. Although relatively little automotive parts purchasing is currently conducted via the Internet, it is likely that it will increase in the future. The VMs believe that these initiatives will lead to increased competition among automotive parts suppliers. If these or other initiatives do increase competition and lower the prices VMs are willing to pay for automotive parts, this could have a significant material adverse effect on our business and results of operations. We cannot assure you that we will be able to compete favorably or that increased competition in our markets will not have a material adverse effect on our business.

### **Because of uncertainties relating to our awarded business, we may be unable to realize all of the sales represented by our awarded business, in which case our sales may be lower than expected**

The realization of future sales from awarded business with any VM is subject to a number of important risks and uncertainties, including the following:

- the volume of vehicle models and specific vehicle options actually produced by the VM which, in turn, are subject to a number of significant risks outlined below;
- the determination by the VM to delay or cancel a particular vehicle program for which it has sourced business with the supplier or to change the option mix within the program;
- the VM's contractual right to replace the supplier throughout the duration of the contract for a variety of reasons, including if the supplier does not remain competitive in terms of quality, service, design, technology and, in some circumstances, price;

- the VM's contractual right to terminate the contract altogether; although this right varies by contract, some contracts, generally shorter-term purchase orders, are terminable by the VM at any time for any reason;
- the VM's decision to redesign a vehicle model and not to select the initial supplier to supply any or all of the same parts it was providing on the previous vehicle model; and
- product pricing, including price reductions on existing contracts negotiated in connection with the VM's sourcing of new business with the supplier.

The actual production volumes and option mix of vehicles produced by VM customers depend on a number of factors that are beyond a supplier's control. These include:

- general economic conditions;
- consumer preferences for particular vehicles or vehicle features;

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- labor difficulties or work stoppages and any related recoveries of production; and
- capital planning and other factors specific to a particular VM.

### **Because a large portion of our operations and sales are outside of the United States, our operations may be affected by conditions in international markets, which are often more volatile than in the United States**

We have substantial manufacturing operations in different regions of the world. In addition, we sell our products to vehicle manufacturers and other customers around the world, and the automobiles in which our products are assembled are sold in different regions of the world. In 1999, we derived about 23.5% of our sales from international operations. Economic and other conditions may vary from region to region. Operations in international markets also present increased risks, such as:

- currency exchange fluctuations, which may directly affect our operations or result in currency translation impacts on our financial results;
- inflationary economies;
- in some countries where we operate, economic and monetary conditions or legal restrictions could affect our ability to convert our earnings to United States dollars or to remove funds from those countries;
- tax consequences resulting from repatriating funds to the United States from other countries;
- the need to comply with a variety of foreign laws and regulations; and
- potential difficulties in enforcing intellectual property rights in some foreign countries.

We cannot assure you that we will be successful in managing these risks. An important part of our strategy is to be able to supply products worldwide for vehicle manufacturers' global platforms; this may increase our risks. If we are not successful in managing these risks, this could have a material adverse effect on our international operations or our business as a whole.

### **We may incur material losses and costs as a result of product liability claims that may be brought against us, or as a result of product recalls**

We face an inherent business risk of exposure to product liability claims in the event that the failure of our products results, or is alleged to result, in property damage, bodily injury and/or death. We cannot assure you that we will not experience any material product liability losses in the future or that we will not incur significant costs to defend these claims. We are currently covered by Ford's insurance against product liability claims; this coverage will continue until the spin-off. We expect to purchase product liability insurance coverage, to be effective at the time the Ford coverage ceases. However, we cannot assure you that this coverage will be adequate for liabilities ultimately incurred or that it will continue to be available on terms acceptable to us. In addition, if any of our products are, or are alleged to be, defective, we may be required to participate in a recall involving those products. Each VM has its own policy regarding product recalls and other product liability actions relating to its suppliers. However, as suppliers become more integrally involved in the vehicle design process and assume more vehicle assembly functions, VMs are increasingly looking to their suppliers for contribution when faced with product recalls or product liability claims. A successful claim brought against us in excess of our available insurance coverage or a requirement to participate in a product recall may have a material adverse effect on our business.

In connection with our spin-off from Ford, we will have responsibility for product liability claims and product recalls involving our products used in 1997 and later model year Ford

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vehicles as described in “Relationship with Ford — Master Transfer Agreement — Division of Liabilities.”

**We may incur material product warranty costs**

Currently, VMs customarily absorb the cost of warranty claims arising under and during the specific base warranty offered to consumers. For vehicles sold in the United States, this base warranty period, depending on the vehicle model, generally ranges from 3 years or 36,000 miles to 5 years or 60,000 miles, in each case, whichever comes first. Under its agreements with VMs, Visteon is responsible for claims arising from abnormal base warranty experience traceable to specific components or systems manufactured, supplied or assembled by Visteon. Abnormal base warranty claims are those that are in excess of those projected by VMs. These projections are customarily based on experience with earlier product models or contemporaneous experience with a similar product type supplied by another supplier. In some cases, we and the VM may agree on a sharing arrangement with respect to abnormal warranty claims. We do not have increased exposure for extended warranty coverage purchased by consumers.

VMs are increasingly requiring their outside suppliers to guarantee or warrant their products and to bear the costs of repair and replacement of those products under new vehicle base warranties. Because this is a new trend in our industry and we have only limited experience in this regard, we cannot assure you that our costs associated with providing product warranties will not be material.

In connection with our spin-off from Ford, we will have responsibility for warranty claims involving our products used in 1997 and later model year Ford vehicles as described in “Relationship with Ford — Master Transfer Agreement — Division of Liabilities.”

**We may incur material remediation or other obligations or liabilities as a result of environmental and safety regulations**

We are subject to the requirements of federal, state and local environmental and occupational safety and health laws and regulations in the United States and other countries. In addition to the sites that have been transferred to us and our operation of those sites, we are responsible or may be responsible for remediation at several third party disposal or treatment facilities to which we are alleged to have contributed wastes or which we have agreed to remediate pursuant to the superfund regulations. We cannot assure you that we have been or will be at all times in complete compliance with all of these requirements or that we will not incur material costs or liabilities in connection with these requirements or in connection with remediation at Visteon-owned sites or third party sites where it has been alleged that Visteon has liability, in excess of amounts we have reserved. In addition, these requirements are complex, change frequently and have tended to become more stringent over time, and we cannot assure you that these requirements will not change in the future in a manner that could have a material adverse effect on our business. We have made and will continue to make capital and other expenditures to comply with environmental requirements.

**Risk Factor Relating to Securities Markets**

**Our stock price may fluctuate significantly following the spin-off; stockholders who buy or sell our common stock may lose all or part of the value of their common stock, depending on the price of the common stock from time to time**

Before June 8, 2000, there was no public market for our common stock. On that date, trading of shares of our common stock on a “when issued” basis began. Our common stock trades on the New York Stock Exchange under the symbol “VC.”

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After the spin-off, trading prices for our common stock will be established by the public markets — we have not established a price for the common stock. An active trading market may not develop or be sustained in the future.

We cannot predict the prices at which our common stock may trade after the spin-off. The market price of our common stock may fluctuate significantly due to a number of factors, some of which may be beyond our control, including:

- our business profile may not fit the investment objectives of Ford stockholders, causing them to sell our shares after the spin-off; this is particularly true of Ford stockholders who hold Ford stock based on its inclusion in the S&P 500 Index — we have been advised that it is unlikely that our common stock will be included in the S&P 500 Index;
- actual or anticipated fluctuations in our operating results;

- changes in earnings estimated by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- overall market fluctuations;
- developments in and publicity regarding the automotive industry, the automotive parts industry or any of our significant customers, particularly Ford; and
- economic conditions.

In particular, the realization of any of the risks described in these “Risk Factors” could have a significant and adverse impact on the market price of our common stock. In addition, the stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock, regardless of our actual performance.

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**SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS**

We have made forward-looking statements in this prospectus, including in the sections entitled “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business,” that are based on our management’s beliefs and assumptions and on information currently available to our management. Forward-looking statements include the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, benefits resulting from our spin-off from Ford, the effects of competition and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words “believe,” “expect,” “plan,” “intend,” “anticipate,” “estimate,” “predict,” “potential,” “continue,” “may,” “will,” “should” or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements after we distribute this prospectus.

The risk factors discussed in “Risk Factors” could cause our results to differ materially from those expressed in forward-looking statements. There may also be other risks that we are unable to predict at this time.

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**THE SPIN-OFF**

**Reasons for the Spin-Off**

In January of this year, Ford announced as one of its milestones the goal for Visteon to achieve independence. Ford has concluded that the spin-off is in the best interests of Ford, the Visteon business and Ford stockholders, because:

- as an independent company, Visteon will be better able to pursue business with non-Ford customers;
- it will reduce Ford’s automotive assets and capital requirements;
- it will provide Visteon’s management increased strategic flexibility and decision-making power, including the ability to manage Visteon’s product portfolio over the long-term based on Visteon’s own strategic objectives;
- having two separate public companies will enable the financial markets to evaluate each company more effectively, thereby maximizing stockholder value over the long term for both Ford and Visteon;
- separate management and ownership structures for Visteon will provide incentives to Visteon’s management and direct accountability to public investors; and
- a spin-off allows Visteon to achieve independence in the shortest possible time.

**The Separation of Visteon from Ford**

We are currently a wholly-owned subsidiary of Ford. We were incorporated in Delaware on January 5, 2000 in preparation for our spin-off from Ford. Ford has contributed or otherwise transferred to us generally all of the assets, and we have assumed generally all of the liabilities, comprising the Visteon business. We call this transfer of assets and assumption of liabilities the “separation.” We and Ford have agreed to transfer legal title to any remaining assets and any remaining liabilities of the Visteon business not transferred prior to the spin-off, most of which are foreign assets and liabilities subject to regulatory and other delays, as soon as practicable. In the interim, we will operate and receive the economic benefits of (and bear the economic burdens of) these assets. These assets are not, individually or in the aggregate, material to our company. The information included in this prospectus, including our consolidated financial statements, assumes the completion of all of these transfers.

## **Description of the Spin-Off**

Ford will effect the spin-off on or about June 28, 2000 by distributing on a pro rata basis all the shares of Visteon common stock that it owns (130,000,000 shares) to holders of record of Ford common or Class B stock at the close of business on June 12, 2000, the record date for the spin-off. Holders of shares of our common stock will not be entitled to preemptive rights. See “Description of Capital Stock.”

Based on the total number of shares of Ford common and Class B stock outstanding at the close of business on the record date for the spin-off (\_\_\_\_ shares), each record holder of Ford common or Class B stock will receive \_\_\_\_ shares of our common stock for each share of Ford common or Class B stock held at the close of business on the record date.

As part of the spin-off, we will be adopting a book-entry share transfer and registration system for our common stock. Instead of receiving physical share certificates, registered holders of eight or more shares of Ford common or Class B stock on the record date, will have their shares of Visteon common stock distributed on the date of the spin-off credited to book-entry accounts established for them by EquiServe. EquiServe will mail an account statement to each

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such registered holder stating the number of shares of Visteon common stock credited to the holder’s account. After the spin-off, any holder may request:

- a transfer of all or a portion of their Visteon shares to a brokerage or other account; and
- receipt of one or more physical share certificates representing their Visteon shares.

Registered holders of fewer than eight shares of Ford common and Class B stock on the record date, which would entitle them to receive less than one whole share of Visteon common stock, will receive cash in lieu of fractional shares. EquiServe will aggregate all of these fractional shares and sell them in the open market at then prevailing prices on behalf of these holders. These holders will receive cash payments in the amount of their proportionate share of the total sale proceeds from the sale of the aggregated fractional shares, based upon the average gross selling price per share of Visteon common stock. See “— Material Federal Income Tax Consequences of the Spin-Off.” Ford will bear the cost of commissions incurred in connection with these sales. We anticipate that these sales will occur as soon after the date of the spin-off as practicable. None of Ford, Visteon or EquiServe will guarantee any minimum sale price for the fractional shares of Visteon common stock. Neither we nor Ford will pay any interest on the proceeds from the sale of fractional shares.

If you become a registered holder of our common stock in connection with the spin-off and you prefer to receive one or more physical share certificates representing your shareholding of our common stock, you will receive one or more certificates for all whole shares of Visteon common stock and, if applicable, cash for any fractional interest. EquiServe will mail you certificates representing your proportionate number of whole shares of our common stock as soon after the date of request as practicable.

For those holders of Ford common or Class B stock who hold their shares through a broker, bank or other nominee, EquiServe will credit the shares of our common stock to the accounts of those nominees who are registered holders, who, in turn, will credit their customers’ accounts with our common stock. We and Ford anticipate that brokers, banks and other nominees will generally credit their customers’ accounts with Visteon common stock on or shortly after June 28, 2000.

## **Material Federal Income Tax Consequences of the Spin-Off**

The following is a summary of the material U.S. federal income tax consequences relating to Visteon’s spin-off from Ford. This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), the Treasury regulations promulgated thereunder, and interpretations of the Code and the Treasury regulations by the courts and the IRS, in effect as of the date of this prospectus. This summary does not discuss all the tax considerations that may be relevant to Ford stockholders in light of their particular circumstances, nor does it address the consequences to Ford stockholders subject to special treatment under the U.S. federal income tax laws (such as tax-exempt entities, non-resident alien individuals and foreign corporations, foreign trusts and estates and beneficiaries thereof). In addition, this summary does not address the U.S. federal income tax consequences to those Ford stockholders who do not hold their Ford common or Class B stock as a capital asset. Finally, this summary does not address any state, local or foreign tax consequences. Ford stockholders are urged to consult their own tax advisors as to the particular tax

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It is the opinion of Davis Polk & Wardwell that, for U.S. federal income tax purposes, the spin-off should qualify under Section 355 of the Code as a tax-free distribution. The consequences of a tax-free distribution are as follows:

- no gain or loss will be recognized by (and no amount will be included in the income of) Ford stockholders upon their receipt of shares of Visteon common stock in the spin-off;
- any cash received in lieu of fractional share interests in Visteon will give rise to gain or loss equal to the difference between the amount of cash received and the tax basis allocable to the fractional share interests (determined as described below), and such gain or loss will be capital gain or loss if the Ford stock on which the distribution is made is held as a capital asset on the date of the spin-off;
- the aggregate basis of the Ford stock and the Visteon common stock in the hands of each Ford stockholder after the spin-off (including any fractional interests to which the stockholder would be entitled) will equal the aggregate basis of Ford stock held by the stockholder immediately before the spin-off, allocated between the Ford stock and the Visteon common stock in proportion to the relative fair market value of each on the date of the spin-off; and
- the holding period of the Visteon common stock received by each Ford stockholder will include the period during which the stockholder has held the Ford stock on which the distribution is made, provided that the Ford stock is held as a capital asset on the date of the spin-off.

Opinions of counsel are not binding on the IRS or the courts. Whether a spin-off qualifies as tax-free depends in part upon the reasons for the spin-off and satisfaction of numerous other fact-based requirements. In rendering the above opinion regarding the tax-free status of the spin-off, Davis Polk & Wardwell has relied in part upon Ford's representations as to these matters. If the spin-off does not qualify as tax-free, the fair market value of the shares of our common stock received by Ford's stockholders would be taxable as a dividend to the extent of current-year and accumulated earnings and profits.

U.S. Treasury regulations require each stockholder that receives stock in a spin-off to attach to the stockholder's U.S. federal income tax return for the year in which the spin-off occurs a detailed statement setting forth information relating to the tax-free nature of the spin-off. Shortly after the spin-off, Ford will provide stockholders who will receive Visteon shares in the spin-off with the information necessary to comply with that requirement.

**You should consult your tax adviser regarding the particular federal, foreign, state and local tax consequences of the spin-off to you.**

For a description of the agreements under which we and Ford have provided for tax sharing and other tax matters, see "Relationship with Ford — Tax Sharing Agreement."

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## CAPITALIZATION

Set forth below is the pro forma capitalization of Visteon as of March 31, 2000, adjusted to give effect to the spin-off and the terms of our separation from Ford, as more fully described in "Unaudited Pro Forma Condensed Consolidated Financial Statements" beginning on page 24.

	<b>Pro Forma At March 31, 2000</b>
	<b>(in millions)</b>
Cash and cash equivalents	\$ 700
Debt payable within one year	\$ 800
Long-term debt	1,400
Total debt	2,200
Common stock and additional paid in capital	3,019

Accumulated other comprehensive income	(104)
Total equity	2,915
Total capitalization	\$5,115

## **DIVIDEND POLICY**

Our board of directors currently intends to declare quarterly dividends on our common stock, with the first quarterly dividend expected to be \$0.06 per share, or a rate of \$0.24 per share annually, declared and paid in the third quarter of 2000. Our board is free to change our dividend practices at any time, including to increase, decrease or eliminate our dividend. The board will base its decisions on, among other things, general business conditions, our financial results, contractual, legal and regulatory restrictions regarding dividend payments by our subsidiaries and any other factors the board may consider to be relevant.

## **USE OF PROCEEDS**

Since this is not an offering for cash, there will be no proceeds from the spin-off.

## **RECENT DEVELOPMENT**

On June 2, 2000, Visteon and Ford signed a non-binding letter of intent with Pilkington plc, relating to Visteon's Glass business. The parties have agreed to negotiate the terms of a joint venture, pursuant to which Pilkington would acquire about 81% of Visteon's Glass business for cash consideration and would assume operational management of that business.

For the year ended December 31, 1999, the Glass segment represented 6% of Visteon's average assets, 4% of Visteon's total sales and less than one half of one percent of Visteon's net income. Visteon's Carlite® aftermarket operations would be included in the business to be transferred to the joint venture. In connection with the transaction, Ford would enter into a separate supply agreement with the joint venture, which would supersede Ford's supply agreement with Visteon. If a definitive agreement is reached, we expect to complete this transaction during 2000. If completed, and dependent upon the terms ultimately agreed to, this transaction would likely result in Visteon incurring a significant charge to earnings. However, the letter of intent is non-binding, and we cannot assure you that a definitive agreement will be reached, or that it will not differ materially from the description above.

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## **SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated financial data reflect the historical results of operations and cash flows that were part of the Visteon business during each respective period. The historical consolidated statement of income data set forth below do not reflect many significant changes that will occur in the operations and funding of our company as a result of our spin-off from Ford. The historical consolidated balance sheet data set forth below reflect the assets and liabilities that were or are expected to be transferred to our company in accordance with the master transfer agreement.

The selected consolidated financial data should be read in conjunction with, and are qualified by reference to, "Unaudited Pro Forma Condensed Consolidated Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and accompanying notes included elsewhere in this prospectus. The consolidated statement of income and cash flow data set forth below for each of the three years in the period ended December 31, 1999, and the consolidated balance sheet data as of December 31, 1998 and 1999, are derived from the audited consolidated financial statements included elsewhere in this prospectus, and should be read in conjunction with those consolidated financial statements and the accompanying notes. The consolidated statement of income and cash flow data for the year ended December 31, 1996 and the consolidated balance sheet data as of December 31, 1997 are derived from, and qualified by reference to, audited consolidated financial statements which are not included in this prospectus. The consolidated statement of income and cash flow data for the year ended December 31, 1995 and the consolidated balance sheet data as of December 31, 1995 and 1996 are derived from unaudited consolidated financial statements not included in this prospectus, which in our opinion include all adjustments necessary for a fair presentation of the results for those periods. The consolidated statement of income and cash flows data for the three months ended March 31, 1999 and 2000, and the consolidated balance sheet data as of March 31, 2000, are derived from unaudited consolidated financial statements included in this prospectus, which in our opinion include all adjustments necessary for a fair presentation of the results for those periods. Results for the three months ended March 31, 2000 are not necessarily indicative of results that may be expected for the full year.

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

	Three Months Ended March 31,		Year Ended December 31,				
	2000	1999	1999	1998	1997	1996	1995
(in millions, except per share amounts, percentages and as noted)							
<b>Statement of Income Data:</b>							
Sales:							
Ford and affiliates	\$4,476	\$4,355	\$17,105	\$16,350	\$16,003	\$15,129	\$13,634
Other customers	749	417	2,261	1,412	1,217	1,368	1,481
Total sales	5,225	4,772	19,366	17,762	17,220	16,497	15,115
Costs and expenses:							
Costs of sales	4,795	4,341	17,503	15,969	15,794	15,392	14,234
Selling, administrative and other expenses	177	133	674	659	575	485	483
Total costs and expenses	4,972	4,474	18,177	16,628	16,369	15,877	14,717
Operating income	253	298	1,189	1,134	851	620	398
Interest income	25	22	79	38	17	16	11
Interest expense	48	23	143	82	82	79	69
Net interest expense	(23)	(1)	(64)	(44)	(65)	(63)	(58)
Equity in net income of affiliated companies	7	16	47	26	29	47	30
Income before income taxes	237	313	1,172	1,116	815	604	370
Provision for income taxes	86	112	422	416	305	223	130
Income before minority interests	151	201	750	700	510	381	240
Minority interests in net income (loss) of subsidiaries	4	(4)	15	(3)	(1)	(3)	(5)
Net income	\$ 147	\$ 205	\$ 735	\$ 703	\$ 511	\$ 384	\$ 245
Basic and diluted earnings per share based on 130,000,000 shares outstanding	\$ 1.13	\$ 1.58	\$ 5.65	\$ 5.41	\$ 3.93	\$ 2.95	\$ 1.89
<b>Statement of Cash Flows Data:</b>							
Cash provided by (used in) operating activities	\$ (846)	\$ 432	\$ 2,482	\$ 1,376	\$ 1,411	\$ 1,178	n/a
Cash (used in) investing activities	(125)	(307)	(1,453)	(940)	(943)	(996)	n/a
Cash provided by (used in) financing activities	58	(100)	290	(234)	(251)	(189)	n/a
<b>Other Financial Data:</b>							
Depreciation and amortization	\$ 166	\$ 149	\$ 651	\$ 565	\$ 590	\$ 510	\$ 459
EBITDA	419	447	1,840	1,699	1,441	1,130	857
Capital spending	115	196	876	861	917	969	n/a
Capital spending as a percentage of revenue	2.2%	4.1%	4.5%	4.8%	5.3%	5.9%	n/a
After tax return on:							
Sales	2.9%	4.2%	3.9%	3.9%	3.0%	2.3%	1.6%
Average assets	5.0%	8.3%	6.9%	7.8%	6.3%	4.9%	n/a
Sales per employee (in thousands)	n/a	n/a	\$ 244	\$ 235	\$ 237	n/a	n/a
	<b>At March 31,</b>		<b>At December 31,</b>				
	<b>2000</b>		<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>
(in millions)							
<b>Balance Sheet Data:</b>							
Total assets	\$11,790		\$12,449	\$9,373	\$8,471	\$7,967	\$7,510
Total debt	2,452		2,319	1,125	1,136	1,136	1,140
Total equity	1,540		1,499	1,655	1,204	977	802

“Sales per employee” includes Ford UAW employees working in Visteon facilities.

“EBITDA” is defined as income before provision for interest expense and interest income, income taxes, depreciation and amortization, equity in net income of affiliated companies and minority interests. EBITDA is not presented as an alternative measure of operating results or cash flow from operations, as determined in accordance with generally accepted accounting principles, but is presented because we believe it is a widely accepted indicator of our ability to incur and service debt. EBITDA

does not give effect to cash used for debt service requirements and thus does not reflect funds available for dividends, reinvestment or other discretionary uses. In addition, EBITDA as presented in this prospectus may not be comparable to similarly titled measures reported by other companies.

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**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

These unaudited pro forma condensed consolidated financial statements of Visteon were derived from the application of pro forma adjustments to our consolidated financial statements and give effect to the terms related to our separation and spin-off from Ford. The unaudited pro forma condensed consolidated statement of income for the three months ended March 31, 2000 and the year ended December 31, 1999 have been prepared as if the spin-off and our separation from Ford had occurred as of January 1, 1999. The unaudited pro forma condensed consolidated balance sheet as of March 31, 2000 has been prepared as if the spin-off and our separation from Ford had occurred as of March 31, 2000.

The following unaudited pro forma condensed consolidated income statements do not purport to be indicative of what our operations would have been had the spin-off and our separation from Ford taken place on the dates indicated. In addition, the results for the three months ended March 31, 2000 are not necessarily indicative of results that may be expected for the full year. The following unaudited pro forma condensed consolidated balance sheet does not purport to be representative of what our financial position would have been had the spin-off and our separation from Ford taken place on the date indicated.

These unaudited pro forma condensed consolidated financial statements should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited historical financial statements and the related notes included elsewhere in this prospectus. Additional unaudited pro forma information on a quarterly basis and by segment is presented in Annex A.

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**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME**

**For the Three Months Ended March 31, 2000**

**(in millions, except per share amounts)**

	<u>Historical</u>	<u>Adjustments</u>	<u>Notes</u>	<u>Pro Forma</u>
<b>Sales</b>				
Ford and affiliates	\$4,476	—		\$4,476
Other customers	749	—		749
	<u>5,225</u>	<u>—</u>		<u>5,225</u>
<b>Costs and expenses</b>				
Costs of sales	4,795	(2)	(1)	4,793
Selling, administrative and other expenses	177	3	(1)	
		24	(2)	204
	<u>4,972</u>	<u>25</u>		<u>4,997</u>
<b>Operating income</b>	253	(25)		228
Interest income	25	(15)	(3)	10
Interest expense	48	(3)	(4)	45
	<u>(23)</u>	<u>(12)</u>		<u>(35)</u>
Equity in net income of affiliated companies	7	—		7
	<u>237</u>	<u>(37)</u>		<u>200</u>
Provision for income taxes	86	(14)	(5)	72
	<u>151</u>	<u>(23)</u>		<u>128</u>
Minority interests in net income of subsidiaries	4	—		4
	<u>\$ 147</u>	<u>\$(23)</u>		<u>\$ 124</u>
<b>Basic and diluted earnings per share based on 130,000,000 shares</b>	<u>\$ 1.13</u>	<u>—</u>		<u>\$ .95</u>

outstanding

**For the Year Ended December 31, 1999**

**(in millions, except per share amounts)**

	Historical	Adjustments	Notes	Pro Forma
<b>Sales</b>				
Ford and affiliates	\$17,105	(681)	(6)	\$16,424
Other customers	2,261	(9)	(6)	2,252
Total sales	19,366	(690)		18,676
<b>Costs and expenses</b>				
Costs of sales	17,503	(146)	(7)	
		4	(1)	17,361
Selling, administrative and other expenses	674	8	(1)	
		94	(2)	776
Total costs and expenses	18,177	(40)		18,137
<b>Operating income</b>				
	1,189	(650)		539
Interest income	79	(44)	(3)	35
Interest expense	143	33	(4)	176
Net interest expense	(64)	(77)		(141)
Equity in net income of affiliated companies	47	—		47
<b>Income before income taxes</b>				
	1,172	(727)		445
Provision for income taxes	422	(273)	(5)	149
<b>Income before minority interests</b>				
	750	(454)		296
Minority interests in net income of subsidiaries	15	—		15
<b>Net income</b>				
	\$ 735	\$(454)		\$ 281
<b>Basic and diluted earnings per share based on 130,000,000 shares outstanding</b>				
	\$ 5.65			\$ 2.16

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.

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**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET DATA**

**As of March 31, 2000**

**(in millions)**

	Historical	Adjustments	Notes	Pro Forma
<b>Assets</b>				
Cash and cash equivalents	\$ 943	\$ (967)	(8)	
		(791)	(9)	
		1,659	(10)	
Accounts and notes receivable — Ford and affiliates	1,798	(144)	(11)	\$ 700
Accounts receivable — other customers	806	—	(8)	2,050
Total receivables	2,604	252		2,856
Inventories	743	—		743
Deferred income taxes	106	(29)	(15)	77
Prepaid expenses and other current assets	276	(174)	(12)	
		(4)	(14)	98
Total current assets	4,672	(198)		4,474
Equity in net assets of affiliated companies	209	—		209
Net property	5,730	—		5,730
Deferred income taxes	189	(189)	(15)	—

Other assets	990	(399)	(12)	473
		(118)	(14)	
Total assets	\$11,790	\$ (904)		\$10,886
<b>Liabilities and Equity</b>				
Trade payables — Ford and affiliates	\$ 983	\$ (715)	(8)	\$ 268
Trade payables — other suppliers	1,747	—		1,747
Total trade payables	2,730	(715)		2,015
Accrued liabilities	1,021	(88)	(14)	933
Income taxes payable	1	—		1
Debt payable within one year — Ford and affiliates	682	(682)	(9)	—
Debt payable within one year — other	344	456	(10)	800
Total debt payable within one year	1,026	(226)		800
Total current liabilities	4,778	(1,029)		3,749
Long-term debt — Ford and affiliates	1,229	(109)	(9)	—
		(1,120)	(13)	—
Long-term debt — other	197	1,203	(10)	1,400
Total long-term debt	1,426	(26)		1,400
Other liabilities	4,034	(1,511)	(14)	2,523
Deferred income taxes	12	287	(15)	299
Total liabilities	10,250	(2,279)		7,971
<b>Equity</b>				
Common stock and additional paid in capital	—	3,019	(16)	3,019
Ford's net investment	1,644	(144)	(11)	—
		(573)	(12)	—
		1,120	(13)	—
		1,477	(14)	—
		(505)	(15)	—
		(3,019)	(16)	—
Accumulated other comprehensive income	(104)	—		(104)
Total equity	1,540	1,375		2,915
<b>Total liabilities and equity</b>	<b>\$11,790</b>	<b>\$ (904)</b>		<b>\$10,886</b>

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

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**NOTES TO UNAUDITED PRO FORMA CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS**

The following pro forma adjustments were made to reflect the terms related to our separation and spin-off from Ford:

- (1) Reflects the estimated net incremental expense associated with the agreements between Visteon and Ford regarding employee benefit obligations, as described in “Relationship with Ford” and note 14 below:

	Three Months Ended March 31, 2000	Year Ended December 31, 1999
	(in millions)	
Pension-related costs	\$ 39	\$ 110
Postretirement benefit other than pensions	(38)	(98)
Total	\$ 1	\$ 12
Portion attributable to:		
Costs of sales	\$ (2)	\$ 4
Selling, administrative and other expenses	3	8

- (2) Reflects an estimate of the net incremental selling, administrative and other expenses associated with operating Visteon as a stand-alone company. This estimate mainly represents additional costs for personnel and purchased services such as information technology, human resource administration, legal and corporate communications as well as incremental insurance and risk management costs.

Although this adjustment is based upon available information and assumptions that management believes are reasonable, Visteon may incur greater than expected selling, administrative and other expenses in connection with operating as a stand-alone company.

One-time expenses related to Visteon's spin-off from Ford are expected to total \$60 million in 2000. Since these expenses are non-recurring, they have not been included in this pro forma adjustment.

- (3) Reflects lower interest income due to reductions in Visteon's pro forma cash balance, assuming a 5% and 5.5% annual rate of return for the year ended December 31, 1999 and the three months ended March 31, 2000, respectively, after the spin-off from Ford.
- (4) Reflects adjustments to interest expense associated with expected average debt levels after the spin-off from Ford. Interest expense has been calculated using an 8% and 8.1% annual interest rate for the year ended December 31, 1999 and the three months ended March 31, 2000, respectively. A 1/8% change to the annual interest rate would change interest expense by about \$2.75 million and \$700,000 for the year ended December 31, 1999 and the three months ended March 31, 2000, respectively.
- (5) Reflects the tax effect of the pro forma adjustments using our historical effective tax rate of 37.5%, which is our estimate of Visteon's stand-alone effective tax rate.
- (6) Reflects a one-time 5% price reduction, effective as of January 1, 2000, on products that Visteon was supplying to Ford, directly or indirectly, on that date, based on a market pricing review conducted by Ford and Visteon, as described in "Relationship with Ford."
- (7) Reflects an adjustment to profit sharing expense incurred in 1999. As described in "Relationship with Ford," Visteon will reimburse Ford for wage, benefit and other costs incurred by Ford related to Visteon-designated employees of Ford covered by the Ford

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**NOTES TO UNAUDITED PRO FORMA CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

UAW agreement. However, Visteon's liability for profit sharing based on Ford's profits is limited to \$50 million per year in each of 2000-2004.

- (8) Reflects a \$252 million increase in accounts receivable from Ford, and a \$715 million decrease in payables to Ford, resulting from a change in payment terms for transactions between Visteon and Ford primarily in the United States.
- (9) Reflects the repayment of \$791 million of debt owed by Visteon subsidiaries to Ford subsidiaries through cash payments from those Visteon subsidiaries to the Ford subsidiaries.
- (10) Reflects the short-term and long-term debt Visteon expects to incur in order to finance operations separately from Ford. Visteon initially will finance its operations with short-term financial instruments that Visteon expects to replace with short-term and long-term debt. Visteon expects to have about \$2.2 billion of debt outstanding after the spin-off.
- (11) Reflects a dividend from Visteon to Ford equal to an amount necessary to bring pro forma cash and cash equivalents to \$700 million. The actual adjustment — either a dividend or a capital contribution — will be determined based on cash and cash equivalent levels on a date in the second quarter of 2000 which has not yet been determined.
- (12) Reflects retention by Ford of prepaid health care amounts.
- (13) Reflects conversion to equity of \$1,120 million of debt owed to Ford under an intracompany revolving loan arrangement.
- (14) Reflects the pro forma effect of:

March 31,  
2000

(in millions)

- Ford's retention of postretirement health care and retiree life insurance obligations for most Visteon-designated employees of Ford who retired by April 1, 2000 and Ford's retention of related Voluntary Employees' Beneficiary Association SFAS 106 assets as of March 31, 2000
- Ford's retention of pension obligations for most Visteon-designated employees of Ford who retired by April 1, 2000 and the pro forma effect of planned asset/liability transfers between Ford and Visteon pension plans as of March 31, 2000

\$1,755

(278)

\$1,477

- (15) Reflects a \$505 million adjustment to reduce deferred income tax assets primarily resulting from the adjustments described in note 14 above.
- (16) Reflects the transfer to Visteon by Ford of the net assets comprising the Visteon business after giving effect to the terms related to our separation and spin-off from Ford.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

Our worldwide sales were \$19.4 billion in 1999, compared with \$17.8 billion in 1998 and \$17.2 billion in 1997. Our 1999 sales include six months of sales resulting from the June 1999 acquisition of the automotive interiors division of Compagnie Plastic Omnium.

Our worldwide net income was \$735 million in 1999, compared with \$703 million in 1998 and \$511 million in 1997. The improvement in net income in each of the years between 1997 and 1999 reflects primarily higher volume and cost efficiencies, offset partially by price reductions to customers. Our overall price reductions to Ford as a percentage of net sales were 4.9% in 1999, 3.2% in 1998 and 2.7% in 1997.

Unaudited pro forma condensed consolidated financial statements have been derived from the application of pro forma adjustments to our consolidated financial statements and give effect to our spin-off from Ford. The pro forma condensed consolidated statement of income does not purport to be indicative of what our operations actually would have been had these events occurred as of that date. The pro forma adjustment to our 1999 worldwide sales reflects a decrease of \$690 million to \$18.7 billion. The pro forma adjustment to our 1999 worldwide net income reflects a decrease of \$454 million to \$281 million. The pro forma adjustment to our first quarter 2000 worldwide net income reflects a decrease of \$23 million to \$124 million. For further discussion of these adjustments, please refer to "— Pro Forma Results" below.

For a discussion of negotiations of a joint venture involving our Glass business, see "Recent Development."

### Sources of Revenue

We derive our revenue from the sale of automotive vehicle systems, modules and components. The majority of our sales are directly to VMs — 18 of the largest 20 VMs are Visteon customers. Sales directly to Ford accounted for 88% of our total sales in 1999. This percentage has declined since 1997, reflecting an increase in non-Ford business. We expect this trend to continue. Aftermarket sales accounted for 4.6% of our total sales in 1999. We have increased our focus on this area and expect these sales to increase in the future. Our largest market is in North America, which accounted for 82.1% of our 1999 total sales. Generally, we enter into contracts with our customers that tend to average three to five years in length and provide for annual price reviews.

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The following table delineates our total sales for the periods indicated:

Three Months  
Ended

	March 31,		Year Ended December 31,		
	2000	1999	1999	1998	1997
<b>By customer:</b>					
Ford VM	83.7%	89.2%	86.4%	90.2%	91.1%
Non-Ford VM	11.8	5.9	9.0	5.8	5.0
Ford Aftermarket	1.9	2.1	1.9	1.9	1.8
Non-Ford Aftermarket	2.6	2.8	2.7	2.1	2.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
<b>By geographic region:</b>					
North America	82.9%	84.4%	82.1%	83.2%	82.4%
Europe	13.7	14.5	14.5	15.1	15.4
Other (rest of world)	3.4	1.1	3.4	1.7	2.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%

“Ford Aftermarket” refers to sales to Ford’s Automotive Consumer Services Group and “non-Ford Aftermarket” refers to sales to other aftermarket customers. Our sales by geographic region are reported by the location of delivery of product to the customer.

We operate in three business segments — Comfort, Communication & Safety, Dynamics & Energy Conversion and Glass. The following table shows the sales attributable to each of our segments for the periods indicated:

	Three Months Ended March 31,		Year Ended December 31,		
	2000	1999	1999	1998	1997
			(in millions)		
Comfort, Communication & Safety	\$2,603	\$2,203	\$ 9,377	\$ 8,337	\$ 8,545
Dynamics & Energy Conversion	2,425	2,369	9,216	8,673	7,918
Glass	197	200	773	752	757
Total sales	\$5,225	\$4,772	\$19,366	\$17,762	\$17,220

## Components of Costs and Expenses

The largest components of our costs and expenses are purchases of raw materials and component parts along with manufacturing labor and overhead. These two items account for about 80% of our total costs. The other major components of our costs and expenses are engineering, depreciation and amortization, administrative costs and freight. The typically long lead time between the development of automotive systems, modules and components and their ultimate sale, means that we incur significant expenditures (including design, engineering and tooling expenses) often years before sales, if any, are realized, or these expenses are otherwise reimbursed. Finally, selling, administrative and other expenses are becoming a larger component of our cost and expense structure as we establish a sales force for non-Ford VMs and the aftermarket, more broadly promote the Visteon brand and establish ourselves as an independent company.

## Pro Forma Results

**General.** We have prepared unaudited pro forma condensed consolidated financial statements of Visteon, which give effect to the spin-off and the terms of our separation from Ford. We have prepared the pro forma condensed consolidated statement of income for the first

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quarter of 2000 and for the full year 1999 to provide additional information on our operations as if the spin-off and our separation from Ford had occurred as of January 1, 1999. The pro forma condensed consolidated statements of income does not purport to be indicative of what our operations actually would have been had these events occurred as of that date.

**First Quarter 2000.** In connection with the preparation of the unaudited pro forma statement of income, we made the following significant adjustments:

- Our selling, administrative and other expenses in the first quarter of 2000 would have increased by about \$27 million, to about

\$204 million, principally as a result of operating Visteon as a stand-alone company. These added costs are comprised of incremental corporate costs and, to a lesser extent, incremental insurance and risk management costs.

- Our interest income in the first quarter of 2000 would have decreased by about \$15 million, to \$10 million, as a result of reductions in Visteon's pro forma cash balances. Because of a decrease in our average outstanding debt levels, our interest expense would have decreased by about \$3 million to \$45 million.
- As a result of these and other adjustments, our net income would have decreased from \$147 million to \$124 million.

**1999.** In connection with the preparation of the unaudited pro forma statement of income for 1999, we made the following significant adjustments:

- Our sales in 1999 would have decreased by about \$690 million, to \$18.7 billion, had the one-time 5% price reduction effective as of January 1, 2000 been in effect for 1999. The one-time 5% reduction, which is based on a market pricing review conducted by Ford and us, is designed to make Visteon's prices more competitive with third party competitors.
- Our costs of sales in 1999 would have decreased by about \$142 million, to about \$17.4 billion, primarily as a result of a \$146 million adjustment to profit sharing expense incurred in 1999. This adjustment is due to our agreement with Ford that our liability, for profit sharing payments based on Ford's profits made to Ford workers that are assigned to us, will be limited to \$50 million per year in each of 2000-2004.
- Our selling, administrative and other expenses in 1999 would have increased by about \$102 million, to about \$776 million, principally as a result of operating Visteon as a stand-alone company. These added costs are comprised of incremental corporate costs and, to a lesser extent, incremental insurance and risk management costs.
- Our interest income in 1999 would have decreased by about \$44 million, to \$35 million, as a result of reductions in Visteon's pro forma cash balances. Because of an increase in our average outstanding debt levels, our interest expense would have increased by about \$33 million to \$176 million.
- As a result of these and other adjustments, our net income would have decreased from \$735 million to \$281 million.

See "Unaudited Pro Forma Condensed Consolidated Financial Statements."

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**Results of Operations**

The following table shows statement of income data as a percentage of sales for the periods indicated:

	Three Months Ended March 31,			Year Ended December 31,			
	Pro Forma 2000	2000	1999	Pro Forma 1999	1999	1998	1997
Sales:							
Ford and affiliates	85.7%	85.7%	91.3%	87.9%	88.3%	92.1%	92.9%
Other customers	14.3	14.3	8.7	12.1	11.7	7.9	7.1
Total sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Costs and expenses:							
Costs of sales	91.7	91.8	90.9	93.0	90.4	89.9	91.7
Selling, administrative and other expenses	3.9	3.4	2.8	4.1	3.5	3.7	3.3
Total costs and expenses	95.6	95.2	93.7	97.1	93.9	93.6	95.0
Operating income	4.4	4.8	6.3	2.9	6.1	6.4	5.0
Interest income	0.2	0.5	0.5	0.2	0.4	0.2	0.1
Interest expense	0.8	0.9	0.5	0.9	0.7	0.5	0.5
Net interest expense	(0.6)	(0.4)	(0.0)	(0.7)	(0.3)	(0.3)	(0.4)
Equity in income of affiliated companies	0.1	0.1	0.3	0.3	0.3	0.1	0.2
Income before income taxes	3.9	4.5	6.6	2.5	6.1	6.2	4.8
Provision for income taxes	1.4	1.6	2.4	0.8	2.2	2.3	1.8
Income before minority interests	2.5	2.9	4.2	1.7	3.9	3.9	3.0

Minority interests in net income (loss) of subsidiaries	0.1	0.1	(0.1)	0.1	0.1	(0.0)	(0.0)
Net income	2.4%	2.8%	4.3%	1.6%	3.8%	3.9%	3.0%

### First Quarter 2000 Compared with First Quarter 1999

The following table shows the increase in sales for each of our segments, both in dollars and in percentage terms:

	Quarter Ended March 31,		First Quarter 2000 over/(under) First Quarter 1999	
	2000	1999	Amount	Percent
	(in millions, except percentages)			
Comfort, Communication & Safety	\$2,603	\$2,203	\$400	18.2%
Dynamics & Energy Conversion	2,425	2,369	56	2.4
Glass	197	200	(3)	(1.5)
Total sales	\$5,225	\$4,772	\$453	9.5%

Sales in the first quarter of 2000 totaled \$5.2 billion compared with \$4.8 billion in the first quarter of 1999, an increase of \$453 million or 9.5%. Sales for our Comfort, Communication & Safety segment were \$2.6 billion, compared with \$2.2 billion in the first quarter of 1999, an increase of \$400 million or 18.2%. Sales for our Dynamics & Energy Conversion segment were \$2.4 billion, up \$56 million or 2.4% from the first quarter of 1999. Glass sales were \$197 million in the first quarter of 2000, compared with \$200 million in the first quarter of 1999, a decrease of \$3 million or 1.5%. Sales for our Comfort, Communication & Safety segment increased primarily

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as a result of higher sales volumes to Ford and our other customers. Sales for our Comfort, Communication & Safety segment also increased by \$260 million, reflecting the consolidation of Halla Climate Control (in which we increased our ownership interest from 35% to 70% during 1999) and our acquisition of the automotive interiors division of Compagnie Plastic Omnium. The increase in sales for our Dynamics & Energy Conversion segment reflects primarily higher sales volume to Ford and our other customers. The increases for both segments were offset partially by price reductions totaling about \$350 million granted to Ford and our other customers. The decrease in sales for our Glass segment reflects price reductions granted to Ford and our other customers.

