VISTEON CORP
Form 10-Q
April 26, 2018

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

FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________
Commission file number 001-15827
VISTEON CORPORATION
(Exact name of registrant as specified in its charter)

State of Delaware	38-3519512
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Village Center Drive, Van Buren Township, Michigan	48111
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (800)-VISTEON
Not applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ü No__
Indicate by check mark whether the registrant: has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ü No __
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ü Accelerated filer __ Non-accelerated filer __ Smaller reporting company __
Emerging growth company __
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. __
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes __ No ü
Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ü No__

As of April 19, 2018, the registrant had outstanding 29,545,165 shares of common stock.
Exhibit index located on page number 42.

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Visteon Corporation and Subsidiaries
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Part I
Financial Information

Item 1. Consolidated Financial Statements

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

	Three Months Ended March 31	
	2018	2017
Sales	$814	$810
Cost of sales	(685)	(681)
Gross margin	129	129
Selling, general and administrative expenses	(44)	(52)
Restructuring expense	(5)	(1)
Interest expense	(4)	(6)
Interest income	2	1
Equity in net income of non-consolidated affiliates	3	2
Other income, net	7	2
Income before income taxes	88	75
Provision for income taxes	(21)	(16)
Net income from continuing operations	67	59
Income from discontinued operations, net of tax	2	8
Net income	69	67
Net income attributable to non-controlling interests	(4)	(4)
Net income attributable to Visteon Corporation	$65	$63
Basic earnings per share:		
Continuing operations	$2.07	$1.69
Discontinued operations	0.07	0.25
Basic earnings per share attributable to Visteon Corporation	$2.14	$1.94
Diluted earnings per share:		
Continuing operations	$2.05	$1.67
Discontinued operations	0.06	0.24
Diluted earnings per share attributable to Visteon Corporation	$2.11	$1.91
Comprehensive income:		
Comprehensive income	$92	$90
Comprehensive income attributable to Visteon Corporation	$82	$85

See accompanying notes to the consolidated financial statements.

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

	(Unaudited) March 31 2018	December 31 2017
ASSETS		
Cash and equivalents	$ 523	$ 706
Restricted cash	3	3
Accounts receivable, net	498	530
Inventories, net	199	189
Other current assets	194	175
Total current assets	1,417	1,603
Property and equipment, net	389	377
Intangible assets, net	133	132
Investments in non-consolidated affiliates	45	41
Other non-current assets	161	151
Total assets	$ 2,145	$ 2,304
LIABILITIES AND EQUITY		
Short-term debt, including current portion of long-term debt	$ 35	$ 46
Accounts payable	493	470
Accrued employee liabilities	80	105
Other current liabilities	179	180
Total current liabilities	787	801
Long-term debt	347	347
Employee benefits	275	277
Deferred tax liabilities	22	23
Other non-current liabilities	99	95
Stockholders’ equity:		
Preferred stock (par value $0.01, 50 million shares authorized, none outstanding as of March 31, 2018 and December 31, 2017)	—	—
Common stock (par value $0.01, 250 million shares authorized, 55 million shares issued, 30 and 31 million shares outstanding as of March 31, 2018 and December 31, 2017, respectively)	1	1
Additional paid-in capital	1,291	1,339
Retained earnings	1,510	1,445
Accumulated other comprehensive loss	(157)	(174)
Treasury stock	(2,139)	(1,974)
Total Visteon Corporation stockholders’ equity	506	637
Non-controlling interests	109	124
Total equity	615	761
Total liabilities and equity	$ 2,145	$ 2,304

See accompanying notes to the consolidated financial statements.

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS[1]
(Dollars in Millions)
(Unaudited)

	Three Months Ended March 31	
	2018	2017
Operating Activities		
Net income	$69	$67
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	22	19
Equity in net income of non-consolidated affiliates, net of dividends remitted	(3)	(2)
Non-cash stock-based compensation	(6)	2
Gain on India operations repurchase	—	(7)
(Gains) losses on divestitures and impairments	(3)	1
Other non-cash items	—	3
Changes in assets and liabilities:		
Accounts receivable	48	(39)
Inventories	(6)	(8)
Accounts payable	30	18
Other assets and other liabilities	(70)	(65)
Net cash provided from (used by) operating activities	81	(11)
Investing Activities		
Capital expenditures, including intangibles	(44)	(32)
India operations repurchase	—	(47)
Proceeds from asset sales and business divestitures	—	10
Loan repayments from non-consolidated affiliates	2	—
Other	1	—
Net cash used by investing activities	(41)	(69)
Financing Activities		
Short-term debt, net	(12)	15
Principal payments on debt	—	(2)
Distribution payments	(14)	(1)
Repurchase of common stock	(200)	(125)
Dividends paid to non-controlling interests	(1)	—
Other	(3)	(3)
Net cash used by financing activities	(230)	(116)
Effect of exchange rate changes on cash	7	6
Net decrease in cash	(183)	(190)
Cash, cash equivalents, and restricted cash at beginning of the period	709	882
Cash, cash equivalents, and restricted cash at end of the period	$526	$692

[1] The Company has combined cash flows from discontinued and continuing operations with the operating, investing and financing categories.

See accompanying notes to the consolidated financial statements.

VISTEON CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Description of Business
Visteon Corporation (the "Company" or "Visteon") is a global automotive supplier that designs, engineers and manufactures innovative electronics products for nearly every original equipment vehicle manufacturer ("OEM") worldwide including Ford, Mazda, Renault/Nissan, General Motors, Jaguar/Land Rover, Honda, Volkswagen, BMW and Daimler. Visteon is headquartered in Van Buren Township, Michigan, and has an international network of manufacturing operations, technical centers and joint venture operations, supported by approximately 10,000 employees, dedicated to the design, development, manufacture and support of its product offerings and its global customers. The Company's manufacturing and engineering footprint is principally located outside of the U.S., with a heavy concentration in low-cost geographic regions.
Visteon provides value for its customers and stockholders through its technology-focused vehicle cockpit electronics business, by delivering a rich, connected cockpit experience for every car from luxury to entry. The Company's cockpit electronics business is one of the broadest portfolios in the industry and includes instrument clusters, information displays, infotainment systems, audio systems, head-up displays, SmartCore™ cockpit domain controllers, vehicle connectivity, and the DriveCore™ autonomous driving platform. Visteon also supplies embedded multimedia and smartphone connectivity software solutions to the global automotive industry. The Company's vehicle cockpit electronics business is comprised of and reported under the Electronics segment.
NOTE 2. Summary of Significant Accounting Policies
The unaudited consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. These interim consolidated financial statements include all adjustments (consisting of normal recurring adjustments, except as otherwise disclosed) that management believes are necessary for a fair presentation of the results of operations, financial position and cash flows of the Company for the interim periods presented. Interim results are not necessarily indicative of full-year results.
Restricted Cash: Restricted cash represents amounts designated for uses other than current operations and includes $2 million related to the Letter of Credit Facility, and $1 million related to cash collateral for other corporate purposes as of March 31, 2018.
Reclassifications: Certain prior period amounts have been reclassified to conform to the current period presentation.
Other Income, Net:

	Three Months Ended March 31	
	2018	2017
	(Dollars in Millions)	
Transformation initiatives	$ 4	$ —
Pension financing benefits, net	3	3
Loss on non-consolidated affiliate transactions, net	—	(1)
	$ 7	$ 2

Transformation initiatives include information technology separation costs, integration of acquired business, and financial and advisory services incurred in connection with the Company's transformation into a pure play cockpit electronics business. During the three months ended March 31, 2018, the Company recognized a $4 million benefit on settlement of litigation matters with the Company’s former President and Chief Executive Officer (“former CEO”) as

further described in Note 16, Commitments and Contingencies.
Pension financing benefits, net include return on assets net of interest costs and other amortization.
Recently Adopted Accounting Pronouncements:
Effective January 1, 2018 the Company adopted Accounting Standards Update Topic ("ASU") 2014-09 "Revenue from Contracts with Customers (Topic 606)," using the modified retrospective method. Under the modified retrospective method, the impact of

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applying the standard is recognized as a cumulative effect on retained earnings. The adoption of ASU 2014-09 did not have a material impact on the Company’s consolidated financial position, results of operations, equity or cash flows as of the adoption date or for the three months ended March 31, 2018. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Certain of the Company’s nonpublic unconsolidated joint ventures have not yet adopted Topic 606 and therefore the Company’s share of earnings as report in equity in net income of non-consolidated affiliates continues to be reported under historical revenue accounting standards. The Company does not expect the adoption of Topic 606 by its nonpublic unconsolidated joint ventures on January 1, 2019 to have a material impact on its results of operations or financial position. For additional information, refer to Note 17 "Revenue Recognition" to the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of certain cash receipts and cash payments." The ASU addresses eight specific cash flow issues with the objective of reducing the diversity in practice in how certain transactions were classified in the statement of cash flows. The ASU is applied using a retrospective transition method to each period presented. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted the guidance on a retrospective basis during the three months ending March 31, 2018 and accordingly, previously issued operating cash flows decreased by $1 million and cash flows from financing activities increased by $1 million for the three months ending March 31, 2017.

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

In November 2016, the FASB issued an accounting standards update ASU 2016-18, "Restricted Cash," requiring that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The change is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Retrospective application is required. The Company adopted the guidance on a retrospective basis during the three months ending March 31, 2018 and accordingly, included restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

In March 2017, the FASB issued ASU 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the presentation of net periodic pension cost and net periodic postretirement benefit cost." The ASU requires entities to present the service cost component of the net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Entities will present the other components separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, and disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The standard will be applied retrospectively for the presentation of the service cost component and the components of pension financing costs in the income statement, and prospectively for the guidance limiting the capitalization of net periodic benefit cost in assets to the service cost. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company previously recorded service cost with other compensation costs (benefits) in cost of sales and selling, general and administrative expenses. Adoption of the standard results in the reclassification of other compensation costs (benefits) in other income, net. The Company's retrospective adoption of this standard on January 1, 2018 resulted in a $2 million increase to cost of sales, and a $1 million increase to selling, general and administrative expenses, with a corresponding $3 million increase in other income, net, with no impact to net income for the three month period ending March 31, 2017.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." The ASU amends the scope of modification accounting for share-based payment arrangements, provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The new guidance will allow companies to make certain changes to awards without accounting for them as modifications. It does not change the accounting for modifications. The new guidance will be applied prospectively to awards changed on or after the adoption date. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company's adoption of this standard on January 1, 2018 did not have a material impact on its consolidated financial statements.