Our pricing letter with Ford requires a one-time 5% price reduction on products that we were supplying to Ford as of January 1, 2000 based on a market pricing review conducted by Ford and us. The pricing letter also requires productivity price adjustments in each of 2000, 2001, 2002 and 2003 to reflect competitive price reductions obtained each year by Ford from its other Tier 1 suppliers. We and Ford have agreed on a 3.5% productivity price reduction for 2000 on such products, which is consistent with (1) price reductions between Visteon and Ford in prior years and (2) the amount of annual productivity improvement that Ford generally expects from its other Tier 1 suppliers. Price adjustments for 2001, 2002 and 2003 will be calculated using a basket of products composed of identical or substantially similar products that Ford purchases from other suppliers. In addition to these price reductions, we have agreed to use our best efforts to achieve design and engineering improvements in our products sold to Ford so as to further reduce their cost to Ford by 1.5% to 2.5% each year. We do not believe that we can fully offset the 2000 price reductions with cost reductions. As a result, we expect our profitability in 2000 and beyond to be significantly lower than that achieved in our 1999 actual results.

The following table shows the change in net income (loss) for each of our segments, both in dollars and in percentage terms:

	Quarter Ended March 31,		First Quarter 2000 (under) First Quarter 1999	
	2000	1999	Amount	Percent
	(in millions, except percentages)			
Comfort, Communication & Safety	\$114	\$121	\$ (7)	(5.8)%
Dynamics & Energy Conversion	50	79	(29)	(36.7)
Glass	(4)	5	(9)	n/a

Net income for our Comfort, Communication & Safety segment was \$114 million in the first quarter of 2000, down \$7 million from the first quarter of 1999. The reduction was primarily a result of price reductions (\$110 million impact on net income), offset partially by higher sales volume, primarily in North America (\$95 million). Net income for our Dynamics & Energy Conversion segment was \$50 million in the first quarter of 2000, a decrease of \$29 million. This decrease was primarily a result of price reductions (\$105 million), partially offset by higher sales volume, primarily in North America (\$45 million), and lower costs. Net loss for Glass was \$4 million as compared with net income of \$5 million in the first quarter of 1999, a decline of \$9 million. The decrease reflected primarily price reductions.

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### 1999 Compared with 1998

The following table shows the increase in sales for each of our segments, both in dollars and in percentage terms:

	Year Ended December 31,		1999 over 1998	
	1999	1998	Amount	Percent
	(in millions, except percentages)			
Comfort, Communication & Safety	\$ 9,377	\$ 8,337	\$1,040	12.5%
Dynamics & Energy Conversion	9,216	8,673	543	6.3
Glass	773	752	21	2.8
Total sales	\$19,366	\$17,762	\$1,604	9.0%

Sales in 1999 totaled \$19.4 billion compared with \$17.8 billion in 1998, an increase of \$1.6 billion or 9%. Sales for our Comfort, Communication & Safety segment were \$9.4 billion compared with \$8.3 billion in 1998, an increase of 12.5%. Sales for our Dynamics & Energy Conversion segment were \$9.2 billion, up \$543 million or 6.3% from 1998. Glass sales were \$773 million in 1999 compared with \$752 million in 1998, an increase of 2.8%. The increase in sales for each segment reflects primarily higher sales to Ford and our other customers. In addition, sales for our Comfort, Communication & Safety segment increased by \$415 million due to the consolidation of Halla Climate Control and by \$260 million as a result of our June 1999 acquisition of the automotive interiors division of Compagnie Plastic Omnium. These increases were offset partially by price reductions granted to Ford and our other customers.

The following table shows the change in net income (loss) for each of our segments, both in dollars and in percentage terms:

	Year Ended December 31,		1999 over/(under) 1998	
	1999	1998	Amount	Percent
	(in millions, except percentages)			
Comfort, Communication & Safety	\$422	\$452	\$(30)	(6.6)%
Dynamics & Energy Conversion	344	294	50	17.0
Glass	3	(15)	18	n/a
Total net income (including unallocated interest)	\$735	\$703	\$ 32	4.6%

Net income for our Comfort, Communication & Safety segment was \$422 million in 1999, down \$30 million from 1998. The reduction was primarily a result of price reductions (\$250 million impact on net income) and increased costs associated with engineering future products, offset to a large extent by material and manufacturing cost reductions and, to a lesser extent, by higher sales volume. Net income for our Dynamics & Energy Conversion segment was \$344 million in 1999, an increase of \$50 million, reflecting primarily lower costs (\$190 million) and higher sales volume (\$85 million), offset partially by price reductions (\$200 million). Net income for our Glass segment was \$3 million, an improvement of \$18 million from 1998. The improvement was primarily accounted for by lower costs (\$30 million) and higher sales volume (\$10 million), offset partially by reduced prices (\$18 million).

[Table of Contents](#)**1998 Compared with 1997**

The following table shows the change in sales for each of our segments, both in dollars and in percentage terms:

	Year Ended December 31,		1998 over/(under) 1997	
	1998	1997	Amount	Percent
	(in millions, except percentages)			
Comfort, Communication & Safety	\$ 8,337	\$ 8,545	\$(208)	(2.4)%
Dynamics & Energy Conversion	8,673	7,918	755	9.5
Glass	752	757	(5)	(0.7)
Total sales	\$17,762	\$17,220	\$ 542	3.1%

Sales in 1998 totaled \$17.8 billion compared with \$17.2 billion in 1997, an increase of \$542 million or 3.1%. Sales for our Comfort, Communication & Safety segment were \$8.3 billion compared with \$8.5 billion in 1997, a decrease of 2.4%. Sales for our Dynamics & Energy Conversion segment were \$8.7 billion compared with \$7.9 billion in 1997, an increase of 9.5%. Glass sales were \$752 million compared with \$757 million in 1997, a decrease of \$5 million. The decrease in sales for our Comfort, Communication & Safety segment was primarily a result of price reductions. Sales for our Dynamics & Energy Conversion segment increased primarily as a result of customer product content changes and, to a lesser extent, higher sales volumes. The Glass sales decrease was a primarily a result of price reductions.

The following table shows the change in net income (loss) for each of our segments, both in dollars and in percentage terms:

	Year Ended December 31,		1998 over 1997	
	1998	1997	Amount	Percent
	(in millions, except percentages)			
Comfort, Communication & Safety	\$452	\$439	\$ 13	3.0%
Dynamics & Energy Conversion	294	136	158	116.2
Glass	(15)	(25)	10	n/a
Total net income (including unallocated interest)	\$703	\$511	\$192	37.6%

Net income for our Comfort, Communication & Safety segment increased to \$452 million in 1998 from \$439 million in 1997, an increase of 3.0%, is more than accounted for by reductions in material and manufacturing costs (\$230 million impact on net income), partially offset by price reductions to our customers (\$175 million) and, to a lesser extent, higher costs associated with engineering future products. Net income for our Dynamics & Energy Conversion segment increased to \$294 million in 1998 from \$136 million in 1997. This increase was primarily a result of material and manufacturing cost reductions (\$190 million), partially offset by increased costs associated with engineering future products. Net losses at Glass were \$15 million in 1998, an improvement of \$10 million from 1997. The improvement was primarily a result of the non-recurrence of a Glass restructuring charge of about \$60 million before taxes in 1997, largely offset by price reductions to our customers.

**Quarterly Data**

Our business is moderately seasonal because our largest North American customers typically halt operations for about two weeks in July and about one week in December. In addition, third quarter automotive production traditionally is lower as new models enter production. Accordingly, our third and fourth quarter results may reflect these trends. The

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following table shows unaudited condensed financial data for each of the nine quarters through the period ended March 31, 2000. The operating results for any quarter shown are not necessarily indicative of results for any future period.

	First Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales	\$5,225	\$4,772	\$5,063	\$4,600	\$4,931	\$4,378	\$4,725	\$4,097	\$4,562
Operating income	253	298	461	280	150	303	377	243	211
Income before income taxes	237	313	449	260	150	286	384	240	206
Net income	147	205	280	155	95	187	239	148	129

First quarter 2000 net income was \$147 million, compared with \$205 million in the first quarter of 1999. The decline reflected the impact of negotiated price reductions, offset partially by improved volume in North America, the consolidation of Halla Climate Control and our acquisition of the automotive interiors division of Compagnie Plastic Omnium. Fourth quarter net income in 1999 was \$95 million, compared with \$129 million in the fourth quarter of 1998. The decline reflected the impact of negotiated price reductions, the labor agreement in North America and currency-related costs, offset partially by cost efficiencies and improved volume.

Additional quarterly information (broken down on an actual and pro forma basis, as well as by segment), is presented in Annex A.

## Liquidity and Capital Resources

Our historical balance sheet reflects cash and cash equivalents of \$943 million and short-term and long-term debt of \$2.5 billion at March 31, 2000, cash and cash equivalents of \$1.8 billion and short-term and long-term debt of \$2.3 billion at December 31, 1999, and cash and cash equivalents of \$542 million and debt of \$1.1 billion at December 31, 1998. The short-term and long-term debt at each of March 31, 2000 and December 31, 1999 consisted of \$1.1 billion of debt owed to Ford under an intracompany revolving loan arrangement, about \$800 million of debt owed by Visteon subsidiaries to subsidiaries of Ford, and the remainder was debt owed to third parties.

Short-term debt at March 31, 2000 had a weighted-average interest rate of 5.1% from Ford and affiliates and 7.7% from third parties. Long-term debt at March 31, 2000 had a weighted-average interest rate ranging from 7.2% for Ford and affiliates to 8.4% for third parties and maturities ranging from 2001 to 2007.

Our debt exceeded our cash and cash equivalents by \$1.5 billion at March 31, 2000, by \$470 million at December 31, 1999 and by \$583 million at December 31, 1998. Our ratio of total debt to total capital, which consists of total debt plus equity, was 61% at March 31, 2000 and at December 31, 1999 compared with 40% at December 31, 1998. The increase during 1999 reflected primarily increased debt relating to our acquisition of the automotive interiors division of Compagnie Plastic Omnium.

As discussed under “Unaudited Pro Forma Condensed Consolidated Financial Statements,” we will have lower cash and cash investment balances and slightly lower debt levels after the spin-off. These reductions reflect primarily higher working capital as a result of a change in payment terms from Ford, repayment and capitalization of debt owed to Ford and replacement with outside debt financing, and a cash adjustment prior to the spin-off. These and other actions in connection with the separation and spin-off would result, on a pro forma basis at March 31, 2000, in cash and cash equivalent levels of about \$700 million, total debt of about \$2.2 billion, and a pro forma total debt to total capital ratio of about 43%. The actual cash adjustment — either a dividend to Ford or a capital contribution from Ford — will be determined based on cash and cash equivalent levels on a date in the second quarter of 2000 prior to the spin-off.

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We also plan to enter into financing agreements with lenders providing for an aggregate of about \$2 billion in revolving credit facilities. The facilities will be split approximately evenly between 364-day and 5-year commitments. Our intent is to use these credit facilities as backup facilities, although we may borrow under them for general corporate or other purposes.

VMs are increasingly pushing responsibility for engineering and tooling onto suppliers. The need to finance these costs increases our working capital needs and could have a material impact on our liquidity. In addition, although we have no specific acquisition plans, our ability to make acquisitions could be constrained by limited borrowing capacity, as well as by various contractual restrictions.

Visteon’s intra-year cash fluctuations are impacted by the volume and timing of worldwide vehicle production. Examples of seasonal effects in the industry include the shut-down of operations for about two weeks in July, the subsequent ramp-up of new model production and the additional one-week shut-down in December by our primary North American customers. We believe that we have sufficient financial flexibility to fund these fluctuations and to access the global capital markets on satisfactory terms and in adequate amounts, although there can be no assurance that this will be the case. We expect cash flows from operations and borrowings to satisfy future working capital, capital expenditure, research and development, pension funding and debt service requirements for at least the next year.

## Cash Flows

## ***Operating Activities***

Cash flows used in operating activities during the first three months of 2000 totaled \$846 million compared to cash flows provided by operating activities of \$432 million for the same period in 1999. The decrease in 2000 was impacted by payments totaling approximately \$570 million to Ford to prepay certain healthcare costs for active employees, of which approximately \$500 million was accrued for at December 31, 1999. The remainder of the decrease was caused primarily by changes in receivables, payables and other working capital items. Cash flows from operating activities were \$2.48 billion, \$1.38 billion and \$1.41 billion in 1999, 1998 and 1997, respectively. The primary components of our operating cash flows are net income, depreciation and amortization, and changes in various payables and receivables balances with Ford. Cash flow from 1999 was positively affected because of an increase in our payable balance to Ford. The historical operating cash flows may not be representative of our results had we operated as a separate stand-alone entity.

## ***Investing Activities***

Cash used in investing activities was \$125 million during the first quarter of 2000 compared to \$307 for the same period in 1999. During the first quarter of 1999, we increased our ownership in Halla Climate Control to 70%, as described below. Cash used in investing activities was \$1.45 billion, \$940 million and \$943 million in 1999, 1998 and 1997, respectively. The primary use of cash for investing activities in each year was for capital expenditures. In addition, in 1999, we acquired the automotive interiors division of Compagnie Plastic Omnium, headquartered in France, for about \$479 million, and increased our ownership in Halla Climate Control to 70% by purchasing an additional 35% interest for \$84 million. In 1998 we made several acquisitions totaling about \$103 million, including acquiring PABA, Inc. (now Visteon Climate Control Systems), two manufacturing facilities in Poland and Zexel Innovations.

Our capital expenditures were \$115 million during the first three months of 2000 compared to \$196 million for the same period in 1999. The decrease in capital spending in 2000 reflects timing of equipment receipts. Our capital expenditures were \$876 million in 1999, \$861 million in 1998 and \$917 million in 1997, with about 48% in each year spent on Comfort, Communication & Safety, about 45% in each year spent on Dynamics & Energy Conversion and about 7% in each

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year spent on Glass. We currently expect about \$950 million in capital expenditures in 2000, split among our segments in about the same proportions as in prior years. Our capital expenditures are used primarily for equipment, tooling and other spending associated with new product programs. Our capital expenditure program promotes our growth-oriented business strategy by investing in core areas, where efficiencies and profitability can be enhanced, and by targeting funds for new innovative technologies, where long-term growth opportunities can be realized. Capital expenditures also will be used for expansion into new markets outside of the United States and the continued implementation of lean manufacturing strategies.

## ***Financing Activities***

Cash provided by financing activities totaled \$58 million during the first three months of 2000 compared to cash used in financing activities of \$100 for the same period in 1999. Cash provided by financing activities totaled \$290 million in 1999. This compared with cash used in financing activities of \$234 million and \$251 million in 1998 and 1997, respectively. We historically have funded our investing activities through cash from operating activities, funding from Ford, and some third party debt. In 1999, cash provided by financing activities reflected additional debt associated with acquisition activities, offset partially by net cash distributions to Ford. Historically, we have paid about 38% of our net income to Ford as a cash distribution. We plan to pay dividends to shareholders with the first quarterly dividend expected to be \$0.06 per share, or a rate of \$0.24 per share annually, declared and paid in the third quarter of 2000.

## ***Pension and Postretirement Benefits***

Employees and retirees participate in various pension, health-care and life insurance benefit plans sponsored by Ford and existing Visteon subsidiaries. Benefit plan liability and related asset transfers between Visteon and Ford in connection with our separation from Ford are covered by various employee benefits agreements.

Ford will retain pension and postretirement health care and life insurance obligations for most Visteon-designated employees of Ford who retire prior to the spin-off. In addition, Ford will retain the pension obligation related to benefits earned through the spin-off date for most active U.S. salaried Visteon-designated employees that meet specific age and years of service requirements. With respect to individuals covered by the Ford UAW agreement who are employed in our facilities, we will be responsible for the related cost upon their retirement for pension, health care and life insurance benefits. The liability for these individuals for these programs was \$1.1 billion at March 31, 2000 and December 31, 1999.

It is expected that after the benefit plan liability and related asset transfers, Visteon's U.S. pension plan assets will at least equal the actuarially determined projected benefit obligation on an aggregate basis. The actuarially determined total worldwide projected benefit obligation and the total worldwide fair market value of plan assets related to pension obligations to be assumed by Visteon were about \$1.2 billion at March 31, 2000 and December 31, 1999. The total unfunded liability recorded by Visteon related to

retiree health care and life insurance obligations to be assumed by Visteon was about \$1.8 billion at March 31, 2000 and December 31, 1999.

## **Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to a variety of market risks, including foreign currency exchange rates, interest rates and commodity prices, which could impact its financial results. The effect of changes in exchange rates, interest rates and commodity prices on our earnings generally have been small relative to other factors that also affect earnings, such as unit sales and operating margins.

We use derivative financial instruments as part of an overall risk management program in order to reduce the potentially adverse impact from these financial risks. Derivative instruments

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are not used for speculative purposes, as per clearly defined risk management policies. Until now, our market risk has been managed as an integrated part of Ford's overall risk management program.

#### ***Foreign Currency Risk***

Our net cash inflows and outflows exposed to the risk of changes in exchange rates arise from the sale of products in countries other than the manufacturing source, foreign currency denominated supplier payments, debt and other payables, subsidiary dividends and investments in subsidiaries. We use primarily foreign exchange forward contracts to manage our exposures.

Our primary foreign exchange exposure includes the euro, Brazilian Real, Mexican Peso and Canadian Dollar. Because of the mix between our costs and revenues in various regions, we are generally exposed to weakening of the euro and to strengthening of the Brazilian Real, Mexican Peso and Canadian Dollar. For transactions in these currencies, we utilize a strategy of partial coverage. As of March 31, 2000, our coverage for projected transactions in these currencies for the remainder of 2000 ranged from 0% to about 60%. As of March 31, 2000, a 10% adverse change in exchange rates from prevailing rates for all of these currencies would result in an adverse impact on net income of about \$15 million on an annual basis.

#### ***Interest Rate Risk***

Historically, about half of our borrowings from third party credit sources, and most of our funding from Ford, have been on a variable rate basis. After our spin-off from Ford, derivative instruments and an increased proportion of fixed rate borrowings may be used to manage some of our exposure to interest rate risk.

#### ***Commodity Risk***

We have entered into fixed price contracts with some of our key suppliers to protect us from changes in market prices for the non-ferrous metals used in the manufacturing of automotive components. As a result, we have no need presently to enter into financial derivatives to hedge these potential exposures. The risk to these exposures may be managed with the use of financial derivatives if in the future we enter into floating price contracts with our key suppliers.

## **New Accounting Standards and Changes**

### ***New Standards***

In the first quarter of 1999, we adopted Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP requires entities to capitalize some internal-use software costs once specified criteria are met. Our practice had been to expense the costs of obtaining or developing internal-use software as incurred.

Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," was issued by the Financial Accounting Standards Board in June 1998. SFAS 133 provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. We have not adopted SFAS 133 based on the May 1999 announcement by the Financial Accounting Standards Board to delay by one year the implementation date of SFAS 133 until January 1, 2001. We have not yet determined the effect of adopting SFAS 133.

The Emerging Issues Task Force (EITF) recently reached a final consensus with respect to EITF Issue 99-5, "Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements." This consensus provides guidance on whether design and development costs related to long-term supply arrangements should be expensed or capitalized, and is effective for

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design and development costs incurred after December 31, 1999. Adoption of this guidance did not have a material effect on the financial statements.

### **Accounting Changes**

Beginning in 1999, we changed from an accelerated method to the straight-line method for amortization of special tooling. This change is being made to recognize that special tooling retains its value more uniformly over time.

Also beginning in 1999, we modified our plant and equipment retirement policy to reflect gains and losses in income in the year of retirement. Previously, the cost of retired assets, net of salvage proceeds, was charged to accumulated depreciation. The change in accounting principle for plant and equipment retirement is being made to better reflect the results of asset disposal/ sale decisions.

Adoption of new accounting standards and accounting changes did not have a material effect on our financial statements.

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## **BUSINESS**

### **Overview**

We are the world's second largest supplier of automotive systems, modules and components to global vehicle manufacturers, according to the latest available industry data. Our total 1999 sales were \$19.4 billion, or, on a pro forma basis, \$18.7 billion. We have become a leader in the global automotive parts industry by capitalizing on the extensive experience we have gained as the largest supplier to Ford, the world's largest producer of trucks and the second largest producer of cars and trucks combined. We have a broad global presence, with a workforce of over 81,000 and a network of manufacturing sites, technical centers, sales offices and joint ventures located in every major region of the world.

We have been the largest supplier of automotive parts to Ford for most of Ford's history. Ford produces cars and trucks that are marketed and sold under the Ford, Lincoln, Mercury, Volvo, Jaguar and Aston Martin brands. We began using the Visteon name in 1997. Visteon has been responsible for the introduction of a number of innovations in the automotive industry such as integrated voice activated control of the cellular phone, audio system and climate control system, currently available in the Jaguar S-Type. We have developed extensive experience and expertise in all areas of automotive integrated system, module and component design. Before the spin-off, we have been a division of Ford and, more recently, a wholly-owned subsidiary of Ford. After our spin-off from Ford, we will be an independent supplier. We believe that our independence will enhance our ability to increase sales to non-Ford VMs over time.

We have developed a sophisticated understanding of the design, engineering, manufacture and operation of the automotive vehicle. We are currently able to supply over 40% of a vehicle's total material cost. We have both extensive technical expertise in a broad range of products and strong systems integration skills, which enable us to provide comprehensive, consumer-oriented solutions for our customers. In recent years, we have placed increasing emphasis on the development of systems and modules with electronic content, in response to consumer demand. The dollar value of electronic content of vehicles has been increasing in recent years and is expected to continue to increase, although at a slower rate, despite significant reductions in unit prices due to technological innovation. We have over 8,900 engineers, scientists, technical specialists and technicians, or technical personnel, around the world with well-established credentials in technical research and development. We believe that our comprehensive vehicle knowledge, consumer focus and expansive global presence provide a solid foundation for our continued growth. In 1999, we began using the Internet both for our supply needs and for the sale of our aftermarket products. We expect this aspect of our business to grow significantly over the next several years.

Over the past decade, the industry mix of vehicles sold in North America has shifted from about 40% trucks/ 60% cars to about 50% trucks/ 50% cars. In general, trucks generate higher margins for VMs. In particular, Ford's product mix is more heavily weighted towards trucks, with trucks making up about 60% of Ford's vehicle production in 1999. We believe that our expertise and experience as the largest supplier to Ford gives us an advantage in this important market.

In recent years, our goal has been to pursue new business growth opportunities with Ford and non-Ford VMs, as well as with non-automotive customers. Although Ford still accounts for a substantial majority of our sales, we have business with 18 of the 20 largest VMs. Our sales to customers other than Ford grew at a compound annual growth rate of 36% between 1997 and 1999, from about \$1.2 billion to about \$2.3 billion. Non-Ford business as a percentage of our total sales has grown from about 7% to about 12% in that time. In 1999, 38% of the new business we were awarded for delivery in future years, which does not include renewals of existing contracts, was non-Ford business. We have a goal of expanding our non-Ford business

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to 20% of our sales by 2002. We believe that our spin-off from Ford will facilitate our achievement of this goal.

Additionally, we have had a goal of expanding our global presence. From 1997 to 1999, we opened four manufacturing facilities outside North America. About 23.5% of our total 1999 sales were derived from products manufactured outside of the United States. In addition, 39% of the new business we won in 1999 was with customers outside of North America.

We operate in three business segments and are a leading Tier 1 supplier in two of these segments: Comfort, Communication & Safety and Dynamics & Energy Conversion:

- *Comfort, Communication & Safety*, composed of our climate control systems and interior/ exterior systems product groups. Our climate control systems product group produces systems, modules and components in the areas of fluid transport, air handling, heat exchange and compressors. Our interior/ exterior systems product group produces systems, modules and components in the areas of cockpits, instrument panels, interior trim and seats, lighting and bumpers.

We believe that the integration of our climate control systems and interior/ exterior systems product groups into a single organization enables us to deliver complete interiors to our customers, with features that consumers demand, such as integrated seats with heating and cooling capabilities; advanced safety features like voice activated control, advanced air bag electronics and passive antitheft devices; and cockpits with fully integrated multimedia products, Internet wireless communication and climate control.

- *Dynamics & Energy Conversion*, composed of our energy transformation systems and chassis systems product groups. Our energy transformation systems product group produces systems, modules and components in the areas of energy management, distributed power generation, electrical conversion, and fuel storage and delivery products. Our chassis systems product group produces systems, modules and components in the areas of axle and driveline, steering and chassis products.

We believe that the integration of our energy transformation systems and chassis systems product groups provides synergies as a result of a global focus on all of the dynamics of a vehicle — ride, handling and performance. Combining this focus with our electronics expertise allows us to deliver a complete vehicle dynamics system to our customers that combines steering control, torque conversion, engine management controls and drivelines.

- *Glass*, composed of our vehicle glazing product group, which produces glass products for Ford and aftermarket customers, and our commercial glass product group, which produces float glass for commercial architecture.

In addition to our VM sales, we also sell our products to the worldwide aftermarket for replacement and vehicle appearance enhancement parts.

### **Automotive Parts Industry**

The automotive parts industry provides systems, modules and components to VMs for the manufacture of new vehicles, as well as to the aftermarket for use as replacement and enhancement parts. Today, suppliers offer their component products to VMs and also offer those products in a variety of more fully engineered forms, such as modules and systems:

- “Modules” are groups of component parts arranged in close physical proximity to each other within a vehicle that are often assembled by the supplier and shipped to the VM for installation in a vehicle as a unit. Modular instrument panels, cockpit modules and door modules are examples.

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- “Systems” are groups of component parts located throughout the vehicle that operate together to provide a specific vehicle function. Air conditioning and heating systems, electrical systems and steering systems are examples.

Historically, large VMs operated internal divisions to provide a wide range of component parts for their vehicles. In recent years, VMs have moved towards a competitive sourcing process for automotive parts, including increased purchases from independent suppliers, as they seek lower-priced and/or higher-technology products. These independent parts suppliers, which often have lower cost structures than in-house component operations, have become an important part of the automotive parts industry.

We believe global automotive parts industry sales to VMs will be about \$500 billion in 2000. In addition to these sales, U.S. automotive aftermarket retail sales are estimated to be over \$160 billion in 2000. The aftermarket includes replacement parts as well as parts designed to enhance or personalize vehicles. Demand for aftermarket products tends to increase when new vehicle sales decline because vehicle owners retain their vehicles longer; these vehicles generally have a greater need for repairs.

Our industry is generally divided into two tiers:

- “Tier 1” suppliers like Visteon sell their products principally to VMs directly and often offer a broad range of product capabilities, including design, engineering and assembly services. Tier 1 suppliers supply systems and modules and are increasingly influencing vehicle content, including the sourcing of Tier 2 components.

- “Tier 2” suppliers sell their products principally to Tier 1 suppliers, who then combine these parts into their own product offerings.

Within Tier 1, there are only a few companies with a combination of global operations and a product portfolio breadth that allows them to compete for a substantial portion of VMs’ automotive parts needs. The top four automotive suppliers, including Visteon, accounted for \$74.2 billion in sales in 1998. Based on 1998 data, there were 67 other Tier 1 suppliers with annual sales over \$1 billion each, accounting for a total of about \$197.3 billion in sales. Most of these suppliers are focused on a limited number of product areas. The remaining suppliers in the industry are generally Tier 2 suppliers, focusing on a limited number of products.

**Industry Trends.** Several key trends have been reshaping the automotive parts industry over the past several years:

- *Shift of Engineering to Suppliers; Increased Emphasis on Systems and Modules Sourcing.* Increasingly, VMs are focusing their efforts on consumer brand development and overall vehicle design, as opposed to the design of vehicle systems. For example, Ford is spinning off Visteon, and General Motors spun off Delphi in 1999. In order to simplify the vehicle design and assembly processes and reduce their costs, VMs increasingly look to their suppliers to provide fully engineered, pre-assembled combinations of components rather than individual components. This is especially true outside of the United States. By offering sophisticated systems and modules rather than individual components, Tier 1 suppliers have assumed many of the design, engineering, research and development and assembly functions traditionally performed by VMs. As a result, they are gaining increased access to confidential planning information regarding VMs’ future vehicle designs and manufacturing processes. Systems and modules increase the importance of Tier 1 suppliers because they increase their percentage of vehicle content and the ability to reduce costs. As suppliers produce complete systems, they are increasingly attempting to increase brand awareness of their own products. This has generally been most successful in the audio systems and aftermarket areas. Suppliers with broad product portfolios are well positioned to provide the systems and modules VMs demand.

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- *Increasing Electronics Integration and Technological Content.* Electronics integration, which generally refers to replacing mechanical components with electronic components and integration of mechanical and electrical functions within the vehicle, allows VMs to achieve substantial reductions in the weight and number of parts required in vehicles. This results in easier assembly, enhanced fuel economy and emissions control, and better vehicle performance. This is increasingly important as heavier vehicles — sport utility vehicles, or SUVs, pickup trucks and minivans — make up more and more of the automotive market. Stringent regulatory standards and consumer demand for low automotive emissions and safety features including evolving air bag technologies, as well as increasing consumer demand for electronics-based, leading edge consumer products such as navigation systems, Internet-linked in-car computer systems and rear seat entertainment systems, have all increased the electronic content of vehicles. As shown in the following table, the dollar value of electronic content of vehicles has increased in recent years. Electronic content is expected to continue to increase in the future, although at a slower rate. Suppliers with the necessary technological expertise will be able to gain from this trend:

**Automotive Electronics**

(dollars per vehicle, by model year)

Region	1998	2000	1998-2000 compound annual growth rate
North America	\$1,057	\$1,176	5.5%
Europe	862	962	5.6
Asia-Pacific	1,000	1,061	3.0
Rest of world	285	340	9.2
World average	843	921	4.5

Source: Prismark Partners. Figures are not adjusted for inflation.

- *Growth in E-Commerce.* The Internet is revolutionizing the way businesses and consumers purchase products and services. Recently, Ford, General Motors, DaimlerChrysler, Renault and Nissan announced an initiative to establish Covisint. Covisint is an Internet-based business-to-business marketplace for a large portion of these VMs’ purchases and procurement-related activities. It is likely that other major VMs will join this marketplace or announce competing initiatives. Suppliers that are able to provide more value-added systems should be able to differentiate themselves from their competitors on variables other than price. Visteon and other automotive suppliers, in turn, are seeking to source more and more of their needs over the Internet. Finally, consumers are increasingly purchasing goods over the Internet and an increase of direct online sales of automotive parts can be expected. Suppliers with the technological resources and expertise to be able to use these Internet tools will be well equipped to take advantage of this trend.

- *Increased Emphasis on Speed-to-Market.* As VMs are under increasing pressure to adjust to changing consumer preferences and to incorporate technological advances, they are shortening product development times. These shorter development times allow VMs to more effectively come to market with vehicles and features that match prevailing consumer preferences. Suppliers that are able to deliver new products to VMs to accommodate the VMs' needs will be well-positioned to succeed in this evolving marketplace. Shorter product development times also reduce product development costs. Consumers are increasingly well-informed and sophisticated and, both in the aftermarket and the new vehicle market, are demanding personalized features not typically found in the automotive environment. Additionally, the Internet has increasingly made consumers accustomed to

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rapid delivery of their desired items. Suppliers that are able to deliver what consumers demand on a timely basis, whether in the new vehicle market or in the aftermarket, will benefit from this trend.

- *Globalization of Suppliers.* In order to serve multiple markets in a more cost effective manner, many VMs are turning to global vehicle platforms, or "world cars," which typically are designed in one location but produced and sold in many different geographic markets around the world. With these vehicles, VMs can better serve multiple markets and address local consumer preferences while controlling design costs and taking advantage of low-cost manufacturing locations. Suppliers for a specific world car are often required by the VM to provide their products and services in all global locations where that vehicle is manufactured. Few suppliers are able to provide this global coverage and it is a source of significant competitive advantage for these suppliers with global capabilities.
- *Ongoing Industry Consolidation.* The worldwide automotive parts industry is consolidating as suppliers seek to achieve operating synergies through business combinations, shift production to locations with more flexible local work rules and practices, acquire complementary technologies, build stronger customer relationships and follow their customers as they expand globally. According to U.S. Industry and Trade Outlook 1999: Automotive Parts, the overall number of Tier 1 suppliers worldwide decreased from 3,000 to 1,500 between 1990 and 1996, primarily due to industry consolidation. The trend for suppliers to provide VMs with single-point sourcing of integrated systems and modules on a global basis has helped drive industry consolidation.
- *Demand for Safe and Environmentally Friendly Products.* Some VMs are increasingly focused on, and governments are increasingly requiring, safe and environmentally friendly or "green" products. Advances in technology have led to a number of new innovations and have reduced costs for existing products, such as passive and active restraints. In addition, there has been increased consumer focus on safety. Environmental trends cut across a wide range of innovations, from emissions controls to fuel and fuel consumption improvements to recyclable materials. In addition, there are some technologies, such as fuel cells, which may revolutionize the automotive industry. The ability of suppliers to cost-effectively produce safe and environmentally friendly products will increasingly be a distinguishing factor among suppliers.

## Strategy

Our objective is to be the world's leading consumer-focused, technology-driven automotive systems company. Whether we are selling to VMs or directly to consumers, we regard the consumer as our ultimate customer. We systematically gather and analyze consumer information that helps us anticipate new trends and consumer preferences. We then can anticipate our VM customers' needs with regard to new products and help introduce these products to consumers, gaining acceptance for our products. We believe that our extensive global presence and broad system capabilities provide us with a substantial competitive advantage as we pursue new business around the world. This is especially true as VMs move to global vehicle platforms, or world cars. We believe that our extensive experience and expertise with Ford also gives us many benefits as we pursue non-Ford business. We believe that our consumer focus, global reach and the following strategies will allow us to capitalize on the industry trends described above and to achieve our objective:

**Capitalize on Our Core Ford Business.** We have been the largest supplier to Ford, the world's largest producer of trucks and the second largest producer of cars and trucks combined, for most of Ford's history. In 1999, Ford purchased an average of about \$2,300 of materials from Visteon for each vehicle Ford sold worldwide. Ford's continued success in the market has earned it four of the top ten vehicle models sold in the United States in 1999; Ford purchased an average of about \$2,900 of materials per vehicle from Visteon on those four models. We also

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have a significant amount of content on a number of all-new, potentially segment-leading products such as the Excursion,

Escape, F-150 SuperCrew, Focus, Explorer Sport Trac and Lincoln LS. The Focus was named “North American Car of the Year 2000” by the North American automotive press and “European Car of the Year 1999” by the European automotive press, the first car to win both awards. The Lincoln LS was named “2000 Motor Trend Car of the Year.” Some of these products represent entries into segments in which Ford did not compete in the past. We expect continued success with Ford, and our goal is to be a leader in these new vehicle segments, both with Ford and with other VMs.

We have a substantial base of awarded business with Ford and we have also entered into a supply agreement with Ford that allows us to secure additional business. In addition, because we have been integrally involved in the design and development of many of Ford’s vehicles and we understand Ford’s needs, we believe that we are uniquely positioned to work with Ford on future models. Many of our engineers work closely with Ford engineers at Ford facilities, ensuring maximum cooperation and attentiveness to customer needs. We believe that this combination will provide us with substantial future business. We expect that Ford will remain our largest customer for a significant period of time. As of December 31, 1999, we had been awarded Ford business of \$16.3 billion for 2000, \$16.0 billion for 2001, \$16.5 billion for 2002, \$15.3 billion for 2003 and \$13.9 billion for 2004, with additional Ford business for the later years still expected to be awarded. Although this business provides an important base, our sales to Ford may decline over time.

**Improve Our Operating Performance.** We have implemented a number of initiatives to improve our operating performance on a continuous basis. Reducing costs and streamlining product development and production improves profitability, increases cash flow and frees up capital for investment. Additionally, these operating performance improvements are particularly crucial because of VMs’ continued focus on price reductions.

Increased attention to our product and technology development and production techniques has allowed us to achieve cost performance reductions of more than \$600 million annually over the last two years, primarily through a combination of negotiations with our suppliers, material efficiencies and manufacturing cost reductions. We have focused our performance strategies on the following key functions:

- *Product technology and development.* We have put in place a disciplined product development process and state-of-the-art computer tools, some of which are proprietary to Visteon, for the design, development and testing of products and systems. These advances have improved our speed-to-market, reduced our development costs and improved our overall quality. The use of computer tools has enhanced the design process by incorporating engineering and manufacturing design rules and/or process capabilities up front in the component or system design phase. These tools also incorporate manufacturing and product knowledge gained from past experiences and use it to make decisions that significantly increase the probability of first pass success.

The effective use of computer-based product development tools is demonstrated in the results we have achieved. For example, computer tools have reduced design time on a fuel rail, instrument cluster and air induction system by over 50% in key design phases. Warranty costs for Visteon-supplied products have dropped an estimated 38% between the 1994 model year and the 1999 model year.

- *Procurement.* We use global procurement to obtain competitive prices for our direct and indirect materials, machinery, equipment and services, as well as for parts we purchase from other suppliers for use in our product offerings. In 1999, our total purchases were about \$9.8 billion. The procurement group achieved reductions in material costs due to negotiations with our suppliers of about \$540 million combined in 1998 and 1999. Our independent procurement strategy will be focused on identifying and obtaining the best

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price, terms and quality for all materials and supplies. As an independent company, we will control our \$10 billion material buy through increased focus on purchases key to Visteon. Accordingly, we believe that we will be able to derive significant cost savings through this increased focus on reducing our supply costs. We plan to achieve this through the following:

- *Re-sourcing supply contracts from our least competitive suppliers:* We believe that this re-sourcing will help us cut procurement costs by moving contracts from high cost suppliers to lower cost suppliers. In 1999, we enhanced our prior efforts with the implementation of a formal commodity strategy, which analyzes particular commodities and highlights opportunities to improve our terms with current sources or identifies new alternative sources. We believe that our updated re-sourcing program will create a competitive environment among our suppliers and lead to lower costs throughout the entire system.
- *Increased use of Internet procurement:* We plan on leveraging the Internet to minimize procurement costs. We believe that these savings will come primarily through the use of online auctions. These auctions allow suppliers to bid on Visteon contracts online and in real time. Our 1999 controlled experiment in Internet sourcing and auctioning resulted in significant savings — on the \$189 million worth of products we sourced on the Internet, we experienced double-digit percent reductions. We will substantially increase our use of Internet sourcing and auctioning. Additionally, we save time and effort with the new online process.

- *Leveraging scale:* As the third largest auto parts supplier, we are a major source of revenue to many of our suppliers. We have experienced no detrimental effects from disaggregating our volumes from Ford volumes and do not expect any adverse effects in the future (in fact, we believe the shift in purchasing focus from Ford to Visteon priorities will provide positive effects). We believe we have purchasing leverage that can provide us with significant strength in negotiating and, as a separate company, we plan to fully utilize this leverage in order to obtain lower supply costs from our suppliers.
- *Production.* In 1995, we developed and began the process of implementing the Visteon Production System (VPS) throughout our global operations. VPS is designed to optimize material flow and inventory while creating a flexible and predictable common production system. A key part of our production strategy is “lean” cell-based manufacturing for new programs and converting existing production facilities to “lean” where feasible. The “lean” methodology relies on smaller manufacturing units rather than dedicated large assembly lines and leads to a number of operational improvements. This approach allows greater flexibility and lower floor space, inventory and investment. As of March 31, 2000, Visteon had completed 129 lean cells, had 128 more lean cells under way, expected to be completed by December 2000, and had 329 additional lean cells planned, expected to be completed in the next few years. Impressive results have been achieved from our first round of implementation and have partially offset increased labor costs: while results vary from project to project, an example is the Sheldon Road climate control lean cell, in Plymouth, Michigan, which resulted in a 58% reduction in floor space required, a 76% reduction in inventory and capital expenditure avoidance equal to 66% of the project’s initial estimated cost. In deciding on which projects to apply lean processes, we consider a number of variables, including labor intensity, prior investments of capital and required new investments of capital.

While we expect similar pressure from our customers, Ford has agreed that the one-time price realignment, which reduced net income as reflected in our unaudited pro forma financial statements, has resulted in market-competitive prices and that future reductions will be the same as those required of all suppliers.

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**Expand Our Non-Ford Business.** We have demonstrated our ability to grow our non-Ford business over the past two years. In 1999, about 12% of our sales were to non-Ford customers, up from 7% in 1997. We have a goal of expanding our non-Ford business to 20% of our sales by 2002. We have been awarded non-Ford business of \$4.4 billion for 2004. Future new business wins should drive this number higher. Our total non-Ford business was \$2.3 billion in 1999. During 1999, we won new non-Ford business of \$762 million. When we refer to new business wins, we count the expected annual business once the program is running at full volume. Some of our important new business wins in 1999 from non-Ford VMs are: rear seat entertainment systems for General Motors, steering pumps and gears for DaimlerChrysler, cockpits for Hyundai Motor Company and audio systems for Fiat S.P.A. We believe that our spin-off from Ford, combined with our technological leadership, systems engineering capability and high quality products, will facilitate achievement of our goal.

Our strategy to win new non-Ford business, particularly on global vehicles, is to take our technology, systems engineering skills and global scale gained during our relationship with Ford and apply them to other VMs. To access these VMs, our intent is to establish appropriate organizational staffing to support these VMs, and to establish facilities near their headquarters and manufacturing facilities. We have built a new sales and marketing organization, currently at about 100 people and expected to grow to about 125 people by the end of 2000, dedicated to non-Ford accounts. We have recruited account managers from outside of Visteon with extensive automotive industry experience and located them adjacent to the headquarters of VMs like General Motors, DaimlerChrysler, Renault Group, Peugeot SA Citroën and Toyota Motor Corporation. Visteon also stages technical reviews at customer sites with applications engineers from regional technical centers to demonstrate our superior systems capabilities and broad portfolio of products. In 1999, we conducted 19 customer-specific onsite technical exhibitions, which generally run for two days.

We have made, and expect to continue making, strategic acquisitions, alliances and joint ventures that give us increased access to non-Ford VMs. Our June 1999 acquisition of the automotive interiors division of Compagnie Plastic Omnium makes us the largest supplier of instrument panels in the world and adds about \$400 million of annual sales, including significant programs with three major European VMs. We intend to leverage this business to provide cockpit modules, including climate control, audio and multimedia systems to these European VMs. We also made an acquisition in December 1999 that has made us the leading provider of instrument panels in South Korea, giving us a key relationship with Hyundai and Kia Motors. Because of the long lead time for delivery under our contracts with VMs and our continued efforts to retain attractive Ford business, any changes in the mix of our VM business will be gradual.

We also believe that our automotive expertise lends itself to non-automotive applications. We intend to leverage this expertise to grow our non-VM business. While not yet material to our operations as a whole, we currently provide electronic engine control systems for Polaris Industries, Inc. motorcycles and fuel tanks for Honda Motor Co. motorcycles. Voice recognition, theater seating and power generation are some of the other products and technologies that have application outside of the automotive sector.

**Use E-Commerce to Lower Costs and Enhance Sales.** The automotive manufacturing business model is in a transition from “push” to “pull,” with the goal being a seamless supply chain building cars and trucks to precise consumer specification on demand. The profit opportunity from being on the forefront of this change is substantial, and we have identified what we believe are the major components of this transition and have developed strategies to allow us to capitalize on this transition.

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Technology-based supply chain management techniques allow us to substantially lower procurement costs, manage inventory and supply chain logistics more efficiently, sell more effectively, and increase the value of our products to consumers:

- *Lower procurement costs:* As discussed above, we are focusing efforts on bringing more of our procurement online in an effort to remove barriers to bidding and increase our global reach. We expect this to lead to substantial savings over the next several years.
- *Supply chain management:* Tier 1 suppliers have traditionally built up inventory to support the needs of VM customers. We have implemented just-in-time deliveries and shipments and we plan to use technology to improve our logistics. We are evaluating various e-commerce solutions that will enable us to manage our freight operations on a real time basis — linking the key freight operations via the Internet. Billing would be managed electronically and the system would provide us with instantaneous logistics data that allow us to understand the underlying issues and optimize our material flow. Visteon is also planning to change the way we handle procurement of carriers by going to an e-commerce bidding process that would allow opportunities for further freight savings.
- *Increased selling effectiveness:* Visteon has an e-commerce web site, [www.evisteon.com](http://www.evisteon.com), that currently facilitates the sale and service of our aftermarket products both for our business partners and for consumers. Feedback and experience from this web site over the last few months has resulted in an aggressive plan to update this web site and enhance our transactional processing capability. We expect that by the middle of 2000, [www.evisteon.com](http://www.evisteon.com) will transition from being a site that only facilitates our selling to a site where our business partners will also conduct business. Our North American and European business partners will be able to access an electronic catalog that will permit them to view inventory availability and submit orders. This is especially useful for small and/or remote customers, who would traditionally have less access to this information. They will also be able to select shipping methods, track order status and obtain account information online.

Additionally, we plan to use e-commerce to increase the value of our products to consumers. As the importance of wireless technology increases, consumers will want to retrofit cars to include updated communication capabilities. As drivers spend increasing time connected to the outside world, we are well positioned to provide the necessary technology and interface.

Finally, we believe that by manufacturing innovative products, especially those that are technologically advanced or that have regulatory or safety impacts, we provide products that are not purchased solely on the basis of price and which distinguish us in the Tier 1 arena.

**Exploit Our Technology and Systems Engineering Leadership.** Consumers are increasingly demanding technology and electronics to make their cars safer, more convenient and more comfortable. We believe that the use of electronics integration and systems engineering to increase the functionality and personalization of products is key to our future success. As VMs increasingly demand systems instead of individual components, we expect to capitalize on that trend. We are one of the few global suppliers able to deliver systems to VMs across a wide array of product areas, with particular expertise in climate control, audio and instrumentation. Together, sales of these three types of systems accounted for \$4.7 billion of our sales in 1999. We have extensive experience in engineering complex and interactive vehicle systems, and have a strong technical knowledge of vehicle and user requirements that form the basis for integrating new technologies. Our systems engineering process allows us to quickly interpret and translate customer (VM and consumer) needs to develop innovative systems-based solutions depending on the needs of individual VMs and the aftermarket. Our advanced technology organization works across business and functional lines to identify, develop and incubate new products and businesses.

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Examples of our application of technology and systems engineering for competitive advantage are:

- We have developed innovative electronics-based, consumer products such as dual staged air bag crash sensors, navigation systems, voice-activated control systems, Internet-linked in-car computer systems and rear seat entertainment systems, demonstrating our ability to utilize the latest technology and provide consumers added

convenience, pleasure and safety. Examples of sales to VMs in these high growth areas include voice activation, included in the 2000 Jaguar S-Type, and an adaptive restraint module with crash severity algorithm and crash sensors, included in the 2000 Taurus. Our rear seat entertainment systems were first introduced in the aftermarket in mid-1999 and quickly resulted in awarded VM business that will reach \$40 million annually. We have product development relationships with leaders in the consumer electronics arena, such as Nintendo Co., Ltd., Bang & Olufsen Holding A/S and Boston Acoustics, Inc.

- We are developing Superintegration, a technology that integrates electronics into the surrounding environment in a highly flexible, cost and space-efficient manner and provides the VM with significant advantages in assembly, service and function. For example, our superintegrated cockpit, which we have begun to market to VMs, incorporates all the standard cockpit functions at a substantial cost reduction and improves service, quality and reliability while increasing the ease of upgrade. The superintegrated cockpit program has showcased our technical abilities with key new customers and allowed us to win more conventional systems and module business. The superintegrated cockpit revolutionizes the design and manufacturing process for what used to be a number of separately designed systems. For example, instead of having separate power supplies for the instrument cluster, the radio and the electronic climate control system, the superintegrated cockpit would have one power supply, and instead of having separate tone generators to signal that the car doors are open or that the keys have been left in the ignition, the audio system's speakers would be used. The superintegrated cockpit is designed to reduce weight by 20% and deliver cost reductions in the range of 14% to 20%. We also believe it will deliver a 27% improvement in service time and a 30% increase in quality versus traditional designs. We believe that Superintegration will be a key competitive advantage for us.
- We use advanced engineering tools to create a virtual design and testing environment. The use of these tools enables fast product development cycles, minimizes cost and optimizes product performance. For example, Visteon utilizes a proprietary technology to efficiently explore alternative vehicle interiors to satisfy ergonomic and other functions important to consumers. This three dimensional computer-based tool creates occupant parameters inside a virtual vehicle to investigate the ideal relationship between passengers and the vehicle interior at the concept design stage. Once modeled, this analysis can be done in minutes instead of weeks, without the need for prototypes.

**Grow Our Aftermarket Business.** The aftermarket represents a major opportunity for revenue and earnings growth. The time between design and launch is only a matter of months, as compared to years in the case of new vehicle production, allowing us to increase revenues more quickly. The aftermarket also offers an opportunity to sell higher margin products and improve Visteon's overall returns by leveraging our existing investments in engineering and production. Importantly, the aftermarket serves as a forum for proving consumer acceptance and commercial viability of new high technology product concepts, leading to introduction in the new vehicle market. For example, the success of our rear seat entertainment system in the aftermarket was a key factor in influencing VMs to include it in their new vehicle programs. As we develop our brands and introduce products in conjunction with leading brands, we expect consumers to increasingly demand our products from VMs and "pull" these products through the supply chain. The aftermarket also serves as a partial diversification of our VM business.

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As a major original equipment supplier to VMs, Visteon is well positioned to capitalize on this market. We understand the complex characteristics of automotive vehicles and our aftermarket replacement products are appealing to consumers who wish to maintain the original performance and appearance of their vehicles. Our sales to the aftermarket grew at a compound annual growth rate of 16% between 1997 and 1999, from about \$660 million to about \$885 million. Most of this growth was in sales to non-Ford customers.

Our aftermarket strategy includes expanding our existing product lines to "all makes," establishing a strong presence in new markets, building worldwide distribution channels (including a business-to-business strategy online at [www.evisteon.com](http://www.evisteon.com)) and continuing our aggressive launch of new products. Particular attention will be paid to utilizing new technologies whenever possible. We believe that direct sales to consumers will increase over time. As part of our strategy formulation, we have identified two major areas of opportunity:

- **Vehicle Personalization.** Many consumers are looking to enhance or personalize the performance and appearance of their vehicles. Fit, finish and durability are essential elements for success in this area. Our position as a leading VM supplier allows us to provide high quality products that incorporate these elements. To take full advantage of this opportunity, Visteon has launched an aftermarket brand initiative under the RoadFx™ name.
- **Replacements/repairs.** This area allows us to capitalize on our existing designs, tooling and manufacturing facilities. Remanufacturing, in particular, is one of the fastest growing and most profitable segments in the aftermarket, driven by strong economic pressure on the cost of vehicle ownership (remanufactured parts retail for about half the price of new parts) and the perception that it is environmentally friendly.

We continue to use technology to strengthen our current brands while developing equity in new brand names:

- Visteon multimedia products like the CD6 Music System, NavMate® Navigation System and Rear Seat Entertainment System, will be marketed and sold under the Visteon name, as these products fall under the high technology umbrella of Visteon and support the company's overall positioning strategy. A key branding strategy of the aftermarket is to partner with well-respected companies and brand names to help differentiate Visteon multimedia products and to create greater consumer awareness. We have product development relationships with consumer electronics leaders like Nintendo, Bang & Olufsen, Texas Instruments, Microsoft Corporation, Intel Corporation and Boston Acoustics. We are already selling several products directly to consumers over the Internet, such as the NavMate® Navigation System and the Visteon/ Nintendo Rear Seat Entertainment System.
- The aftermarket climate control business of Visteon utilizes the most complex branding strategy due to its diverse distribution channel. The ClimatePro™ by Visteon brand is distributed through the traditional distribution network (to service providers via distributors); Midas Gold® by Visteon is distributed to more than 2,100 Midas, Inc. franchises; and our co-manufacturing customers re-label Visteon's products under their private brands. *Counterman*, a leading aftermarket parts and service publication, ranked our contract with Midas as one of the major aftermarket announcements of 1999. Visteon is currently developing another brand name for the retail network.

**Streamline and Focus Our Product Portfolio.** Our long history as the largest supplier of systems, modules and components to Ford has given us one of the broadest portfolios in the automotive parts industry. This comprehensive array of products is a strategic advantage for us — it allows us to compete across many component areas and plays a key role in supporting our systems capabilities.

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While having a broad portfolio remains important to our success, we believe that our spin-off from Ford will give us the flexibility and opportunity to focus our investment and technical resources in high growth, strategic and high margin areas. We have implemented, and continue to refine, a portfolio management process. Through this process we regularly evaluate all of our product lines to assess how each supports our overall vision and strategic objectives, with a focus on electronics and systems integration. We intend to invest in those businesses that fit our strategic vision and focus on electronics and systems integration, while exploring every opportunity to address low return operations. For example, we sold our steel wheels business in 1999, as we believed this to be a non-strategic, low margin business. In addition, we intend to pursue strategic acquisitions and alliances that complement or fill gaps in our product portfolio, enhance our design, engineering and manufacturing capabilities and increase our access to new markets and customers. For example, Autoneural Systems, our partnership with Sumitomo Electric Wiring Systems, Inc., combines our extensive automotive systems capabilities and Sumitomo's advanced electrical distribution expertise and provides added capability in delivering complete vehicle systems.

For a discussion of negotiations of a joint venture involving our Glass business, see "Recent Development."

We believe that our spin-off from Ford will increase our ability to manage our product portfolio over the long term based on our own strategic objectives. Our labor arrangements, however, place some limits on our ability to divest or restructure businesses in the near term.

### **Description of Business**

#### **Sales and Awarded Business**

We sell to four principal types of customers:

- Ford VM;
- non-Ford VM;
- Ford aftermarket; and
- non-Ford aftermarket.

We expect that Ford will remain our largest customer for the foreseeable future due to the long-term nature of sales contracts in our industry, our strong customer-supplier relationship with Ford and our supply agreement with Ford. Our sales to non-Ford customers have grown from about 7% of our total sales in 1997 to about 12% of our total sales in 1999, and we expect our non-Ford sales to increase in the future. Recent non-Ford business wins include rear seat entertainment systems for General Motors, steering pumps and gears for DaimlerChrysler, cockpits for Hyundai and audio systems for Fiat.

We sell our products to the worldwide aftermarket for replacement parts. Currently, about 42% of our aftermarket sales are to Ford's Automotive Consumer Services Group for distribution principally to the North American aftermarket.

We sell our products globally. Of our 1999 total sales, about 82.1% were in North America, 14.5% were in Europe and

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The following table delineates our total sales for the periods indicated:

	Three Months Ended March 31,		Year Ended December 31,		
	2000	1999	1999	1998	1997
<b>By customer:</b>					
Ford VM	83.7%	89.2%	86.4%	90.2%	91.1%
Non-Ford VM	11.8	5.9	9.0	5.8	5.0
Ford Aftermarket	1.9	2.1	1.9	1.9	1.8
Non-Ford Aftermarket	2.6	2.8	2.7	2.1	2.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%
<b>By geographic region:</b>					
North America	82.9%	84.4%	82.1%	83.2%	82.4%
Europe	13.7	14.5	14.5	15.1	15.4
Other (rest of world)	3.4	1.1	3.4	1.7	2.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%

“Ford Aftermarket” refers to sales to Ford’s Automotive Consumers Services Group and “non-Ford Aftermarket” refers to sales to other aftermarket customers. Our sales by geographic region are reported by the location of delivery of product to the customer.

**Contracts for VM Business.** Automotive parts are generally sourced for the length of production of a vehicle program, generally from three to seven years. Tier 1 suppliers generally compete for new VM business at the beginning of the development of new vehicle models and upon the redesign of existing vehicle models, at which time a supplier would bid for the “replacement cycle” of an existing product program. New vehicle model development generally begins two to five years before the marketing of models to consumers. As a result, a significant portion of a supplier’s annual sales are generated pursuant to arrangements entered into about two to five years before the sales related to those arrangements begin to be realized.

The Tier 1 sourcing process for vehicle programs typically begins when a VM seeks requests for quotations or initiates a development program with several suppliers three to six years before anticipated vehicle production. Based on these quotations, VMs in many cases then select and work with a supplier on specific component design and development projects related to the new vehicle program. The VM will then develop a proposed production timetable, including current vehicle volume and option mix estimates based on its own assumptions, and then source business with the supplier pursuant to written contracts, purchase orders or other firm commitments, provided that the supplier can meet the VM’s designated conditions.

**Awarded Business.** We believe that we currently have a solid foundation of awarded business upon which to grow our company once we are separated from Ford. We track as “awarded business” the future sales that we have a strong expectation of realizing. In calculating our awarded business, we have made various assumptions and estimates regarding, among other things, the timing and volume of vehicle production, option mix and product pricing. We have not assumed that we will win any new business beyond that we have already been awarded, but we have assumed that we will retain business upon minor and major “refreshenings,” except for (1) some business that we believe Ford will seek to resource because we supply an overwhelming portion of that business and (2) some less attractive business on which we may choose not to bid. In estimating our awarded business, we use assumptions about the volume and timing of vehicle production and option mix and product pricing, adjusted based on other information we may have.

While we believe our assumptions to be reasonable and the methodology by which we track our awarded business to be appropriate, we continuously evaluate and from time to time make

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modifications to our assumptions and methodology. As a result, awarded business is not the same as contractual backlog, and we cannot assure you that we will in fact realize any specific amount of awarded business because it remains in all cases subject to a

number of important risks and uncertainties. VMs may delay, cancel or redesign vehicle programs, or may resource business away from us upon a refreshing. In addition, our VM customers generally have a contractual right to replace us with another supplier throughout the duration of a contract for a variety of reasons, although the impact of this contractual right is mitigated to some extent by the substantial re-engineering costs that a VM typically would need to incur in order to introduce a new supplier to an established vehicle platform.

Subject to these and other risks and uncertainties, as of December 31, 1999, we estimated sales from our existing awarded business as follows:

	2004	2003	2002	2001	2000
			(in billions)		
Awarded business (Ford)	\$13.9	\$15.3	\$16.5	\$16.0	\$16.3
Awarded business (non-Ford)	4.4	4.2	3.8	3.1	2.5
Total	\$18.3	\$19.5	\$20.3	\$19.1	\$18.8

The amount of our awarded business declines over time as the vehicle programs in which we are currently participating mature and eventually terminate. However, we expect over time, particularly in the later years, that we will be awarded additional business from Ford and, increasingly, other customers.

## Products

We operate in three business segments — Comfort, Communication & Safety, Dynamics & Energy Conversion and Glass. The following table shows our total sales and net income (loss) by segment and in total for the last three years:

	Total Sales			Net Income (Loss)		
	December 31,			December 31,		
	1999	1998	1997	1999	1998	1997
			(in millions)			
Comfort, Communication & Safety	\$ 9,377	\$ 8,337	\$ 8,545	\$422	\$452	\$439
Dynamics & Energy Conversion	9,216	8,673	7,918	344	294	136
Glass	773	752	757	3	(15)	(25)
Total (including unallocated interest)	\$19,366	\$17,762	\$17,220	\$735	\$703	\$511

The following discussion describes each of our segments, as well as the major product groups within each segment.

### **Comfort, Communication & Safety**

Our Comfort, Communication & Safety segment is composed of our climate control systems product group, which produces systems, modules and components in the areas of fluid transport, air handling, heat exchange and compressors, and our interior/exterior systems product group, which produces systems, modules and components in the areas of cockpits, instrument panels, interior trim and seats, lighting and bumpers, as well as safety and convenience systems such as air bag electronics and voice activated control. Comfort, Communication & Safety accounted for about \$9.4 billion, or 48.4%, of our 1999 total sales.

*Climate Control Systems.* Our climate control systems product group is one of the leading global suppliers of components and systems that provide automotive heating, ventilation and air conditioning and powertrain cooling. The climate control systems product group is divided into four business units: heat exchanger, air handling, compressors and fluid transport. Climate

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control systems operates in 24 manufacturing facilities throughout the world, of which 14 are outside of North America and 12 are non-unionized and one is shared with another Visteon product group.

Our climate control systems product group is well positioned to capitalize as air conditioning becomes standard equipment on European models due to increasing consumer demand. Only 42% of vehicles manufactured in Europe in 1996 contained air conditioning systems. It is estimated that about 70% of vehicles manufactured in Europe in 2002 will contain air conditioning systems.

In 1998, we acquired an 80% stake in PABA, Inc., a manufacturer and distributor of aftermarket climate control products in North America. This positioned us to supply replacement climate control parts for virtually every make and model of automobile driven in North America. Based on the strength of our product portfolio, we recently entered into an agreement with Midas under which we will be the sole climate control component and system provider to Midas.

Our climate control systems product group has demonstrated strong full-service design capabilities and significant technological developments, leading to major new business wins with VMs like General Motors, Jaguar and Honda.

*Interior/ Exterior Systems.* Our interior/ exterior systems product group is one of the leading global suppliers of cockpit modules, in-vehicle entertainment, driver information, navigation, wireless communication, safety and security electronics, exterior lighting, bumpers and fascias. The interior/ exterior systems product group is divided into five business units: cockpit systems — North America and Asia-Pacific, interior systems — Europe and South America, lighting, interior trim and seats, and bumpers. Interior/exterior systems operates in 37 manufacturing facilities throughout the world, of which 26 are outside of North America and four are non-unionized and two are shared with another Visteon product group.

To secure its position as a global cockpit provider, Visteon acquired the automotive interiors division of Compagnie Plastic Omnium and a majority interest in Duck Yang Ind. Co., Ltd., substantially increasing Visteon’s penetration into Europe and Asia, giving us increased access to five VMs out of the world’s 20 largest. Our acquisition of the automotive interiors division of Compagnie Plastic Omnium adds about \$400 million of annual sales.

Because of its critical role in the sensitive design phase for a new vehicle platform, interior/exterior systems has been limited in its ability to bid on non-Ford business. Despite this difficulty, interior/exterior systems has recently won several significant new contracts with General Motors, DaimlerChrysler, Honda, Renault, Fiat and Peugeot. By being spun-off from Ford, we expect to be able to substantially increase our non-Ford sales.

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The following table shows the various products in our Comfort, Communication & Safety segment:

Product Line	Description
<b>Climate Control Systems</b>	
Heat Exchanger	Some of the products produced by this unit include radiators, condensers, evaporator and heater cores, cooling modules and intercoolers. The unit also produces exhaust gas recirculated coolers which aid in the improvement of diesel emissions with the new generation of diesel engines.
Air Handling	Some of the products produced by this unit include heating, ventilating and cooling modules, manual controls and electronic automatic temperature controls.
Compressors	This unit produces piston compressors that raise refrigerant pressures to provide interior cooling as part of the air conditioning system and scroll compressors that utilize scroll technology (which utilizes rolling rather than sliding components, reducing friction and extending component durability up to 10 years/150,000 miles) for air conditioning systems.
Fluid Transport	This unit produces pressurized a/c hoses (that route refrigerant in the air conditioning system), accumulators (which are pressurized reservoirs for the refrigerant in the air conditioning system), and hydraulic hoses for power steering.
<b>Interior/ Exterior Systems</b>	
<b>Interior Systems</b>	
Multimedia Systems	This unit produces a wide range of audio systems and components, including integrated cassette/ CD/ DVD radios, amplifiers, and audiophile systems such as Mach™, as well as other systems made in conjunction with Bang & Olufsen and Boston Acoustics.
Entertainment Systems	This unit produces integrated in-vehicle systems which transform home electronic products into automotive vehicle entertainment systems, including DVD and VHS players. We have worked with companies like Nintendo and Sharp Electronics Corporation to bring their systems into the automobile.

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Product Line	Description
Advance Communication Systems	This unit produces products such as wireless portable cellular phone docking units, satellite digital audio radio, ICES™ (which is electronic hardware and software architecture that supports information, communication, entertainment, safety and security features) vehicle emergency messaging and NavMate® (which is an in-vehicle, turn-by-turn navigation system with route guidance provided through a color display screen, turn icons and voice directions). These systems are able to move information into, out of, and around the vehicle utilizing technologies like the Global Positioning System, the Internet, cellular, voice activated control, the Microsoft Windows CE™ operating system and the Palm™ interface.
Vehicle Body Electronics	This unit produces electronic products that can control or sense various functions within the vehicle, including safety, switching, security and control. Examples include remote keyless entry, anti-theft and multiplexing modules, which reduce electrical wires and connectors.
Cockpit Modules and Instrument Panels	These units produce fully integrated instrument panels which incorporate the latest safety, driver information, electrical distribution, multimedia, advance communication and climate control systems. These functional instrument panels are styled to correspond to vehicle brand image. They can be hard, soft or 100% recyclable panels. Soft panels can utilize a cast skin process or an environmentally friendly vacuum formed process.
Safety/Security Systems	This unit produces products for occupant protection through crash deployment electronics, crash detection electronics, emergency messaging systems, remote keyless vehicle entry, engine immobilizers, airbag cutoff sub-systems, occupant position/weight sensing systems, energy absorbing materials and energy management electronics.
Driver Information Systems	This unit produces information displays using projected imaging systems to analog/digital instrumentation. Information systems and components provide vehicle information and include analog, electronic and high impact instrument clusters, message centers, fuel computers, clocks and warning modules. Future technologies such as virtual and re-configurable projected image displays/message systems are under development.

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Product Line	Description
Seat Systems	This unit produces luxury seating systems which incorporate enhanced safety, comfort and styling concepts. Our safety seats enhance occupant protection through better energy management, crash severity adaptivity, integrated airbags and anti-whiplash features. We also produce theater seats which deliver styling and comfort in the movie world. Our interior systems group also produces advanced door modules and systems as well as a variety of interior trim products enhancing the look and feel of the vehicle's interior.
<b>Exterior Systems</b>	
Lighting Systems	This unit produces front lamps, signal lamps and rear lamps which utilize special optic-design software.
Bumpers	This unit produces painted fascias and bumpers for front and rear that support the vehicle energy management system using blow molding and injection molded technologies.

**Dynamics & Energy Conversion**

Our Dynamics & Energy Conversion segment is composed of our energy transformation systems product group, which produces systems, modules and components in the areas of energy management, distributed power generation, electrical conversion, and fuel storage and delivery, and our chassis systems product group, which produces systems, modules and components in the areas of axle and driveline, steering and chassis products. Dynamics & Energy Conversion accounted for about \$9.2 billion, or 47.6%, of our 1999 total sales.

*Energy Transformation Systems.* Our energy transformation systems product group is one of the leading global suppliers of systems, modules and components for enhancing powertrain performance, fuel economy and emissions control. The energy transformation systems product group is divided into five business units: energy management — North and South America, energy management — Europe and Asia-Pacific, electrical conversion, fuel storage and delivery, and distributed power generation. Energy transformation systems operates in 22 manufacturing facilities throughout the world, of which 12 are outside of North America and seven are non-unionized and 11 are shared with another Visteon product group.

Energy transformation systems has developed a product portfolio that will benefit from several trends in the energy market. Over time, it is expected that direct injection, hybrid vehicles, and, in the longer term, fuel cells will replace port fuel injection. As a result, over the last few years, energy transformation systems has increased its engineering spending on new systems, restructuring its capabilities to offer products that address these trends, such as the 42-volt electrical system, which will power increased electronics and electrical devices in the automotive vehicle.

Energy transformation systems has also developed important technology for distributed power products and has begun commercialization of these products outside of the non-automotive area. Distributed power, which is the use of electrical generators (micro-turbine, battery or fuel cell powered) to supply locally to households, commercial sites and ultimately to the main power grid, is a fast growing market. We intend to participate in the growth of this market by supplying electronic controls as well as hardware and software.

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Energy Transformation Systems has recently won several significant new contracts with VMs like GM, Honda, Toyota and Volkswagen in the automotive area, and Honeywell International in the non-automotive area.

*Chassis Systems.* Our chassis systems product group is one of the leading global suppliers of complete chassis systems, modules and components. The chassis systems product group is divided into three business units: chassis components, axle/driveline and steering systems. Chassis systems operates in ten factories throughout the world, of which five are outside of North America, one is non-unionized and one is shared with another Visteon product group.

Chassis systems is one of the few suppliers that can design and manage a fully integrated chassis composed of driveline and axle systems, steering systems and suspension systems. Chassis systems’ product portfolio is currently aligned with its “manage torque to the wheels” strategy. This facilitates true driveline and chassis system optimization and added customer value by eliminating significant design and test lead time.

Chassis systems is developing new products which combine fuel savings, driving and steering enhancement, and ease of assembly, such as electric power assist steering, which provides 4% to 4.5% fuel economy savings on a vehicle the size of a Ford Focus. Additionally, chassis systems leads the market in technology for four wheel drive and all wheel drive vehicles.

Our chassis systems product group has recently won significant new contracts with General Motors and DaimlerChrysler.

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The following table shows the various products in our Dynamics & Energy Conversion segment:

Product Line	Description
<b>Energy Transformation Systems</b>	
Energy Management	Some of the products produced by this division include: electronic engine controls, throttle body valves, fuel pressure regulators/ dampers, speed control systems, sensors, injectors/ fuel rails and plastic intake manifolds.
Electrical Conversion	This unit produces alternators, starters, ignition coils, poly-gel mitigators, which aid the production of efficient bumper energy absorbers lowering collision damage at low speeds, and custom designed front and rear wiper/ washer systems. For future needs, we are developing a 42-volt electrical system.
Fuel Storage and Delivery	This unit produces fuel tanks, delivery modules, oil and water pumps and carbon canisters, which control evaporative emissions.
Distributed Power	This unit produces power conditioning systems that provide stand-alone electricity generation capacity to non-automotive customers.
<b>Chassis Systems</b>	
Suspension and Fully Integrated Chassis Systems	This unit produces front and rear modules, corner modules, suspension electronic modules, springs, stabilizer bars, knuckles and spindles. In addition, this unit is developing superintegrated chassis systems for optimal performance.
Axle/driveline	This unit produces all wheel drive systems, hypoid rear axles, independent suspension

axles, driveshafts, halfshafts, power take-off units (which send power to both the front and rear wheels in 4 wheel drive and all wheel drive vehicles), brake discs and brake drums.

Steering Systems

This unit produces hydraulic power assisted steering systems, rack and pinion steering gears, recirculating ball nut steering gears, power steering pumps, steering columns, electric and electro-hydraulic systems and manual steering gears.

Exhaust Systems

This unit produces a full range of catalytic converters which treats the vehicle's tailpipe exhaust in order for it to comply with the clean air requirements.

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**Glass**

Our Glass segment is composed of our vehicle glazing product group, which produces glass products for Ford and aftermarket customers, and our commercial glass product group, which produces float glass for commercial architecture. The Glass segment is divided into two product groups: vehicle glazing and commercial glass. Glass accounted for about \$773 million, or 4.0%, of our 1999 total sales. Glass operates in five manufacturing facilities, of which one is outside of North America and two are non-unionized.

Additionally, Visteon plans to increase the profitability of its existing operations by shifting high labor content production from unprofitable operations to lower cost facilities. In the past year, the Glass segment was able to increase its profitability through significant head count rationalizations and plant closure, rationalization of its bidding for new VM business, controls on capital expenditures, and focus on reducing material costs.

The following table provides a description of the Glass segment product lines:

<b>Product Line</b>	<b>Description</b>
Vehicle Glazing	Products include windshields, backlites, moon roofs, and side windows. Capabilities include glass design, development and manufacturing. Aftermarket replacement glass products are distributed under the Carlite® brand name.
Commercial Glass	This unit produces float glass for commercial architectural and automotive markets.

For a discussion of negotiations of a joint venture involving our Glass business, see "Recent Development."

**Product Technology and Development**

We have substantial technical and vehicle systems integration expertise. We have worked directly with Ford's vehicle design engineers to develop innovative products and complete automotive systems for Ford's vehicles. As a result, we have developed a comprehensive knowledge of the design, engineering, manufacture and operation of all aspects of the automotive vehicle. We have been responsible for the introduction of a number of innovations in the automotive industry such as integrated voice activated control of the cellular phone, audio system and climate control system, currently available in the Jaguar S-Type.

We believe our engineering and technical expertise, together with our emphasis on continuing research and development, allows us to use the latest technologies, materials and processes to solve problems for our customers and to bring new, innovative products to the market. Visteon has strategically located design and manufacturing activities in 20 countries, and more than 125 manufacturing, engineering, sales and technical centers to provide our worldwide VM customers with local design, application and manufacturing capabilities. We have over 8,900 technical personnel around the world.

The Visteon Technology Office serves as the nerve center of our engineering operation. This organization, with representatives from each of Visteon's systems areas, works to maximize Visteon's systems integration capabilities in technology development worldwide. The group works primarily to identify and prioritize new technology development. Additionally, it acts as the "incubator" of new and cross-divisional technologies. The level of systems integration that Visteon is presently developing goes far beyond that found on any vehicle or system today.

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The following table shows information on our technology, research and development:

	1999	1998	1997
Research and development expenditures (in millions)	\$1,115	\$1,004	\$ 855
Research and development as a percentage of sales	5.7%	5.7%	5.0%
Patents awarded			
Primary	146	134	113
Global	267*	302	221
Patent applications			
Primary	249	206	192
Global	683*	560	548
Engineers, scientists, technical specialists and technicians	8,900	8,100	7,800

\* There is a time lag in reporting of non-United States patents and patent applications. Therefore, these numbers are not complete.

Our total expenditures for research and development activities are expected to be about \$1.2 billion in 2000.

Our separation arrangements with Ford generally provide that we will own intellectual property rights associated with technologies that support development or integration of vehicle components and that Ford will retain intellectual property rights associated with technologies that support vehicle systems integration or brand identities. Accordingly, Ford has transferred to us full ownership of over 3,700 patents and patent applications worldwide, including over 1,500 primary patents and pending patent applications. In addition, we and Ford have agreed to cross-license most of these intellectual property rights to each other to the extent they are associated with technologies developed prior to August 1, 1999. These cross-licenses will be non-exclusive, royalty-free, and will include rights to make, have made, use and sell the licensee's products. As a result, Ford will be permitted to have our competitors produce components for Ford utilizing our technology licensed to Ford. We believe that the aggregate values of the cross-licenses are about equal. We believe that we are receiving the intellectual property necessary for us to conduct our business.

We have been actively working with technology development partners as well as our customers to develop several important technological capabilities. We believe that our electronics integration expertise and our systems capabilities will enable us to continue to provide innovative, systems-based solutions for our customers in the future. Many of these advanced products are being developed through partnerships between our product system groups. Advanced products such as these will allow Visteon to participate in the substantial growth we expect to see in vehicle-integrated electronics and systems. Some of these products include:

- **Adaptive Cruise Control.** This system uses a forward-looking sensor to detect other vehicles or objects in front of the vehicle. The system reduces speed when approaching slower-moving vehicles by adjusting the throttle or the brake. The system maintains a "safe" distance based on highway speed and gap between vehicles. The adaptive cruise control system should improve safety by reducing the risk of collision, while at the same time improving driver comfort and convenience. We currently expect this product to be available in 2003.
- **Adaptive Restraint System.** This system provides a VM with the next generation of safety performance. These adaptive restraints provide tailored deployment of the front and side air bags to match the severity of the crash, taking into account whether an occupant is belted or unbelted and the location of the seat relative to the air bag. To complement adaptive air bag deployment, Visteon also has multiple solutions to provide weight sensing

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for passenger air bag suppression and occupant detection. This system is ahead of any federal requirements. This product is currently available on the 2000 Ford Taurus.

- **ICES (Information, Communication, Entertainment, Safety & Security System).** ICES is a vehicle computing platform capable of supporting an on-board multimedia system that we are developing with Intel and Microsoft. It consists of an open hardware and software electronics architecture that makes possible a wide range of features, from emergency calls and navigation to on-board entertainment. A core feature is Visteon's voice recognition technology, which allows drivers to use a wide range of features safely, with verbal commands. We currently expect this product to be available in 2000.
- **RPID (Reconfigurable Projected Image Display).** A reconfigurable, integrated instrument cluster employing a high-definition video display, allowing a user to personalize an instrument cluster and its gauges. This highly advanced product is currently under development and uses technology licensed from Texas Instruments. We currently expect this product to be available in 2003.

Visteon's research and development focus is directed toward the following areas:

- **Environmental.** New legislation for environment-friendly products provides growth opportunity for those companies that can use technology to introduce environment-friendly products with few value trade-offs. One example is Visteon's next

generation air-conditioning system that uses high pressure CO<sub>2</sub> as its refrigerant. This solution makes economic sense and does not represent the leakage or disposal hazard of current refrigerants.

- **Safety.** As highway speeds, vehicle size and traffic congestion increase, the risk associated with a vehicle fatality increases. To address this concern, Visteon is developing passive as well as active safety systems — the latter capable of supporting intelligent transportation systems. Collision avoidance systems, occupant protection systems and adaptive cruise control are a few examples of the products that Visteon has in its product pipeline to support its vision of tomorrow's transportation network.
- **Human-Machine Interface.** Our researchers believe that the next major area of electronics growth in the vehicle is the human-machine interface. Visteon has introduced leading-edge voice technology that controls audio, climate, and communication systems. The opportunity for the proliferation of voice technology throughout the vehicle and beyond is significant and Visteon expects to participate in that growth through its leadership position in this technology. We recently announced our intention to create a joint venture with Lernout & Hauspie, which is a global leader in advanced speech and language solutions across several applications. The objective of the venture is to advance and accelerate the speech interface in automotive applications.
- **Passenger Comfort and Convenience.** As consumers spend more time in their automobiles, systems that provide heightened levels of comfort and convenience become a prerequisite for their vehicle purchase decision. Visteon's anticipation of consumer needs, combined with our considerable electronics integration capability, have resulted in a stream of products that enhance vehicle comfort and convenience from navigation to wireless communication systems.
- **Process Enablers.** Visteon believes its proprietary computer modeling capabilities are key to achieving world-class speed-to-market with new products and systems, and gaining access to new customers. For example, a new modeling tool that allows us to assess occupant ergonomic, comfort, and convenience factors in a virtual environment significantly shortens development times and reduces prototype tooling costs.

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We believe that continued research and development activities are critical to maintaining our leadership position in the industry and will provide us with a competitive edge as we seek additional business with new and existing customers.

## Production

**Global Presence.** We seek to maximize our operating performance in order to enhance our financial performance in the current highly competitive environment. Visteon's global footprint, operational productivity and customer focus are essential elements that provide the basis for achieving our business objectives. As of December 31, 1999, Visteon operated 84 owned and leased manufacturing sites in 20 countries, representing every major region of the world. We also maintain a network of engineering and technical centers in every major region of the world. We believe that our manufacturing presence is one of the most expansive in the global automotive parts industry.

**Visteon Production System (VPS).** In 1995, we developed and began the process of implementing the Visteon Production System (VPS) throughout our global operations. VPS is designed to optimize material flow and inventory while creating a flexible and predictable common production system. It integrates processes for human resources, industrial materials, material flow, in-station process control, total productive maintenance, engineering and our quality operating system. We are able to leverage our skill base, a key element of the process by engaging the people on the shop floor who have direct involvement in how operations are set up and run on a day-to-day basis. Through the implementation of VPS we expect to continue to reduce our manufacturing investments, costs and floor space utilization, while increasing our productivity and improving our inventory management. VPS has allowed us to:

- achieve better inventory turns (currently 22 inventory turns/year);
- improve gross manufacturing efficiency, resulting in gross savings of \$537 million (cumulatively) in 1998 and 1999;
- improve product quality (from 1994 to 1999, warranty costs for Visteon-supplied products dropped by an estimated 38%); and
- be more responsive to the changing needs of our customers.

A key part of VPS is "lean" cell-based manufacturing for new programs and converting existing production facilities to "lean" where feasible. The "lean" methodology relies on smaller manufacturing units rather than dedicated large assembly lines and leads to a number of operational improvements. This approach allows greater flexibility and lower floor space, inventory and investment. As of March 31, 2000, Visteon had completed 129 lean cells, had 128 more lean cells under way, expected to be completed by December 2000, and had 329 additional lean cells planned, expected to be completed in the next few years. Impressive results have been achieved from our first round of implementation and have partially offset increased labor costs; while results vary from project to project, an example is the Sheldon Road climate control lean cell, in Plymouth, Michigan, which resulted in a 58%

reduction in floor space required, a 76% reduction in inventory and an investment avoidance equal to 66% of the project's initial estimated cost.

*In-Line Vehicle Sequencing.* Principally as a result of manufacturing initiatives designed to reduce assembly costs, VMs often require their suppliers to provide just-in-time delivery of pre-assembled systems or modules directly to their production lines. Just-in-time delivery provides multiple, small-batch deliveries on an as-needed basis compared to traditional large-batch deliveries which increase inventory levels and reduce the VM's assembly efficiency. Just-in-time delivery generally requires that the supplier have a local presence where some sub-assembly functions are performed in close proximity to the VM's manufacturing facility. As a result, the supplier's facility becomes, in effect, an extension of the VM's manufacturing process.

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Our in-line vehicle sequencing process takes just-in-time delivery one step further by providing our products not only when the VM needs them, but also in the correct assembly sequence. For example, we supply to in-line sequenced Ford vehicle assembly plants in both North America and Europe. Currently, we assemble and deliver instrument panels for the Expedition vehicle that are sequentially unloaded from the container, with the correct color and options, for attachment directly onto the vehicle as it moves down the VM's assembly line. Our in-line vehicle sequencing process enables us to better service our VM customers' needs through the coordination of our own manufacturing processes with those of our customers. We currently supply in-sequence cockpits for the Ford Expedition and the Lincoln Navigator, as well as for the Ford Focus in Europe, and bumpers for the Navigator, the Focus and other Lincoln vehicles.

## Procurement

We use global procurement to obtain competitive prices for our direct and indirect materials, machinery, equipment and services, as well as for parts we purchase from other suppliers for use in our product offerings. Currently, Ford handles purchases for some of our raw material and subcomponent and component needs. We believe that our size enables us to have sufficient scale and purchasing leverage to avoid incurring incremental purchasing costs following our spin-off from Ford. In 1999, our total purchases were about \$9.8 billion. This amount covered our purchases of parts from other suppliers for use in our product offerings, as well as raw materials and associated freight and production-related services.

Our independent procurement strategy will be focused on identifying and obtaining the best price, terms and quality for all materials and supplies. As an independent company, we expect continued pressure from Ford and our other customers to improve productivity on an annual basis. But we expect to be able to offset these productivity price reductions with increased efficiency and actions of our own. We plan to achieve this in three ways:

- *Re-sourcing:* We will re-source supply contracts from our least competitive suppliers. We believe that this re-sourcing will help us cut procurement costs by moving contracts from high cost suppliers to lower cost suppliers. In 1999, we enhanced our prior efforts with the implementation of a formal commodity strategy. This strategy analyzes particular commodities and highlights opportunities to improve our terms with current sources or identifies new alternative sources. We believe that our updated re-sourcing program will create a competitive environment among our suppliers and lead to lower costs throughout the entire system. Historically, we have been able to achieve annual material reductions of 3% to 3.5%. However, a recent analysis indicates that out of about 1,600 suppliers, 142 accounted for 80% of our negotiated material cost reductions in 1999. These suppliers accounted for 47% of our 1999 material purchases. We expect that through our commodity strategy, e-commerce initiatives and Internet bidding, a significant portion of our purchased materials can be re-sourced over several years, with significant annual percentage reductions realized.
- *Increased use of Internet procurement:* We plan on leveraging the Internet to minimize procurement costs. We believe that these savings will come primarily through the use of online auctions. These auctions allow suppliers to bid on Visteon contracts online and in real time. By leveraging the Internet, Visteon can improve its global reach and drive more quickly to market pricing and away from the current practice of target pricing. For example, in 1999 we initiated Internet sourcing and auctioning by conducting a controlled experiment with auctions for some commodity groups (e.g., printed wiring boards, plastics, semiconductors, exhaust, stampings and hoses). The use of on-line auctioning provides a global forum and includes more suppliers in the bidding process (in our experiment we had up to 12 pre-qualified participants per auction, versus three to four participants in a typical manual sourcing process). These efforts have resulted in significant savings — on the \$189 million worth of products we sourced on the Internet, we

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experienced double-digit percent reductions. Although results will vary, this experiment confirms the tremendous opportunity available through the use of this technology. We will substantially increase our use of Internet sourcing and auctioning. The auction process enables purchasing managers to view and evaluate competitive bids online, supplying them with more complete information by eliminating procedures that divided bids among separate managers. Additionally, we save time and

effort with the new online process, which has proven to reduce the average number of days to identify savings by 70%, as measured against Visteon's 1999 commodity strategy process that is, itself, a significant improvement over the prior process. These auctions take place on several platforms. While we expect some increased pricing pressure from our customers' Internet auctions, most of Visteon's products are highly engineered and subject to safety and environmental certification and therefore not suitable to commodity-type auctions.