Effective January 1, 2018 the Company has elected to early adopt ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities" which was created to better align accounting rules with a company’s risk management activities to better reflect the economic results of hedging in the financial statements; and simplify hedge accounting treatment. The modified retrospective adoption of ASU 2017-12 did not have a material impact on the Company’s consolidated financial position, results of operations, equity or cash flows as of the adoption date or for the three months ended March 31, 2018. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. For additional information, refer to Note 15 "Fair Value Measurements and Financial Instruments" to the Company's consolidated financial statements.

Accounting Pronouncements Not Yet Adopted:

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The amendments in Topic 842 supersede current lease requirements in Topic 840 which require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of this standard on the financial statements and disclosures, internal controls and accounting policies. This evaluation process includes reviewing all forms of leases, performing a completeness assessment over the lease population and analyzing the practical expedients in order to determine the best path of implementing changes to existing processes and controls along with necessary system implementations. While the Company's evaluation is ongoing, the impact on existing processes, controls, information systems and the consolidated financial statements is expected to be material.

NOTE 3. Discontinued Operations

The Company completed the sale of the majority of its global Climate business (the "Climate Transaction") during 2015 and completed the divestiture of its global Interiors business in 2016 (the "Interiors Divestiture"). These transactions met the conditions required to qualify for discontinued operations reporting and accordingly the settlement of retained contingencies have been classified in income from discontinued operations, net of tax, in the consolidated statements of comprehensive income for the three months ended March 31, 2018 and 2017.

Discontinued operations are summarized as follows:

	Three Months Ended March 31	
	2018	2017
	(Dollars in Millions)	
Restructuring expense	$ (1)	$ —
Gain on Climate Transaction	3	7
Income tax benefit	—	1
Income from discontinued operations, net of tax	$ 2	$ 8

During the three months ended March 31, 2018, the Company recognized a $3 million benefit on settlement of litigation matters with its former CEO as further described in Note 16, "Commitments and Contingencies."

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

NOTE 4. Non-Consolidated Affiliates

Non-Consolidated Affiliate Transactions

During the first quarter of 2017, the Company completed the sale of its 50% interest in an equity method investment for proceeds of $7 million, consistent with its carrying value.

In March 2017, the Company sold a cost method investment for proceeds of approximately $3 million and recorded a pretax loss of $1 million during the three months ended March 31, 2017, classified as "other income, net".

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Variable Interest Entities

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

Visteon and Yangfeng Automotive Trim Systems Co. Ltd. ("YF") each own 50% of a joint venture under the name of Yanfeng Visteon Investment Co., Ltd. ("YFVIC"). In October 2014, YFVIC completed the purchase of YF’s 49% direct ownership in Yanfeng Visteon Automotive Electronics Co., Ltd ("YFVE") a consolidated joint venture of the Company. The purchase by YFVIC was financed through a shareholder loan from YF and external borrowings which were guaranteed by Visteon, of which $12 million is outstanding as of March 31, 2018. The guarantee contains standard non-payment provisions to cover the borrowers in event of non-payment of principal, accrued interest, and other fees, and the loan is expected to be fully paid by September 2019.

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

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

	March 31 2018	December 31 2017
	(Dollars in Millions)	
Payables due to YFVIC	$8	$ 12
Exposure to loss in YFVIC:		
Investment in YFVIC	$32	$ 28
Receivables due from YFVIC	26	35
Subordinated loan receivable from YFVIC	21	22
Loan guarantee of YFVIC debt	12	15
Maximum exposure to loss in YFVIC	$91	$ 100

NOTE 5. Restructuring Activities

Given the economically-sensitive and highly competitive nature of the automotive electronics industry, the Company continues to closely monitor current market factors and industry trends, taking action as necessary which may include restructuring actions. However, there can be no assurance that any such actions will be sufficient to fully offset the impact of adverse factors on the Company or its results of operations, financial position and cash flows. During the three months ended March 31, 2018 and 2017, the Company recorded $6 million and $1 million of restructuring expenses including discontinued operations, net of reversals, respectively.

Electronics

During the fourth quarter of 2016, the Company approved a restructuring program impacting engineering and administrative functions, associated with approximately 250 employees to further align the Company's engineering and related administrative footprint with its core product technologies and customers. During the three months ended March 31, 2018, the Company recorded approximately $5 million of restructuring expenses under this program, and $11 million remains accrued for the program as of March 31, 2018. Through March 31, 2018, the Company has recorded approximately $45 million of restructuring expenses since inception of this program.

Discontinued Operations

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

As of March 31, 2018, the Company retained approximately $7 million of restructuring reserves as part of the Interiors Divestiture associated with previously announced programs for the fundamental reorganization of operations at facilities in Brazil and France.

Restructuring Reserves

Restructuring reserve balances of $18 million and $24 million as of March 31, 2018 and December 31, 2017, respectively, are classified as "Other current liabilities" on the consolidated balance sheets. The Company anticipates that the activities associated with the current restructuring reserve balance will be substantially complete within one year. The Company's consolidated restructuring reserves and related activity are summarized below, including amounts associated with discontinued operations.