- *Leverage scale:* As one of the world's largest auto parts suppliers, we are a major source of revenue to many of our suppliers. We have experienced no detrimental effects from disaggregating our volumes from Ford volumes and do not expect any adverse effects in the future. We believe we have purchasing leverage that can provide us with significant strength in negotiating and, as a separate company, we plan to fully utilize this leverage in order to obtain lower supply costs from our suppliers.

We believe that, as a consequence of our re-sourcing strategy, our use of Internet technology and our scale, the efficient purchasing of materials, goods and services offers a major cost reduction opportunity.

## Workforce

*General.* As of December 31, 1999, we had a workforce of 81,449 persons, including 17,260 salaried workers and 64,189 hourly workers. 2,787 of our salaried workers were unionized, mostly in Europe. Our weighted average hourly compensation cost per employee has dropped from \$25.32 in 1996 to \$23.05 in 1999.

The following table shows information about our workforce by major region as of December 31, 1999:

Region	Hourly Workforce		Salaried Workforce		Facilities		Number of Unions
	Union	Non-Union	Union	Non-Union	Union	Non-Union	
United States	29,641	97	50	9,592	21	1	4
Canada	1,392	345	129	171	1	2	2
Mexico	2,600	9,400	0	1,200	4	7	2
Total North America	33,633	9,842	179	10,963	26	10	8
Europe	10,532	5,948	2,230	2,300	25	2	26
South America	2,430	0	378	0	6	0	2
Asia-Pacific	1,288	516	0	1,210	6	9	3
Total	47,883	16,306	2,787	14,473	63	21	39

Union Breakdown	Facilities*	Workforce
United States (hourly & salaried)		
Ford UAW agreement	16	24,513
UAW non-master agreement	3	1,540
IUE	2	3,588
Other unions	2	50
Total		29,691

\* Some facilities have multiple unions.

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Ford and the UAW have agreed that:

- all UAW-represented employees covered by the Ford UAW agreement who are working at Visteon facilities as of a date that will be no later than the date of the spin-off will remain Ford employees indefinitely and will continue to be covered under the Ford UAW agreement,
- Visteon will continue to use the services of these employees and, in some circumstances, other Ford UAW employees who transfer to our facilities, and
- Visteon will adopt a collective bargaining agreement for hourly employees hired into UAW-represented facilities after a date that will be no later than the date of the spin-off, that closely reflects the Ford UAW agreement and the next two master

agreements between Ford and the UAW. In addition to guaranteeing Ford wage and benefit levels, the terms of the Ford UAW agreement provide for significant employment security.

Under an agreement between Ford and us, we have agreed to fully reimburse Ford for the costs of the Ford employees working in our facilities. This includes amounts (limited to \$50 million per year in each of 2000-2004) for profit sharing, which may be based in whole or in part on Ford's profits. Our reimbursement obligations apply to all these employees even if we do not need or utilize all of them for any reason, including if we lose business from Ford or another VM. See "Relationship with Ford — Hourly Employee Assignment Agreement."

We also have agreed with the UAW that all new hourly employees hired into our UAW-represented facilities after a date that will be no later than the date of the spin-off and during the term of the current four-year Ford UAW agreement and the terms of the next two master agreements between Ford and the UAW will, for the duration of their employment with and retirement from Visteon, receive wages, benefits and other terms and conditions of employment that closely reflect those required to be provided from time to time by Ford to its UAW-represented employees.

In Europe, all Ford employees (both hourly and salaried) working in Visteon facilities have, or will prior to the spin-off, become our employees. We have agreed that for the duration of their employment with and retirement from us, we will provide these employees with wages, benefits and other terms and conditions of employment that closely reflect those required to be provided by Ford to its employees in the respective countries.

The current Ford UAW agreement expires in September 2003, Ford's national agreement with the British trade unions expires in November 2002. Ford Germany's present agreement expired on February 29, 2000. Regional bargaining is under way, to be followed by local Works Council discussions.

We constantly work to establish and maintain positive, cooperative relations with our unions around the world. Our success is evidenced by the fact that it has been nearly 25 years since we experienced any national-level work stoppage in the U.S. We believe these cooperative relations, which aided in our creation of joint agreements to improve productivity and labor efficiency, are a competitive advantage as we work with our unions to make our workforce one of the most productive in the automotive supplier business.

We and most of our unions have reached a mutual recognition that Visteon's future success is dependent on us continuing to create productivity gains to enhance our competitiveness. Through flexible bargaining arrangements, we expect to accelerate our already improving productivity and manufacturing trends to assist us in meeting and adapting to changing market conditions. For example, in our facilities covered by the Ford UAW agreement, we and the local unions have established joint operational effectiveness committees that are charged with evaluating, developing and implementing workplace changes to enhance competitive position; by

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mutual agreement, they can implement workplace changes up to and including altering contractual arrangements in mid-bargaining cycle. In Europe, agreements have been reached that have broadened the skilled trades' involvement in production, by incorporating them as direct members of Integrated Manufacturing Teams, or IMTs, including running production equipment. In all areas of the world, we have established alternative work patterns to match our production needs, thus maximizing our manufacturing capacity and increasing the efficiency of our skilled trades by combining classifications.

Although not subject to bargaining, we also have broad employee and union support for the introduction of the Visteon Production System (VPS) as our manufacturing operating system. We believe VPS allows us to achieve increased ongoing productivity and cost efficiencies.

## Customers

**Ford.** Ford is our largest customer and we are its largest automotive parts supplier. Ford is the world's largest producer of trucks and the second largest producer of cars and trucks combined. Most of our sales to Ford are to its North American operations. In 1999, our sales to Ford accounted for about 88% of our total sales, as shown below.

Customer	Percentage of 1999 Total Sales
Ford-North America	73.5%
Ford-Europe	12.2
Ford-South America	0.5
Ford-Asia-Pacific	0.2
Ford's Automotive Consumer Services Group	1.9
Total Ford	88.3%

The supply agreement and related pricing letter we have entered into with Ford in connection with our spin-off provide that all of our existing purchase orders with Ford as of January 1, 2000 will remain in effect at least through the end of 2003, subject to Ford's right to terminate any particular purchase order if we fail to maintain specified performance standards (see "Relationship with Ford — Supply Agreement and Related Pricing Letter"). In addition, the pricing letter requires a one-time 5% price reduction on products that we were supplying to Ford as of January 1, 2000 based on a market pricing review conducted by Ford and us. The pricing letter also requires productivity price adjustments in each of 2000, 2001, 2002 and 2003 to reflect competitive price reductions obtained each year by Ford from its other Tier 1 suppliers. We and Ford have agreed on a 3.5% productivity price reduction for 2000 on such products, which is consistent with (1) price reductions between Visteon and Ford in prior years and (2) the amount of annual productivity improvement that Ford generally expects from its other Tier 1 suppliers. Price adjustments for 2001, 2002 and 2003 will be calculated using a basket of products composed of identical or substantially similar products that Ford purchases from other suppliers. Our overall price reductions to Ford as a percentage of net sales were 4.9% in 1999, 3.2% in 1998 and 2.7% in 1997.

Under the supply agreement, until May 31, 2003, we have a right of last refusal to meet competitive terms, including price, technology, service and design, on replacement products that (1) we produce in North America, Europe and Mexico (for Mexican production intended for export to the U.S. only) and (2) we supplied to Ford on January 1, 2000. Although the right of last refusal does not apply to Ford's Volvo or Jaguar brand vehicles or to Mazda Motor Corporation's vehicles, Ford has agreed to use reasonable efforts to provide us with similar opportunities to bid for business with respect to these vehicles.

We expect that the opportunity under the supply agreement to provide these replacement products to Ford, together with our existing purchase orders and other commitments, will provide

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us with the foundation to maintain substantial business with Ford for the foreseeable future. We will also have the opportunity to bid on the same basis as other suppliers for other new Ford business. Our ability to realize sales on all Ford business, including business awarded pursuant to existing purchase orders, is in all cases subject to a variety of factors, including the volume and option mix of vehicles actually produced by Ford, the timing of that production and our continuing competitiveness.

Recently, Ford, General Motors, DaimlerChrysler, Renault and Nissan announced an initiative to establish Covisint. Covisint is an Internet-based business-to-business marketplace for a large portion of these VMs' purchases and procurement-related activities. It is likely that other major VMs will join this marketplace or announce competing initiatives. This may put additional price pressure on us as we compete against other Tier 1 suppliers.

**Non-Ford VMs.** Although Ford is by far our largest customer, we do business with 18 of the 20 largest VMs worldwide. These relationships have enabled us to develop an understanding of global customer needs and business opportunities. Based on 1998 worldwide market shares, the five largest VMs, other than Ford, are General Motors Corporation, Toyota Motor Corporation, Volkswagen AG, DaimlerChrysler AG and Fiat S.p.A., which collectively had an aggregate market share of about 59.1% of all light vehicles produced throughout the world in 1998 according to The Automobile News 1999 Market Data Book. We currently do business with each of these VMs. Our top five VM customers other than Ford accounted for about 3.4% of our total 1999 sales. Mazda Motor Corporation, of which Ford owns a 33.4% equity interest, is one of our top five non-Ford customers, accounting for about 1.1% of our 1999 sales. We expect the portion of our sales and profits coming from non-Ford VMs to grow following the spin-off, as the VMs' concerns about confidentiality of product design and technology information are eased. In 1999, 38% of the new business we were awarded for delivery in future years was non-Ford business.

Most of our products are sold under long-term agreements that require us to provide percentage cost reductions each year. These annual cost reductions are made directly through price reductions and/or indirectly through suggestions regarding manufacturing efficiencies or other cost savings.

Because we have historically operated as a division of Ford, substantially all of our existing contracts with these non-Ford customers were signed by Ford, not Visteon, and require the consent of the customer in order to assign or transfer the contract, including from Ford to Visteon. We have had discussions with all of our non-Ford customers regarding our spin-off from Ford and our intent to continue to perform under these existing contracts. Given the extremely large number of existing contracts with our non-Ford customers and the positive feedback received during discussions with our non-Ford customers, we do not currently intend either to seek consents from or to enter into new contracts with these customers in connection with our spin-off from Ford. Based on these discussions, we do not believe that our spin-off from Ford will adversely affect our business with these customers. However, we cannot assure you in this regard.

**Aftermarket.** We sell products to the worldwide aftermarket as replacement parts or as customized products, such as body appearance packages and in-car entertainment systems, for current production and older vehicles. In 1999, our aftermarket sales were about \$885 million, representing 4.6% of our total sales. We currently sell 58% of this product to the independent aftermarket and 42% to Ford's Automotive Consumer Service Group, the principal aftermarket sales organization of Ford. In 1999, 89% of our aftermarket sales were in North America, with 9% in Europe and 2% in South America. Visteon's independent aftermarket sales are

focused in five key areas — climate control, remanufactured components, glass, personalized multimedia and vehicle appearance products.

**Non-VM Customers.** We are also leveraging our experience and expertise in the automotive industry to create products with applications in other industries. Many of the products and

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technologies that we have created in the automotive industry have applications in other industries with minimal additional development cost or time delay. Some of these products include high power electronics, instrument clusters and theater seats, which we are selling to the power generation, motorcycle and movie cinema industries. Our non-VM customers include Honeywell, Honda for motorcycles and Polaris. These non-VM sales accounted for only a nominal amount of our 1999 total sales. We believe that opportunities exist to increase our sales in this area and we intend to continue to work to expand our sales to non-VM customers.

## Sales and Marketing

Visteon has established a sales and marketing organization of dedicated customer teams that provide a consistent interface between key customers and the company. These teams are located in North America, South America, Europe and Asia-Pacific and include program engineers located at customer sites, customer service representatives and plant-resident engineers. Our total sales and marketing staff is currently 664 people. The breakout of our sales and marketing organization as of December 31, 1999 was as follows:

	North America	South America	Europe	Pacific	Total
Ford sales	257	6	83	12	358
Non-Ford VM sales	52	6	27	12	97
Aftermarket sales	167	14	28	—	209
Total	476	26	138	24	664

We expect our overall sales and marketing staff to expand as we expand our efforts to gain non-Ford business. We expect that by the end of 2000, we will have about 125 people dedicated to non-Ford sales and about 216 people dedicated to aftermarket sales. These increases will be somewhat offset by a decline in our Ford sales staff to about 319 at the end of 2000. We maintain this extensive worldwide customer network in order to better represent individual customers' interests within our organization, promote customer programs and coordinate global customer strategies with the goal of enhancing overall customer service and satisfaction. Our ability to support our customers around the world is further enhanced by our global presence in terms of manufacturing sites, customer service centers and sales activity offices and technical and engineering support.

Our sales and marketing activities are designed to create overall awareness, consideration and purchase of our components, integrated systems and modules. To further this objective, we participate in international trade shows in Paris, Frankfurt, Tokyo and Detroit. We also provide on-site technology demonstrations at each of our major VM customers on a regular basis. We advertise in a variety of trade publications and offer an Internet site at [www.visteon.com](http://www.visteon.com). We have recently set up a website, [www.evisteon.com](http://www.evisteon.com), to sell our aftermarket products. Ford has transferred to us ownership of more than 1,600 global trademark registrations and applications, reflecting multi-country registrations. Our trademarks include Visteon®, Carlite®, ClimatePro™, RoadFx™, NavMate® and the Visteon logo.

## Competition

We conduct our business in a highly competitive industry. The global automotive parts industry principally involves the supply of components, systems and modules to VMs for the manufacture of new vehicles, to other suppliers for use in their product offerings and to the aftermarket for use as replacement parts for older vehicles.

Although the overall number of our competitors has decreased due to ongoing industry consolidation, the automotive parts industry remains extremely competitive. VMs 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 capability, leanness of facilities, operational flexibility, customer service and overall management. Many of our competitors have lower cost structures, particularly with respect to wages and benefits, than our company.

Our overall product portfolio is extremely broad by industry standards. Very few other Tier 1 suppliers compete across the full range of our product areas. However, we do have significant competition in each of our segments. Our most significant competitors within each segment are listed below.

*Comfort, Communication & Safety.* Our principal competitors in the Comfort, Communication & Safety segment include the following: Delphi, Denso Corporation, Johnson Controls, Inc., Lear Corporation, Magna International Inc., Valéo S.A., Mannesman VDO AG and Nippon Seiki Co., Ltd.

*Dynamics & Energy Conversion.* Our principal competitors in the Dynamics & Energy Conversion segment include the following: American Axle & Manufacturing Holdings, Inc., Robert Bosch GmbH, Dana Corporation, Delphi, Denso, Siemens and TRW, Inc.

*Glass.* Our principal competitors in the Glass segment include the following: Asahi Glass Company Limited, AFG Industries, Inc., Pilkington and PPG Industries, Inc.

## Properties

Our principal executive offices are located in Dearborn, Michigan. We occupy this facility, as well as a number of other facilities, under arrangements with Ford.

We also maintain regional headquarters for our Asia-Pacific region in Tokyo, Japan, for our Europe/ Africa/ Middle East region in Dunton, England and for our South America region in Sao Paulo, Brazil. We maintain 49 technical facilities/sales offices and 84 owned and leased plants in 23 countries throughout the world. The following table shows the total square footage of our principal owned and leased facilities by region as of December 31, 1999:

Region	Number of Manufacturing Sites	Total Manufacturing Sites Square Footage
		(in millions)
North America	36	29.5
Europe	27	8.7
South America	6	1.3
Asia-Pacific	15	2.6
	—	—
Total	84	42.1

In some cases, several of our manufacturing sites, technical centers and/or customer service centers and sales activity offices are located at a single multiple-purpose site. We also maintain a limited number of miscellaneous facilities. The following table shows the number of various types of facilities by region as of December 31, 1999:

Region	Manufacturing Sites	Technical Centers	Customer Centers and Sales Offices
North America	36	17	4
Europe	27	6	12
South America	6	—	1
Asia-Pacific	15	1	8
	—	—	—
Total	84	24	25

We are currently evaluating long-term plans to consolidate our worldwide engineering and technical resources, including our technical centers, into a more efficient, customer-focused global engineering support network. While we believe that this consolidation will enhance our ability to provide engineering and technical support to our customers around the world, we also expect that it will have the effect of reducing the overall number of our technical centers.

We believe that our facilities are suitable and adequate, and have sufficient productive capacity, to meet our current and currently anticipated needs.

## **Environmental Matters**

Visteon 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. We have an environmental management structure designed to facilitate and support our compliance with these requirements. We cannot assure you, however, that we are at all times in complete compliance with all of these requirements. Although we have made and will continue to make capital and other expenditures to comply with environmental requirements, we do not expect capital or other expenditures for environmental compliance to be material in 2000 or 2001. Environmental requirements are complex, change frequently and have tended to become more stringent over time. Accordingly, we cannot assure you that these requirements will not change or become more stringent in the future in a manner that could have a material adverse effect on our business.

Visteon is also subject to environmental laws requiring the investigation and cleanup of environmental contamination at properties it currently owns or operates and at third party disposal or treatment facilities to which these sites sent or arranged to send hazardous wastes. We are aware of contamination at some of our properties and have agreed to an allocation of liability at various third party superfund sites at which Ford has been named as a potentially responsible party. We are in various stages of investigation and cleanup at these sites. At December 31, 1999, Visteon had recorded a reserve of about \$13.9 million for this environmental investigation and cleanup. We cannot assure you that our environmental cleanup costs and liabilities will not exceed the current amount of our reserve and that any excess amount will not be material.

In general, we will bear liability for environmental claims relating to the sites being transferred to us as if we had historically operated as an independent company. In connection with our spin-off from Ford, we and Ford have generally agreed that we are liable for all future claims relating to the sites that have been transferred to us and our operation of those sites, including off-site disposal. Generally, Ford will retain liability for environmental claims relating to sites not transferred to us or currently operated by us. In addition, we and Ford have agreed on a division of liability for, and responsibility for management and remediation of, some existing environmental claims. See "Relationship with Ford—Master Transfer Agreement—Division of Liabilities."

## **Legal Proceedings**

We are involved in routine litigation incidental to the conduct of our business. We do not believe that any litigation to which we are currently a party will have a material adverse effect on our financial condition.

We face an inherent business risk of exposure to product liability claims in the event that the failure of our products results, or is alleged to result, in property damage, bodily injury and/or death. We cannot assure you that we will not experience any material product liability losses in the future or that we will not incur significant costs to defend these claims. In addition, if any Visteon-designed products are, or are alleged to be, defective, we may be required to participate in a recall involving those products. Each VM has its own policy regarding product recalls and

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other product liability actions relating to its suppliers. However, as suppliers become more integrally involved in the vehicle design process and assume more vehicle assembly functions, VMs are increasingly looking to their suppliers for contribution when faced with product recalls or product liability claims. Because this is a new trend in our industry and we have only limited experience in this regard, we cannot assure you that our costs associated with providing product warranties will not be material.

From time to time, in the ordinary course of business, Visteon receives notices from customers that products may not be properly functioning. Our warranty responsibility for our products is generally governed by the terms and conditions of the applicable contract. These terms and conditions vary from contract to contract. Most of our contracts require that we make warranties to our customers regarding, among other things, conformity to specifications and freedom from defect.

Currently, VMs customarily absorb the cost of warranty claims arising under and during the specific base warranty offered to consumers. For vehicles sold in the United States, this base warranty period, depending on the vehicle model, generally ranges from 3 years or 36,000 miles to 5 years or 60,000 miles, in each case, whichever comes first. Under its agreements with VMs, Visteon is responsible for claims arising from abnormal base warranty experience traceable to specific components or systems manufactured, supplied or assembled by Visteon. Abnormal base warranty claims are those that are in excess of those projected by VMs. These projections are customarily based on experience with earlier product models or contemporaneous experience with a similar product type supplied by another supplier. In some cases, we and the VM may agree on a sharing arrangement with respect to abnormal warranty claims. We do not have increased exposure for extended warranty coverage purchased by consumers.

VMs are increasingly requiring their outside suppliers to guarantee or warrant their products and to bear the costs of repair and replacement of those products under new vehicle base warranties. Because this is a new trend in our industry and we have only limited experience in this regard, we cannot assure you that our costs associated with providing product warranties will not be material.

In connection with our spin-off from Ford, Ford will retain liability for all product liability, warranty or recall claims that involve parts made or sold by us for 1996 or earlier model year Ford vehicles. Our liability for these types of claims relating to 1997 or later model year Ford vehicles will be governed by Ford's global terms and conditions, with the understanding that we will be treated by Ford as any other third party supplier, and in accordance with Ford's customary treatment of other suppliers. We have assumed liability for all product liability, warranty or recall claims relating to parts made by us and delivered to third parties at any time.

We believe that we are adequately insured, including with respect to product liability coverage, at levels sufficient to cover the claims described above, subject to commercially reasonable deductible amounts. Visteon has been an "insured" under all of Ford's property and liability insurance programs worldwide. We will remain insured under those programs, subject to the same limitations and conditions of coverage applicable to all Ford operations, until the spin-off. We expect to purchase liability insurance, to be effective at the time of the spin-off, in amounts determined at that time to be adequate, with reasonable deductibles or self-insured retentions that will allow for the most effective financing of predictable losses. We have also established reserves in amounts we believe are reasonably adequate to cover any adverse judgments. However, any adverse judgment in excess of our insurance coverage and those reserves could have a material adverse effect on our business and financial condition.

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## RELATIONSHIP WITH FORD

We and Ford have entered into a number of agreements in connection with our separation and spin-off from Ford. The agreements described below effect the separation and also provide a framework for our ongoing relationship with Ford, including some transitional arrangements. Ford has contributed or otherwise transferred to us generally all of the assets, and we have assumed generally all of the liabilities, comprising the Visteon business. We call this transfer of assets and assumption of liabilities the "separation." We and Ford have agreed to transfer legal title to any remaining assets and any remaining liabilities of the Visteon business not transferred prior to the spin-off, most of which are foreign assets and liabilities subject to regulatory and other delays, as soon as practicable. In the interim, we will operate and receive the economic benefits of (and bear the economic burdens of) these assets. These assets are not, individually or in the aggregate, material to our company. The information included in this prospectus, including our consolidated financial statements, assumes the completion of all of these transfers.

**The following is a summary of the terms of the material agreements we have entered into with Ford. This summary is qualified by reference to the full text of the agreements filed as exhibits to the Form S-1 of which this prospectus is a part.** References to the "Visteon business" are to the activities conducted under the name Visteon Automotive Systems, an enterprise of Ford Motor Company, including (1) those activities conducted by subsidiaries and affiliates aligned with that enterprise and (2) all historical operations.

### Master Transfer Agreement

**Asset Transfers.** The master transfer agreement, dated March 30, 2000, provides for Ford to transfer to Visteon and/or its subsidiaries, or for Ford to cause its subsidiaries to transfer to Visteon and/or its subsidiaries, prior to the spin-off, generally, all assets used exclusively in the Visteon business, including but not limited to real property interests, personal property, ownership interests in subsidiaries and joint ventures, the name "Visteon" and the associated logo. Separate arrangements have been made for rights to some intellectual property, as described below.

**Division of Liabilities.** We and Ford have agreed on a division of liabilities, as of April 1, 2000, as described below:

- **General.** Except for any liabilities that Ford may specifically agree in writing to retain, we will assume all debts, liabilities, guarantees, contingencies and obligations of the Visteon business, whether asserted or unasserted, fixed or contingent, accrued or unaccrued, known or unknown.
- **Product Liability, Warranty and Recall Claims.** Ford will retain liability for all product liability, warranty or recall claims that involve parts made or sold by the Visteon business for 1996 or earlier model year Ford vehicles. Our liability for these types of claims relating to 1997 or later model year Ford vehicles will be governed by Ford's global terms and conditions, with the understanding that we will be treated by Ford as any other third party supplier, and in accordance with Ford's customary treatment of other suppliers. We have assumed liability for all product liability, warranty or recall claims relating to parts made by the Visteon business and delivered to third parties at any time.
- **Environmental Claims.** We and Ford have agreed on a division of liability for, and responsibility for management and remediation of, existing environmental claims. Future environmental claims arising out of the sites that have been transferred to us and our operation of those sites will be our liability. Ford will retain liability for environmental claims relating to sites not transferred to us or currently operated by us.

- **Intellectual Property Claims.** Subject to limited exceptions, Ford will retain liability for all intellectual property claims that involve parts sold or supplied to Ford on or prior to July 31, 1999. Subject to limited exceptions, our liability for these types of claims relating to later-supplied parts will be governed by Ford's global terms and conditions, with the understanding that we will be treated by Ford as any other third party supplier, and in accordance with Ford's customary treatment of other suppliers. We have assumed liability for intellectual property claims relating to parts sold or supplied by the Visteon business to third parties at any time.
- **Employment and General Litigation Claims.** We and Ford have agreed on a division of liability for a number of employment and general litigation claims.

**General.** We have agreed to indemnify Ford for:

- all liabilities assumed by us or our affiliates under the master transfer agreement or other agreements entered into in connection with the separation; and
- any failure by Visteon or any of its subsidiaries to perform any agreement or covenant in the master transfer agreement or any other agreement relating to the separation.

We and Ford have agreed to execute all instruments to carry out the purposes of the master transfer agreement. If any aspect of the transfer or attempted transfer of assets or liabilities would violate a contract or would violate any law, statute, decree, rule, regulation or other governmental edict, and no consent, waiver or authorization can be obtained, Ford has agreed to use commercially reasonable efforts to give us the full benefits and burdens of, and cause us to operate, the affected assets or liabilities until the applicable assets or liabilities are legally transferred.

In addition, we have agreed to work diligently to replace or otherwise have released all bonds and other guarantees backed or issued by Ford on behalf of the Visteon business.

We and Ford have agreed that any disputes arising under the master transfer agreement will be submitted to nonbinding mediation, and if that is not successful, to binding arbitration, according to established procedures.

### **Supply Agreement and Related Pricing Letter**

We have entered into a supply agreement, dated as of January 1, 2000, and a pricing letter agreement, dated March 31, 2000, between Ford and us.

**General; Pricing; Payment Terms.** The supply agreement and related pricing letter we have entered into with Ford in connection with our spin-off provide that all of our existing purchase orders with Ford as of January 1, 2000 will remain in effect at least through the end of 2003, subject to Ford's right to terminate any particular purchase order for the reasons set forth below. In addition, the pricing letter requires a one-time 5% price reduction on products that we were supplying to Ford as of January 1, 2000 based on a market pricing review conducted by Ford and us. The pricing letter also requires productivity price adjustments in each of 2000, 2001, 2002 and 2003 to reflect competitive price reductions obtained each year by Ford from its other Tier 1 suppliers. We and Ford have agreed on a 3.5% productivity price reduction for 2000 on such products, which is consistent with (1) price reductions between Visteon and Ford in prior years and (2) the amount of annual productivity improvement that Ford generally expects from its other Tier 1 suppliers. Price adjustments for 2001, 2002 and 2003 will be calculated using a basket of products composed of identical or substantially similar products that Ford purchases from other suppliers. The pricing letter provides that, in each of 2001, 2002 and 2003, the parties will agree upon an initial price reduction to be effective commencing January 1 that will remain in effect until the calculation of the actual adjustment is made during the fourth quarter of the year. The initial reduction will be used by Visteon for invoicing purposes until the actual adjustment is

determined in the fourth quarter of each year. In addition to these price reductions, we have agreed to use our best efforts to achieve design and engineering improvements in our products sold to Ford so as to further reduce their cost to Ford by 1.5% to 2.5% each year.

Unless they are inconsistent with the terms of any existing purchase order with Ford, the terms and conditions of Ford's standard purchase order are incorporated into each existing purchase order. In the case of any conflict between the existing contracts and the supply agreement, the supply agreement will control.

Generally, payment terms under existing purchase orders will remain unchanged. However, we have agreed to participate with Ford, consistent with Ford's other Tier 1 suppliers, as and when Ford moves to different supply chain models and payment terms.

**New Business; Right of Last Refusal.** Generally, we will be treated by Ford in the same manner it treats its other Tier 1 suppliers with respect to Ford's general sourcing policies and practices, including new purchasing and sourcing initiatives. All

purchase orders for new business will be subject to Ford's standard purchase order terms and conditions.

Until May 31, 2003, we have a right of last refusal to meet competitive terms, including with respect to price, on replacement products that (1) we produce in the United States, Canada, Europe and Mexico (for Mexican production intended for export to the U.S. only) and (2) we supplied to Ford on January 1, 2000, provided that we are competitive in terms of design, quality, service and technology as these factors relate to all aspects of bid packages that may be submitted by other suppliers. Although the right of last refusal does not apply to products we produce outside the United States for Ford's Volvo or Jaguar brand vehicles or products we produce anywhere for Mazda Motor Corporation's vehicles, Ford has agreed to use reasonable efforts to provide us with similar opportunities to bid for this business with respect to these vehicles.

**Ford's Right to Terminate Contracts If We Are Not Competitive.** The supply agreement allows Ford to terminate its purchase obligations under a purchase order for a given component, if:

- there is a demonstrable decline in the overall quality of our products or services supplied under that purchase order,
- we do not remain competitive in terms of design, quality, service, technology and delivery with other responsible suppliers or potential suppliers for that component, or
- Ford can obtain supplies of that component from other suppliers of significantly advanced design or processing.

Ford must give us three months' notice of any termination under these provisions. We then have until one month before the scheduled termination to demonstrate to Ford that we will correct the cause for termination by the termination date or a subsequent date acceptable to Ford, in which case the purchase obligation with respect to the affected component will not be terminated.

We will participate in Ford's quality, cost, warranty and customer satisfaction improvement programs consistent with Ford's other suppliers.

**Process for Exiting Businesses.** We have agreed not to sell or exit any of our business operations engaged in the production of products for Ford without first advising Ford of our intent to do so, providing sufficient detail with respect to the means by which we expect to assure Ford of a continued supply of affected products on the same terms and conditions, through the remaining terms of the affected purchase orders. We have agreed to reasonably consider Ford's input and concerns and Ford has agreed to cooperate in good faith with us in any restructuring actions.

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## Master Separation Agreement

**Transitional Services.** The master separation agreement, to be dated as of June 1, 2000, provides for Ford to provide transitional services, as previously identified by us, until December 31, 2001. These transitional services are services historically provided to us by Ford. In return, we have agreed to pay Ford amounts that reflect its fully accounted cost for these services, including a reasonable allocation for internal overhead costs, as well as any direct costs incurred from outside suppliers. If Ford provides a service to third parties, Ford will charge us the same amount as it charges those third parties.

We may terminate any transitional service upon six months' written notice to Ford and our payments to Ford will be adjusted accordingly. We have agreed to use commercially reasonable efforts to obtain all transitional services from sources other than Ford no later than December 31, 2001. If we are unable to do so, we may continue to obtain the required transitional service through June 30, 2002, provided that we have notified Ford by June 30, 2001.

We have identified the following six most significant transitional services: information technology, human resources, accounting, customs, product development technology and real estate. We and Ford have agreed that Ford will not provide the following services after the spin-off: insurance coverage, insurance administrative services and legal services. Transitional services for information technology are covered by a separate agreement that provides that these services may be provided until three years from the date of the spin-off date unless otherwise agreed by the parties.

**Indemnification.** We and Ford have generally agreed to indemnify each other and the other's affiliates and controlling persons from specified liabilities under the securities laws relating to the Form S-1 and this prospectus or to contribute under specified circumstances to the amount paid or payable by the other in respect of those liabilities.

## Aftermarket Relationship Agreement

We and Ford have entered into an agreement effective as of January 1, 2000 relating to our supplying components for Ford's aftermarket business, which is managed by Ford's Automotive Consumer Services Group. The agreement provides that any components purchased by Ford's Automotive Consumer Service Group from Visteon for vehicles currently in production will be governed by the supply agreement and related pricing letter discussed above. With respect to components purchased by Ford's Automotive Consumer Service Group from Visteon for vehicles no longer in production, Ford will honor the terms and conditions of all existing agreements, subject to the modifications described below.

**Pricing.** As to pricing for non-production components, Ford's Automotive Consumer Service Group has agreed to price increases for 2000 not to exceed \$4 million. Further, the parties have agreed to a net average price decrease in 2000 of approximately 1.5% of all components sold by Visteon to Ford's Automotive Consumer Service Group. For each year 2001, 2002, 2003 and 2004, the parties have agreed to a net average price decrease of approximately 2% of the prior year Visteon sales to Ford's Automotive Consumer Service Group, excluding newly sourced components first sold to Ford's Automotive Consumer Service Group after July 1 of the prior year. In addition, we can receive credit for these annual price reductions to the extent of cost savings we pass on to Ford's Automotive Consumer Service Group resulting from changes in design, processing, packing and shipping of components and for the value of all remanufactured parts sold to Ford's Automotive Consumer Service Group.

**Tooling.** We will be permitted to use tooling owned by Ford's Automotive Consumer Service Group to produce components for sale to third parties (i.e., other aftermarket suppliers or wholesale distributors) through 2004. Use of such tooling will be without additional charge in 2000. However, in 2001, we will be required to pay Ford's Automotive Consumer Service Group a

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tooling use and maintenance fee of 2% and 3.5% on the net sales of components produced from tooling owned by Ford's Automotive Consumer Service Group and sold to aftermarket suppliers and wholesale distributors, respectively. For each of the years 2002, 2003 and 2004, such fee payments will be 2.5% and 4%, respectively. The obligation to make fee payments does not apply to the following uses of tooling owned by Ford's Automotive Consumer Service Group:

- production of climate control components sold to Midas,
- production of components sold to Freightliner Corporation for its Sterling HN-80 models,
- production of components sold to Mazda, Nissan Motor Co., Ltd. and Volkswagen for current programs, and
- production of components for sale to Ford dealers in the Middle East.

**Right of Last Refusal.** During the period January 1, 2000 through December 31, 2002, we will have the right to match the best offer presented to Ford's Automotive Consumer Service Group for the supply of replacement products on all current production service parts, all remanufactured parts that Ford's Automotive Consumer Service Group requires and which are manufactured by Visteon, and all new service parts that Ford's Automotive Consumer Service Group requires and that are manufactured by Visteon during the period. To invoke the right of last refusal, we must be competitive in terms of quality, service and delivery.

**Carlite® Glass Business.** Our automotive glass aftermarket business utilizing the Carlite® brand will continue as currently operated by us in accordance with past practice and Ford's Automotive Consumer Service Group will have no right or interest in the business. This will include the continuing right to replacement glass with the Ford logo for a period of ten years.

**Service Distributor Network.** Visteon will continue to manage the Visteon Service Distributor Network covering audio systems and equipment, instrument clusters and speedometers. Ford's Automotive Consumer Service Group will continue to recognize Visteon as the sole authorized service center and distributor, subject to limited agreed upon exceptions, for the term of the agreement.

## **Hourly Employee Assignment Agreement**

We and Ford have entered into an hourly employee assignment agreement effective on April 1, 2000. This agreement sets forth our and Ford's rights and obligations with respect to the about 23,580 United States hourly employees of Ford (the "Ford hourly employees") who:

- are represented by the UAW,
- are covered by the Ford UAW agreement,
- are employed in one of our facilities as of a date that will be no later than the date of the spin-off, and
- after Visteon's spin-off, will remain Ford employees indefinitely but will be assigned to work for us.

Under the agreement, we, as Ford's agent, will exercise day-to-day supervision over the Ford hourly employees, including assigning work and evaluating, supervising and disciplining such employees in accordance with the terms of the Ford UAW agreement. We will advise Ford of any major issues that arise under the Ford UAW agreement or other major employment matters potentially affecting UAW hourly represented Ford employees or other significant matters. Ford reserves the right to handle the matter if a joint course of action cannot be agreed.

Ford will continue to provide payroll processing services for the Ford hourly employees (including paying wages and other compensation and making appropriate tax withholdings and filings) and will continue to provide Ford hourly employees with the same employee benefits

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generally offered to other hourly employees of Ford who are represented by the UAW. We will reimburse Ford for the wage, benefit and other costs incurred by Ford for the Ford hourly employees, including:

- Weekly gross wages and any other type of compensation, such as Christmas bonuses, moving allowances, profit sharing payments (including amounts based on Ford's profits) and any other cash compensation. Our liability for profit sharing based on Ford's profits is limited to \$50 million per year in each of 2000-2004. After 2004, we will be liable for the full amount of profit sharing.
- A per employee standard monthly benefit cost calculated from time to time by Ford (excluding costs relating to retiree pension, health care and life insurance benefits).
- An annual payment for retiree pension, health care and life insurance benefits. We have agreed to prefund a voluntary employees beneficiary association for postretirement health benefits commencing January 1, 2006 through December 31, 2020, subject to some limitations.
- Other expenses incurred by Ford with respect to each Ford hourly employee that arise from such employee's work for Visteon, such as reserves for any worker's compensation claims arising out of any work accident while such employee was performing work for Visteon.
- Reasonable and necessary travel and business related expenses incurred by Ford hourly employees while performing work for Visteon and reimbursed by Ford under Ford's standard travel and business expense reimbursement policy.
- All assessments, premiums or other taxes incurred by Ford with respect to the Ford hourly employees.
- Direct out-of-pocket incremental costs incurred by Ford in relation to establishing and maintaining benefit programs applicable to the Ford hourly employees, including legal, record-keeping, actuarial and accounting fees not otherwise paid from trustee plans.

We are obligated under the agreement to maintain our facilities in which the Ford hourly employees work in conformance with legal requirements. We also are obligated to comply with all applicable federal, state and local health and safety laws and laws relating to wages and hours, overtime and discrimination in respect of the Ford hourly employees.

We have assumed liability for any pending employment claims related to the Ford hourly employees with the exception of one class action. If we desire to hire any Ford hourly employee, Ford will not interfere with the job offer. Ford has agreed to allow us to participate in future negotiations planning and strategy development concerning the terms of any Ford-UAW collective bargaining agreement for as long as our own labor agreement must closely follow the Ford agreements. Ford has agreed to cooperate with Visteon in seeking changes with the UAW in work rules and practices or other local continuous improvement initiatives to improve operational effectiveness at Visteon locations. Ford also has agreed to work with us to try to minimize business costs as a result of work realignments. We have agreed to form a Joint Advisory Board with Ford in order to address significant labor matters between us.

We have agreed to indemnify Ford for:

- breach of our agreements,
- employment claims made by Ford hourly employees, other than those set forth in the next paragraph, and
- claims made by Ford hourly employees (or their dependents or beneficiaries) to the Pension Benefit Guaranty Corporation, the Department of Labor or the IRS arising out of or in connection with the operation, administration, funding or termination of any of our employee benefit plans or programs.

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Ford has agreed to indemnify us for:

- breach of their agreements,
- any claims by Ford hourly employees (or their dependents or beneficiaries) to the Pension Benefit Guaranty Corporation, the Department of Labor or the IRS arising out of or in connection with the operation, administration, funding or termination of any of the employee benefit plans or programs applicable to Ford hourly employees, and

- employment claims made by Ford hourly employees that arise from the conduct of a Ford supervisor or manager not employed in Visteon's business.

Although we will be obligated to utilize the services of the Ford hourly employees and comply with the terms of the agreement until the termination of employment of all the Ford hourly employees, under the agreement, Ford and Visteon will work together to attempt to minimize the cost of surplus Ford hourly employees during the term of the agreement, but Ford is not committed to assume any liability for any such costs.

## Employee Transition Agreement

We and Ford have entered into an employee transition agreement dated as of April 1, 2000. This agreement covers the transfer of employment of the employees (other than the Ford hourly employees covered by the hourly employee assignment agreement discussed above) engaged in the Visteon business to Visteon and provides for the transition of employee benefit plans and programs. As of separation, Ford will transfer the employees who are presently assigned to the Visteon business to us, other than the Ford hourly employees and inactive employees. Inactive employees will be transferred when they return to work. We will recognize each employee's term of service with Ford for purposes of our benefit plans and programs. We have agreed to assume any collective bargaining agreements that apply to the employees. We plan to pay each employee at the same base salary or hourly rate they had at Ford. We also have agreed to adopt substantially comparable benefit plans and programs in the aggregate for the U.S. employees as were in effect at Ford and to continue such programs for at least four years after the spin-off. However, if Ford makes changes in their benefit programs during those four years, we may make comparable changes as well.

With respect to U.S. pensions, we have agreed to provide the pension for future service for all employees. Ford has agreed to retain the pension obligations for Ford Retirees (those who had worked in the Visteon business and had retired prior to the spin-off) and for the past service of two groups of employees. The first group, or group 1, are those employees who as of the first day of the month coincident with or preceding the date of the spin-off, which we refer to as the benefit transition date, are eligible for an immediate normal or regular early retirement under the general retirement plan, a defined benefit pension plan sponsored by Ford. The second group, or group 2, are those employees who as of the benefit transition date have combined age and service that is at least sixty points, giving one point for each year of age and service, and who could meet the eligibility requirements under the general retirement plan for a normal or early pension on a time for time basis while employed at Visteon. For group 1 and 2, Ford will recognize service at Visteon after the benefit transition date for purposes of eligibility to participate and eligibility for benefits, but not for benefit calculation purposes. Ford also will recognize the base salary paid at Visteon after the benefit transition date for purposes of calculating the final average pay-related benefits under the general retirement plan. Ford will calculate the general retirement plan benefit based on the benefit rates in effect on the retirement date. We will reimburse Ford annually for:

- the costs of future benefit increases for group 1 and 2 past service;
- the effect of average salary increases we grant Visteon employees that exceed the average Ford merit increase by one-half percent in any given year; and

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- the incremental cost of early retirement incentive programs.

We will pay pensions based on combined Ford and Visteon service for those employees who are not in group 1 or group 2 — we refer to them as being in group 3 — under a replacement plan that would duplicate the level of benefits for service prior to the benefit transition date and provide substantially comparable benefit provisions for services after the benefit transition date and have the same eligibility requirements for retirement as the general retirement plan. Ford will transfer the liabilities for group 3 to our replacement plan together with assets in cash that equal the projected benefit obligation of group 3, but no less than the amount required to be transferred under Section 411(d) and 414(l) of the Code that applies to spin-offs of pension plans.