	Electronics	Other and Discontinued Operations	Total
	(Dollars in Millions)		
December 31, 2017	$18	$ 6	$24
Expense	5	1	6
Utilization	(12)	—	(12)
March 31, 2018	$11	$ 7	$18

NOTE 6. Inventories

Inventories consist of the following components:

	March 31 2018	December 31 2017
	(Dollars in Millions)	
Raw materials	$141	$ 109
Work-in-process	25	49
Finished products	33	31
	$199	$ 189

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NOTE 7. Other Assets

Other current assets are comprised of the following components:

	March 31 2018	December 31 2017
	(Dollars in Millions)	
Recoverable taxes	$52	$ 56
Prepaid assets and deposits	48	36
Joint venture receivables	31	43
Notes receivable	30	23
Contractually reimbursable engineering costs	26	14
Foreign currency hedges	4	1
Other	3	2
	$194	$ 175

The Company receives bank notes from certain of its customers in China to settle trade accounts receivable. The Company may hold such bank notes until maturity, exchange them with suppliers to settle liabilities, or sell them to third party financial institutions in exchange for cash. The Company has entered into arrangements with financial institutions to sell certain bank notes, generally maturing within nine months. Notes are sold with recourse, but qualify as a sale as all rights to the notes have passed to the financial institution. The Company sold $10 million during the three months ended March 31, 2018 to financial institutions, $4 million of which remains outstanding and will mature no later than the third quarter of 2018. The collection of such bank notes are included in operating cash flows based on the substance of the underlying transactions, which are operating in nature.

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

	March 31 2018	December 31 2017
	(Dollars in Millions)	
Deferred tax assets	$47	$ 46
Recoverable taxes	36	35
Contractually reimbursable engineering costs	34	24
Joint venture receivables	24	26
Long term notes receivable	10	10
Other	10	10
	$161	$ 151

In conjunction with the Interiors Divestiture, the Company entered into a three year term loan with the buyer for $10 million, which matures on December 1, 2019.

Current and non-current contractually reimbursable engineering costs of $26 million and $34 million, respectively, as of March 31, 2018, and $14 million and $24 million, respectively, as of December 31, 2017, are related to pre-production design and development costs incurred pursuant to long-term supply arrangements that are contractually guaranteed for reimbursement by customers. The Company expects to receive cash reimbursement payments of approximately $21 million during the remainder of 2018, $31 million in 2019, $2 million in 2020, $2 million in 2021 and $4 million in 2022 and beyond.

NOTE 8. Intangible Assets, net

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

	Estimated Weighted Average Useful Life (years)	March 31, 2018			December 31, 2017		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
		(Dollars in Millions)					
Definite-Lived:							
Developed technology	8	$41	$ 29	$ 12	$40	$ 27	$ 13
Customer related	10	91	39	52	88	35	53
Capitalized software development	4	10	1	9	8	1	7
Other	23	13	1	12	13	1	12
Subtotal		155	70	85	149	64	85
Indefinite-Lived:							
Goodwill		48	—	48	47	—	47
Total		$203	$ 70	$ 133	$196	$ 64	$ 132

The Company recorded approximately $4 million and $3 million of amortization expense related to definite-lived intangible assets for the three months ended March 31, 2018 and 2017, respectively. The Company currently estimates annual amortization expense to be $16 million for both 2018 and 2019, $13 million for 2020, and $10 million for years 2021 and 2022. Indefinite-lived intangible assets are not amortized but are tested for impairment at least annually, or earlier when events and circumstances indicate that it is more likely than not that such assets have been impaired. There were no indicators of impairment during the three months ended March 31, 2018.

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

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

	Definite-lived intangibles					
	Developed Technology	Customer Related	Capitalized Software Development	Other	Goodwill	Total
	(Dollars in Millions)					
December 31, 2017	$13	$ 53	$ 7	$ 12	$ 47	$132
Additions	—	—	2	—	—	2
Foreign currency	—	2	—	—	1	3
Amortization	(1)	(3)	—	—	—	(4)
March 31, 2018	$12	$ 52	$ 9	$ 12	$ 48	$133

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NOTE 9. Other Liabilities

Other current liabilities are summarized as follows:

	March 31 2018	December 31 2017
	(Dollars in Millions)	
Product warranty and recall accruals	$35	$ 33
Dividends payable to non-controlling interest	27	3
Income taxes payable	23	12
Restructuring reserves	18	24
Rent and royalties	18	24
Deferred income	16	18
Joint venture payables	9	12
Non-income taxes payable	6	10
Foreign currency hedges	—	1
Distribution payable	—	14
Other	27	29
	$179	$ 180

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

Other non-current liabilities are summarized as follows:

	March 31 2018	December 31 2017
	(Dollars in Millions)	
Foreign currency hedges	$30	$ 23
Product warranty and recall accruals	17	16
Deferred income	15	16
Income tax reserves	12	12
Non-income tax reserves	6	7
Other	19	21
	$99	$ 95

NOTE 10. Debt

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

	March 31 2018	December 31 2017
	(Dollars in Millions)	
Short-Term Debt:		
Current portion of long-term debt	$—	$ 2
Short-term borrowings	35	44
	$35	$ 46
Long-Term Debt:		
Term debt facility	$347	$ 347

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Short-Term Debt

Short-term borrowings are primarily related to the Company's non-U.S. affiliates and joint ventures and are payable in U.S. Dollar, Chinese Renminbi and India Rupee. Available borrowings on outstanding affiliate credit facilities as of March 31, 2018, are approximately $22 million and certain of these facilities have pledged assets as security.

Long-Term Debt

As of March 31, 2018, the Company has a credit agreement (the “Credit Agreement”), which includes a $350 million Term Facility maturing March 24, 2024 and a Revolving Credit Facility with capacity of $300 million maturing March 24, 2022. Borrowings under the Term Facility accrue interest at LIBOR plus 2.00%. Loans drawn under the Revolving Credit Facility have an interest rate equal to LIBOR plus a margin ranging from 2.00% to 2.75% as specified by a ratings grid contained in the Credit Agreement. As of March 31, 2018, borrowings under the Revolving Credit Facility would accrue interest at LIBOR plus 1.75%.

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

The Revolving Credit Facility also provides $75 million availability for the issuance of letters of credit and a maximum of $20 million for swing line borrowing. Any amount of the facility utilized for letters of credit or swing line loans outstanding will reduce the amount available under the amended Revolving Credit Facility. The Company may request increases in the limits under the amended Term Facility and the amended Revolving Credit Facility and may request the addition of one or more term loan facilities under the Credit Agreement. Outstanding borrowings may be prepaid without penalty (other than borrowings made for the purpose of reducing the effective interest rate margin or weighted average yield of the loans). There are mandatory prepayments of principal in connection with: (i) excess cash flow sweeps above certain leverage thresholds, (ii) certain asset sales or other dispositions, (iii) certain refinancing of indebtedness and (iv) over-advances under the Revolving Credit Facility. There are no excess cash flow sweeps required at the Company’s current leverage level.

The Credit Agreement requires the Company and its subsidiaries to comply with customary affirmative and negative covenants, and contains customary events of default. The Revolving Credit Facility also requires that the Company maintain a total net leverage ratio no greater than 3.00:1.00. During any period when the Company’s corporate and family ratings meet investment grade ratings, certain of the negative covenants shall be suspended. As of March 31, 2018, the Company was in compliance with all its debt covenants.

All obligations under the Credit Agreement and obligations in respect of certain cash management services and swap agreements with the lenders and their affiliates are unconditionally guaranteed by certain of the Company’s subsidiaries. Under the terms of the Credit Agreement, all obligations under the Credit Agreement are secured by a first-priority perfected lien (subject to certain exceptions) on substantially all property of the Company and the subsidiaries party to the security agreement, subject to certain limitations.

As of March 31, 2018, the Term Facility remains at $350 million of aggregate principal and there were no outstanding borrowings under the Revolving Credit Facility.

Other

The Company has a $5 million letter of credit facility, whereby the Company is required to maintain a collateral account equal to 103% of the aggregate stated amount of issued letters of credit (or 110% for non-U.S. currencies) and must reimburse any amounts drawn under issued letters of credit. The Company had $2 million of outstanding letters of credit issued under this facility secured by restricted cash, as of March 31, 2018. Additionally, the Company had $18 million of locally issued letters of credit with less than $1 million of collateral as of March 31, 2018, to support various tax appeals, customs arrangements and other obligations at its local affiliates.

NOTE 11. Employee Benefit Plans
Defined Benefit Plans
The Company's net periodic benefit costs for all defined benefit plans for the three month periods ended March 31, 2018 and 2017 were as follows:

	U.S. Plans		Non-U.S. Plans	
	2018	2017	2018	2017
	(Dollars in Millions)			
Costs Recognized in Income:				
Pension service cost:				
Service cost	$—	$ —	$ —	$ —
Pension financing benefit (cost):				
Interest cost	(7)	(7)	(2)	(2)
Expected return on plan assets	10	10	2	2
Amortization of losses and other	—	—	—	—
Restructuring related pension cost:				
Special termination benefits	(1)	—	—	—
Net pension income (expense)	$ 2	$ 3	$ —	$ —

The Company previously recorded service cost with other components of net pension income (expense) in cost of sales and selling, general and administrative expenses. Adoption of the ASU 2017-07, “Compensation - Retirement Benefits (Topic 715)", resulted in the reclassification of pension financing benefit (cost) into other income, net.
During the three months ended March 31, 2018, cash contributions to the Company's defined benefit plans were less than $1 million for the U.S. plans and $1 million for the non-U.S. plans. The Company estimates that cash contributions to its defined benefit pension plans will be $7 million in 2018.
NOTE 12. Income Taxes
During the three month periods ended March 31, 2018, the Company recorded a provision for income tax on continuing operations of $21 million, which reflects income tax expense in countries where the Company is profitable; accrued withholding taxes; ongoing assessments related to the recognition and measurement of uncertain tax benefits; the inability to record a tax benefit for pretax losses and/or recognize expense for pretax income in certain jurisdictions (including the U.S.) due to valuation allowances; and other non-recurring tax items. Pretax losses from continuing operations in jurisdictions where valuation allowances are maintained and no income tax benefits are recognized totaled $3 million for both three month periods ended March 31, 2018 and 2017, resulting in an increase in the Company's effective tax rate in those years.
The reduction of the U.S. federal statutory income tax rate from 35% to 21% under the Tax Cuts and Jobs Act (the “Act”) enacted in December 2017, did not have a significant impact to income tax expense in the quarter due to the U.S. valuation allowance. The Company’s income tax expense reflects the estimated impacts of other provisions of the Act including the global minimum income tax and base erosion tax provisions related to offshore activities and affiliated party payments neither of which had a significant impact to income tax expense in the quarter.
The Company provides for U.S. and non-U.S. income taxes and non-U.S. withholding taxes on the projected future repatriations of the earnings from its non-U.S. operations that are not considered permanently reinvested at each tier of the legal entity structure. During the three month periods ended March 31, 2018 and 2017, the Company recognized expense primarily related to non-U.S. withholding taxes, including exchange impacts, of $3 million and $2 million, respectively, reflecting the Company's forecasts which contemplate numerous financial and operational considerations that impact future repatriations.
The Company's provision for income taxes in interim periods is computed by applying an estimated annual effective tax rate against income before income taxes, excluding equity in net income of non-consolidated affiliates for the period. Effective tax rates vary from period to period as separate calculations are performed for those countries where the Company's operations are profitable and whose results continue to be tax-effected and for those countries where full deferred tax valuation allowances exist and are maintained. In determining the estimated annual effective tax rate,