Ford will retain the liability to provide postretirement health and life benefits for Ford retirees on the same basis as is available to other employees who retired from Ford at the same time. Ford also will provide these benefits for group 1 and 2 but we will pay for these benefits. We will prefund these benefits through a voluntary employees beneficiary association beginning January 1, 2011 through December 31, 2020 subject to some limitations. We will have the responsibility to pay group 3 their post retirement health and life benefits to the extent we offer such benefits. Nothing about these arrangements is meant to guarantee or vest any Ford retiree or transferred employee in any entitlement to receive postretirement health and life benefits and the right to eliminate, change or modify benefit plans or programs is specifically reserved by both Ford and us.

With respect to the non-qualified U.S. retirement plans sponsored by Ford, (the benefit equalization plan, the supplemental executive retirement plan, the executive separation allowance plan and the select retirement plan), Ford will retain the responsibility to provide the benefit for otherwise eligible Ford retirees. For those in group 1 and 2 who were eligible under the benefit equalization plan, the supplemental executive retirement plan and the executive separation allowance plan as of the benefit transition date, Ford will retain the responsibility to provide a benefit for service prior to the benefit transition date. We will reimburse Ford for group 1 and 2 past service obligations in a one time cash payment. We also will reimburse Ford annually for:

- the costs of future benefit increases that relate to group 1 and 2 past service;
- the effect of average salary increases we grant Visteon employees that exceed the average Ford merit increase by one-half percent in any given year; and
- the incremental cost of early retirement incentive programs. We will establish plans comparable to the benefit equalization plan, the supplemental executive retirement plan and the executive separation allowance plan for service after the benefit transition date for transferred employees who were otherwise eligible under the Ford plans, and shall recognize service at Ford for purposes of determining minimum years of service to achieve eligibility for a benefit. We will provide a benefit under our non-qualified plans for otherwise eligible group 3 based on combined service between Ford and us.

With respect to non-U.S. pensions, generally the non-U.S. Visteon employees will transition to benefit plans and programs sponsored by us as of the benefit transition date, or such other date as may be agreed. After replacement plans are established, we shall assume the past service liabilities for the non-U.S. Visteon employees and Ford shall cause the applicable plans to transfer assets from funded plans. If plans are unfunded or underfunded, we will assume the liability for making benefit payments regardless. Ford will retain liabilities for the non-U.S. Ford retirees as of the benefit transition date, or such other date as agreed. We will comply with any applicable collective bargaining agreements with respect to non-U.S. employees, in particular, the Agreement Governing the Separation of the Ford Visteon Organization dated January 25, 2000 between Ford and the Ford European Works Council.

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We also assume responsibility for any pension plans that are maintained by an affiliate or subsidiary of Ford which will become a subsidiary or affiliate of Visteon under the master transfer agreement.

For calendar year 2000, employees who participate in the Ford U.S. performance bonus plan will continue to participate in the plan to the extent otherwise eligible. For 2000, employees who are otherwise eligible to participate in the Ford annual incentive compensation plan will continue to be eligible to participate, but the pro forma award amount, as adjusted for Ford performance, will be 50% of the adjusted target amount, with adjustments for individual performance to the extent of 50% of the amount of the extraordinary contribution fund that would normally be allocated to the Visteon employees. We will establish an interim bonus program for the remainder of 2000 following the spin-off date. Payouts under these plans, if any, will occur in March, 2001, and Visteon will be financially responsible for these pay-outs. We will establish comparable incentive compensation plans as more fully described in "Management — Long-Term Incentive Compensation Plan." We also will adopt a Visteon deferred compensation plan effective as of the date of spin-off. If an employee participates in the Ford deferred compensation plan, his or her book entry account balance as of the close of business on the date of the spin-off will be transferred to the Visteon deferred compensation plan. We will assume any liability with respect to these transferred accounts.

We will establish a defined contribution pension plan for the benefit of our U.S. employees effective as of the benefit transition date. It will be substantially comparable to the Ford savings and stock investment plan with pre-tax and after tax features and will have the same matching features. Employees who had participated in the Ford savings and stock investment plan will be given a one time election after the benefit transition date to transfer their entire account balance from the Ford savings and stock investment plan to our plan.

Except as otherwise discussed above, we have agreed to assume all other employee liabilities arising from the operation of the business, regardless of when they occurred, except for one class action matter. We have also agreed to indemnify Ford with respect to any such liabilities except liabilities resulting from the conduct of some Ford employees. We also have agreed to indemnify Ford for any breach of our agreements, or any claims brought by Visteon employees under our benefit plans. Ford will indemnify us for breach of their agreements, claims brought by Visteon employees under their benefit plans or employment decisions that arise from the conduct of some Ford employees.

### **Tax Sharing Agreement**

Until the spin-off occurs, we will be included in Ford's U.S. federal consolidated income tax group, and our tax liability thus will be included in the consolidated federal income tax liability of Ford and its subsidiaries. We also will be included with Ford or some Ford subsidiaries in consolidated or combined income tax groups for state and local tax purposes until the spin-off occurs.

We have entered into a tax sharing agreement with Ford. Pursuant to this agreement, with respect to the period between the date of the transfer of the Visteon business to us and the date of the spin-off, we generally are required to make payments to Ford on account of all U.S. income taxes attributable to the Visteon business.

For this purpose, the tax attributable to the Visteon business will be determined as though Visteon were to file separate federal, state and local income tax returns as the common parent of an affiliated group of corporations filing consolidated or combined federal, state and local returns rather than a consolidated subsidiary of Ford with respect to federal, state and local income taxes. Tax benefits generated by us will reduce the amount we owe Ford, but Ford will not compensate us for tax benefits not used by

Visteon on a separate return basis. In determining the amount of tax attributable to the Visteon business, Ford will prepare and provide to Visteon a

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pro forma consolidated return for Visteon that reflects the same positions and elections used by Ford in preparing the returns for the Ford consolidated group. Ford is responsible for any increase (and will receive the benefit of any decrease) in the income tax of a Ford consolidated or combined group for periods prior to the spin-off that results from an audit by a tax authority (or other tax adjustment) and is related to Visteon.

Ford will prepare and file the federal consolidated return, and any combined returns that include our company, with the appropriate tax authorities. In some foreign jurisdictions, and possibly in some state or local jurisdictions, we will file a separate income tax return, not combined or consolidated with Ford, for all tax periods regardless of whether such periods end before or after the spin-off. In those jurisdictions, we would file the income tax return with the appropriate tax authority, and pay the tax directly to the tax authority. After the spin-off date, we will prepare and file all tax returns for our company, and pay all income taxes due with respect to such tax returns.

We have agreed, until two years after the completion of the spin-off, not to take, or permit any of our subsidiaries to take, any actions or enter into any transaction or series of transactions that would cause the spin-off not to qualify under Section 355 of the Code.

For example, we have agreed not to take some actions for two years following the spin-off, unless we obtain an IRS ruling or an opinion of counsel to the effect that these actions will not affect the tax-free nature of the spin-off. These actions include: some issuances of our stock; a liquidation or merger of Visteon; and dispositions of assets of an aggregate gross fair market value of \$500 million or more of Visteon and its affiliates outside the ordinary course of business.

If any of these transactions were to occur, the spin-off could be deemed to be a taxable distribution to Ford. This would subject Ford to a substantial tax liability. We have agreed to indemnify Ford and its affiliates to the extent that any action we take or fail to take gives rise to a tax incurred by Ford or any of its affiliates with respect to the spin-off. In addition, we have agreed to indemnify Ford for any tax resulting from an acquisition by one or more persons of a 50% or greater interest in our company.

### **Cross-Licenses**

Through subsidiaries, we and Ford have entered into a non-exclusive, royalty-free cross-licenses. These cross-licenses provide for a license from us back to Ford of the intellectual property rights that Ford has contributed or will contribute to us in connection with the separation (i.e., intellectual property rights associated with technologies that support our business), but only to the extent such intellectual property rights are associated with technologies developed prior to August 1, 1999. Ford will be permitted to make and to have others (such as our competitors) produce components and systems for Ford utilizing the technology that we have licensed to Ford. The cross-licenses also provide for a license from Ford to us of some of the intellectual property rights retained by Ford (i.e., technologies that support Ford's remaining business), but only to the extent such intellectual property rights are associated with technologies developed prior to August 1, 1999.

In addition, in the event that either party is succeeded by a third party through a merger, acquisition or otherwise, the rights and obligations under the cross-licenses will survive in the hands of the third party except in the event that we are merged with or acquired by another VM.

Neither party shall have any obligation to institute any action or suit against third parties for infringement of any intellectual property subject to the cross-licenses or to defend any action or suit brought by a third party that challenges or concerns the validity of any of the intellectual property subject to the cross-licenses.

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## **MANAGEMENT**

### **Directors and Executive Officers of Visteon**

The following table shows information about the directors, director nominees and executive officers of our company. All ages are as of May 15, 2000:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Peter J. Pestillo	62	Chairman of the Board of Directors, Chief Executive Officer and President

Robert J. Womac	57	Executive Vice President of Operations
Daniel R. Coulson	57	Executive Vice President and Chief Financial Officer
Stacy L. Fox	46	Senior Vice President, General Counsel and Secretary
Robert H. Marcin	55	Senior Vice President of Human Resources
Susan F. Skerker	55	Senior Vice President of Business Strategy and Corporate Relations
William H. Gray, III	58	Director Nominee (as of the spin-off)
Robert H. Jenkins	57	Director Nominee (as of the spin-off)
Robert M. Teeter	61	Director Nominee (as of the spin-off)
W. Wayne Booker	65	Director (resigning as of the spin-off)
John M. Rintamaki	58	Director (resigning as of the spin-off)
Henry D.G. Wallace	54	Director (resigning as of the spin-off)

*Peter J. Pestillo.* Prior to coming to Visteon in January 2000, Mr. Pestillo was the Vice Chairman and chief of staff for Ford. He was responsible for Governmental Affairs, Human Resources, the Office of the General Counsel and Public Affairs. He assumed this position in January 1999. In July 1999, he undertook the added responsibility of overseeing Visteon, The Hertz Corporation and Ford Land. Mr. Pestillo joined Ford as vice president, Labor Relations in 1980. He was named vice president, Employee Relations in 1985 and vice president, Employee and External Affairs in 1986. In 1990, Mr. Pestillo became vice president, Corporate Relations and Diversified Businesses, where he had responsibility for managing and divesting Ford's steel, aerospace and tractor operations. In January 1993, he was elected Executive Vice President, Corporate Relations. Before coming to Ford, Mr. Pestillo was vice president, Corporate and Employee Relations for The BF Goodrich Company and held industrial relations positions with the General Electric Company. Mr. Pestillo holds a bachelor's degree in economics from Fairfield University and a law degree from Georgetown University in Washington D.C., where he is a member of the Bar association and is a graduate of the Advanced Management Program at Harvard University. Mr. Pestillo is also currently a director of Hertz.

*Robert J. Womac* has been Executive Vice President of Operations since September 1997, responsible for Visteon's technology, product development, manufacturing, supply, information technology and quality. Prior to joining Visteon, Mr. Womac was a vice president of Ford and general manager of the Automotive Components Division beginning in November 1996. Previously, Mr. Womac was named manager, business strategy development and sales, Electrical and Electronics Division at Ford followed by assignments as director of business strategy, Corporate Strategy Staff, and president of Ford Electronics and Refrigeration Corp., a Ford subsidiary and beginning in July 1988, General Manager of the Electrical and Fuel Handling Division through October 1996. Earlier in his career, Mr. Womac was an electrical engineer at the Ford Rawsonville Plant, an electrical and fuel-handling manufacturer. After holding several supervisory roles there, he became plant engineering manager in 1973 at another electrical and fuel handling plant and became plant manager in 1979. Mr. Womac holds a bachelor's degree in Electrical Engineering from the University of Detroit and a master's degree in business administration from the University of Michigan.

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*Daniel R. Coulson* was the director of accounting for Ford prior to becoming Executive Vice President and Chief Financial Officer of Visteon in January 2000. From June 1994 to December 1999 he was responsible for Ford's worldwide accounting organization and its accounting policies, procedures, and systems. He was also responsible for Ford's external financial reporting and payroll operations. Mr. Coulson joined Ford as an accountant with the General Parts Division in 1965, and held a number of analytical and supervisory positions with Ford's Finance staff before becoming research-planning manager for Ford's Scientific Research Staff in 1974. In 1976, Mr. Coulson was appointed manager of the Ford Finance Banking Department and manager of the Profit Forecast and Financial Statements department in 1977. Between July 1989 and June 1994, Mr. Coulson was the controller of the Ford and Lincoln-Mercury Divisions. Mr. Coulson holds a bachelor's degree in finance and a master's degree in business administration from Michigan State University.

*Stacy L. Fox* became Senior Vice President, General Counsel and Secretary of Visteon in January 2000. Prior to her arrival at Visteon, Ms. Fox was at Johnson Controls where she had been group vice president and general counsel of the Automotive Systems Group since September 1993. As General Counsel, she led both the Legal Department and the Environmental, Health & Safety Department for the worldwide Automotive Group. From 1989 to 1993, Ms. Fox served as Group Counsel, Automotive Systems Group and Plastics Technology Group at Johnson Controls. Earlier in her career, Ms. Fox worked for Unisys Finance Corporation as general counsel and as an associate attorney for Mintz, Levin, Cohn, Ferris, Glovsky & Popeo, P.C. in Boston, Massachusetts. Ms. Fox holds a bachelor of science degree and a law degree from the University of Michigan.

*Robert H. Marcin* has been Senior Vice President of Human Resources since January 1, 2000. Prior to joining Visteon, he was executive director — Labor Affairs, Ford Motor Company, a position he assumed in August 1998. He was responsible for coordinating Ford's labor relations functions worldwide. Prior to this appointment, Mr. Marcin served as director, U.S. Union Affairs, a position held since November 1996. In October 1995, he was appointed director, International Labor Affairs. He joined Ford's Employee Relations Staff in 1993 as director, Compensation Planning Office. Previously, Mr. Marcin served as executive vice president-director, Employee and External Affairs for First Nationwide Financial Corporation from 1989 until 1993. Mr. Marcin joined Ford in 1973 with Ford Aerospace as employee representative, Western Development Laboratories Division. From 1973 until 1989 he held various positions, including as compensation and personnel planning analyst for Ford Aerospace. Mr. Marcin holds a bachelor's degree from State University of New York and an MBA from California State University at Hayward.

*Susan F. Skerker* held numerous positions at Ford, including senior director, Global Public Policy, prior to becoming Senior Vice President of Business Strategy and Corporate Relations of Visteon in January 2000. She was appointed Senior Director, Global Public Policy in January 1994 and was responsible for managing public policy issues that impacted Ford as well as the automotive industry. This included developing plans, strategies and objectives related to public policy issues on a global scale, including the development of Ford's consumer focused environmental initiatives. Before joining Ford in 1973, Ms. Skerker was special assistant to the assistant secretary for Domestic and International Business at the U.S. Department of Commerce, Washington, D.C. Ms. Skerker holds a bachelor's degree and a master's degree from the University of Florida and is a 1985 graduate of the Advanced Management Program at Harvard University.

*William H. Gray, III* has been president and chief executive officer of The College Fund/UNCF since September 1991. Prior to this, Mr. Gray served in the U.S. Congress after first being elected to the House of Representatives in 1978. During his congressional tenure, Mr. Gray served as Chairman of the House Budget Committee, Chairman of the Democratic Caucus, and as Majority Whip of the House of Representatives. He is also a Director of The Chase Manhattan Corporation, Electronic Data Systems Corporation, ezgov.com, MBIA Inc., Pfizer Inc., The

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Prudential Insurance Company of America, Rockwell International Corporation and Viacom Inc. Mr. Gray holds a bachelor's degree from Franklin and Marshall College and a master's degree from Drew Theological Seminary and Princeton Theological Seminary.

*Robert H. Jenkins*, prior to his recent retirement, served as the Chairman of Sundstrand Corporation from April 1997 to June 1999 as well as the Chief Executive Officer and President of Sundstrand from October 1995 to June 1999. Prior to that, Mr. Jenkins served in various positions at Illinois Tool Works from 1986 to 1995, ultimately rising to Executive Vice President. Prior to that, Mr. Jenkins held positions with Xtex, Inc., Scott Paper Company and E.I. Dupont De Nemours and Co. Mr. Jenkins currently serves on the board of directors of AK Steel Holding Corporation, CLACOR Inc., Sentry Insurance, Solutia Inc. and Pella Corporation. Mr. Jenkins holds a bachelor's degree in business administration and engineering from the University of Wisconsin.

*Robert M. Teeter* is President of Coldwater Corporation, a business consulting firm in Ann Arbor, Michigan. Prior to his current position at Coldwater, he held several management positions, including President of Market Opinion Research from 1966-1987. Mr. Teeter also is currently a director for the Bank of Ann Arbor and United Parcel Service. Mr. Teeter holds a bachelor's degree from Albion College and a master's degree from Michigan State University.

*W. Wayne Booker* has been a Vice Chairman of Ford since November 1996. He assumed responsibility for assisting with Ford's transition to Ford's new management team, especially in the new markets and business development in growth markets on January 1, 1999. In addition, he served as Ford's interim Chief Financial Officer during 1999. He was in charge of Ford's International Automotive Operations from October 1989 until they were integrated into Ford Automotive Operations in 1996. At that time, Mr. Booker was appointed Vice Chairman responsible for Ford's presence in growth markets ranging from China and Japan through Southeast Asia and India to Russia and Belarus and for Ford's association with key global business partners including Mazda, Kia and other automotive joint ventures worldwide. Prior to that he served as executive vice president for four years. He was named a Ford Vice President in 1989. He joined Ford in 1959. Mr. Booker is also currently a director of Hertz and Kia Holding A.S.

*John M. Rintamaki* has been Group Vice President and Chief of Staff of Ford since January 1, 2000. Prior to that, he was named Ford's Vice President-General Counsel and Secretary in January 1999. Mr. Rintamaki joined Ford in 1973 in Philadelphia as an attorney and later moved on to serve as senior attorney with Ford's Office of the General Counsel in 1978. Mr. Rintamaki was appointed Assistant Secretary and Assistant General Counsel-SEC and Corporate Matters of Ford in October 1991. He served as Ford's Corporate Secretary and Assistant General Counsel from 1993 through December 1998. Mr. Rintamaki is also currently a director of Hertz. Mr. Rintamaki holds degrees in law and business from the University of Michigan.

*Henry D.G. Wallace* assumed responsibility as Group Vice President and Chief Financial Officer of Ford on January 1, 2000. Prior to that appointment, he was elected Group Vice President, Asia Pacific Operations and Associations of Ford in January 1999. In 1986 Mr. Wallace assumed responsibility as Controller, Ford of Mexico. Mr. Wallace returned to the United Kingdom as Treasurer, Ford of Europe in 1989. He was appointed President, Ford of Venezuela and moved on to Japan as Executive Vice President in June 1994 and later President of Mazda Motor Corporation. Mr. Wallace returned once again to the United Kingdom as Ford's Chief Financial Officer and Vice President, Strategic Planning for Europe in January 1998. Mr. Wallace joined Ford in 1971.

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**Board of Directors**

Our board will be divided into three classes, each serving staggered three-year terms:

- Class I, whose term will expire at our 2001 annual meeting of stockholders;
- Class II, whose term will expire at our 2002 annual meeting of stockholders; and
- Class III, whose term will expire at our 2003 annual meeting of stockholders.

As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective terms. Our board of directors currently has four members. Three of our directors, Messrs. Booker, Rintamaki and Wallace are currently executive officers of Ford. Prior to the spin-off, Ford will have the ability to change the size and composition of our board of directors and committees of the board of directors. At the time of the spin-off, the three directors who are officers of Ford (Messrs. Booker, Rintamaki and Wallace) will resign from the board of directors and the three director nominees (Messrs. Gray, Jenkins and Teeter), none of whom are executive officers or directors of Ford, will join the board.

Our board will hold eight regularly scheduled meetings each year.

### ***Committees of the Board of Directors***

Our board of directors is expected to appoint directors who are not affiliated with us or Ford to a compensation committee of our board of directors and an audit committee of our board of directors after such directors are elected. The compensation committee will establish remuneration levels for some officers of Visteon and perform such functions as may be delegated to it under our employee benefit programs and executive compensation programs. The audit committee will select and engage, on our behalf, the independent public accountants to audit our annual financial statements. The audit committee also will review and approve the planned scope of the annual audit.

Our board of directors may, from time to time, establish other committees to facilitate the management of Visteon.

Our audit committee will hold four regularly scheduled meetings each year. Our board will establish meeting schedules for any other committees of the board.

Officers are elected at the organizational meeting of our board of directors held each year for a term of one year, and they are elected to serve until the next annual meeting.

### **Compensation of Directors**

We anticipate paying compensation to directors who do not receive compensation as officers or employees of Visteon or any of our affiliates. Each such director will be paid an annual board membership fee of \$40,000 and an annual committee membership fee of \$10,000 per committee. In addition, we plan to make an annual grant to each such director of 3,000 shares of restricted common stock under our Restricted Stock Plan for Non-Employee Directors, to be adopted by us, subject to stockholder approval.

### **Stock Ownership of Directors and Executive Officers**

All of our stock is currently owned by Ford and thus none of our executive officers, directors or director nominees own any of our common stock prior to the spin-off. To the extent directors, director nominees or executive officers of Visteon own shares of Ford common or Class B stock at the time of the spin-off, they will share in the spin-off on the same terms as other holders of Ford common or Class B stock. At the time of the spin-off, the executive officers named in the Summary Compensation Table in the “— Executive Compensation” section below and some

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other officers will be awarded restricted Visteon common stock. In addition, at the time of the spin-off, some key employees will be awarded stock options to acquire Visteon common stock. Further, beginning in 2001, a larger group of employees of Visteon will be awarded options to purchase shares of Visteon common stock and/ or performance stock rights.

The following table shows how much stock of Ford and of its majority-owned subsidiary, Hertz, each director, director nominee and executive officer of Visteon beneficially owned as of March 1, 2000. No director, director nominee or executive officer of Visteon beneficially owned any Ford preferred stock or Ford Class B stock. No director, director nominee or executive officer beneficially owned 1% or more of Ford’s total outstanding common stock or of Hertz’s total outstanding Class A common stock, nor do the directors, director nominees and executive officers as a group.

Name	Ford Common Stock(1)(2)	Ford Common Stock Units(3)	Hertz Class A Common Stock
Peter J. Pestillo	152,148	298,951	5,000
Robert J. Womac	75,183	—	—

Daniel R. Coulson	16,097	—	—
Stacy L. Fox	—	—	—
Robert H. Marcin	19,308	—	—
Susan F. Skerker	10,036	—	—
William H. Gray, III	—	—	—
Robert H. Jenkins	—	—	—
Robert M. Teeter	2,000	—	—
W. Wayne Booker	232,463	—	5,000
John M. Rintamaki	7,124	—	500
Henry D.G. Wallace	24,272	—	—
All directors, director nominees and executive officers as a group (12 persons)	538,631	298,951	10,500

- (1) For individuals who are or were Ford employees, amounts shown include shares of Ford common stock represented by Ford Stock Fund Units credited under a deferred compensation plan. These shares may be delivered after termination of employment.
- (2) Also, on March 1, 2000 (or within 60 days after that date), the executive officers, directors and director nominees have rights to acquire shares of Ford common stock through the exercise of stock options under Ford's stock option plans as follows:

Name	Number of Shares
Peter J. Pestillo	477,543
Robert J. Womac	210,735
Daniel R. Coulson	120,421
Stacy L. Fox	—
Robert H. Marcin	50,421
Susan F. Skerker	57,809
William H. Gray, III	—
Robert H. Jenkins	—
Robert M. Teeter	—
W. Wayne Booker	544,553
John M. Rintamaki	63,196
Henry D.G. Wallace	136,644

- (3) These are Ford common stock units credited under a deferred compensation plan and payable in cash.

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**Executive Compensation**

The following table shows some projected compensation information for the executive officers of Visteon.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation	
		Salary (\$)	Target Bonus \$(1)
Peter J. Pestillo, Chairman of the Board of Directors, Chief Executive Officer and President	2000	\$1,000,000	\$1,800,000
Robert J. Womac, Executive Vice President of Operations	2000	400,000	380,000
Daniel R. Coulson, Executive Vice President and Chief Financial Officer	2000	450,000	266,000
Stacy L. Fox, Senior Vice President, General Counsel and Secretary	2000	415,000	233,000
Robert H. Marcin, Senior Vice President of Human Resources	2000	365,000	218,000
Susan F. Skerker, Senior Vice President of Business Strategy and Corporate Relations	2000	350,000	213,500

- (1) Executive officer bonuses will be based on a combination of a Ford performance bonus determined under the Ford Annual Incentive Compensation Plan in March 2001, based on performance during 2000, and a Visteon performance bonus to be determined in March 2001 under a bonus program to be developed by Visteon for the remainder of 2000 following the spin-off. The table assumes achievement of 100% of the performance objectives under both plans.

As an independent company, Visteon will establish executive compensation practices that will link compensation with the performance of Visteon as well as Visteon's common stock. On average, a greater portion of the executive's long-term incentive pay will be linked to the performance of Visteon's common stock through the grant of stock options. Visteon will continually review its executive compensation programs to ensure that they are competitive.

## Long-Term Incentive Plan

We will sponsor a stock-based long-term incentive plan (the "LTIP") covering the executive officers, other officers and key employees. We plan to adopt the LTIP in 2000 contingent upon successful completion of the spin-off. Awards granted under the LTIP are based on shares of our common stock.

The LTIP is administered by a committee appointed by our board of directors. After the completion of the spin-off, the LTIP will be administered by the compensation committee. The LTIP provides for the grant of incentive and nonqualified stock options, stock appreciation rights, performance stock rights ("stock rights"), stock and various other rights based on stock (individually, an "award" or collectively, "awards"). Officers and some salaried employees of Visteon with potential to contribute to the future success of Visteon or its subsidiaries will be eligible to receive awards under the LTIP. The compensation committee has the discretion to select the employees to whom awards will be granted, to determine the type, size and terms and conditions applicable to each award and the authority to interpret, construe and implement the provisions of the LTIP. The compensation committee's decisions will be binding. The compensation committee also may delegate to a committee of Visteon officers the determination of the amount of individual grants of options and stock rights for employees who are not officers of Visteon, within limitations prescribed by the compensation committee.

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The total number of shares of our common stock that may be subject to awards under the LTIP, referred to as the "overall limit," is 13,000,000. This includes awards granted, subject to completion of the spin-off and subject to adjustment as provided in the LTIP. No more than 500,000 shares of our common stock may be subject to stock options, with or without any related stock appreciation rights, or stand-alone stock appreciation rights, awarded to any "covered employee," which generally means our chief executive officer and the next four most highly paid executive officers in any one calendar year. Common stock issued under the LTIP may be either authorized but unissued shares (subject to a maximum limit of 1,000,000 shares), treasury shares or any combination thereof. No more than 500,000 shares of common stock may be available as awards pursuant to stock rights granted under the LTIP to any covered employee in any one calendar year. Any shares of common stock in addition to 1,000,000 shares to be issued as awards under the LTIP or pursuant to awards granted under the LTIP will be obtained by us either through forfeitures of shares of restricted stock (as defined below), if such shares are made available again for issuance under the LTIP, or from treasury shares if we are permitted by applicable law to acquire our own shares. Any shares of common stock subject to an award which lapses, expires or is otherwise terminated without the issuance of such shares may become available for new awards.

At the time of the spin-off, we intend to grant (1) restricted stock to the executive officers as shown below and some other officers and (2) stock options to some key employees. These awards will be contingent on the successful completion of the spin-off. These awards are summarized in the following table and are described below:

Name	No. of Shares of Restricted Stock(1)	No. of Nonqualified Options(2)
Peter J. Pestillo	261,000	0
Robert J. Womac	60,000	0
Daniel R. Coulson	60,000	0
Stacy L. Fox	43,000	0
Robert H. Marcin	43,000	0
Susan F. Skerker	43,000	0
All executive officers as a group	510,000	0
Each non-employee director	0	0
All employees as a group	958,000	1,862,000

(1) The shares of restricted stock will vest on the fifth anniversary of the date of grant.

(2) We intend to grant these nonqualified options with an exercise price equal to the average of the highest and lowest prices at which Visteon common stock was traded on the New York Stock Exchange on the date of the spin-off. The options will vest 33% on the anniversary of the date of grant, an additional 33% on the second anniversary of the date of grant and in full on the third anniversary of the date of grant.

Set forth below is a brief description of the awards that may be granted under the LTIP:

**Stock Options.** Options to purchase shares of our common stock, which may be incentive or nonqualified stock options, may be granted under our LTIP at an exercise price (the "option price") at least equal to the average of the highest and lowest prices at

which Visteon common stock was traded on the New York Stock Exchange on the date of grant. Each option represents the right to purchase one share of common stock at the specified option price.

Options will expire not later than 10 years after the date on which they are granted and will become exercisable at such times and in such installments as determined by the administrator of the LTIP. Payment of the option price must be made in full at the time of exercise by check or wire transfer. Unless the compensation committee determines otherwise, payment in full or in

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part may also be made by tendering to Visteon shares of our common stock having a fair market value equal to the option price (or such portion thereof). In addition, a cashless exercise of such options is permitted.

*Stock Appreciation Rights.* An Award of a stock appreciation right may be granted under the LTIP. Generally, one stock appreciation right is granted with respect to one share of our common stock. The stock appreciation right entitles the participant, upon the exercise of the stock appreciation right, to receive an amount equal to the appreciation in the underlying share of common stock. The appreciation is equal to the difference between (1) the “base value” of the stock appreciation right (i.e., the option price on the date the stock appreciation right is granted), and (2) the average of the highest and lowest prices at which Visteon common stock was traded on the New York Stock Exchange on the date the stock appreciation right is exercised. Upon the exercise of a vested stock appreciation right, the exercising participant will be entitled to receive the appreciation in the value of one share of common stock as so determined, payable at the discretion of the compensation committee in cash, shares of common stock, or some combination thereof, subject to the availability of our shares of common stock.

Stock appreciation rights will expire not later than 10 years after the date on which they are granted. Stock appreciation rights become exercisable at such times and in such installments as determined by the administrator of the LTIP.

*Tandem Options/Stock Appreciation Rights.* An option and a stock appreciation right may be granted “in tandem” with each other. An option and a stock appreciation right are considered to be in tandem with each other because the exercise of the option aspect of the tandem unit automatically cancels the right to exercise the stock appreciation right aspect of the tandem unit, and vice versa. The option may be an incentive stock option or a nonqualified stock option, as determined by the compensation committee. Descriptions of the terms of the option and the stock appreciation right aspects of a tandem option/stock appreciation right are provided above.

*Restricted Stock.* An award of restricted stock is an award of common stock that is subject to such restrictions as the compensation committee deems appropriate, including forfeiture conditions and restrictions against transfer for a specified period. Restricted stock awards may be granted under the LTIP for services rendered. Restrictions on restricted stock may lapse in installments based on factors selected by the administrator of the LTIP. Prior to the expiration of the restriction period, a grantee who has received a restricted stock award generally has the rights of a stockholder of Visteon, including the right to vote and to receive cash dividends on the shares subject to the award. Stock dividends issued with respect to a restricted stock award may be treated as additional shares under the award and may be subject to the same restrictions and other terms and conditions that apply to the shares under the same award.

*Termination of Employment.* The compensation committee will determine at the time the award is granted the terms of forfeiture. In general, outstanding options and restricted stock awards are forfeited in the event the participant terminates employment due to voluntary quit, discharge or release in the best interest of Visteon.

*Material Federal Income Tax Consequences of Options.* Awards granted under the LTIP may result in federal income tax consequences to LTIP participants and Visteon. Some of those federal income tax consequences are generally set forth in the following summary.

An employee to whom an option which is an incentive stock option that qualifies under Section 422 of the Code is granted will not recognize income at the time of grant or exercise of such option. No federal income tax deduction will be allowable to Visteon upon the grant or exercise of such incentive stock option. However, upon the exercise of an incentive stock option, any excess in the fair market price of the common stock over the option price constitutes a tax preference item that may have alternative minimum tax consequences for the employee. When the employee sells the shares more than one year after the date of transfer of the shares and

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more than two years after the date of grant of the incentive stock option, the employee will normally recognize a long-term capital gain or loss equal to the difference, if any, between the sales price of the shares and the aggregate option price. In such event, we will not be entitled to a federal income tax deduction with respect to the exercise of the incentive stock option or the sale of the shares. If the employee does not hold the shares for the required period, when the employee sells the shares, the employee will

recognize ordinary compensation income and possibly capital gains or losses in such amounts as are prescribed by the Code and we will generally be entitled to a federal income tax deduction in the amount of such ordinary compensation income.

An employee to whom an option which is a nonqualified stock option is granted will not recognize income at the time of grant of such option. In general, when the employee exercises such nonqualified stock option, the employee will recognize ordinary compensation income equal to the difference, if any, between the option price paid and the fair market value, as of the date of option exercise, of the shares of common stock the employee receives. The tax basis of such shares to such employee will be equal to the option price paid plus the amount includible in the employee's gross income, and the employee's holding period for such shares will commence on the date of exercise. Subject to the Code, we will generally be entitled to a federal income tax deduction in respect of a nonqualified stock option in an amount equal to the ordinary compensation income recognized by the employee upon the exercise of the nonqualified stock option.

*Performance Stock Rights and Related Stock Awards.* A stock right is the right to receive up to the number of shares of common stock described therein, if specific business objectives are met. The compensation committee may grant stock rights to our officers and other key salaried employees. Beginning in 2001, it is anticipated that about 25 employees annually will be eligible to receive stock rights under the LTIP, including about 20 officers. This reflects our commitment to tie executive compensation with the interests of the stockholders.

The compensation committee determines the performance period for a stock right. In general, we expect grants of stock rights to be made annually and have a three-year performance period.

Within 90 days of the beginning of a performance period, the compensation committee decides the targeted performance level at which a target award may be earned. The compensation committee decides the target award based on the employee's level of responsibility and other factors. The target award, designated as a number of shares, is based on achieving 100% of the performance goals established by the compensation committee for the performance period. The compensation committee also decides any minimum performance level below which no stock award would be paid, and a maximum which cannot exceed 150% of the target award.

The performance goals for a stock right granted to an executive officer may be based on one or more of the performance criteria defined in the LTIP. It is anticipated that the goals for stock rights to be granted in 2001 will be based on total stockholder returns relative to the companies in the S&P 500 Index.

The compensation committee also decides the formula to apply against the performance goals in deciding the percentage of the target award that is earned. This amount may not exceed 150% of the target award, as adjusted under the LTIP.

If the compensation committee determines, during the performance period relating to a stock right, the participant will receive dividend equivalents. These are equal to cash dividends that the participant would have received if he or she had owned the number of shares equal to 100% of the related target award, as adjusted under the LTIP.

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The maximum number of shares of our common stock that may be available as stock awards to any of the covered employees pursuant to stock rights in any year under the LTIP is 500,000. This limit, as adjusted under the LTIP, is called the stock right limit.

The number of shares which ultimately may be paid out to any covered employee pursuant to the stock rights to be granted in 2001 cannot be determined at this time. However, it is subject to both the stock right limit and the overall limit and cannot exceed 150% of the related target award.

If the compensation committee determines, the shares of common stock awarded after the end of the related performance period will be restricted from sale or other disposition for a period determined by the compensation committee.

Certificates for the shares of common stock representing any final award will be distributed to the participant free of all restrictions on the earlier of:

- the expiration of any related restriction period,
- the acceleration of distribution of the final award by the compensation committee or
- the termination of employment, provided the participant's employment terminates for any reason other than discharge, release in the best interest of Visteon, voluntary quit or retirement without the approval of Visteon. If the participant's employment terminates for any of these reasons, all the participant's undistributed final awards and outstanding Rights will be forfeited unless a waiver is granted.

We recognize a contingent liability equal to the market value of our common stock on the date of grant of any stock right. The amount of this liability will be amortized and charged to income over the related performance period. The total liability will be increased or decreased quarterly to reflect changes in such market value and will be subject to adjustment in the event of mergers,

stock splits and other similar events. Dividend equivalents will be charged to income. The maximum number of shares that can be earned under stock rights will be treated as outstanding for purposes of calculating fully diluted earnings per share.

*Stockholder Approval Condition.* Subject to completion of the spin-off, we intend to grant, under the LTIP, restricted stock to the executive officers and some other officers and options to some key employees. We intend to seek approval of the LTIP at our 2001 annual meeting of stockholders. Subject to that approval, we plan to grant options and stock rights to a larger group of employees beginning in 2001. Awards granted prior to stockholder approval will be subject to approval of the LTIP by our stockholders. If our stockholders approve the terms of the LTIP, including the overall limit, the option limit and the stock right limit, these terms will become effective for awards to executive officers for 2000 and future years under the LTIP.

*Additional Information.* Under the LTIP, in the event of a merger, consolidation, reorganization, stock split, stock dividend or other event affecting our common stock, such adjustments as may be necessary (as determined by the compensation committee) to reflect such change will be made to prevent dilution or enlargement of the rights with respect to the overall limit, the option limit, the stock right limit, the number of shares of common stock covered by each outstanding award, any other references in the LTIP to a number of shares and the price per share in respect thereof. Unless otherwise determined by the compensation committee, an individual's rights under the LTIP may not be assigned or transferred (except in the event of death). An individual's rights under the LTIP are subject to forfeiture for competitive activity or activity that is not in our best interest.

The LTIP will remain in effect until it is terminated by the board of directors or until all awards are satisfied under their terms, whichever occurs last. Regardless, no awards may be granted under the LTIP after the tenth anniversary of the effective date of the LTIP. The board of directors may at any time terminate, modify or amend the LTIP, and the compensation committee

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may modify or amend the LTIP; provided, however, that neither the board nor the compensation committee may take certain actions specified in the LTIP without stockholder approval.

We plan to ask the compensation committee to approve provisions for acceleration of vesting and distribution of some plan awards under the LTIP in the event of a change of control. See “— Change in Control Agreements.”

### **Ownership Goals**

We plan to adopt stock ownership goals for officers at the vice president level and above. The goal will be for these officers to own common stock worth a multiple of salary, ranging from one times salary to up to seven times salary for the chief executive officer, within three years. We plan to adopt similar goals for some other key employees and our directors who are not officers of Visteon or Ford.

### **Annual Incentive Compensation Plan**

We plan to adopt, for 2001 and beyond, an annual incentive compensation plan (the “AICP”), subject to stockholder approval, for our officers and some other key employees. The AICP is an annual plan where awards are based on the level of achievement of goals relating to individual, business unit or Visteon performance. If performance goals are achieved, then the target incentive awards, expressed as a percentage of salary, are paid. Smaller or greater amounts are earned if objectives are under- or over-achieved, as applicable. The relationship between performance objectives and award opportunities is determined and communicated early each year.

The AICP will be administered by the compensation committee. The compensation committee may delegate authority to senior management to determine individual final awards for employees who are not officers of Visteon, subject to limits approved by the compensation committee.

Under the AICP, the maximum amount that may be awarded to any covered employee for any calendar year is \$10,000,000. Initially, we anticipate that about 650 employees will participate in the AICP, including about 20 officers.

Under the AICP, early each year and starting in 2001, the compensation committee will select the performance criteria and establish the related goals to be used to measure performance. It also will decide the method for determining the extent to which goals are met and the amount of the target award that is earned. It also may establish a threshold or minimum performance level below which no award will be paid. In determining the performance criteria applicable to Visteon and business unit components, the compensation committee may use one or more of the objective business criteria to be listed in the AICP.

The percentage of each annual target award earned will be determined by the compensation committee and will be based on actual performance results relative to the goals. Discretion to increase award amounts based on individual performance is permitted for employees who are not covered employees. Awards may be decreased, on the other hand, based on individual performance. Final awards actually paid to an employee may be less than or greater than 100% of the target award. Final awards may be paid in cash, common stock, restricted stock or a combination, or deferred under a deferred compensation plan to be adopted by Visteon. A Visteon Stock Fund will be one of the investment options for purposes of measuring the value of the deferral.

In general, the compensation committee may amend, modify, suspend or terminate the AICP as long as it does not adversely affect awards previously made.

We plan to establish an interim bonus program for the remainder of 2000, following the spin-off. See note 1 to the Summary Compensation Table above.

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### **Change in Control Agreements**

We plan to enter into change in control agreements with each of the executive officers and some other officers (each, a “participant”). The change in control agreements, which are expected to have a five year term and would be subject to a rolling annual renewal, generally provide monetary compensation and other benefits to each Participant upon the occurrence of triggering events involving a change in control of Visteon.

The change in control agreements specify two triggering events:

- a change in control (as defined below); and
- within three years (for executive officers) or two years (for other selected officers) after the change in control, one of the following events occurs:
  - the Participant’s employment is terminated without cause;
  - a negative fundamental, material change is made in the Participant’s duties or responsibilities;
  - the participant’s salary, annual or other material compensation or benefits are decreased (and such decrease is unrelated to company or individual performance);
  - the participant is required to materially relocate his or her residence or principal office location against his or her will; or
  - the participant is not offered a comparable position with the successor entity.

Each participant also has 30 days at the end of the first year after a change of control to terminate his or her employment for any reason and still receive the benefits outlined herein.

change in control means:

- acquisition by any individual, entity or group, other than the company or any subsidiary of the company, of the beneficial ownership of 40% or more of the outstanding common stock;
- a change in the majority of the board within any twelve month period without approval of the board;
- a major corporate transaction, such as a merger, sale of greater than 50% of Visteon’s assets or a liquidation, which results in a change in the majority of the board or a majority of stockholders; or
- a discretionary determination by the board.

Each participant is entitled to the following benefits upon the occurrence of the triggering events:

- all of the participant’s unvested options will vest and become immediately exercisable in accordance with their terms;
- all of the participant’s awards under the LTIP will become payable immediately on a pro rated basis, calculated based on current forecasted payouts;
- any compensation previously deferred at the election of the participant, together with accrued interest or earnings thereon, will be distributed as a lump sum payout;

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- the participant’s supplemental executive retirement program benefits will be funded through a trust or other mechanism which is protected from the persons controlling Visteon after the occurrence of a change in control; and

- the participant’s health, dental and life insurance coverage under Visteon’s then existing executive health and welfare benefit plans will remain in force over the cash severance benefit period (see discussion below), subject to mitigation.