the Company analyzes various factors, including but not limited to, forecasts of projected annual earnings, taxing jurisdictions in which the pretax income and/or pretax losses will be

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generated and available tax planning strategies. The Company's estimated annual effective tax rate is updated each quarter and may be significantly impacted by changes to the mix of forecasted earnings by tax jurisdiction. The tax impact of adjustments to the estimated annual effective tax rate are recorded in the period such estimates are revised. The Company is also required to record the tax impact of certain other non-recurring tax items, including changes in judgment about valuation allowances and uncertain tax positions, and changes in tax laws or rates, in the interim period in which they occur, rather than include them in the estimated annual effective tax rate.

The need to maintain valuation allowances against deferred tax assets in the U.S. and other affected countries will cause variability in the Company's quarterly and annual effective tax rates. Full valuation allowances against deferred tax assets in the U.S. and applicable foreign countries will be maintained until sufficient positive evidence exists to reduce or eliminate them. The factors considered by management in its determination of the probability of the realization of the deferred tax assets include, but are not limited to, recent historical financial results, historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If, based upon the weight of available evidence, it is more likely than not the deferred tax assets will not be realized, a valuation allowance is recorded. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses, in particular, when there is a cumulative loss incurred over a three-year period. In regards to the full valuation allowance recorded against the U.S. net deferred tax assets, the cumulative U.S. pretax book loss adjusted for significant permanent items incurred over the three-year period ended December 31, 2017 limits the ability to consider other subjective evidence such as the Company's plans to improve U.S. profits, and as such, the Company continues to maintain a full valuation allowance against the U.S. net deferred tax assets. Based on the Company's current assessment, it is possible that within the next 9 to 18 months, the existing valuation allowance against the U.S. net deferred tax assets could be partially released. Any such release is dependent upon the sustained improvement in U.S. operating results, and, if such a release of the valuation allowance were to occur, it could have a significant impact on net income in the quarter in which it is deemed appropriate to partially release the reserve.

Due to the timing of the Act and the substantial changes it brings, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides registrants a measurement period to report the impact of the new U.S. tax law. During the measurement period, provisional amounts for the effects of the law are recorded to the extent a reasonable estimate can be made. To the extent that all information necessary is not available, prepared or analyzed, companies may recognize provisional estimated amounts for a period of up to one year following enactment of the Act.

For year-end 2017, the Company recorded provisional amounts for impacts of the Act in accordance with the guidance as of the date of the year-end filing, including the one-time transition tax on the mandatory deemed repatriation of foreign earnings, gross foreign tax credit carryforwards, the remeasurement of deferred taxes, and related valuation allowances. The Company will continue to refine provisional amounts surrounding the remeasurement of deferred taxes and information related to unremitted earnings from foreign affiliates to more precisely analyze and compute the remeasurement of deferred taxes and the impact of the transition tax under the Act, as well as other provisions of the Act, such as the global minimum income tax and base erosion tax provisions related to offshore activities and affiliated party payments, as more information and further guidance become available.

Unrecognized Tax Benefits

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

With few exceptions, the Company is no longer subject to U.S. federal tax examinations for years before 2014, or state, local or non-U.S. income tax examinations for years before 2003, although U.S. net operating losses carried forward into open tax years technically remain open to adjustment. During the first quarter of 2018, the IRS informed the Company that the 2016 tax year would be added to the ongoing examination of the Company’s U.S. tax returns for 2014 and 2015. Although it is not possible to predict the timing of the resolution of all ongoing tax audits with accuracy, it is reasonably possible that certain tax proceedings in Europe, Asia and Mexico could conclude within the next twelve months and result in a significant increase or decrease in the balance of gross unrecognized tax benefits. Given the number of years, jurisdictions and positions subject to examination, the Company is unable to estimate the full range of possible adjustments to the balance of unrecognized tax benefits. The long-term portion of uncertain income tax positions (including interest) in the amount of $12 million is included in Other non-current liabilities on the consolidated balance sheet, while the current portion in the amount of $2 million, is included in Other current liabilities on the consolidated balance sheet.

During 2012, Brazil tax authorities issued tax assessment notices to Visteon Sistemas Automotivos (“Sistemas”) related to the sale of its chassis business to a third party, which required a deposit in the amount of $15 million during 2013 necessary to open a judicial proceeding against the government in order to suspend the debt and allow Sistemas to operate regularly before the tax authorities after attempts to reopen an appeal of the administrative decision failed. Adjusted for currency impacts and accrued interest, the deposit amount is approximately $16 million, as of March 31, 2018. The Company believes that the risk of a negative outcome is remote once the matter is fully litigated at the highest judicial level. These appeal payments, as well as income tax refund claims associated with other jurisdictions, total $19 million as of March 31, 2018, and are included in "Other non-current assets" on the consolidated balance sheet.

NOTE 13. Stockholders’ Equity and Non-controlling Interests

Changes in equity for the three months ended March 31, 2018 and 2017 are as follows:

	2018			2017		
	Visteon	NCI	Total	Visteon	NCI	Total
	(Dollars in Millions)					
Three Months Ended March 31, 2018						
Beginning balance	$637	$124	$761	$586	$138	$724
Net income from continuing operations	63	4	67	55	4	59
Net income from discontinued operations	2	—	2	8	—	8
Net income	65	4	69	63	4	67
Other comprehensive income (loss)						
Foreign currency translation adjustments	20	6	26	19	1	20
Net investment hedge	(6)	—	(6)	(1)	—	(1)
Unrealized hedging gain	3	—	3	4	—	4
Total other comprehensive income	17	6	23	22	1	23
Stock-based compensation, net	(13)	—	(13)	2	—	2
Share repurchases	(200)	—	(200)	(125)	—	(125)
Dividends to non-controlling interests	—	(25)	(25)	—	(11)	(11)
Ending balance	$506	$109	$615	$548	$132	$680

Stock-based Compensation, net

During the three months ended March 31, 2018, equity increased $13 million due to the forfeiture of unvested shares for a litigation matter with the Company's former CEO as further described in Note 16, Commitments and Contingencies, classified as a benefit of $10 million to selling, general and administrative expenses and a $3 million benefit classified as discontinued operations.

Share Repurchase Program

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

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

During the first quarter of 2018, the Company entered into various programs with third-party financial institutions to purchase a total of 410,325 shares of Visteon common stock at an average price of $121.85 for an aggregate purchase price of $50 million as further described below:

- On December 19, 2017, the Company entered into a forward starting share repurchase agreement with a third party financial institution to purchase up to $25 million of the Company's common stock complying with the provisions of Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934. Share purchases under the program commenced on January 2, 2018 and expired on February 26, 2018. Under this arrangement, the Company paid approximately $13 million to purchase a total of 109,190 shares with an average price of $120.41.
- On January 15, 2018, the Company's Board of Directors authorized an additional $500 million of share repurchases, for a total authorization of $700 million, of its share of common stock through 2020.
- During the first quarter of 2018, the Company entered into a brokerage agreement with a third-party financial institution to execute open market repurchases of the Company's common stock. Pursuant to this arrangement the Company paid $12 million to repurchase 96,360 shares at an average price of $122.99.
- On March 6, 2018, the Company entered into a share repurchase agreement with a third party financial institution to purchase shares of its common stock complying with the provisions of Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934. Share purchases under the program commenced on March 6, 2018 and expired on March 19, 2018. The Company paid approximately $25 million to purchase a total of 204,775 shares with an average price of $122.08 under this program.

Additionally, on March 6, 2018 the Company entered into an Accelerated Share Buyback ("ASB") program with a third-party financial institution to purchase shares of Visteon common stock for an aggregate purchase price of $150 million. On March 7, 2018, the Company received an initial delivery of 988,386 shares of common stock using a reference price of $121.41. The program is expected to conclude by the end of third quarter 2018.

As of March 31, 2018, $500 million of the authorization through 2020 remains outstanding. The Company anticipates that additional repurchases of common stock, if any, would occur from time to time in open market transactions or in privately negotiated transactions depending on market and economic conditions, share price, trading volume, alternative uses of capital and other factors.

Non-Controlling Interests

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

	March 31 2018	December 31 2017
	(Dollars in Millions)	
Yanfeng Visteon Automotive Electronics Co., Ltd.	$64	$ 77
Shanghai Visteon Automotive Electronics, Co., Ltd.	43	44
Other	2	3
	$109	$ 124

Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended March 31	
	2018	2017
	(Dollars in Millions)	
Changes in AOCI:		
Beginning balance	$(174)	$(233)
Other comprehensive income before reclassification, net of tax	17	20
Amounts reclassified from AOCI	—	2
Ending balance	$(157)	$(211)
Changes in AOCI by Component:		
Foreign currency translation adjustments		
Beginning balance	$(100)	$(163)
Other comprehensive income before reclassification, net of tax (a)	20	19
Ending balance	(80)	(144)
Net investment hedge		
Beginning balance	(12)	10
Other comprehensive loss before reclassification, net of tax (a)	(6)	(1)
Ending balance	(18)	9
Benefit plans		
Beginning balance	(63)	(75)
Other comprehensive income before reclassification, net of tax (a)	—	—
Amounts reclassified from AOCI	—	—
Ending balance	(63)	(75)
Unrealized hedging (loss) gain		
Beginning balance	1	(5)
Other comprehensive income before reclassification, net of tax (b)	3	2
Amounts reclassified from AOCI	—	2
Ending balance	4	(1)
Total AOCI	$(157)	$(211)

(a) Net tax expense was less than $1 million effects for the three months ended March 31, 2018. Income tax effects for all other periods are zero after recording offsetting valuation allowance.