Upon the occurrence of the triggering events described above, or for selected officers eligible for payments in the event of a voluntary termination of employment during the 13th month after a change in control, in addition to the payments and benefits described above, participants will receive monetary compensation and other benefits. Each participant is entitled to receive in addition to their base salary, prorated annual bonus and any accrued vacation pay through the date of their termination, the following amount of monetary compensation:

- executive officers: three times base salary plus target bonus
- other officers: one and one-half to two times base salary plus target bonus

Change in control payments, as described above, for executive officers will be grossed up for the payment, if any, of additional federal taxes under Code Section 280(G) (excess parachute payments). Other officers will not be grossed up; however, any officer whose contractual entitlements would be greater if such entitlements were reduced to the officer’s safe harbor level under the golden parachute excise tax provisions of the Code (thereby avoiding the imposition of the excise tax), will have his or her payment so reduced. An officer in this group whose contractual entitlements after payment of applicable excise taxes would be greater than his or her safe harbor amount will not incur such a reduction.

Any lump sum payment shall be reduced by the amount of cash severance or salary continuation benefits paid to the executive under any other plan or policy of Visteon or a written employment agreement between Visteon (or one of its affiliates) and the officer.

In addition, at the time of the second triggering event:

- the participant may receive reimbursement ranging from 15% to 25% of his or her most recent annualized salary plus target annual bonus for expenses related to outplacement services;
- the participant’s legal fees and expenses will be paid if litigation is required to enforce these change in control rights; and
- the participant will be able to retain his or her company car and club memberships, if any, for six months thereafter.

*Restrictive Covenants.* The change in control agreements provide that, for the executive officers, for a period of two years (one and one-half years for other officers) immediately following the participant’s termination of employment resulting from a change in control with us or any of our subsidiaries, the participant agrees not to, without the prior written consent of our chairman and chief executive officer, engage in or perform any services of a similar nature to those performed at Visteon for any other corporation or business engaged in the design, manufacture, development, promotion, sale or financing of automobile or truck components as well as any other products or services for which Visteon offers, within North America, Latin America, Asia, Australia or Europe in competition with us, any of our subsidiaries or affiliates, or any joint ventures to which we or any of our subsidiaries are a party. The change in control agreements also provide that the participant, in perpetuity, shall not disclose any knowledge, information or materials, whether tangible or intangible, regarding proprietary matters relating to Visteon.

## SECURITY OWNERSHIP OF FORD AND VISTEON

Ford beneficially and of record holds, and will hold before the spin-off, all of the outstanding shares of our common stock. Holders of Ford common and Class B stock, including our directors, director nominees and executive officers (see “Management — Stock Ownership of Directors and Executive Officers”), will receive \_\_\_ shares of Visteon common stock for each share of Ford common or Class B stock they hold as of the close of business on June 12, 2000. After giving effect to the spin-off, to our knowledge, no person will beneficially own 5% or more of the outstanding shares of our common stock.

## DESCRIPTION OF CAPITAL STOCK

### General

The authorized capital stock of Visteon will consist of 500,000,000 shares of common stock, par value \$1.00 per share, and 50,000,000 shares of preferred stock, par value \$1.00 per share. Following the spin-off, we will have 130,958,000 shares of

common stock outstanding, none of which will be owned by Ford, including 958,000 shares of restricted stock issued to officers and other employees of Visteon in connection with the spin-off. There will be no preferred stock outstanding. A description of the material terms and provisions of Visteon's charter affecting the relative rights of the common stock is set forth below. The following description of the capital stock of Visteon is intended as a summary only and is qualified in its entirety by reference to the forms of Visteon's charter and by-laws filed as exhibits to the registration statement of which this prospectus is a part and to Delaware corporate law.

## **Common Stock**

### *Voting Rights*

Holders of common stock are entitled to one vote per share. Holders of shares of common stock are not entitled to cumulate their votes in the election of directors. Generally, all matters to be voted on by stockholders must be approved by a majority (or, in the case of election of directors, by a plurality) of the votes entitled to be cast by all shares of common stock present in person or represented by proxy, subject to any voting rights granted to holders of any then outstanding preferred stock. Except as otherwise provided by law, and subject to any voting rights granted to holders of any outstanding preferred stock, amendments to Visteon's charter must be approved by holders of a majority of all outstanding shares of common stock.

### *Dividends*

Holders of common stock will share ratably in any dividend declared by our board of directors, subject to any preferential rights of any outstanding preferred stock.

### *Other Rights*

In the event of any merger or consolidation of Visteon with or into another company in connection with which shares of common stock are converted into or exchangeable for shares of stock, other securities or property (including cash), all holders of common stock will be entitled to receive the same kind and amount of shares of stock and other securities and property (including cash).

On liquidation, dissolution or winding up of Visteon, after payment in full of the amounts required to be paid to holders of preferred stock, if any, all holders of common stock are entitled to share ratably in any assets available for distribution to holders of shares of common stock.

No shares of common stock are subject to redemption or have preemptive rights to purchase additional shares of common stock.

## **Preferred Stock**

Preferred stock is issuable from time to time in one or more classes or series and with such voting powers, if any, designations and preferences for each series as shall be stated in the resolutions providing for the designation and issue of each such class or series adopted by the board of directors of Visteon. The board of directors is authorized by Visteon's charter to determine, among other things, the voting, dividend, redemption, conversion and liquidation powers, rights and preferences and the limitations thereon pertaining to such class or series. The board of directors, without stockholder approval, may issue preferred stock with voting and other

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rights that could adversely affect the voting power and other rights of the holders of the common stock. The ability of the board of directors to issue preferred stock without stockholder approval could also have the effect of delaying, deferring or preventing a change in control of Visteon or the removal of existing management. Visteon has no present plans to issue any shares of preferred stock.

## **Certificate of Incorporation and By-law Provisions That May Have an Anti-Takeover Effect**

Some provisions of Visteon's charter and by-laws summarized below may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a stockholder might consider to be in its best interest, including attempts that might result in a premium being paid over the market price for the common stock.

Visteon's charter will provide that, subject to any rights of holders of preferred stock to elect additional directors under specified circumstances, the number of directors of Visteon shall consist of not less than one nor more than 15 members, the exact number of which shall be fixed from time to time by resolution adopted by the affirmative vote of a majority of the board of directors. The directors shall be divided into three classes, as nearly equal in number as possible, serving staggered three year terms

so that the directors' initial term will expire on the date of the annual meeting of stockholders held in 2001, 2002 and 2003. At each succeeding annual meeting of stockholders, beginning in 2001, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. With a classified board, at least two annual meetings of stockholders will generally be required to effect a change in a majority of the members of the board; this has the effect of delaying any attempt by a stockholder seeking a takeover of Visteon to elect a majority of directors to our board. The charter and by-laws will provide that, subject to any rights of holders of preferred stock to elect directors under specified circumstances, the number of directors will be fixed from time to time exclusively by resolution of the board of directors. In addition, the charter and by-laws will provide that, subject to any rights of holders of preferred stock, and unless Visteon's board of directors otherwise determines, any vacancy on the board of directors that results from an increase in the number of directors may be filled by a majority of the directors then in office, provided that a quorum is present, and any other vacancy occurring on the board of directors may be filled by a majority of the board of directors then in office, even if less than a quorum, or by a sole remaining director; except as otherwise provided by law, any such vacancy may not be filled by the stockholders.

Visteon's by-laws provide for an advance notice procedure for the nomination, other than by or at the direction of the board of directors, of candidates for election as directors as well as for other stockholder proposals to be considered at annual meetings of stockholders. In general, notice of intent to nominate a director or raise matters at such meetings will have to be received in writing by Visteon not less than 60 nor more than 90 days prior to the anniversary of the previous year's annual meeting of stockholders, and must contain information concerning the person to be nominated or the matters to be brought before the meeting and concerning the stockholder submitting the proposal. Visteon's charter and by-laws will also provide that special meetings of stockholders may be called only by specified officers of Visteon or by the board of directors. Any action required or permitted to be taken by stockholders may be effected only at a duly called annual or special meeting of stockholders and may not be effected by a written consent by stockholders in lieu of such a meeting.

The charter and by-laws provide that the by-laws may be altered, amended or repealed by Visteon's board of directors or by the affirmative vote of the holders of at least 50% of the common stock.

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### **Section 203 of the Delaware General Corporation Law**

Visteon is a Delaware corporation subject to Section 203 of the Delaware General Corporation Law. Section 203 provides that, subject to specified exceptions, a corporation shall not engage in any business combination with any "interested stockholder" for a three-year period following the time that such stockholder becomes an interested stockholder unless:

- prior to such time, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder,
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding some shares) or
- at or subsequent to such time, the business combination is approved by the board of directors of the corporation and by the affirmative vote of at least 66- 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

Except as specified in Section 203, an interested stockholder is generally defined as (1) any person that is the owner of 15% or more of the outstanding voting stock of the corporation, or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation, at any time within the three-year period immediately prior to the relevant date and (2) the affiliates and associates of any such person. Under some circumstances, Section 203 makes it more difficult for an "interested stockholder" to effect various business combinations with a corporation for a three-year period, although the stockholders may elect to exclude a corporation from the restrictions imposed thereunder.

### **Limitation on Directors' Liability**

Visteon's charter provides that no director of Visteon shall be personally liable to Visteon or any of its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that exemption from liability or limitation of liability is not permitted under the Delaware General Corporation Law, as now in effect or as amended in the future. If the Delaware General Corporation Law is amended in the future to authorize the further elimination or limitation of director liability, the liability of directors will be limited or eliminated in accordance with those changes. Any repeal or modification of the director liability provisions of our charter will not have any effect on directors' liability with respect to acts or omissions occurring prior to the repeal or modification.

Pursuant to our charter, we have agreed to indemnify our directors and officers to the fullest extent authorized or permitted by law, as now in effect or as in effect at a future date. Any repeal or modification of the director and officer indemnification provisions of our charter will not have any effect on directors' or officers' rights to indemnification with respect to acts or omissions occurring prior to the repeal or modification.

## Transfer Agent and Registrar

The transfer agent and registrar for the common stock is EquiServe Trust Company, N.A., and its address is 525 Washington Boulevard, Jersey City, New Jersey 07310.

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## EXPERTS

Our financial statements as of December 31, 1999 and 1998 and for each of the three years in the period ended December 31, 1999 included in this prospectus have been included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of that firm as experts in auditing and accounting.

## LEGAL MATTERS

Davis Polk & Wardwell will pass on the validity of the common stock offered.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-1 with the SEC with respect to the shares of our common stock that Ford stockholders will receive in the spin-off. This prospectus is a part of that registration statement and, as allowed by SEC rules, does not include all of the information you can find in the registration statement or the exhibits to the registration statement. For additional information relating to us and the spin-off, reference is made to the registration statement and the exhibits to the registration statement. Statements contained in this preliminary prospectus as to the contents of any contract or document referred to are not necessarily complete and in each instance, if the contract or document is filed as an exhibit to the registration statement, reference is made to the copy of the contract or other document filed as an exhibit to the registration statement. Each statement is qualified in all respects by the relevant reference.

After the spin-off, we will file annual, quarterly and special reports, proxy statements and other information with the SEC. We intend to furnish our stockholders with annual reports containing consolidated financial statements certified by an independent public accounting firm. The registration statement is, and any of these future filings with the SEC will be, available to the public over the Internet at the SEC's website at <http://www.sec.gov>. You may read and copy any filed document at the SEC's public reference rooms in Washington, D.C. at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549, and at the SEC's regional offices in New York at 7 World Trade Center, 13th Floor, New York, NY 10048, and in Chicago at Suite 1400, Northwestern Atrium Center, 14th Floor, 500 W. Madison Street, Chicago, IL 60661. Please call the SEC at 1-800-SEC-0330 for further information about the public reference rooms.

We maintain an Internet site at <http://www.visteon.com>. Our website and the information contained on that site, or connected to that site, is not incorporated into this preliminary prospectus or the registration statement.

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## Visteon Corporation and Subsidiaries

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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**Visteon Corporation and Subsidiaries**

**CONSOLIDATED STATEMENT OF INCOME  
 (Unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2000</b>	<b>1999</b>
	<b>(in millions, except per share amounts)</b>	
<b>Sales</b>		
Ford and affiliates	\$4,476	\$4,355
Other customers	749	417
	<hr/>	<hr/>
Total sales	5,225	4,772
<b>Costs and expenses (Note 2)</b>		
Costs of sales	4,795	4,341
Selling, administrative and other expenses	177	133
	<hr/>	<hr/>
Total costs and expenses	4,972	4,474
<b>Operating income</b>	253	298
Interest income	25	22
Interest expense	48	23
	<hr/>	<hr/>
Net interest expense	(23)	(1)
Equity in net income of affiliated companies	7	16
	<hr/>	<hr/>
<b>Income before income taxes</b>	237	313
Provision for income taxes	86	112
	<hr/>	<hr/>
<b>Income before minority interests</b>	151	201
Minority interests in net income/(loss) of subsidiaries	4	(4)
	<hr/>	<hr/>
<b>Net income</b>	\$ 147	\$ 205
	<hr/>	<hr/>
<b>Earnings per share (Note 1)</b>		
Basic and diluted	\$ 1.13	\$ 1.58
	<hr/>	<hr/>

The accompanying notes are part of the interim financial statements.

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**Visteon Corporation and Subsidiaries**

**CONSOLIDATED BALANCE SHEET**

	<b>March 31,</b>	<b>December 31,</b>
	<b>2000</b>	<b>1999</b>
	<b>(in millions)</b>	
	<b>(Unaudited)</b>	
<b>Assets</b>		

Cash and cash equivalents	\$ 943	\$ 1,849
Accounts and notes receivable — Ford and affiliates	1,798	1,578
Accounts receivable — other customers	806	613
Total receivables	2,604	2,191
Inventories (Note 3)	743	751
Deferred income taxes	106	110
Prepaid expenses and other current assets	276	295
Total current assets	4,672	5,196
Equity in net assets of affiliated companies	209	205
Net property	5,730	5,789
Deferred income taxes	189	362
Other assets	990	897
<b>Total assets</b>	<b>\$11,790</b>	<b>\$12,449</b>
<b>Liabilities and Equity</b>		
Trade payables — Ford and affiliates	\$ 983	\$ 1,414
Trade payables — other suppliers	1,747	1,736
Total trade payables	2,730	3,150
Accrued liabilities	1,021	1,211
Income taxes payable	1	153
Debt payable within one year — Ford and affiliates	682	697
Debt payable within one year — other	344	264
Total debt payable within one year	1,026	961
Total current liabilities	4,778	5,475
Long-term debt — Ford and affiliates	1,229	1,214
Long-term debt — other	197	144
Total long-term debt	1,426	1,358
Other liabilities	4,034	3,964
Deferred income taxes	12	153
Total liabilities	10,250	10,950
<b>Equity</b>		
Ford's net investment (Note 4)	1,644	1,566
Accumulated other comprehensive income	(104)	(67)
Total equity	1,540	1,499
<b>Total liabilities and equity</b>	<b>\$11,790</b>	<b>\$12,449</b>

The accompanying notes are part of the interim financial statements.

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## Visteon Corporation and Subsidiaries

### CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

	For the Three Months Ended March 31,	
	2000	1999
	(in millions)	
<b>Cash and cash equivalents at January 1</b>	\$1,849	\$ 542
Cash flows provided by/(used in) operating activities	(846)	432
Cash flows from investing activities		
Capital expenditures	(115)	(196)
Acquisitions and investments in joint ventures, net	—	(85)
Other	(10)	(26)

Net cash used in investing activities	(125)	(307)
Cash flows from financing activities		
Cash distributions to Ford	(38)	(70)
Changes in short-term debt	118	(17)
Proceeds from issuance of other term debt	7	37
Principal payments on other term debt	(50)	(52)
Net changes in revolving loan with Ford	21	—
Other	—	2
	—	—
Net cash provided by/(used in) financing activities	58	(100)
Effect of exchange rate changes on cash	7	(10)
	—	—
Net (decrease)/increase in cash and cash equivalents	(906)	15
	—	—
<b>Cash and cash equivalents at March 31</b>	<b>\$ 943</b>	<b>\$ 557</b>

The accompanying notes are part of the interim financial statements.

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**Visteon Corporation and Subsidiaries**

**NOTES TO INTERIM FINANCIAL STATEMENTS  
(Unaudited)**

1. Financial Statements — The financial data presented herein are unaudited, but in the opinion of management reflect those adjustments necessary for a fair presentation of such information. Results for interim periods should not be considered indicative of results for a full year. Reference should be made to the consolidated financial statements and accompanying notes for the year ended December 31, 1999 included elsewhere in this prospectus.

Ford Motor Company (“Ford”) established Visteon Corporation (“Visteon”) as a wholly-owned subsidiary of Ford. Ford has contributed or otherwise transferred to Visteon the assets and liabilities comprising Ford’s automotive components and systems business. For purposes of Notes to Interim Financial Statements, Visteon means Ford’s global automotive components and systems business, regardless of the form of legal ownership, which has been treated by Ford as a separate operating segment, unless the context requires otherwise.

Through an amendment to its certificate of incorporation, the number of common shares authorized and outstanding was increased to 500,000,000 and 130,000,000, respectively. In addition, 50,000,000 shares of preferred stock, par value \$1.00 per share, were authorized, none of which were issued. For purposes of the earnings per share calculation, the 130,000,000 shares outstanding are treated as outstanding for all periods presented. There were no potentially dilutive securities outstanding during the periods presented.

2. Selected costs and expenses are summarized as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2000</b>	<b>1999</b>
	<b>(in millions)</b>	
Depreciation	\$144	\$131
Amortization	22	18
	—	—
Total	<b>\$166</b>	<b>\$149</b>

3. Inventories are summarized as follows:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2000</b>	<b>1999</b>
	<b>(in millions)</b>	
Raw materials, work-in-process and supplies	\$654	\$653

Finished products	89	98
Total inventories	\$743	\$751
U.S. inventories	\$450	\$434

4. Comprehensive Income and Equity — Other comprehensive income includes foreign currency translation adjustments. Total comprehensive income is summarized as follows:

	Three Months Ended March 31,	
	2000	1999
	(in millions)	
Net income	\$147	\$205
Other comprehensive income	(37)	(42)
Total comprehensive income	\$110	\$163

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**Visteon Corporation and Subsidiaries**

**NOTES TO INTERIM FINANCIAL STATEMENTS — Continued**

**(Unaudited)**

During the three months ended March 31, 2000, Visteon made a \$38 million cash distribution to Ford and transferred approximately \$31 million in net assets to Ford.

5. Segment Information — Visteon's reportable operating segments are Dynamics & Energy Conversion; Comfort, Communication & Safety; and Glass. Financial information for the reportable operating segments is summarized as follows (in millions):

First Quarter	Dynamics & Energy Conversion	Comfort, Communication & Safety	Glass	Total Visteon
<b>2000</b>				
Sales	\$2,425	\$2,603	\$197	\$ 5,225
Income/(loss) before taxes	79	184	(6)	237
Net income (loss)	50	114	(4)	147
Average Assets	5,304	6,088	728	12,120
	Dynamics & Energy Conversion	Comfort, Communication & Safety	Glass	Total Visteon
<b>1999</b>				
Sales	\$2,369	\$2,203	\$200	\$4,772
Income/(loss) before taxes	125	182	7	313
Net income (loss)	79	121	5	205
Average Assets	4,462	4,408	616	9,686

Total income/(loss) before taxes in the table above includes \$20 million and \$1 million of net interest expense not allocated to the reportable operating segments for March 31, 2000 and 1999, respectively. Total net income in the table above includes \$13 million of expense related to net interest expense not allocated to the reportable operating segments for March 31, 2000.

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## Ford Motor Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, equity and cash flows present fairly, in all material respects, the financial position of Visteon Corporation and Subsidiaries (the wholly-owned automotive components and systems business of Ford Motor Company — See Notes 1 and 2) at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

April 7, 2000, except as to Note 1  
for which the date is June 1, 2000  
Detroit, Michigan

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[Table of Contents](#)**Visteon Corporation and Subsidiaries****CONSOLIDATED STATEMENT OF INCOME**

	<b>For the Years Ended December 31,</b>		
	<b>1999</b>	<b>1998</b>	<b>1997</b>
	<b>(in millions, except per share amounts)</b>		
<b>Sales (Notes 3 and 14)</b>			
Ford and affiliates	\$17,105	\$16,350	\$16,003
Other customers	2,261	1,412	1,217
Total sales	19,366	17,762	17,220
<b>Costs and expenses (Notes 2, 3, 13 and 14)</b>			
Costs of sales	17,503	15,969	15,794
Selling, administrative and other expenses	674	659	575
Total costs and expenses	18,177	16,628	16,369
<b>Operating income</b>	1,189	1,134	851
Interest income	79	38	17
Interest expense	143	82	82
Net interest expense	(64)	(44)	(65)
Equity in net income of affiliated companies (Note 2)	47	26	29
<b>Income before income taxes</b>	1,172	1,116	815
Provision for income taxes (Note 7)	422	416	305
<b>Income before minority interests</b>	750	700	510
Minority interests in net income/(loss) of subsidiaries	15	(3)	(1)
<b>Net income</b>	<u>\$ 735</u>	<u>\$ 703</u>	<u>\$ 511</u>
<b>Earnings per share (Note 1)</b>			
Basic and diluted	<u>\$ 5.65</u>	<u>\$ 5.41</u>	<u>\$ 3.93</u>

The accompanying notes are part of the financial statements.

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**Visteon Corporation and Subsidiaries****CONSOLIDATED BALANCE SHEET**

	<b>December 31,</b>	
	<b>1999</b>	<b>1998</b>
	<b>(in millions)</b>	
<b>Assets</b>		
Cash and cash equivalents (Note 4)	\$ 1,849	\$ 542
Accounts and notes receivable — Ford and affiliates	1,578	1,429
Accounts receivable — other customers	613	332
	<hr/>	<hr/>
Total receivables	2,191	1,761
Inventories (Note 5)	751	606
Deferred income taxes	110	139
Prepaid expenses and other current assets	295	143
	<hr/>	<hr/>
Total current assets	5,196	3,191
Equity in net assets of affiliated companies (Note 2)	205	214
Net property (Note 6)	5,789	5,391
Deferred income taxes	362	356
Other assets	897	221
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$12,449</b>	<b>\$9,373</b>
	<hr/>	<hr/>
<b>Liabilities and Equity</b>		
Trade payables — Ford and affiliates	\$ 1,414	\$ 544
Trade payables — other suppliers	1,736	1,319
	<hr/>	<hr/>
Total trade payables	3,150	1,863
Accrued liabilities (Note 8)	1,211	960
Income taxes payable	153	32
Debt payable within one year — Ford and affiliates (Note 11)	697	142
Debt payable within one year — other (Note 11)	264	167
	<hr/>	<hr/>
Total debt payable within one year	961	309
	<hr/>	<hr/>
Total current liabilities	5,475	3,164
Long-term debt — Ford and affiliates (Note 11)	1,214	745
Long-term debt — other (Note 11)	144	71
	<hr/>	<hr/>
Total long-term debt	1,358	816
Other liabilities (Note 8)	3,964	3,586
Deferred income taxes	153	152
	<hr/>	<hr/>
Total liabilities	10,950	7,718
<b>Equity</b>		
Ford's net investment	1,566	1,680
Accumulated other comprehensive income	(67)	(25)
	<hr/>	<hr/>
Total equity	1,499	1,655
	<hr/>	<hr/>
<b>Total liabilities and equity</b>	<b>\$12,449</b>	<b>\$9,373</b>
	<hr/>	<hr/>

The accompanying notes are part of the financial statements.

**Visteon Corporation and Subsidiaries****CONSOLIDATED STATEMENT OF CASH FLOWS**

**For the Years Ended  
December 31,**

	1999	1998	1997
	(in millions)		
<b>Cash and cash equivalents at January 1</b>	\$ 542	\$ 344	\$ 137
Cash flows from operating activities (Note 15)	2,482	1,376	1,411
Cash flows from investing activities			
Capital expenditures	(876)	(861)	(917)
Acquisitions and investments in joint ventures, net	(579)	(108)	—
Other	2	29	(26)
Net cash used in investing activities	(1,453)	(940)	(943)
Cash flows from financing activities			
Cash distributions to Ford	(775)	(267)	(194)
Cash contributions from Ford	217	—	—
Changes in short-term debt	493	34	29
Proceeds from issuance of other term debt	285	96	154
Principal payments on other term debt	(361)	(149)	(66)
Net changes in revolving loan with Ford	531	—	(128)
Other	(100)	52	(46)
Net cash provided by/(used in) financing activities	290	(234)	(251)
Effect of exchange rate changes on cash	(12)	(4)	(10)
Net increase in cash and cash equivalents	1,307	198	207
<b>Cash and cash equivalents at December 31</b>	<b>\$ 1,849</b>	<b>\$ 542</b>	<b>\$ 344</b>

The accompanying notes are part of the financial statements.

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**Visteon Corporation and Subsidiaries**

**CONSOLIDATED STATEMENT OF EQUITY**

	Ford's Net Investment	Other Comprehensive Income	Total
	(in millions)		
<b>Year Ended December 31, 1997</b>			
Balance at beginning of year	\$ 986	\$ (3)	\$ 983
Comprehensive income			
Net income	511	—	511
Foreign currency translation	—	(50)	(50)
Comprehensive income			461
Net transfers to Ford	(240)	—	(240)
Balance at end of year	\$1,257	\$(53)	\$1,204
<b>Year Ended December 31, 1998</b>			
Balance at beginning of year	\$1,257	\$(53)	\$1,204
Comprehensive income			
Net income	703	—	703
Foreign currency translation	—	28	28
Comprehensive income			731
Net transfers to Ford	(280)	—	(280)
Balance at end of year	\$1,680	\$(25)	\$1,655
<b>Year Ended December 31, 1999</b>			
Balance at beginning of year	\$1,680	\$(25)	\$1,655

Comprehensive income			
Net income	735	—	735
Foreign currency translation	—	(42)	(42)
			<hr/>
Comprehensive income			693
Net transfers to Ford	(849)	—	(849)
	<hr/>	<hr/>	<hr/>
Balance at end of year	\$1,566	\$(67)	\$1,499
	<hr/>	<hr/>	<hr/>

The accompanying notes are part of the financial statements.

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## Visteon Corporation and Subsidiaries

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1. General Information and Background

In January 2000, Ford Motor Company (“Ford”) announced the goal for Visteon, Ford’s global automotive components and systems business, to achieve independence. Towards achieving this goal, Ford established Visteon Corporation (“Visteon”) as a wholly-owned subsidiary of Ford. Ford has contributed or otherwise transferred to Visteon the assets and liabilities comprising Ford’s automotive components and systems business.

Visteon was incorporated in Delaware on January 5, 2000 with an initial capitalization of 10,000 shares of \$1.00 par value common stock authorized and 1,000 shares of common stock outstanding. Through an amendment to its certificate of incorporation, the number of common shares authorized and outstanding was increased to 500,000,000 and 130,000,000, respectively. In addition, 50,000,000 shares of preferred stock, par value \$1.00 per share, were authorized, none of which were issued.

For purposes of Notes to Financial Statements, Visteon means Ford’s global automotive components and systems business, regardless of the form of legal ownership, which has been treated by Ford as a separate operating segment, unless the context requires otherwise. Visteon is comprised of over 81,000 designated employees located in 49 technical facilities and sales offices and 84 owned and leased plants in 23 countries throughout the world. Approximately 41% of Visteon-designated hourly employees are represented by the United Auto Workers (“UAW”) union under collective bargaining agreements with Ford (75% are associated with a union of one form or another). For purposes of the earnings per share calculation, the 130,000,000 shares outstanding are treated as outstanding for all periods presented. There were no potentially dilutive securities outstanding during the periods presented. For purposes of Notes to Financial Statements, Ford means Ford Motor Company and its majority-owned, consolidated subsidiaries unless the context requires otherwise.

#### NOTE 2. Basis of Presentation

##### *Principles of Consolidation*

The consolidated financial statements include the operating results, assets, liabilities and cash flows of all significant Ford activities and activities majority-owned by Ford comprising the Visteon business. Intra-Visteon transactions have been eliminated in this consolidation. Visteon activities that are 20% to 50% owned by Ford are included and accounted for on an equity basis in these statements. Use of estimates and assumptions as determined by management are required in the preparation of financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates and assumptions.

##### *Visteon-designated Employee Costs and Benefit Plans*

Ford allocates the cost of Visteon-designated employees to Visteon in these financial statements. The costs include compensation and benefits for all persons who are employed by Visteon’s manufacturing, sales, engineering and technical centers around the world, as well as costs for employees that retired from those Visteon sites. In addition, costs for other employees of Ford who periodically provide services to Visteon are included in the operating cost allocations.

The cost of employee retirement plans for Visteon-designated employees of Ford has been measured and allocated to Visteon on an actuarial basis. No significant portion of the funded status of Ford’s retirement plans have been allocated to Visteon.

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**Visteon Corporation and Subsidiaries****NOTES TO FINANCIAL STATEMENTS — Continued****NOTE 2. Basis of Presentation — Continued**

Ford's unfunded obligation for Visteon-designated employees for postretirement health care and life insurance programs have been measured on an actuarial basis and allocated to Visteon. See Note 10 for further information.

*Operating Costs*

Operating costs and expenses include other allocations of general corporate overhead related to Ford's corporate headquarters and common support activities including information systems, product development, accounting and finance, corporate insurance programs, treasury, facilities, legal and human resources. These costs are assessed to Visteon based on usage or similar allocation methodologies.

Environmental costs are allocated to Visteon if the site incurring the cost is part of the Visteon business and for any historical Visteon products or processes responsible for the environmental claim or remediation. Visteon also bears the cost and responsibility for any general litigation matters related to the historical Visteon businesses, products and employees.

Although Visteon management believes the allocations and charges for such services to be reasonable, the costs of these services charged to Visteon are not necessarily indicative of the costs that would have been incurred had Visteon been a stand-alone entity or what they will be in the future.

*Product Liability, Warranty and Recall*

The statement of income includes expenses for accruals relating to product liability, warranty and recall claims involving Visteon products. These accruals have been made based on an analysis of Ford's claim experience against other component suppliers. In conjunction with the establishment of Visteon as a separate business unit, Visteon and Ford have agreed on a division of responsibility for product liability, warranty and recall matters as follows: (a) Ford will retain liability for all product liability, warranty or recall claims that involve parts made or sold by Visteon for 1996 or earlier model year Ford vehicles, (b) Visteon is liable for all product liability, warranty or recall claims that involve parts made or sold by Visteon for 1997 or later model year Ford vehicles in accordance with Ford's global standard purchase order terms as applied to other Tier 1 suppliers, and (c) Visteon has assumed all responsibility for product liability, warranty or recall claims relating to parts made or sold by Visteon to any non-Ford customers.

**NOTE 3. Accounting Policies***Revenue Recognition*

Sales are recorded when products are shipped. Frequently, design modifications to products produced are implemented in advance of completing the process for negotiating a change in prices. These retroactive price adjustments are measured and included in revenue in the period in which Visteon reaches agreement with its customers.

*Other Costs*

Advertising and sales promotion costs are expensed as incurred. Advertising costs were \$42 million in 1999, \$39 million in 1998, and \$35 million in 1997.

Research and development costs are expensed as incurred and were \$1,115 million in 1999, \$1,004 million in 1998 and \$855 million in 1997.

**Visteon Corporation and Subsidiaries****NOTES TO FINANCIAL STATEMENTS — Continued****NOTE 3. Accounting Policies — Continued***Derivative Financial Instruments*

Visteon has operations in over 20 countries and sells component parts around the world, and is exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates, interest rates and commodity prices. Visteon's primary non-U.S. currency exposures are in the euro, Mexican Peso and Canadian Dollar. Visteon's primary commodity-price exposures are aluminum and copper. These financial exposures are monitored and managed for Visteon by Ford as an integral part of Ford's overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on results. Ford's policy, which applies to Visteon, specifically prohibits the use of leveraged derivatives or use of any derivatives for speculative purposes.

Gains and losses on derivative financial instruments are deferred and recognized in cost of sales during the settlement period of the related transactions. Commodity exposures are managed substantially through fixed-price contracts with suppliers. After consideration of the amounts of currency exposures, Visteon management, in consultation with Ford treasury management, did not place any significant Visteon specific hedges of non-U.S. currency exposures in 1997 or 1998. During 1999, Visteon entered into transactions to hedge foreign currency exposures in foreign countries. The fair value of foreign currency instruments were estimated using current market rates provided by outside quotation services. The estimated notional amount and fair value of foreign currency instruments at December 31, 1999 were \$410 million and \$16 million, respectively.

#### *Foreign Currency Translation*

Assets and liabilities of Visteon's non-U.S. businesses generally are translated to U.S. Dollars at end-of-period exchange rates. The effects of this translation for Visteon are reported in other comprehensive income. Remeasurement of assets and liabilities of Visteon's non-U.S. businesses that use the U.S. Dollar as their functional currency are included in income as transaction gains and losses. Income statement elements of Visteon's non-U.S. businesses are translated to U.S. Dollars at average-period exchange rates and are recognized as part of revenues, costs and expenses. Also included in income are gains and losses arising from transactions denominated in a currency other than the functional currency of the business involved. Net transaction gains and losses, as described above, decreased net income \$24 million in 1999, increased net income \$13 million in 1998, and decreased net income \$20 million in 1997.

#### *Impairment of Long-Lived Assets and Certain Identifiable Intangibles*

Visteon evaluates the carrying value of goodwill for potential impairment on an ongoing basis. Such evaluations compare operating income before amortization of goodwill to the amortization recorded for the operations to which the goodwill relates. Visteon also periodically evaluates the carrying value of long-lived assets and long-lived assets to be disposed of for potential impairment. Visteon considers projected future operating results, cash flows, trends and other circumstances in making such estimates and evaluations.

#### *Goodwill*

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies and is amortized using the straight-line method for periods up to 20 years.

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### **Visteon Corporation and Subsidiaries**

#### **NOTES TO FINANCIAL STATEMENTS — Continued**

#### **NOTE 3. Accounting Policies — Continued**

Total goodwill included in other assets was \$409 million at December 31, 1999. Goodwill is primarily related to the 1999 acquisition of the automotive interior division of Compagnie Plastic Omnium.

#### *Pre-production Design and Development Costs*

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

#### **NOTE 4. Cash and Cash Equivalents**

Cash and cash equivalents consist primarily of a share of Ford's cash and cash equivalents. In addition, Visteon considers all highly liquid investments purchased with an original maturity of three months or less, including short-term time deposits and government agency and corporate obligations, to be cash equivalents. Investment earnings on Visteon's combined net cash position have been based on Ford's average rates of return on its cash and cash equivalents.

#### **NOTE 5. Inventories**

	December 31,	
	1999	1998
	(in millions)	
Raw materials, work-in-process and supplies	\$653	\$567
Finished products	98	39
	—	—
Total inventories	\$751	\$606
	—	—
U.S. inventories	\$434	\$363

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

If the FIFO method had been used instead of the LIFO method, inventories would have been higher by \$101 million and \$114 million at December 31, 1999 and 1998, respectively.

#### NOTE 6. Net Property, Depreciation and Amortization

	December 31,	
	1999	1998
	(in millions)	
Land	\$ 85	\$ 44
Buildings and land improvements	1,343	1,261
Machinery, equipment and other	8,540	7,872
Construction in progress	427	446
	—	—
Total land, plant and equipment	10,395	9,623
Accumulated depreciation	(4,856)	(4,444)
	—	—
Net land, plant and equipment	5,539	5,179
Special tools, net of amortization	250	212
	—	—
Net property	\$ 5,789	\$ 5,391

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### Visteon Corporation and Subsidiaries

#### NOTES TO FINANCIAL STATEMENTS — Continued

#### NOTE 6. Net Property, Depreciation and Amortization — Continued

Property, equipment and special tools are stated at cost, less accumulated depreciation and amortization. Property and equipment placed in service before January 1, 1993 are depreciated using an accelerated method that results in accumulated depreciation of approximately two-thirds of asset cost during the first half of the estimated life of the asset. Property and equipment placed in service after December 31, 1992 are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. On average, buildings and land improvements are depreciated based on a 30-year life; machinery and equipment are depreciated based on a 14-year life. Cost of computer software developed or obtained for internal use is capitalized beginning January 1, 1999. Special tools placed in service before January 1, 1999 are amortized using an accelerated method over periods of time representing the estimated life of those tools. Special tools placed in service after December 31, 1998 are amortized using the straight-line method. For property and equipment retired before January 1, 1999, the general policy was to charge the cost of those assets, reduced by net salvage proceeds, to accumulated depreciation. For property and equipment retired after December 31, 1998, the general policy is to charge the net book value of those assets, reduced by net salvage proceeds, to gain or loss on disposal of assets. These changes did not have a material impact on the financial statements.

Depreciation and amortization expenses related to property, equipment and special tools were as follows:

1999	1998	1997
(in millions)		

Depreciation	\$572	\$503	\$539
Amortization	66	56	53
	—	—	—
Total	\$638	\$559	\$592
	—	—	—

Maintenance, repairs and rearrangement costs are expensed as incurred and were \$549 million in 1999, \$493 million in 1998 and \$537 million in 1997. Expenditures that increase the value or productive capacity of assets are capitalized. Preproduction costs related to new facilities are expensed as incurred.

#### NOTE 7. Income Taxes

Visteon businesses are generally included in Ford's tax returns in each significant country of operation. Visteon measures income tax expense by calculating its annual provision on a separate company basis.

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

	1999	1998	1997
		(in millions)	
U.S.	\$ 974	\$ 746	\$471
Non-U.S.	151	344	315
	—	—	—
Total income before income taxes	\$1,125	\$1,090	\$786
	—	—	—

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### Visteon Corporation and Subsidiaries

#### NOTES TO FINANCIAL STATEMENTS — Continued

#### NOTE 7. Income Taxes — Continued

The provision for income taxes was calculated as follows:

	1999	1998	1997
		(in millions)	
Current tax provision			
U.S. federal	\$264	\$165	\$(40)
Non-U.S.	112	149	80
State and local	26	26	17
	—	—	—
Total current	402	340	57
Deferred tax provision			
U.S. federal	47	71	181
Non-U.S.	(27)	5	63
State and local	—	—	4
	—	—	—
Total deferred	20	76	248
	—	—	—
Total provision	\$422	\$416	\$305
	—	—	—

The provision includes estimated taxes payable on that portion of retained earnings of non-U.S. Visteon businesses which are planned to be remitted. No provision has been made on \$158 million of retained earnings (primarily prior to 1998) which are considered to be indefinitely invested in the non-U.S. businesses.

It is not practical to estimate the amount of unrecognized deferred tax liability for the undistributed non-U.S. earnings.

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

	1999	1998	1997
Tax provision at U.S. statutory rate of 35%	35%	35%	35%
Effect of:			
Tax on non-U.S. income	2	3	4
State and local income taxes	2	2	2
Other	(1)	(2)	(2)
Provision for income taxes	<u>38%</u>	<u>38%</u>	<u>39%</u>

Deferred tax assets and liabilities reflect the estimated tax effect of accumulated temporary differences between assets and liabilities for financial reporting purposes and those amounts as measured by tax laws and regulations.

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**Visteon Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS — Continued**

**NOTE 7. Income Taxes — Continued**

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

	1999	1998
	(in millions)	
<b>Deferred tax assets</b>		
Employee benefit plans	\$1,152	\$1,398
Customer allowances and claims	58	57
All other	148	138
Total deferred tax assets	<u>1,358</u>	<u>1,593</u>
<b>Deferred tax liabilities</b>		
Depreciation and amortization	931	992
Employee benefit plans	34	184
All other	91	94
Total deferred tax liabilities	<u>1,056</u>	<u>1,270</u>
Net deferred tax assets	<u>\$ 302</u>	<u>\$ 323</u>

**NOTE 8. Liabilities**

*Current Liabilities*

Included in accrued liabilities at December 31 were the following:

	1999	1998
	(in millions)	
Salaries, wages and employer taxes	\$ 514	\$329
Employee benefit plans	239	315
Postretirement benefits other than pensions	186	30
Other	272	286
Total accrued liabilities	<u>\$1,211</u>	<u>\$960</u>

*Noncurrent Liabilities*

Included in other liabilities at December 31 were the following:

	1999	1998
	(in millions)	
Postretirement benefits other than pensions	\$3,300	\$3,220
Employee benefit plans	331	119
Minority interests in net assets of subsidiaries	91	16
Other	242	231
	-----	-----
Total other liabilities	\$3,964	\$3,586
	=====	=====

## NOTE 9. Employee Retirement Plans

In the U.S., Visteon-designated employees of Ford participate in two principal retirement plans, the Ford-UAW Retirement Plan and the General Retirement Plan, both sponsored by Ford, and also in pension plans sponsored by Ford Electronics and Refrigeration LLC. The hourly plans provide noncontributory benefits related to employee service. The salaried plans provide similar

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## Visteon Corporation and Subsidiaries

### NOTES TO FINANCIAL STATEMENTS — Continued

## NOTE 9. Employee Retirement Plans — Continued

noncontributory and contributory benefits related to pay and service. In addition, some Visteon-designated executives participate in unfunded defined benefit plans, also sponsored by Ford.

Visteon-designated employees of Ford also participate in pension plans outside the U.S.; these generally are funded by Ford, except in Germany, where an unfunded liability exists. Also outside the U.S., Visteon activities either sponsor pension plans or participate in pension plans sponsored by subsidiaries of Ford.

The employee benefit plan expense allocated from Ford and charged to Visteon was as follows:

	U.S. Plans			Non-U.S. Plans		
	1999	1998	1997	1999	1998	1997
	(in millions)					
<b>Costs Recognized in Income</b>						
Service cost	\$ 140	\$ 121	\$ 119	\$ 34	\$ 30	\$ 28
Interest cost	418	390	402	67	65	62
Expected return on plan assets	(611)	(539)	(514)	(95)	(88)	(80)
Amortization of:						
Transition (asset)/obligation	1	1	2	(1)	(2)	(2)
Plan amendments	104	133	110	13	11	10
(Gains)/losses and other	5	3	5	12	2	(2)
	-----	-----	-----	-----	-----	-----
Net pension expense	\$ 57	\$ 109	\$ 124	\$ 30	\$ 18	\$ 16
	=====	=====	=====	=====	=====	=====
Discount rate for expense	6.25%	6.75%	7.25%	5.70%	6.50%	7.10%
Assumed long-term rate of return on assets	9.00%	9.00%	9.00%	9.30%	9.20%	9.20%

Pension expense in 1999 and 1998 decreased for U.S. plans primarily as a result of increased return on plan assets partially offset by lower discount rates and the year-to-year change in the cost of employee separation programs.