(b) Net tax expense of less than $1 million and $1 million are related to unrealized hedging (losses) gains for the three months ended March 31, 2018 and 2017, respectively.

NOTE 14. Earnings Per Share

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

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

	Three Months Ended March 31	
	2018	2017
	(In Millions, Except Per Share Amounts)	
Numerator:		
Net income from continuing operations attributable to Visteon	$63	$55
Net income from discontinued operations attributable to Visteon	2	8
Net income attributable to Visteon	$65	$63
Denominator:		
Average common stock outstanding - basic	30.5	32.5
Dilutive effect of performance based share units and other	0.3	0.5
Diluted shares	30.8	33.0
Basic and Diluted Per Share Data:		
Basic earnings per share attributable to Visteon:		
Continuing operations	$2.07	$1.69
Discontinued operations	0.07	0.25
	$2.14	$1.94
Diluted earnings per share attributable to Visteon:		
Continuing operations	$2.05	$1.67
Discontinued operations	0.06	0.24
	$2.11	$1.91

NOTE 15. Fair Value Measurements and Financial Instruments

Fair Value Measurements

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

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

Items Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis. The fair value measurements are generally determined using unobservable inputs and are classified within Level 3 of the fair value hierarchy. These assets include long-lived assets, intangible assets and investments in affiliates, which may be written down to fair value as a result of impairment. During the first quarter there were no items measured at fair value on a nonrecurring basis.

Items Not Carried at Fair Value

The Company's fair value of debt was approximately $388 million and $401 million as of March 31, 2018 and December 31, 2017, respectively. Fair value estimates were based on the current rates offered to the Company for debt of the same remaining maturities. Accordingly, the Company's debt fair value disclosures are classified as Level 2, "Other Observable Inputs" in the fair value hierarchy.

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

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

Items Measured at Fair Value on a Recurring Basis

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

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

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

As of March 31, 2018, and December 31, 2017, the Company had foreign currency derivative instruments with aggregate notional value of approximately $125 million and $119 million, respectively. At March 31, 2018, approximately $109 million of the hedge instruments have been designated as cash flow hedges. Accordingly, the total change in fair value of the transactions are initially recognized in other comprehensive income, a component of shareholders' equity, if considered highly effective. Upon settlement of the transactions, the accumulated gains and losses are reclassified to income in the same periods during which the hedged cash flows impact earnings. The fair value of these derivatives is an asset of $1 million and a liability of $2 million, as of March 31, 2018, and December 31, 2017. respectively. The difference between the gross and net value of these derivatives after offset by counter party is not material. The estimated AOCI that is expected to be reclassified into earnings within the next 12 months is an approximate gain of less than $1 million. The terms of the hedges range from 12 to 18 months.

As of December 31, 2017, the Company had cross currency swaps to mitigate the variability of the value of the Company's investment in certain non-U.S. entities with an aggregate notional value of $150 million, designated as a net investment hedge. The Company elected to assess effectiveness under the forward method and therefore changes in the fair value of the transactions are recognized in other comprehensive income, a component of shareholders' equity, if considered highly effective. As of December 31, 2017, and the fair value of the derivative was a non-current liability of $23 million.

In connection with the Company's early adoption of ASU 2017-12, on March 29, 2018 the Company re-designated the hedging relationships involving its cross currency swap transactions. The transactions continue to be designated as net investment hedges of certain of the Company's European affiliates. However, the Company changed its hedge effectiveness assessment methodology to the spot rate method. Accordingly, periodic changes in the fair value of the hedging transactions are recognized in other comprehensive income, a component of shareholders' equity, if considered highly effective. Amortization of the excluded components as determined at the re-designation date will be recognized on a straight line basis in interest expense beginning in the second quarter of 2018. The fair value of such derivatives was a non-current liability of $30 million as of March 31, 2018.

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Interest Rate Risk: The Company is subject to interest rate risk in relation to variable-rate debt. The Company uses financial derivative instruments to manage exposure to fluctuations in interest rates in connection with its risk management policies.
As of December 31, 2017, the Company had interest rate swaps to manage interest rate risk associated with the Term Facility with an aggregate notional value of $150 million to effectively convert designated interest payments related to the amended Term Facility from variable to fixed cash flows. The maturities of these swaps do not exceed the underlying obligations under the amended Term Facility. The instruments have been designated as cash flow hedges and the changes in the fair value of the swap transactions is recognized in other comprehensive income, a component of shareholders' equity, if considered highly effective. Subsequently, the accumulated gains and losses recorded in equity are reclassified to income in the period during which the hedged cash transaction impacts earnings. As of March 31, 2018 and December 31, 2017, the fair value of the derivative was an asset of $3 million and $1 million, respectively. AOCI expected to be reclassified into earnings within the next 12 months is a loss of $1 million.
Financial Statement Presentation
Gains and losses on derivative financial instruments for the three months ended March 31, 2018 and 2017 are as follows:

Recorded Income (Loss) into AOCI, net of tax	Reclassified from AOCI into Income (Loss)	Recorded in Income (Loss)
2018		