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## Visteon Corporation and Subsidiaries

**NOTE 9. Employee Retirement Plans — Continued**

The retirement obligations of Ford Electronics and Refrigeration LLC and Ford Electronics and Manufacturing Company, Inc. are entirely the responsibility of Visteon. The summarized funded status of these plans at December 31 was as follows:

	1999	1998
	(in millions)	
Plan assets at fair value	\$ 786	\$ 725
Projected benefit obligation	501	556
Plan assets in excess of projected benefit obligation	285	169
Unrecognized amounts for transition and prior service	33	27
Unamortized net gain	(210)	(99)
Net prepaid asset recognized and included in Visteon's balance sheet	\$ 108	\$ 97
<b>Assumptions as of December 31</b>		
Discount rate	7.75%	6.25%
Expected return on assets	9.00%	9.00%
Average rate of increase in compensation	5.00%	5.00%

**NOTE 10. Postretirement Health Care and Life Insurance Benefits**

Ford and some of its subsidiaries sponsor unfunded plans to provide selected health care and life insurance benefits for retired employees. Visteon-designated employees in the U.S. may become eligible for these benefits if they retire; benefits and eligibility rules may be modified from time to time.

The estimated cost for these benefits is accrued over periods of employee service on an actuarially determined basis. Ford has prepaid a portion of hourly U.S. retiree health benefits by contributing to a Voluntary Employees' Beneficiary Association ("voluntary employees beneficiary association"). At December 31, 1999, \$419 million of voluntary employees beneficiary association assets were allocated to Visteon.

Increasing the assumed health care cost trend rates by one percentage point is estimated to increase the aggregate service and interest cost components of Visteon's net postretirement benefit expense for 1999 by \$57 million and the accumulated postretirement benefit obligation at December 31, 1999 by \$508 million. A decrease of one percentage point would reduce service and interest costs by \$44 million and decrease the December 31, 1999 obligation by \$423 million.

The amounts primarily allocated from Ford and charged to Visteon expense for postretirement health care and life insurance benefits were as follows:

	1999	1998	1997
	(in millions)		
<b>Costs Recognized in Income</b>			
Service cost	\$ 81	\$ 59	\$ 54
Interest cost	261	245	266
Expected return on plan assets	(27)	(11)	—
Amortization of:			
Plan amendments	(9)	(10)	(11)
Losses and other	9	10	1
Net cost recognized	\$315	\$293	\$310

The year-end status of these plans was as follows:

	1999	1998
	(in millions)	
<b>Change in Benefit Obligation</b>		
Benefit obligation at January 1	\$ 4,203	\$ 3,665
Service cost	81	59
Interest cost	261	245
Termination programs	6	7
Benefits paid	(179)	(179)
Actuarial loss/(gain)	(231)	406
Benefit obligation at December 31	\$ 4,141	\$ 4,203
<b>Change in Plan Assets</b>		
Fair value of plan assets at January 1	\$ 500	\$ 171
Actual return on plan assets	18	10
Company contributions	33	425
Benefits paid	(132)	(106)
Fair value of plan assets at December 31	\$ 419	\$ 500
<b>Funded Status of the Plans</b>		
Plan assets less than projected benefits	\$(3,722)	\$(3,703)
Unamortized amendments	8	(30)
Unamortized net losses	228	483
Net amount recognized as an accrued liability in the balance sheet	\$(3,486)	\$(3,250)
<b>Assumptions as of December 31</b>		
Discount rate	7.75%	6.50%
Expected return on assets	6.00%	6.00%
Initial health care cost trend rate	8.75%	7.00%
Ultimate health care cost trend rate	5.14%	5.00%
Number of years to ultimate trend rate	8	9

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## Visteon Corporation and Subsidiaries

### NOTES TO FINANCIAL STATEMENTS — Continued

#### NOTE 11. Debt

Debt at December 31, 1999 and 1998 was as follows:

	Maturity	Weighted-Average Interest Rate		Book Value	
		1999	1998	1999	1998
(in millions)					
<b>Term debt payable within one year</b>					
Ford and affiliates		4.8%	5.5%	\$ 697	\$ 142
Other		7.6%	8.0%	264	167
Total debt payable within one year				961	309
<b>Long-term debt</b>					
Ford and affiliates	2001-2007	6.9%	5.0%	115	177
Other	2001-2005	8.3%	6.6%	144	71
Total term debt				1,220	557
Borrowings under revolving loan arrangement with Ford	2001	7.9%	8.0%	1,099	568
Total debt				\$2,319	\$1,125

Term debt consists of various arrangements. The portion of these loans payable in non-U.S. currencies at December 31, 1999 and 1998, was \$147 million and \$183 million, respectively. The fair value of term debt approximated book value at December 31, 1999 and 1998 and was estimated based on quoted market prices or current rates for similar debt with the same remaining maturities.

Debt also includes borrowings under an intracompany revolving loan arrangement with Ford. Under this arrangement, Visteon may borrow up to \$1,250 million. Borrowings under this revolving loan arrangement are due on the first business day following the first anniversary of the date demand for repayment is made by Ford. Interest on this debt is determined quarterly based on Ford's average interest rate on its U.S. Dollar denominated, publicly traded automotive debt. No fair value has been estimated on this debt.

Debt at December 31, 1999 included maturities as follows (in millions): 2000 — \$961; 2001 — \$1,185; 2002 — \$53; 2003 — \$44; 2004 — \$4; thereafter — \$72.

#### *Additional Support Facilities*

Certain Visteon receivables are sold to Ford Motor Credit Company ("Ford Credit"), a wholly owned subsidiary of Ford. Under the terms of this agreement, Visteon provides loss protection to Ford Credit up to twelve percent of the average amount of receivables sold. The amount of such receivables sold was \$89 million and \$91 million at December 31, 1999 and 1998, respectively.

#### **NOTE 12. Litigation and Claims**

Various legal actions, governmental investigations and proceedings and claims are pending or may be instituted or asserted in the future against Visteon, including those arising out of alleged defects in Visteon's products; governmental regulations relating to safety; employment-related matters; customer, supplier and other contractual relationships; intellectual property rights; product warranties; and environmental matters. Some of the foregoing matters involve or

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### **Visteon Corporation and Subsidiaries**

#### **NOTES TO FINANCIAL STATEMENTS — Continued**

#### **NOTE 12. Litigation and Claims — Continued**

may involve compensatory, punitive, or antitrust or other treble damage claims in very large amounts, or demands for recall campaigns, environmental remediation programs, sanctions, or other relief which, if granted, would require very large expenditures.

Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. Reserves have been established by Visteon for matters discussed in the foregoing paragraph where losses are deemed probable. It is reasonably possible, however, that some of the matters discussed in the foregoing paragraph for which reserves have not been established could be decided unfavorably to the Visteon business involved and could require Visteon to pay damages or make other expenditures in amounts, or a range of amounts that cannot be estimated at December 31, 1999. Visteon does not reasonably expect, based on its analysis, that any adverse outcome from such matters would have a material effect on future Visteon consolidated financial statements for a particular year, although such an outcome is possible.

#### **NOTE 13. Acquisitions and Restructuring**

In June 1999, Visteon acquired the automotive interiors division of Compagnie Plastic Omnium for approximately 2.9 billion French Francs, net of cash acquired. This business has 14 facilities located in four countries: France, Spain, Italy and the United Kingdom, and generated 1998 revenues of approximately 2.8 billion French Francs. The acquisition has been accounted for as a purchase. The purchase price has been allocated to the assets acquired and liabilities assumed based on estimated fair values as of the acquisition date. The excess of the purchase price over the estimated fair value of the net assets acquired is approximately \$300 million and is being amortized on a straight-line basis over 20 years. The assets purchased, liabilities assumed and the results of operations, since the date of acquisition, are included in the financial statements on a consolidated basis. Assuming the acquisition had taken place January 1, 1999 and 1998, Visteon's pro forma revenue and net income for the related periods would not be materially affected.

Visteon recorded a pre-tax charge of approximately \$40 million in fourth quarter 1998 for Visteon-designated employees that were part of special voluntary and involuntary retirement and separation programs announced by Ford.

During fourth quarter 1997, Visteon recorded a pre-tax expense totaling approximately \$60 million reflecting the restructuring and rationalization of Glass Division in the U.S. These actions are related to the windshield manufacturing facilities in the U.S. and the closure of the Dearborn Glass Plant.

**NOTE 14. Transactions with Ford and its Affiliates**

Revenues from Ford and its affiliates approximated 88% in 1999, 92% in 1998, and 93% in 1997. The majority of significant transactions regarding employee matters, financing, warranty and product liability, environmental costs, litigation claims and tax sharing with Ford and its affiliates are disclosed throughout these financial statements. In addition, Ford has provided Visteon with various corporate and administrative services, the most significant of which include information technology, product development, accounting and finance, corporate insurance programs, treasury, facilities, legal and human resources. For 1999 and 1998, assessments for these services totaled approximately \$211 million and \$185 million, respectively. For 1997, data are not readily available to determine the assessments related to these services.

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[Table of Contents](#)**Visteon Corporation and Subsidiaries****NOTES TO FINANCIAL STATEMENTS — Continued****NOTE 15. Cash Flows**

The reconciliation of net income to cash flows from operating activities is as follows:

	1999	1998	1997
	(in millions)		
Net income	\$ 735	\$ 703	\$ 511
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	651	565	590
Earnings of affiliated companies in excess of dividends remitted	(23)	(9)	(13)
Foreign currency adjustments	32	(16)	32
Provision for deferred income taxes	20	76	248
Changes in assets and liabilities:			
Increases in accounts receivable and other current assets	(285)	(137)	(211)
(Increase)/decrease in inventory	(62)	(81)	27
Increases in accounts payable, accrued and other liabilities	1,494	436	278
Other	(80)	(161)	(51)
Cash flows from operating activities	<u>\$2,482</u>	<u>\$1,376</u>	<u>\$1,411</u>

Cash paid for interest and income taxes was as follows:

	1999	1998	1997
	(in millions)		
Interest	\$143	\$ 81	\$ 95
Income taxes	281	308	84

**NOTE 16. Stock Options**

Visteon-designated employees participate in the stock option plans of Ford and have stock options outstanding under Ford's 1990 Long-Term Incentive Plan and the 1998 Long-Term Incentive Plan. Options granted in 1997 under the 1990 Plan and options granted under the 1998 Plan become exercisable 33% after one year from the date of grant, an additional 33% after two years and in full after three years. In general, options granted prior to 1997 under the 1990 Plan become exercisable 25% after one year from the date of grant, 50% after two years, 75% after three years, and in full after four years. Options under both Plans expire no later than 10 years from the date of grant.

The estimated fair value as of date of grant of options granted in 1999, 1998, and 1997, using the Black-Scholes option-pricing model, was as follows:

	1999	1998	1997
Estimated fair value per share of options granted during the year	\$17.53	\$9.25	\$5.76
Assumptions:			
Annualized dividend yield	3.2%	4.1%	4.8%
Common Stock price volatility	36.5%	28.1%	22.1%
Risk-free rate of return	5.2%	5.7%	6.7%
Expected option term (in years)	5	5	5

[Table of Contents](#)**Visteon Corporation and Subsidiaries****NOTES TO FINANCIAL STATEMENTS — Continued****NOTE 16. Stock Options — Continued**

Visteon measures compensation cost using the intrinsic value method. Accordingly, no compensation cost for stock options has been recognized. If compensation cost had been determined based on the estimated fair value of options granted since 1995, the pro forma effects on Visteon's net income would not have been material.

**NOTE 17. Segment Information**

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

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

Visteon's reportable operating segments are Dynamics & Energy Conversion; Comfort, Communication & Safety; and Glass. The Dynamics & Energy Conversion segment supplies various chassis and energy transformation components and systems mainly to OEM customers. The Comfort, Communication & Safety segment supplies various interior, exterior, and climate control components and systems mainly to OEM customers. The Glass segment supplies architectural and flat glass to a broad customer base, including OEMs.

The accounting policies for the operating segments are the same as those described in Note 3, "Accounting Policies". Visteon evaluates the performance of its operating segments based primarily on sales, profit before taxes and net income.

Financial information for the reportable operating segments is summarized as follows (in millions):

	<b>Dynamics &amp; Energy Conversion</b>	<b>Comfort, Communication &amp; Safety</b>	<b>Glass</b>	<b>Total Visteon</b>
<b>1999</b>				
Sales	\$9,216	\$9,377	\$773	\$19,366
Income/(loss) before taxes	549	676	2	1,172
Net income	344	422	3	735
Depreciation/amortization	278	338	35	651
Capital expenditures	388	444	44	876
Unconsolidated affiliates:				
Equity in net income	—	39	8	47
Investments in	—	184	21	205
Average assets	5,048	5,204	682	10,934

[Table of Contents](#)**Visteon Corporation and Subsidiaries****NOTES TO FINANCIAL STATEMENTS — Continued****NOTE 17. Segment Information — Continued**

	<b>Dynamics &amp; Energy Conversion</b>	<b>Comfort, Communication &amp; Safety</b>	<b>Glass</b>	<b>Total Visteon</b>
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	<b>Dynamics &amp; Energy Conversion</b>	<b>Comfort, Communication &amp; Safety</b>	<b>Glass</b>	<b>Total Visteon</b>
<b>1998</b>				
Sales	\$8,673	\$8,337	\$752	\$17,762
Income/(loss) before taxes	473	716	(29)	1,116
Net income	294	452	(15)	703
Depreciation/amortization	263	268	34	565
Capital expenditures	399	378	84	861
Unconsolidated affiliates:				
Equity in net income	—	17	9	26
Investments in	—	190	24	214
Average assets	4,306	4,070	548	8,924
<b>1997</b>				
Sales	\$7,918	\$8,545	\$757	\$17,220
Income/(loss) before taxes	223	704	(47)	815
Net income	136	439	(25)	511
Depreciation/amortization	295	247	48	590
Capital expenditures	414	451	52	917
Unconsolidated affiliates:				
Equity in net income	—	20	9	29
Investments in	—	172	23	195
Average assets	3,936	3,747	507	8,190

Total income/(loss) before taxes in the table above includes \$55 million, \$44 million and \$65 million of net interest expense not allocated to the reportable operating segments for 1999, 1998 and 1997, respectively. Total net income in the table above includes \$34 million, \$28 million and \$39 million of expense related to net interest expense not allocated to the reportable operating segments for 1999, 1998 and 1997, respectively.

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

<b>Geographic Areas</b>	<b>United States</b>	<b>Europe</b>	<b>All Other</b>	<b>Total Company</b>
<b>1999</b>				
Sales	\$14,814	\$2,732	\$1,820	\$19,366
Net property	3,592	1,274	923	5,789
<b>1998</b>				
Sales	\$13,543	\$2,638	\$1,581	\$17,762
Net property	3,494	1,244	653	5,391
<b>1997</b>				
Sales	\$12,960	\$2,627	\$1,633	\$17,220
Net property	3,324	1,075	517	4,916

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## Visteon Corporation and Subsidiaries

### NOTES TO FINANCIAL STATEMENTS — Continued

#### NOTE 18. Summary Quarterly Financial Data (Unaudited)

	1999				1998			
	(in millions)							
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales	\$4,772	\$5,063	\$4,600	\$4,931	\$4,378	\$4,725	\$4,097	\$4,562
Operating income	298	461	280	150	303	377	243	211
Income before income taxes	313	449	260	150	286	384	240	206
Net income	205	280	155	95	187	239	148	129

#### NOTE 19. Subsequent Events (Unaudited)

In connection with Visteon's separation from Ford, Visteon and Ford have entered into, or expect to enter into, a series of agreements. These agreements include a master transfer agreement and related ancillary agreements. The following summary is qualified in all respects by the terms of the master transfer agreement and other related agreements.

#### *Master Transfer Agreement*

The master transfer agreement, effective as of April 1, 2000, provides for Ford to transfer to Visteon and/or its subsidiaries, prior to its spin-off, generally, all assets used exclusively in the Visteon business, including but not limited to real property interests, personal property and ownership interests in subsidiaries and joint ventures. Visteon and Ford have agreed to transfer legal title to any remaining assets and any remaining liabilities of the Visteon business not transferred prior to the spin-off, most of which are foreign assets and liabilities subject to regulatory and other delays, as soon as practicable. In the interim, Visteon will operate and receive the economic benefit of (and bear the economic burdens of) these assets.

In addition, Visteon and Ford have agreed to a division of liabilities including liabilities related to product liability, warranty and recall, environmental, intellectual property claims and other general litigation claims.

#### *Supply Agreement and Pricing Letter Agreement*

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

Until May 2003, Visteon has the right of last refusal to meet competitive terms, including with respect to price, on replacement products that (i) Visteon produces in the United States, Canada, Europe and Mexico, and (ii) Visteon supplied to Ford on January 1, 2000, subject to certain conditions and exceptions.

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### **Visteon Corporation and Subsidiaries**

#### **NOTES TO FINANCIAL STATEMENTS — Continued**

#### **NOTE 19. Subsequent Events (Unaudited) — Continued**

##### *Master Separation Agreement*

The master separation agreement provides for Ford to provide transitional services to Visteon until December 31, 2001. These services include information technology, human resources, accounting, customs, product development technology and real estate services which have been historically provided to Visteon by Ford. Visteon has agreed to pay Ford amounts which reflect its fully accounted cost for these services, including a reasonable allocation of internal overhead costs, as well as any direct costs incurred from outside suppliers. Visteon may terminate any transitional service upon six months' written notice. Transitional services may be extended an additional six months to June 30, 2002, provided Visteon notifies Ford by June 30, 2001.

##### *Aftermarket Relationship Agreement*

The aftermarket relationship agreement covers components supplied by Visteon to Ford's aftermarket business. The agreement addresses pricing, tooling and other matters, and provides that any components purchased by Ford's aftermarket business from Visteon for vehicles currently in production will be governed by the supply agreement and pricing letter agreements discussed above.

##### *Hourly Employee Assignment Agreement*

The hourly employee assignment agreement sets forth a number of rights and obligations with respect to about 23,580 United States hourly employees of Ford who (i) are represented by the UAW, (ii) are covered by the Ford UAW Master Collective Bargaining Agreement dated as of September 30, 1999, (iii) are employed in one of Visteon's facilities as of a date that will be no later than the date of the spin-off, and (iv) after Visteon's spin-off will remain Ford employees indefinitely but will be assigned to work for Visteon.

Under this agreement, Visteon will exercise day-to-day supervision over the covered individuals and Ford will continue to provide the same employee benefits generally offered to other hourly employees of Ford who are represented by the UAW. Visteon

will reimburse Ford for the wage, benefit and other costs incurred by Ford related to these individuals. However, Visteon's liability for profit sharing based on Ford's profits is limited to \$50 million per year in each of 2000-2004. After 2004, Visteon will be liable for the full amount of profit sharing based on Ford's profits.

#### *Employee Transition Agreement*

The employee transition agreement covers the transfer of employment to Visteon of all the employees engaged in the Visteon business, other than the employees covered by the hourly employee assignment agreement discussed above. This agreement provides for the transition of employee benefit plans and programs. Visteon has agreed to adopt substantially comparable benefit plans and programs as were in effect at Ford and to continue such programs for at least four years after the spin-off, subject to the right to make changes comparable to any changes made by Ford.

With respect to pensions, Visteon will provide the pension related to future service for all such employees. Ford will retain the pension obligations for those employees who had worked in the Visteon business and had retired prior to the spin-off. Ford also will retain the pension obligations for the past service of two groups of transferred employees: (a) those active

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### **Visteon Corporation and Subsidiaries**

#### **NOTES TO FINANCIAL STATEMENTS — Continued**

#### **NOTE 19. Subsequent Events (Unaudited) — Continued**

employees who are eligible to retire under Ford's pension plan, and (b) those active employees that meet minimum age and years of service requirements.

Ford will retain the liability to provide postretirement health and life insurance benefits for those employees who had worked in the Visteon business and had retired prior to the spin-off. For all continuing active employees, Visteon will be responsible for these postretirement benefits.

In addition, the employee transition agreement addresses matters related to other non-qualified retirement plans sponsored by Ford.

#### *Tax Sharing Agreement*

The tax sharing agreement provides, among other things, for the allocation of tax liabilities arising prior to, as a result of, and subsequent to the spin-off. Generally, Visteon will be liable for taxes attributable to the Visteon business determined as though Visteon were to file separate federal, state and local income tax returns as the common parent of an affiliated group of corporations filing consolidated or combined federal state or local returns.

Visteon has agreed, within two years after completion of the spin-off, not to take any actions or enter into any transactions that would cause the spin-off not to qualify as tax-free. Visteon also has agreed to indemnify Ford to the extent that any action Visteon takes gives rise to a tax incurred by Ford with respect to the spin-off.

#### *Stock Option Plan*

Management intends to sponsor a stock-based incentive plan ("Long-Term Incentive Compensation Plan" or "LTIP") contingent upon the successful completion of the spin-off. The LTIP will be administered by a compensation committee. The LTIP provides for the grant of incentive and nonqualified stock options, stock appreciation rights, performance stock rights, and stock and various other rights based on stock (collectively referred to as "Awards"). The total number of shares of Visteon common stock that may be subject to Awards under the LTIP is 13,000,000 shares, including Awards granted subject to completion of the spin-off.

Visteon intends to grant to some employees contingent on the successful completion of the spin-off about 958,000 shares of restricted stock and about 1,862,000 stock options with an exercise price equal to the average of the highest and lowest prices at which Visteon common stock was traded on the New York Stock Exchange on the date of the spin-off. The restricted stock will vest on the fifth anniversary of the date of grant. Stock options will become exercisable 33% after one year from the date of grant, an additional 33% after two years and in full after three years, and expire after 10 years from the date of grant. These awards will be subject to approval by our shareholders after the spin-off.

#### *Other*

Effective April 1, 2000, Ford converted \$1,120 million of debt owed to it by Visteon under an intracompany revolving loan arrangement into an equity investment in Visteon.

Visteon will record a pre-tax charge of approximately \$30 million to \$50 million in the second and third quarters of 2000 for Visteon-designated employees that are part of special voluntary retirement and separation programs that have been or will be announced by Visteon.

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**Visteon Corporation and Subsidiaries**

**NOTES TO FINANCIAL STATEMENTS — Continued**

**NOTE 19. Subsequent Events (Unaudited) — Continued**

On June 2, 2000, Visteon and Ford signed a non-binding letter of intent with Pilkington plc, relating to Visteon's Glass business. The parties have agreed to negotiate the terms of a joint venture, pursuant to which Pilkington would acquire about 81% of Visteon's Glass business for cash consideration and would assume operational management of that business.

For the year ended December 31, 1999, the Glass segment represented 6% of Visteon's average assets, 4% of Visteon's total sales and less than one half of one percent of Visteon's net income. Visteon's Carlite® aftermarket operations would be included in the business to be transferred to the joint venture. In connection with the transaction, Ford would enter into a separate supply agreement with the joint venture, which would supersede Ford's supply agreement with Visteon. If a definitive agreement is reached, we expect to complete this transaction during 2000. If completed, and dependent upon the terms ultimately agreed to, this transaction would likely result in Visteon incurring a significant charge to earnings. However, the letter of intent is non-binding, and we cannot assure you that a definitive agreement will be reached, or that it will not differ materially from the description above.

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**ANNEX A — SUPPLEMENTAL FINANCIAL DATA**

**THIS ANNEX A IS NOT A PART OF THE VISTEON CORPORATION AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS**

**Visteon Corporation and Subsidiaries**

**STATEMENT OF INCOME  
For the Year Ended December 31, 1999  
(In Millions)**

ACTUAL	First Quarter 1999	Second Quarter 1999	Third Quarter 1999	Fourth Quarter 1999	1999
	(unaudited)				
Sales	\$4,772	\$5,063	\$4,600	\$4,931	\$19,366
<b>Costs and expenses</b>					
Costs of sales	4,341	4,430	4,146	4,586	17,503
Selling, administrative, and other expenses	133	172	174	195	674
Total costs and expenses	4,474	4,602	4,320	4,781	18,177
<b>Operating income</b>	298	461	280	150	1,189
Interest income	22	2	26	29	79
Interest expense	23	26	50	44	143
Net interest expense	(1)	(24)	(24)	(15)	(64)
Equity in net income of affiliated companies	16	12	4	15	47
<b>Income before income taxes</b>	313	449	260	150	1,172
Provision for income taxes	112	164	96	50	422
<b>Income before minority interests</b>	201	285	164	100	750
Minority interests in net income of subsidiaries	(4)	5	9	5	15

Net Income	\$ 205	\$ 280	\$ 155	\$ 95	\$ 735
PRO FORMA	First Quarter 1999	Second Quarter 1999	Third Quarter 1999	Fourth Quarter 1999	1999
	(unaudited)				
Sales	\$4,597	\$4,877	\$4,445	\$4,757	\$18,676
<b>Costs and expenses</b>					
Costs of sales	4,304	4,383	4,129	4,545	17,361
Selling, administrative, and other expenses	158	198	198	222	776
Total costs and expenses	4,462	4,581	4,327	4,767	18,137
<b>Operating income</b>	135	296	118	(10)	539
Interest income	9	9	8	9	35
Interest expense	44	44	44	44	176
Net interest expense	(35)	(35)	(36)	(35)	(141)
Equity in net income of affiliated companies	16	12	4	15	47
<b>Income before income taxes</b>	116	273	86	(30)	445
Provision for income taxes	38	98	31	(18)	149
<b>Income before minority interests</b>	78	175	55	(12)	296
Minority interests in net income of subsidiaries	(4)	5	9	5	15
<b>Net Income</b>	\$ 82	\$ 170	\$ 46	\$ (17)	\$ 281

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**Visteon Corporation and Subsidiaries**

**SUPPLEMENTAL FINANCIAL DATA**

	1997	1998	1999 Actual				Full Year	1999 Pro Forma		
			First Quarter	Second Quarter	Third Quarter	Fourth Quarter		First Quarter	Second Quarter	Third Quarter
			(unaudited)						(unaudited)	
<b>Sales (In Millions)</b>										
Comfort, Communication & Safety	\$ 8,545	\$ 8,337	\$2,203	\$2,405	\$2,344	\$2,425	\$ 9,377	\$2,130	\$2,328	\$2,280
Dynamics & Energy Conversion	7,918	8,673	2,369	2,456	2,075	2,317	9,216	2,276	2,357	1,992
Glass	757	752	200	202	182	189	773	190	192	173
Total	\$17,220	\$17,762	\$4,772	\$5,063	\$4,600	\$4,931	\$19,366	\$4,597	\$4,877	\$4,445
<b>Profit Before Tax (In Millions)</b>										
Comfort, Communication & Safety	\$ 704	\$ 716	\$ 182	\$ 294	\$ 181	\$ 20	\$ 676	\$ 113	\$ 223	\$ 113
Dynamics & Energy Conversion	223	473	125	169	97	157	549	38	81	12
Glass	(47)	(29)	7	10	(1)	(14)	2	—	4	(9)
Total (Incl. Other) (a)	\$ 815	\$ 1,116	\$ 313	\$ 449	\$ 260	\$ 150	\$ 1,172	\$ 116	\$ 273	\$ 86
<b>Net Income (In Millions)</b>										
Comfort, Communication &	\$ 439	\$ 452	\$ 121	\$ 182	\$ 105	\$ 14	\$ 422	\$ 78	\$ 138	\$ 63

Safety										
Dynamics & Energy										
Conversion	136	294	79	106	61	99	344	25	50	8
Glass	(25)	(15)	5	8	(1)	(10)	3	1	4	(5)
	<u>          </u>									
Total (Incl. Other)										
(a)	\$ 511	\$ 703	\$ 205	\$ 280	\$ 155	\$ 95	\$ 735	\$ 82	\$ 170	\$ 46
	<u>          </u>									
<b>Operating Margin(b)</b>										
Comfort,										
Communication &										
Safety	8.0%	8.4%	7.6%	11.8%	7.9%	0.4%	6.9%	4.6%	9.1%	5.2%
Dynamics & Energy										
Conversion	2.8	5.5	5.3	6.9	4.7	6.8	6.0	1.7	3.4	0.6
Glass	Loss	Loss	2.5	4.0	Loss	Loss	Loss	Loss	1.0	Loss
Total	4.9	6.4	6.2	9.1	6.1	3.0	6.1	2.9	6.1	2.7
<b>Depreciation &amp; Amortization (In Millions)</b>	\$ 590	\$ 565	\$ 149	\$ 151	\$ 186	\$ 165	\$ 651	\$ 149	\$ 151	\$ 186
<b>R&amp;D as a Percent of Sales</b>	5.0%	5.6%	5.6%	5.8%	5.6%	6.0%	5.8%	5.8%	6.1%	5.8%

[Additional columns below]

[Continued from above table, first column(s) repeated]

	<b>1999 Pro Forma</b>		<b>2000</b>
	<b>Fourth Quarter</b>	<b>Full Year</b>	<b>First Quarter</b>
	<b>(unaudited)</b>		
<b>Sales (In Millions)</b>			
Comfort,			
Communication &			
Safety	\$2,354	\$ 9,092	\$2,603
Dynamics & Energy			
Conversion	2,225	8,849	2,425
Glass	179	735	197
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$4,757	\$18,676	\$5,225
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Profit Before Tax (In Millions)</b>			
Comfort,			
Communication &			
Safety	\$ (47)	\$ 399	\$ 184
Dynamics & Energy			
Conversion	72	203	79
Glass	(21)	(26)	(6)
	<u>          </u>	<u>          </u>	<u>          </u>
Total (Incl. Other)	\$ (30)	\$ 445	\$ 237
(a)	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net Income (In Millions)</b>			
Comfort,			
Communication &			
Safety	\$ (28)	\$ 249	\$ 114
Dynamics & Energy			
Conversion	46	128	50
Glass	(14)	(14)	(4)
	<u>          </u>	<u>          </u>	<u>          </u>
Total (Incl. Other)	\$ (17)	\$ 281	\$ 147
(a)	<u>          </u>	<u>          </u>	<u>          </u>
<b>Operating Margin(b)</b>			
Comfort,			
Communication &			
Safety	Loss	4.1%	6.9%
Dynamics & Energy			
Conversion	3.2	2.3	3.3
Glass	Loss	Loss	Loss

Total	Loss	2.9	4.8
<b>Depreciation &amp; Amortization (In Millions)</b>	\$ 165	\$ 651	\$ 166
<b>R&amp;D as a Percent of Sales</b>	6.2%	6.0%	5.5%

(a) Incl. Other represents net interest expense not allocated to reportable operating segments.

(b) Reflects operating income (income before interest, taxes and minority interest) divided by sales.

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**Part II**

**Information Not Required in Prospectus**

**ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

The following table sets forth the costs and expenses payable in connection with the distribution of the securities being registered. All amounts are estimated except the Securities and Exchange Commission registration fee.

Item	Amount
Securities and Exchange Commission registration fee	\$ 406,560
NYSE original and continued listing fees	555,000
Legal fees and expenses	1,200,000
Accounting fees and expenses	750,000
Transfer agent and registrar fees	250,000
Printing and engraving expenses	3,750,000
Miscellaneous expenses	88,440
Total	<u>\$7,000,000</u>

**ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS**

**General Corporation Law**

Visteon is incorporated under the laws of the State of Delaware. Section 145 (“Section 145”) of the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended (the “General Corporation Law”), *inter alia*, provides that a Delaware corporation may indemnify any persons who were, are or are threatened to be made, parties to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person is or was an officer, director, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation’s best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was illegal. A Delaware corporation may indemnify any persons who are, were or threatened to be made, a party to any threatened, pending or completed action or suit by or in the right of the corporation by reason of the fact that such person was a director, officer, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys’ fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit, provided such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation’s best interests, provided that no indemnification is permitted without judicial approval if the officer, director, employee or agent is adjudged to be liable to the corporation. Where an officer, director, employee or agent is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him or her against the expenses which such officer or director has actually and reasonably incurred.

Section 145 further authorizes a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was

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serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against any liability asserted against him or her and incurred by him or her in any such capacity, arising out of his or her status as such, whether or not the corporation would otherwise have the power to indemnify him or her under Section 145.

## Certificate of Incorporation

Visteon's Restated Certificate of Incorporation and Bylaws provide for the indemnification of officers and directors to the fullest extent permitted by the General Corporation Law.

All of Visteon's directors and officers will be covered by insurance policies maintained by Visteon against certain liabilities for actions taken in their capacities as such, including liabilities under the Securities Act of 1933, as amended.

## ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

In connection with its incorporation and organization, effective as of January 1, 2000, Visteon issued 1,000 shares of common stock to Ford Motor Company. Visteon believes that this issuance was exempt from registration under Section 4(2) of the Securities Act as a transaction not involving any public offering. On June 1, 2000, Visteon, pursuant to an amendment to its certificate of incorporation, reclassified and changed each issued and outstanding share into 130,000 shares of common stock (leaving Ford with 130,000,000 shares).

## ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

### (a) Exhibits

Exhibit Number	Description
3.1	Form of Amended and Restated Certificate of Incorporation.*
3.2	Form of Amended and Restated By-laws.*
4.1	Form of Visteon Common Stock Certificate.**
5.1	Opinion of Davis Polk & Wardwell.
8.1	Confirmation of Tax Opinion of Davis Polk & Wardwell.
10.1	[Reserved].
10.2	Master Transfer Agreement.*
10.3	Purchase and Supply Agreement.*
10.3.1	Letter Relating to Price Reductions.*
10.4	Master Separation Agreement.
10.5	Aftermarket Relationship Agreement.**
10.6	Hourly Employee Assignment Agreement.**
10.7	Employee Transition Agreement.**
10.8	Tax Sharing Agreement.*
10.9	Long-Term Incentive Plan.*
10.10	Form of Change in Control Agreement.*
21.1	Subsidiaries of Visteon.**
23.1	Consent of PricewaterhouseCoopers LLP.*
23.2	Consents of Davis Polk & Wardwell (see Exhibits 5.1 and 8.1).
24.1	Powers of Attorney (see signature pages hereof).
27.1	Financial Data Schedule (1997).**

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Exhibit Number	Description
27.2	Financial Data Schedule (1998).**
27.3	Financial Data Schedule (1999).**
27.4	Financial Data Schedule (First Quarter 1999).**
27.5	Financial Data Schedule (First Quarter 2000).**
99.1	Consent of William H. Gray to be named as a director nominee.
99.2	Consent of Robert H. Jenkins to be named as a director nominee.
99.3	Consent of Robert M. Teeter to be named as a director nominee.

\* Previously filed.

\*\* Incorporated by reference to the exhibits filed with Amendment No. 1 to Visteon's Registration Statement on Form 10, filed May 19, 2000 (File No. 001-15827).

## ITEM 17. UNDERTAKINGS

The registrant hereby undertakes to provide to the Distribution Agent, at the time of the spin-off, certificates in such denominations and registered in such names as required to permit prompt delivery to each recipient.

Insofar as the indemnification for liabilities arising under the Securities Act of 1933 may be permitted as to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14, or otherwise, the registrant has been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payments by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

- (1) for purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and
- (2) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dearborn, State of Michigan, on June 6, 2000.

VISTEON CORPORATION

By: /s/ STACY L. FOX

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Stacy L. Fox  
Senior Vice President, General Counsel and Secretary

We, the undersigned officers and directors of Visteon Corporation, hereby severally constitute and appoint Peter J. Pestillo, Stacy L. Fox and Daniel R. Coulson, and each of them acting alone, our true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution in each of them for him and in his name, place and stead, and in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement (or any other registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933) and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this amendment to the registration statement has been signed by the following persons in the capacities indicated on June 6, 2000.

Signature	Title
* _____ Peter J. Pestillo	Chairman of the Board of Directors, Chief Executive Officer and President ( <i>Principal Executive Officer</i> )
* _____ Daniel R. Coulson	Executive Vice President and Chief Financial Officer ( <i>Principal Financial Officer</i> )
* _____	Vice President, Controller and Chief Accounting Officer ( <i>Principal Accounting Officer</i> )

Phillip G. Pfefferle  
/s/ W. WAYNE BOOKER

Director

W. Wayne Booker  
\*

Director

John M. Rintamaki  
\*

Director

Henry D.G. Wallace

\*Pursuant to Power of Attorney previously filed with the Commission.

/s/ STACY L. FOX

Attorney-in-Fact

Stacy L. Fox

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**Exhibit Index**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Form of Amended and Restated Certificate of Incorporation.*
3.2	Form of Amended and Restated By-laws.*
4.1	Form of Visteon Common Stock Certificate.**
5.1	Opinion of Davis Polk & Wardwell.
8.1	Confirmation of Tax Opinion of Davis Polk & Wardwell.
10.1	[Reserved].
10.2	Master Transfer Agreement.*
10.3	Purchase and Supply Agreement.*
10.3.1	Letter Relating to Price Reductions.*
10.4	Master Separation Agreement.
10.5	Aftermarket Relationship Agreement.**
10.6	Hourly Employee Assignment Agreement.**
10.7	Employee Transition Agreement.**
10.8	Tax Sharing Agreement.*
10.9	Long-Term Incentive Plan.*
10.10	Form of Change in Control Agreement.*
21.1	Subsidiaries of Visteon.**
23.1	Consent of PricewaterhouseCoopers LLP.*
23.2	Consents of Davis Polk & Wardwell (see Exhibits 5.1 and 8.1).
24.1	Powers of Attorney (see signature pages hereof).
27.1	Financial Data Schedule (1997).**
27.2	Financial Data Schedule (1998).**
27.3	Financial Data Schedule (1999).**
27.4	Financial Data Schedule (First Quarter 1999).**
27.5	Financial Data Schedule (First Quarter 2000).**
99.1	Consent of William H. Gray to be named as a director nominee.
99.2	Consent of Robert H. Jenkins to be named as a director nominee.
99.3	Consent of Robert M. Teeter to be named as a director nominee.

\* Previously filed.

\*\* Incorporated by reference to the exhibits filed with Amendment No. 1 to Visteon's Registration Statement on Form 10, filed May 19, 2000 (File No. 001-15827).

DAVIS POLK & WARDWELL  
450 LEXINGTON AVENUE  
NEW YORK, NY 10017

writer's direct number  
212-450-4000

June 6, 2000

Visteon Corporation  
5500 Auto Club Drive  
Dearborn, Michigan 48426

Re: Visteon Corporation Registration Statement on Form S-1 (File No.  
333-38388)

Ladies and Gentlemen:

We have acted as counsel to Visteon Corporation (the "Company") in connection with the Company's Registration Statement on Form S-1 (File No. 333-38388) (the "Registration Statement") filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Securities Act"), in connection with Ford's distribution to Ford common and Class B stockholders of all shares of Visteon common stock owned by Ford.

We have examined originals or copies, certified or otherwise identified to our satisfaction, of such documents, corporate records, certificates of public officials and other instruments as we have deemed necessary for the purposes of rendering this opinion.

On the basis of the foregoing and assuming the due execution and delivery of certificates representing the shares, we are of the opinion that the shares have been duly authorized, pursuant to the Company's Certificate of Incorporation, validly issued, fully paid and non-assessable.

We are members of the Bar of the State of New York and the foregoing opinion is limited to the laws of the State of New York, the federal laws of the United States of America and the General Corporation Law of the State of Delaware.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement. We also consent to the reference to our name under the caption "Legal Matters" in the Prospectus contained in the Registration Statement.

Very truly yours,

/S/ DAVIS POLK & WARDWELL

June 6, 2000

We hereby confirm that the opinion set forth in the Registration Statement on Form S-1 (File No. 333-38388) (the "Registration Statement") filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Securities Act"), in connection with Ford's distribution to Ford common and Class B stockholders of all shares of Visteon common stock owned by Ford, is the full opinion of Davis Polk & Wardwell with respect to tax matters. We also hereby consent to the reference to our name with respect to that opinion.

Very truly yours,  
/s/Davis Polk & Wardwell

## MASTER SEPARATION AGREEMENT

THIS MASTER SEPARATION AGREEMENT ("Agreement") is entered into as of the 1st day of June, 2000, by and among VISTEON CORPORATION, a corporation organized under the laws of Delaware, U.S.A., with offices at 5500 Auto Club Drive, Dearborn, Michigan 48126 ("Visteon"), and FORD MOTOR COMPANY, a corporation organized under the laws of Delaware, U.S.A., with offices at The American Road, Dearborn, Michigan 48121 ("Ford").

## R E C I T A L S

WHEREAS, Visteon was formed by Ford to hold the assets (including Ford's interests in certain subsidiaries and affiliates) relating to those activities that had been conducted under the name "Visteon Automotive Systems, an enterprise of Ford Motor Company" (the "Business");

WHEREAS, Ford has concluded that the separation of the Business from its automaking business would (i) alleviate competitive barriers to expanding the Business beyond sales to Ford, and its Subsidiaries and Affiliates (as defined in Schedule 1), (ii) allow Ford to overcome competitive barriers to making purchases from third-party automotive suppliers, and (iii) enhance the Business' ability to attract employees and permit the Business to offer employee incentives more directly tied to the performance of the Business;

WHEREAS, to effectuate the Separation, and in pursuance of a plan of reorganization (within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended (the "Code")), Ford has agreed to transfer to Visteon those entities and assets of Ford (or its Subsidiaries and Affiliates) devoted to the Business, and Visteon has agreed to assume certain liabilities associated with the Business, as more particularly described in the Master Transfer Agreement, dated March 30, 2000 ("Master Transfer Agreement"), between Ford and Visteon (the "Transfer");

WHEREAS, Ford intends to effect a distribution (the "Distribution") (A) to the holders of Ford's common stock, par value \$1.00 per share ("Ford Common Stock") and the holders of Ford's Class B Stock, par value \$1.00 per share ("Class B Stock") (other than the Plans defined below), of all shares of the common stock of Visteon ("Visteon Common Stock") held by Ford immediately prior to the Distribution, and (B) to the Ford Motor Company Savings and Stock Investment Plan for Salaried Employees and the Ford Motor Company Tax-Efficient Savings Plan for Hourly Employees (collectively, the "Plans"), of cash in lieu of shares of Visteon Common Stock, which cash shall be a portion of the Dividend described below;

WHEREAS, Ford acknowledges that it is in the best interest of Ford and Visteon for the cash position of Visteon at the time of the Distribution to be equal to a target cash amount and, to that end, either will (i) cause Visteon to effect a distribution of cash to Ford as a dividend (the "Dividend"), or (ii) contribute cash to Visteon;

WHEREAS, in the event the Dividend is declared, Ford will segregate such funds in a

separate bank account and, within a year after the Distribution, will use such funds to pay creditors of Ford and/or to make distributions to shareholders of Ford;

WHEREAS, the parties intend the Transfer and the Distribution be treated as tax-free transactions under Sections 351, 368(a) and 355 of the Code to both Ford and its stockholders;

WHEREAS, in connection with the transactions contemplated by the parties, and in order to support the purposes contemplated thereby, Ford and certain of its Subsidiaries and Affiliates have entered into several ancillary agreements with Visteon and its Subsidiaries and Affiliates, including, without limitation, a Tax Sharing Agreement between Ford and Visteon ("Tax Sharing Agreement"), an Hourly Employee Assignment Agreement between Ford and Visteon, an Employee Transition Agreement between Ford and Visteon, an Information Technology Services Agreement between Ford and Visteon ("IT Agreement"), a Purchase and Supply Agreement between Ford and Visteon ("Purchase and Supply Agreement"), an Aftermarket Relationship Agreement between Visteon and the Automotive Consumer Services Group of Ford, a Patent Cross-License Agreement between Visteon Global Technologies, Inc. ("VGTI") and Ford Global Technologies, Inc. ("FGTI"), a Technology Cross-License Agreement between VGTI and FGTI, and various real estate leases (The foregoing agreements described above are collectively referred to as the "Ancillary Agreements");

WHEREAS, in anticipation of the Distribution, the parties desire to set forth in writing the terms under which certain central services will continue to be provided to Visteon by Ford and certain of its Subsidiaries and Affiliates for a specified period of time; and

WHEREAS, in connection with the Distribution, the parties hereto desire to provide for certain indemnification rights as between the parties and certain other matters described below.

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein, the parties agree as follows:

1. DEFINITIONS.

Capitalized terms not otherwise defined in the body of this Agreement shall have the meanings set forth in Schedule 1 attached hereto.

2. TRANSITIONAL SERVICES TO VISTEON.

(a) Historically, Ford, directly or through its Subsidiaries and Affiliates, has arranged for certain services to be provided to the Business centrally. The parties have agreed to continue certain of these services ("Transitional Services") after the Distribution through December 31, 2001 (the "Transition Termination Date"). "Transitional Services" are such services which Ford provided to the Business in the twelve (12) months prior to the Distribution and which are identified by Visteon as continuing services in writing to Ford prior to the Distribution, and includes, without limitation, those services generally identified on Schedule 2(a). The parties

agree that all Transitional Services will be more particularly described in writing, together with the agreed changes, as soon as possible, in one or more documents signed by the parties which specifically reference that they are to be considered Transitional Services under this Agreement. Transitional Services do not include (i) any of the excluded services identified in Section 5 below, or otherwise covered by the IT Agreement, or (ii) any other services which Ford would not be legally permitted to provide to Visteon (or its Subsidiaries or Affiliates) from time to time. In no event will Ford be required to obtain a different or new license or permit in order to legally provide any service hereunder.

(b) Ford (directly or through its Subsidiaries, Affiliates, or designated third parties) agrees to provide to Visteon and its Subsidiaries and Affiliates, as requested by Visteon, the Transitional Services through the Transition Termination Date in exchange for the charges agreed to by the parties in writing under service level agreements. Visteon may terminate all or any portion of the Transitional Services at any time upon six (6) months' prior written notice to Ford, or such shorter time period as may be agreed to by Ford with respect to a specific Transitional Service. If the parties have not already agreed in writing to a charge that is applicable to such terminated Transitional Service(s), the parties will endeavor in good faith to adjust the charge to Visteon to reflect the reduced level of service. (For example, this would occur if the parties agreed on one charge for all accounting services, and, later, Visteon notified Ford that it no longer needed certain accounting services but continued to need the remainder of the accounting services agreed to.) In the event the parties are unable to agree on the revised charge within thirty (30) days after Visteon notifies Ford of the services to be terminated, such dispute over the adjusted charges shall be submitted to dispute resolution as provided in Section 10(f) of the Master Transfer Agreement. It is intended that the Transitional Services will be provided to Visteon and its Subsidiaries and Affiliates at the fully accounted cost, including a reasonable allocation for internal overhead costs, direct costs and costs incurred from outside suppliers. Any taxes due (including, without limitation, withholding taxes) on the amounts owing to Ford for Transitional Services will be paid by Visteon (or its respective Subsidiary or Affiliate) at its own expense. The parties will endeavor in good faith to agree on an amount to be charged by Ford for providing the Transitional Services (or the method for determining such charge). In the event that Ford (or its Subsidiaries or Affiliates) provides any Transitional Services to other third party suppliers, Ford will charge Visteon no more than the amounts for such services as it charges to similar third party suppliers.

(c) In the event that Visteon considers that any of the Transitional Services are incomplete or incorrectly described, within thirty (30) days after the Distribution, Visteon shall provide to Ford written notice of any proposed deletions or modifications to any Transitional Services, including the reasons for revisions and, unless precluded by either: (i) law or regulation, or (ii) the express terms of existing contracts between Ford and a third party, such deletions, or modifications shall be accepted by Ford (subject to appropriate adjustments to the charges for such revised Transitional Services) under the terms of this Agreement, and, with respect to proposed changes in the charges for such Transitional Services, Ford and Visteon shall reasonably agree on the appropriate revised charges. In the event that Ford and Visteon are unable to reach an agreement on revised charges within thirty (30) days after Visteon notifies Ford as provided in

the first sentence of this Section 2(c), such dispute shall be submitted to dispute resolution as provided in Section 10(f) of the Master Transfer Agreement, and the parties will be governed by the principles for charges in Section 2 (b) above.

(d) Visteon agrees that it will, and it will cause its Subsidiaries and Affiliates to, use commercially reasonable efforts to obtain all Transitional Services from a source other than Ford and its Subsidiaries and Affiliates commencing no later than the Transition Termination Date. In the event that Visteon or any of its Subsidiaries or Affiliates is unable to obtain a replacement source for any particular Transitional Service (a "Continued Service") to commence at the Transition Termination Date, then Visteon may continue to obtain the Continued Service hereunder, on the same terms and conditions for the particular Transitional Service, for a period designated by Visteon, which ends no later than June 30, 2002, by giving Ford written notice before June 30, 2001, identifying the Continued Service(s) Visteon wishes to continue. In addition, Visteon may continue any Transitional Service that is comprised of information technology services for a period not to exceed five (5) years from the date of Distribution.

### 3. QUALITY OF SERVICES.

(a) The Transitional Services provided under this Agreement will be substantially the same in scope, quality and responsiveness as are provided to other areas of Ford for the time period they are being provided. If Ford ceases to provide any Transitional Service to Ford and the Ford Subsidiaries and Ford Affiliates, it may, upon reasonable notice to Visteon, cease providing such Transitional Services hereunder. Ford and its Subsidiaries and Affiliates shall have no liability for actions or failure to act in connection with Transitional Services, except (i) for claims arising out of the gross negligence or willful misconduct of Ford or its Subsidiaries or Affiliates, and (ii) as provided below in this Section 3. Visteon agrees to indemnify Ford and its Subsidiaries and Affiliates, and their respective officers, directors, employees, and agents, as provided in Section 7 of the Master Transfer Agreement, for any claims arising out of Transitional Services, except for matters which are specifically excluded above. In addition, Visteon's obligation to defend and indemnify hereunder will continue to apply after the termination or other conclusion of Transitional Services to the extent the incident which forms the basis of the claim occurred as a result of Transitional Services provided hereunder. In the event that Visteon or its Subsidiaries or Affiliates are dissatisfied with the quality or responsiveness of any Transitional Service provided hereunder, Visteon shall provide written notice thereof to Ford, and, if the local entities involved in providing or receiving the Transitional Service in dispute cannot resolve the dispute in a mutually satisfactory manner within thirty (30) days after receipt of such notice, the dispute shall be submitted to an officer designated by each such party for resolution. Upon determination by such officers that the quality or responsiveness of such Transitional Service does not meet the standard set forth herein, Ford shall immediately take action to cause such Transitional Service to be performed at the levels provided for herein. Pending any such final determination, Visteon or its designated Subsidiary or Affiliate will pay for the undisputed Transitional Service(s), and Ford or its Subsidiary or Affiliate shall continue to provide all Transitional Services hereunder without interruption.

(b) If Ford is in material breach of any provision of this Agreement, Visteon shall have the right to terminate any Transitional Service involved in such breach, upon not less than thirty (30) days' written notice to Ford. In the event that such notice period would result in irreparable harm to the recipient of the Transitional Service, an appropriate shorter notice period shall apply. If Ford cures the breach during the notice period, said notice shall be void.

(c) With respect to any such breach by Ford, Ford and any Subsidiary or Affiliate of Ford providing the disputed Transitional Services will be liable to the recipient of the Transitional Service as follows:

(i) Ford will promptly pay the reasonable amount charged by a third party upon whom the recipient of the Transitional Service had to rely in order to have the specific Transitional Service properly rendered for a period not to exceed ninety (90) days, and

(ii) If such breach is occasioned by the willful or negligent interruption or negligent or otherwise improper discontinuance of a Transitional Service, the provider will reimburse the recipient to the extent of any direct damages incurred as a result of any claims by third parties whose claims arise out of the performance or nonperformance by the provider of such Transitional Service.

(d) The above remedies are available cumulatively in respect of each breach hereunder, and in lieu of any other remedies, including equitable remedies, in contract or in tort.

(e) The above remedies shall not be applicable in respect of any Transitional Service provided in the most part by a supplier to Ford or its Subsidiaries or Affiliates (by way of example, telephone services), nor to the extent that such Transitional Services are provided using licensed software, where a failure in such software was the primary cause of such breach; provided, however, that Ford shall make available to Visteon and the recipient of the Transitional Service all warranties and remedies available to Ford or its Subsidiaries or Affiliates in respect of such Transitional Service.

(f) In the event of a breach by Ford or its Subsidiaries or Affiliates arising out of this Agreement, Visteon and its Subsidiaries and Affiliates shall use all reasonable efforts to mitigate its or their damages, including, but not limited to, immediate notification to Ford of such breach.

#### 4. PAYMENT TERMS.

(a) For payments covered by this Agreement and the IT Agreement, Ford and Visteon will implement payment terms in the U.S. that generally are consistent with the terms that are provided to Ford's U.S. supply base and that also will allow for netting of intercompany balances and the payroll dates that Visteon reimburses Ford for labor. A description of the payment calculations and dates are included in Schedule 4.

(b) Except as otherwise provided herein, the parties will continue the present monthly

billing practices and processes, as provided in 4(a) above, for Transitional Services and for charges under the IT Agreement from Ford's Process Leadership (information technologies) until such time as the accounting functions for Visteon have been sufficiently transitioned so that there is no longer the ability to continue the present billing practices. The present process in the U.S. provides for monthly billing by various departments, the net amount of which is divided into weekly amounts, which are due beginning in the month following the month the services were billed. Except as otherwise agreed to in writing by the parties, after Visteon has transitioned from the Ford accounting services necessary for the present billing process, Ford will submit two monthly billings to Visteon; one for charges from Ford's Process Leadership (information technologies) and the other for Transitional Services, with the total charges to continue to be due consistent with the present practice and Schedule 4. Ford and Visteon will work together to reach a mutually acceptable billing format that provides Visteon sufficient detail to identify the charges and does not require Ford to make significant revisions to its systems.

(c) In the event the parties agree to terminate the intercompany netting process, Ford may charge interest on any amounts due under this Agreement at the same rate of interest (if any) as Visteon is entitled to charge Ford on Ford's purchases from Visteon from time to time.

(d) Ford has the right to offset any amounts owed by Visteon or its Subsidiaries or Affiliates for Transitional Services provided to Visteon or its Subsidiaries or Affiliates against amounts otherwise owed by Ford or Ford's Subsidiaries or Affiliates to Visteon.

#### 5. EXCLUDED OR LIMITED SERVICES.

(a) To the extent that any Ancillary Agreement specifically addresses any matter set forth in this Agreement, the terms of such Ancillary Agreement will govern and control with respect to such matter; provided, however, (i) with respect to cost of services provided by Ford and its Subsidiaries and Affiliates to Visteon and its Subsidiaries and Affiliates, the charge can be no less than Ford's fully accounted cost, including a reasonable allocation for internal overhead costs, as well as any direct costs incurred from outside suppliers, and (ii) with respect to the duration of services that are provided by Ford and its Subsidiaries and Affiliates to Visteon and its Subsidiaries and Affiliates (other than information technology services which may have a different duration or services which are provided at a fair market rate for such services), the term during which any services are provided cannot be longer than the time period provided for in Section 2 above.

(b) After the Distribution, Ford will no longer provide services in the following areas: insurance coverage (except in certain non-U.S. locations and under existing occurrence based policies covering Ford and its Subsidiaries for covered occurrences prior to the Distribution), insurance administrative services, legal services (except in certain non-U.S. locations), medical services that Ford is not licensed or authorized to provide to third parties, travel services on company aircraft that Ford is not licensed or authorized to provide to other third parties, security services that Ford is not licensed to provide to third parties, and general auditing. It is understood

that any charges incurred by Visteon for insurance premiums will not be subject to refund.

(c) Certain bonds and other guaranties have been backed or issued by Ford on behalf of the Business. Visteon agrees (i) that it will work diligently to replace such bonds and guaranties with its own credit and obtain a release of the Ford bonds and guaranties, and (ii) to indemnify Ford for any loss it suffers as a result of having to pay on any bonds or guaranties on behalf of the Business, both as provided in the Master Transfer Agreement.

#### 6. PURCHASING AGENCY.

(a) Visteon, for itself and as agent for the Subsidiaries and Affiliates of Visteon listed on Schedule 6A (each hereinafter individually referred to as the "Principal") hereby grants to each of Ford and the Subsidiaries and Affiliates of Ford listed on Schedule 6B power to act as its agent (the "Agent") in the purchase of (i) steel and other raw materials designated by Principal, (ii) energy and non-production goods and services, all as the Principal may advise the Agent that it requires from time to time; provided however, that this grant shall not empower the Agent to act as the Principal's undisclosed agent or agent for any purposes other than those specified in this Agreement.

The grant authorizes the Agent to:

- (i) Send to suppliers and potential suppliers of the Principal, both locally and abroad, requests for quotations; evaluate the supplier responses; issue to the suppliers purchase orders and amendments thereto and shipment release authorizations for, on behalf of, and in the name of the Principal; and
- (ii) Use standard Purchase Order Terms and Conditions as have been agreed to by Visteon, including any supplementary terms or such modifications thereto which the Agent, exercising prudent business judgment, may agree.

(b) Any Principal or Agent may terminate its participation in this Agreement at any time upon written notice to Visteon and Ford. Such termination shall not affect the validity of this grant of power with respect to the remaining parties or the validity of any agreement authorized by the Principal and executed prior to the Agent receiving notice of such termination.

(c) Visteon shall pay for these procurement services authorized hereby as part of the Transitional Services.

#### 7. INFORMATION AND RECORDS.

(a) For purposes hereof, "Confidential Information" means, with respect to any entity, information belonging to such entity or its business that was obtained by another entity prior to

the Distribution or any information that an entity obtains from another entity through (i) any Transitional Service provided hereunder, (ii) services provided under any of the Ancillary Agreements, or (iii) any sharing of records post-Distribution as provided for in this Agreement, but does not include information that is normally obtained by Ford and its Affiliates through their third party supplier relationships. In addition, "Confidential Information" does not include any information that (I) is or becomes publicly known other than through a breach of this Agreement by the receiving party; or (II) is lawfully received by the receiving party from a third party without breach of this Agreement or breach of any other agreement between the disclosing party and such third party; or (III) is independently developed by employees of the receiving party who have not had access to or received any Confidential Information under this Agreement; or (IV) is furnished to a third party by the disclosing party without restriction on the third party's rights to disclose; or (V) is authorized in writing by the disclosing party to be released from the confidentiality obligations herein.

(b) Except as otherwise provided in writing by the relevant entity, Ford agrees that it will use reasonable care to maintain the confidentiality of Confidential Information of Visteon and its Subsidiaries or Affiliates and to limit its disclosure, and will cause its Subsidiaries and Affiliates to do the same, for a period of three (3) years from the Distribution; and, likewise, Visteon agrees that it will use Reasonable Care to maintain the confidentiality of Confidential Information of Ford and its Subsidiaries or Affiliates and to limit its disclosure, and will cause its Subsidiaries and Affiliates to do the same, for a period of three (3) years from the Distribution, except, in all cases, on a need-to-know basis in connection with the purpose for which it was disclosed. "Reasonable Care" shall mean the same degree of care exercised by the receiving party with respect to its own information of the same nature as Confidential Information.

(c) If the receiving party becomes legally compelled (by oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any Confidential Information, the receiving party will provide the disclosing party with prompt written notice so that the disclosing party may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Agreement. In the event that such protective order or other remedy is not obtained, or the disclosing party waives compliance with the provisions of this Agreement, the receiving party will furnish only that Confidential Information which is legally required and will exercise reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the Confidential Information so disclosed.

(d) Visteon acknowledges that it is familiar with Ford's record retention policies and that it will, and will cause its Subsidiaries to, and use reasonable efforts to cause its Affiliates (collectively, the "Visteon Entities") to, retain all pre-Distribution records of the Visteon Business for a period no shorter than would be directed by Ford's record retention policy in effect at the Distribution, or as otherwise provided in the Tax Sharing Agreement or any other written agreement with Ford. In the event that Ford subsequently gives Visteon written notification of any pending claims, lawsuits, audits, changes in the law or other factors which would indicate that any records need to be kept for a longer period, Visteon will cause such records to be kept for the

period reasonably requested in such notification, at the Visteon Entities' expense.

(e) During the period that the Visteon Entities are required to retain any record, as provided above, Visteon will give, or cause to be given to, Ford (or its Subsidiary or Affiliate, as appropriate) reasonable access to a requested record. Access is only required to be given to the requestor when it reasonably relates to the parties' relationship prior to the Distribution and is for the purpose of auditing, accounting, claims or litigation, employee benefits, regulatory or tax purposes, or reporting or disclosure obligations. In providing access to records, the party thought to be in possession of a record is only obligated to conduct a reasonable search designed to collect all the requested records (at its own expense) and provide the gathered records for inspection by the requestor during normal business hours at the place such records are normally located, unless otherwise agreed by the parties at such time. The requestor will abide by any security/confidentiality procedures imposed by the entity possessing the records. The requestor may have the necessary records duplicated at its own expense.

#### 8. INDEMNIFICATION.

(a) Visteon agrees to indemnify, save, and hold harmless Ford, all Ford Subsidiaries and all Ford Affiliates, and the officers, directors, employees, agents, consultants, attorneys, accountants and other representatives thereof and each Person, if any, who controls any such Person within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (collectively, the "Ford Indemnitees"), from and against any and all Losses caused by any untrue statement or alleged untrue statement of a material fact contained in the Form 10 or any amendment thereof or the related Information Statement (as amended or supplemented if Visteon shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except insofar as such Losses are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information furnished to Visteon in writing by Ford expressly for use therein. Visteon agrees to reimburse, or cause a member of the Visteon Group to reimburse, each of the Ford Indemnitees for any reasonable attorneys' fees or any other expenses reasonably incurred by any of them in connection with investigating and/or defending any Loss.

(b) Ford agrees to indemnify, save, and hold harmless Visteon, all Visteon Subsidiaries and all Visteon Affiliates, and the officers, directors, employees, agents, consultants, attorneys, accountants and other representatives thereof and each Person, if any, who controls any such Person within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (collectively, the "Visteon Indemnitees"), from and against any and all Losses caused by any untrue statement or alleged untrue statement of a material fact contained in the Form 10 or any amendment thereof or the related Information Statement (as amended or supplemented if Visteon shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, in each case to the extent,

but only to the extent, that such Losses are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information furnished to Visteon in writing by Ford expressly for use therein. Ford agrees to reimburse, or cause a member of the Ford Group to reimburse, each of the Visteon Indemnitees for any reasonable attorneys' fees or any other expenses reasonably incurred by any of them in connection with investigating and/or defending any Loss.

(c) The Ford Indemnitees or the Visteon Indemnitees (in either case, an "Indemnatee"), as applicable, shall promptly give the party giving the indemnification (the "Indemnifying Party") written notification of any third party claim or any other indemnification claim, together with a copy of any legal pleadings or other written demands from such third party, if applicable; provided, however, that the failure to give such notice will not relieve an Indemnifying Party of its obligations hereunder, except to the extent that the Indemnifying Party is actually and materially prejudiced by such failure to give notice. In particular, in case of any investigation or audit, the Indemnitees shall inform the Indemnifying Party at the beginning of such investigation or audit, to the extent practical, so that the Indemnifying Party may participate therein.

(d) Except where a Ford Indemnatee has reserved or been given the right to manage or defend a Loss or claim in a written instrument signed by Visteon (or another member of the Visteon Group involved in such Loss or claim), Visteon shall be entitled, at its own expense, to conduct the defense of any third party claim with counsel of its own choice; provided, however, if representation of such Ford Indemnatee by the counsel retained by Visteon would be inappropriate due to actual or potential differing interests between such Ford Indemnatee and any other party represented by such counsel in such proceeding, then Visteon shall not be entitled to conduct such defense. However, the respective Ford Indemnitees shall always be entitled to participate in such defense with counsel of their own choice and at their own expense, and Visteon will cooperate with the Ford Indemnitees and will consult with the Ford Indemnitees (and give reasonable consideration to all proposals and suggestions made by the Ford Indemnitees in connection with all material matters arising in the conduct of such defense). The Ford Indemnitees shall comply with Visteon's instructions in the defense unless the Ford Indemnitees believe the instruction to be unreasonable. The Ford Indemnitees will use reasonable efforts to mitigate the amount of any Losses that may give rise to indemnification hereunder. In the event the Ford Indemnitees have the right to manage or defend the Loss, the involved member of the Visteon Group shall always be entitled to participate in such defense with counsel of its own choice and at its own expense, and the Ford Indemnitees will cooperate with the Visteon Group and will consult with the Visteon Group (and give reasonable consideration to all proposals and suggestions made by the Visteon Group) in connection with all material matters arising in the management of such Loss or conduct of such defense.

(e) The Visteon Group may not settle any other third party claims covered by this Section without the prior written consent of the Ford Indemnitees involved therein, and the Ford Group may not settle any other third party claims covered by this Section without the prior written consent of the Visteon Indemnitees involved therein; except, in either case, if such

settlement is solely for money damages, the applicable Indemnitees are reasonably satisfied that the responsible party will directly pay such amount in full and the settlement provides for the full release of all claims against the Indemnitees.

(f) For tax purposes, the parties agree to treat any payment pursuant to this Section as a capital contribution by Ford to Visteon or a distribution by Visteon to Ford made in the last taxable period beginning before the Distribution and, accordingly, as not includible in the taxable income of the recipient or deductible by the payor.

(g) A party's liability with respect to any Loss for which an Indemnitee actually recovers amounts from third parties (including, without limitation, proceeds under any policy of insurance available for the purpose) shall be reduced to the extent of the amounts actually recovered. A party's Loss shall not include any consequential damages or lost profits that may be suffered by such party. The parties will also take into account the time cost of money (using the then-current 30 day LIBOR, or any replacement index, as the applicable rate) in determining the amount of the Loss suffered by any Indemnitee.

(h) The amount of any Loss for which indemnification is provided under this Agreement shall be first reduced by the tax benefit (determined in the reasonable judgment of the Indemnitee) to any Indemnitee of the applicable loss item, and such net loss amount shall then be increased to take account of the net tax cost, including interest and penalties (the "Tax Cost"), if any, incurred by an Indemnitee arising from the receipt or accrual of an indemnity payment hereunder (grossed up for such increase). The computation of such Tax Cost shall reflect the hypothetical tax consequences of the receipt or accrual of any indemnity payment, defined using the maximum statutory rate (or rates, in the case of an item that affects more than one tax) applicable to the Indemnitee for the relevant taxable periods, and reflecting, for example, the effect of the deductions available for interest paid or accrued and for taxes such as state and local income taxes. Any indemnity payment hereunder shall initially be made without regard to this paragraph (h) and shall be increased or reduced to reflect any such Tax Cost (including gross-up) only after the Indemnitee has actually realized or received such cost. The amount of any Tax Cost payment hereunder shall be adjusted to reflect any final determination (which shall include the execution of Form 870-AD or successor form) with respect to the Indemnitee's liability for taxes, and payments between Ford and Visteon to reflect such adjustment shall be made if necessary.

(i) Ford has the right to offset any amounts owed by Visteon, any Visteon Subsidiary or any Visteon Affiliate to any member of the Ford Group against any amounts owed by Ford to Visteon pursuant to this Section 8. Visteon has the right to offset any amounts owed by Ford, any Ford Subsidiary or any Ford Affiliate to any member of the Visteon Group against any amounts owed by Visteon to Ford pursuant to this Section 8.

(j) If, for any reason, the indemnification provided for in Section 8(a) or 8(b) is unavailable to any Indemnified Party, or insufficient to hold it harmless, then the Indemnifying Party shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses in such proportion as is appropriate to reflect all relevant equitable considerations.

## 9. CONTINUING PROGRAMS AND CONTRACTS.

(a) Employees of Visteon and Visteon Subsidiaries (including Ford employees assigned to Visteon under the Hourly Employee Assignment Agreement) which have been continuously employed by Visteon or a Visteon Subsidiary since the Distribution will be permitted to continue participating in Ford's vehicle purchase plans consisting of the "A Plan" and the "Z Plan" (or other similar programs offered outside the U.S.) to the extent they participated immediately prior to the Distribution so long as such plans are offered. Other employees of Visteon and Visteon Subsidiaries will be permitted to participate in Ford's vehicle purchase plans consisting of the "A Plan" and the "Z Plan" until such time as Ford shall terminate their participation by giving Visteon two (2) years' written notice. After the Distribution, employees of Visteon and Visteon Subsidiaries and Visteon Affiliates will not be eligible to nominate purchases under the "X Plan". In addition, the participation in the "A Plan" and the "Z Plan" (or other similar programs offered outside the U.S.) is conditioned on Visteon supplying the information required by Ford from time to time to administer the programs. This agreement in no way obligates Ford to continue offering the "A Plan" and the "Z Plan" (or other similar programs offered outside the U.S.) if it ceases offering such plans to employees of Ford.

(b) Ford has announced a program to supply its employees with certain computer hardware and software, which is referred to as the "Connectivity Program". Employees of Visteon will be allowed to participate on terms to be negotiated by the parties in a separate written agreement. The parties acknowledge that the costs to be paid by Visteon will include, without limitation, (i) the costs of developing any necessary portals not otherwise created, and (ii) the taxes or other charges associated with the Connectivity Program, to the same extent Ford Subsidiaries and Ford Affiliates would be responsible for similar taxes or charges.

(c) Ford and Visteon agree that all executory Inter-Company Buying Authority agreements ("ICBAs") shall be deemed to be Existing Agreements as that term is defined in the Purchase and Supply Agreement. The parties agree to use appropriate purchase orders in the future subject to a period for orderly transition from the current system.

(d) Visteon, as a Tier 1 supplier to Ford, is the bailee of all Ford-owned tooling, wherever located, used to make parts for Visteon ("Ford-owned Visteon Tooling"). In accordance with Sections 4 and 29 of Ford's current standard terms and conditions (including subsequent revisions, "Global Terms"), Ford grants Visteon permission to locate Ford-owned Visteon Tooling on the premises of third party suppliers to Visteon as Bailed Property (as Defined in the Global Terms), and Visteon is entitled to exercise the rights contained in Sections 4 and 29 of the Global Terms with respect to those suppliers, with "Visteon" substituted for "Buyer" in those Sections. Ford further grants Visteon the right to remove from the premises of Visteon's suppliers any Ford-owned Visteon Tooling whenever Visteon, in its sole discretion, decides to remove any Ford-owned Visteon Tooling. Visteon is responsible for the payment of any personal property taxes incurred on account of the Ford-owned Visteon Tooling. At Ford's request, Visteon will provide to Ford the location and other information about any Ford-owned

Visteon Tooling.

10. LIMITED USE OF FORD TRADEMARKS.

(a) Ford has a proprietary interest in certain trademarks and tradenames historically used in the Business that were not transferred to Visteon under the Master Transfer Agreement, including, without limitation, "Ford" and the blue oval mark ("Ford Marks"). The parties recognize that the Business will have existing signage, supplies and other materials that are Ford Marks on the date of Distribution ("Existing Materials"). Ford grants Visteon and the Visteon Subsidiaries and Visteon Affiliates, a royalty-free, non-exclusive license to use the Ford Marks on the Existing Materials, on a worldwide basis, for a period of two hundred forty (240) days from the Distribution ("Phase Out Period"). Visteon agrees that, as of the Distribution, it shall not, and will cause the Visteon Subsidiaries and Visteon Affiliates not to, produce, or have produced, any additional supplies or other goods bearing the Ford Marks, other than as permitted under separate agreements with Ford for the manufacture of goods. In addition, Visteon agrees that neither it nor its Subsidiaries or Affiliates will use the Ford Marks on the forms, labels or other items where it would cause confusion regarding the contracting entity or imply Ford was conducting activities for which Ford is not licensed. On expiration of the Phase Out Period, Visteon shall destroy all remaining Existing Materials in Visteon's inventory and not produced under a separate license from or authority by Ford or remove the Ford Marks from such goods. At Ford's request, Visteon will give Ford satisfactory evidence of the destruction or removal.

(b) Ford hereby grants to Ford Microelectronics, Inc. (a Visteon Subsidiary) a royalty free, non-exclusive, non-transferable license, within the United States, and subject to the quality control, termination and other provisions set forth in this Agreement, to use the term FORD MICROELECTRONICS solely as a corporate name ("Ford Microelectronics License"). Notwithstanding the foregoing, the Ford Microelectronics License shall terminate at the first to occur of (i) three hundred sixty five (365) days from the Distribution, or (ii) the date Visteon transfers any shares of stock in Ford Microelectronics to a third party. Visteon agrees to cause Ford Microelectronics, Inc. to change its name to delete use of "Ford" by such termination date.

(c) All use of the Ford Marks to under the licenses granted above shall inure solely to the benefit of Ford. Visteon, the Visteon Subsidiaries and the Visteon Affiliates shall not claim any title or any proprietary right to the Ford Marks by virtue of these licenses granted to Visteon, the Visteon Subsidiaries and the Visteon Affiliates. Visteon agrees to, and to cause the Visteon Subsidiaries and Visteon's Affiliates to, use the Ford Marks only in connection with the conduct of the Business to provide goods and services which meet quality standards at least as great as those used by the Business prior to the Distribution.

11. FORCE MAJEURE.

(a) If either party hereto or any Subsidiary or Affiliate thereof is rendered unable wholly or in part by Force Majeure (as defined herein) to perform its obligations hereunder (other than the obligation to pay money), such party shall give prompt notice to the other party with the

reasonable particulars thereof and the probable extent of the inability to perform such obligation, whereupon the obligation of such party shall be suspended so far as it is affected by such Force Majeure during but no longer than the continuance thereof. The affected party shall use all possible diligence to remove such Force Majeure.

(b) For the purposes of this Agreement, the term "Force Majeure" shall mean any act of God, strike or lockout or other labor dispute, act of the public enemy, war, blockade, revolution, riot, insurrection, civil commotion, lightning, fire storm, flood, earthquake, explosion, governmental restraint, embargo, inability to obtain or delay in obtaining equipment or transport, inability to obtain or delay in obtaining governmental approvals, permits, licenses or allocations and any other cause whether of the kind specifically enumerated above or otherwise which is not reasonably within the control of the party claiming Force Majeure.

## 12. MISCELLANEOUS.

(a) This Agreement, including all Exhibits and Schedules attached hereto and descriptions of Transitional Services executed pursuant to this Agreement, constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof.

(b) This Agreement shall be governed by and construed in accordance with the internal laws of the State of Michigan.

(c) This Agreement is for the sole benefit of the parties hereto, and no third party may claim any right, or enforce any obligation of the parties, hereunder.

(d) All notices and other communications hereunder shall be in writing and shall be given to the parties as provided in the Master Transfer Agreement.

(e) This Agreement shall be binding upon and inure to the benefit of each party hereto and the respective successors and assignees of the parties. In no event will a party be released from its indemnity obligations without the written consent of the party indemnified.

(f) The parties agree that Section 7 of the Master Transfer Agreement applies to claims and indemnities hereunder. In addition, the parties each waive all rights of subrogation, which would otherwise be available to their insurers, relating to any loss, direct or indirect, caused by or related to (i) the provision of shared services under this Agreement, the Master Transfer Agreement or the IT Agreement, or (ii) a claim under Section 8 above.

(g) If a dispute arises between the parties relating to this Agreement, they will follow the procedures and terms set forth in Section 10(f) of the Master Transfer Agreement, unless a different procedure is explicitly provided for herein.

(h) If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

(i) No failure or delay on the part of any party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

(j) The descriptive headings herein are for reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

(k) No change or amendment will be made to this Agreement except by an instrument in writing signed on behalf of each of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Master Separation Agreement to be executed by their fully authorized representatives as of the day and year first above written.

VISTEON CORPORATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FORD MOTOR COMPANY

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## SCHEDULE 1

## DEFINITIONS

"A Plan" - has its meaning set forth in Section 9(a).

"Action" - means any claim, suit, action, arbitration, inquiry, investigation or other proceeding by or before any court, governmental or other regulatory or administrative agency or commission or any other tribunal.

"Affiliate" - means any entity in which a party owns or controls, directly or indirectly, less than 50%, but more than 20%, of its stock or other equity interests.

"Agent" - has its meaning set forth in Section 6(a).

"Agreement" - has its meaning set forth in the opening paragraph.

"Ancillary Agreements" - has its meaning set forth in Recitals.

"Business" - has its meaning set forth in Recitals.

"Class B Stock" - has its meaning set forth in Recitals.

"Code" - has its meaning set forth in Recitals.

"Confidential Information" - has its meaning set forth in Section 7(a).

"Connectivity Program" - has its meaning set forth in Section 9(b).

"Continued Service" - has its meaning set forth in Section 2(d).

"Controls or Controlled" - means the possession, directly or indirectly, of the power to direct or cause management to direct the policies of an entity, whether through the ownership of equity, by contract or otherwise.

"Distribution" - has its meaning set forth in Recitals.

"Dividend" - has its meaning set forth in Recitals.

"Exchange Act" - means the Securities Exchange Act of 1934, as amended.

"Existing Materials" - has its meaning set forth in Section 10(a).

"FGTI" - has its meaning set forth in Recitals.

"Force Majeure" - has its meaning set forth in Section 11(b).

"Ford" - has its meaning set forth in the opening paragraph.

"Ford Affiliate" - means any Affiliate of Ford other than a Visteon Affiliate.

"Ford Common Stock" - has its meaning set forth in Recitals.

"Ford Group" - means Ford or any entity controlled by Ford.

"Ford Indemnities" - has its meaning set forth in Section 8(a).

"Ford Marks" - has its meaning set forth in Section 10(a).

"Ford Microelectronics License" - has its meaning set forth in Section 10(b).

"Ford-owned Visteon Tooling" - has its meaning set forth in Section 9(d).

"Ford Subsidiary" - means any Subsidiary of Ford, other than Visteon or a Visteon Subsidiary.

"Global Terms" - has its meaning set forth in Section 8(d).

"ICBAs" - has its meaning set forth in Section 9(c).

"Indemnifying Party" - has its meaning set forth in Section 8(c).

"Indemnitee" - has its meaning set forth in Section 8(c).

"IT Agreement" - has its meaning set forth in Recitals.

"Losses" - means, with respect to any Person, any and all damage, loss, liability and expense incurred or suffered by such Person (including, without limitation, reasonable expenses of investigation and reasonable attorneys' fees and expenses in connection with any and all Actions or threatened Actions).

"Master Transfer Agreement" - has its meaning set forth in Recitals.

"Person" - means an individual, corporation, limited liability company, partnership, association, trust or other entity or organization, including a governmental or political subdivision or an agency or instrumentality thereof.

"Phase Out Period" - has its meaning set forth in Section 10(a).

"Plans" - has its meaning set forth in Recitals.

"Principal" - has its meaning set forth in Section 6(a).

"Securities Act" - means the Securities Act of 1933, as amended.

"Reasonable Care" - has its meaning set forth in Section 7(b).

"Subsidiary" - means any entity in which a party owns or controls, directly or indirectly, 50% or more of its stock or other equity interests.

"Tax Cost" - has its meaning set forth in Section 8(h).

"Tax Sharing Agreement" - has its meaning set forth in Recitals.

"Transfer" - has its meaning set forth in Recitals.

"Transition Termination Date" - has its meaning set forth in Section 2(a).

"Transitional Services" - has its meaning set forth in Section 2(a).

"VGTI" - has its meaning set forth in Recitals.

"Visteon" - has its meaning set forth in the opening paragraph.

"Visteon Affiliate" - means any entity that is or would be an Affiliate of Visteon after the completion of the Transfer.

"Visteon Common Stock" - has its meaning set forth in Recitals.

"Visteon Entities" - has its meaning set forth in Section 7(d).

"Visteon Indemnitees" - has its meaning set forth in Section 8(b).

"Visteon Group" - means Visteon or any entity controlled by Visteon.

"Visteon Subsidiary" - means any entity that is or would be a Subsidiary of Visteon after the completion of the Transfer.

"Z Plan" - has its meaning set forth in Section 9(a).

## SCHEDULE 2(A)

## TRANSITIONAL SERVICES

1. Accounting services
2. Advance manufacturing engineering services, including developing, conducting, and/or providing support for certain training programs and/or laboratory testing
3. Asia Pacific services, including accounting, canteen, fire and ambulance, fuel, general affairs, company-sponsored employee events, company cars, lease cars, human resources, medical center, insurance, parking, power, process leadership, pump house, purchasing, office automation, systems, telecommunications, tool room, treasury, and/or wastewater and sewage treatment services to certain Visteon Asia Pacific locations, and liaison services to Visteon International Business Development, Inc. at its branches or representative offices in the Asia Pacific, including identifying new business opportunities, government relations and monitoring of local developments
4. Finance services to certain Visteon European and Visteon Asia Pacific locations
5. Human resources services, including corporate relations, certain customs operations, business operations, labor affairs, corporate travel, and/or healthcare services (but not medical services)
6. Intellectual property services, including administrative and operating personnel (but not legal advice or services), intellectual property database maintenance and administration, and/or information technology support services
7. Manufacturing and plant engineering services to certain Visteon European locations
8. Material planning and logistics services, including customs, logistics, transportation purchasing, freight payments, hazardous materials, and/or CMMS support services
9. Product development services, including global testing operations and/or materials engineering and testing services
10. Purchasing services, including FM&SP, production purchasing, and/or purchasing systems support services
11. Quality services, including CIRS, Global 8D, and/or quality focus test fleet services
12. Real estate services, including plant engineering, energy, environmental, property tax, and/or site management services

- 13. Tax services, including accounting, counseling, and/or planning services
- 14. Treasury services
- 15. Certain Insurance coverage and services

SCHEDULE 4

PAYMENTS

SCHEDULE 4 IS ATTACHED AS C:/WINDOWS/TEMP/MSAPYMTSCH.XLS

## SCHEDULE 6A

## VISTEON ENTITIES GIVING AUTHORITY TO AGENT

Visteon Global Technologies Inc.  
Visteon AC Holdings Corp.  
Visteon International Holdings, Inc. (US)  
Visteon Systems, LLC (formerly FE&R LLC and FERCO)  
Autopal s.r.o. (Czech)  
Autovidrio SA de CV (Mexico)  
Cadiz Electronica SA (Spain)  
Carplastic SA de CV (Mexico)  
Climate Systems Mexicana SA de CV (95%)  
Coclisa SA de CV (Mexico)  
Ford Microelectronics Inc. (US)  
Grupo Visteon SRL (Mexico)  
Japan Climate Systems Corp.  
Lamosa SA de CV (Mexico)  
LeatherWorks, LLC (US) (40%)  
Naldec (Japan)  
Visteon Ardennes Industries SAS (France)  
Visteon Asia Pacific, Inc. (Japan)  
Visteon Canada Inc. (Canada)  
Visteon Caribbean Inc., AKA Ford Motor Company Caribbean, Inc.  
Visteon Centro SA  
Visteon Corporation (US)  
Visteon de Mexico SRL  
Visteon Deutschland GmbH  
Visteon European Holdings Corp. (US)  
Visteon Global Treasury, Inc.  
Visteon Interior Holdings France, SAS  
Visteon International Business Development, Inc.  
Visteon LA Holdings Corp.  
Visteon Portugesa (Bermuda)  
Visteon Systemes Interieur France SA  
Visteon Technologies, LLC (US)  
Visteon UK Limited

## SCHEDULE 6B

## AUTHORIZED AGENTS

Ford Motor Company, a corporation organized under the laws of the State of Delaware/U.S.A.

Ford Motor Land Services Corporation

Ford Motor Company Limited of Brentwood, Essex/UK

Ford-Werke Aktiengesellschaft of Cologne/Germany

Ford France S.A. of Rueil Malmaison/France

Ford Espana, S.A. of Madrid/Spain

Ford Lusitana, S.A. of Lisbon/Portugal

Ford Nederland B.V. of Amsterdam/Netherlands

Ford Motor Company (Belgium) N.V. of Antwerp/Belgium

Ford Italiana S.p.A. of Rome/Italy

Ford Motor Company AB of Stockholm/Sweden

Ford Motor Company (Switzerland) S.A. of Zurich/Switzerland

FOLAT, S.A. de C.V.

Ford Motor Company of Canada, Limited

Ford Brasil Ltda.

Ford Argentina S.A.

Ford Motor Company Philippines, Inc.

Ford Motor Hungaria Kft

CONSENT OF DIRECTOR NOMINEE

I hereby consent to being named as a nominee to the Board of Directors of Visteon Corporation, a Delaware corporation, in its Registration Statement on Form S-1, (File No. 333-38388), and any and all amendments or supplements thereto, to be filed with the U.S. Securities and Exchange Commission.

June 5, 2000

/s/ ROBERT N. TEETER  
-----

SIGNATURE

ROBERT N. TEETER  
-----

TYPE OR PRINT NAME

CONSENT OF DIRECTOR NOMINEE

I hereby consent to being named as a nominee to the Board of Directors of Visteon Corporation, a Delaware corporation, in its Registration Statement on Form S-1, (File No. 333-38388), and any and all amendments or supplements thereto, to be filed with the U.S. Securities and Exchange Commission.

June 6, 2000

/s/ WILLIAM H. GRAY, III

-----  
SIGNATURE

WILLIAM H. GRAY, III

-----  
TYPE OR PRINT NAME

CONSENT OF DIRECTOR NOMINEE

I hereby consent to being named as a nominee to the Board of Directors of Visteon Corporation, a Delaware corporation, in its Registration Statement on Form S-1, (File No. 333-38388), and any and all amendments or supplements thereto, to be filed with the U.S. Securities and Exchange Commission.

June 6, 2000

/s/ ROBERT H. JENKINS

-----  
SIGNATURE

ROBERT H. JENKINS

-----  
TYPE OR PRINT NAME