DELPHI CORP
Form 10-K
June 30, 2005

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549-1004

FORM 10-K

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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the year ended December 31, 2004
OR

o

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________________ to __________________.
Commission file No. 1-14787
DELPHI CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**38-3430473**
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)
5725 Delphi Drive, Troy, Michigan	**48098**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code (248) 813-2000

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.01 par value per share (including the associated Preferred Share Purchase Rights)	New York Stock Exchange
6 1/2% senior notes due May 1, 2009	New York Stock Exchange
7 1/8% debentures due May 1, 2029	New York Stock Exchange
8 1/4% Cumulative Trust Preferred Stock of Delphi Trust I	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and 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 o No þ

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes þ No o

As of June 30, 2004, the aggregate market value of the registrant s Common Stock, $0.01 par value per share, held by non-affiliates of the registrant was approximately $6.0 billion. The closing price of the Common Stock on June 30, 2004 as reported on the New York Stock Exchange was $10.68 per share. As of June 30, 2004, the number of shares outstanding of the registrant s Common Stock was 561,192,179 shares.

The number of shares outstanding of the registrant s common stock, $0.01 par value per share as of May 31, 2005 was 561,418,059.

Website Access to Company s Reports

Delphi s internet website address is *www.delphi.com.* Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission.

DELPHI CORPORATION
INDEX

		Page
	Part I	
Item 1.	Business	3
Item 2.	Properties	12
Item 3.	Legal Proceedings	12
Item 4.	Submission of Matters to a Vote of Security Holders	15
Supplementary Item.	Executive Officers and Strategy Board Members of the Registrant	15
	Part II	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	18
Item 6.	Selected Financial Data	19
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	20
Item 7A.	Quantitative and Qualitative Disclosures About Market Risks	52
Item 8.	Financial Statements and Supplementary Data	54
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	104
Item 9A.	Controls and Procedures	104
	Part III	
Item 10.	Directors and Executive Officers of the Registrant	109
Item 11.	Executive Compensation	112
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	122
Item 13.	Certain Relationships and Related Transactions	124
Item 14.	Principal Accountant Fees and Services	124
	Part IV	
Item 15.	Exhibits, Financial Statement Schedules	126

Amended and Restated Deferred Compensation Plan
Computation of Ratios of Earnings to Fixed Charges
The Delphi Foundation For Excellence

Subsidiaries of Delphi
Consent of Deloitte & Touche LLP
Certification Pursuant to Section 302
Certification Pursuant to Section 302
Certification Pursuant to 18 U.S.C. Section 1350
Certification Pursuant to 18 U.S.C. Section 1350

Table of Contents

PART I
DELPHI CORPORATION

ITEM 1. BUSINESS

Overview. Delphi Corporation (Delphi or the Company) is a leading global supplier of vehicle electronics, transportation components, integrated systems and modules and other electronic technology. Delphi technologies are present in more than 75 million vehicles on the road worldwide as well as in communication, computer, consumer electronic, energy and medical applications.

We have extensive technical expertise in a broad range of product lines and strong systems integration skills, which enable us to provide comprehensive, systems-based solutions to vehicle manufacturers (VMs). We have established an expansive global presence, with a network of manufacturing sites, technical centers, sales offices and joint ventures located in every major region of the world. During 2004, we operated our business along three reporting segments that are grouped on the basis of similar product, market and operating factors:

Dynamics, Propulsion, Thermal & Interior Sector, which includes selected businesses from our energy and engine management systems, chassis, steering and thermal systems and interior product lines.

Electrical, Electronics & Safety Sector, which includes selected businesses from our automotive electronics, audio, consumer and aftermarket products, communication systems, safety and power and signal distribution systems product lines.

Automotive Holdings Group, which is comprised of select product lines and plant sites that do not meet our targets for net income or other financial metrics, allowing for consistent and targeted management focus on finding solutions to these businesses.

Ongoing SEC Investigation

Delphi is the subject of an ongoing investigation by the Staff of the Securities Exchange Commission (SEC) and other federal authorities involving Delphi s accounting for and disclosure of a number of transactions. The transactions include rebates or other lump-sum payments received from suppliers, certain off-balance sheet financings of indirect materials and inventory, and the payment in 2000 of $237 million in cash, and the subsequent receipt in 2001 of $85 million in credits, as a result of certain settlements between Delphi and its former parent company, General Motors. Delphi s Audit Committee has completed its internal investigation of these transactions and concluded that many were accounted for improperly. The financial information presented in this Annual Report on Form 10-K reflects the corrections to Delphi s originally issued financial statements resulting from the Audit Committee s investigation.

Contemporaneously with the filing of this Annual Report on Form 10-K, Delphi has filed amended Quarterly Reports on Form 10-Q/ A for the quarters ended March 31, 2004 and June 30, 2004 that include restated financial statements. Delphi has also filed its Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 that includes financial statements that differ from those included in Delphi s Report on Form 8-K dated October 18, 2004. Delphi expects to file its Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 on or before June 30, 2005 and thus to become current in its filings of periodic reports with the SEC.

As previously disclosed in a Form 8-K filing on June 9, 2005, the results of the investigation also concluded that Delphi had inaccurately disclosed to credit ratings agencies, analysts and the Board of Directors the amount of sales of accounts receivable from 1999 until year-end 2004. Subsequent to that filing, we also determined that our disclosure of operating cash flow measured on a non-GAAP basis as set forth in our earnings releases for the first and second quarters of 2003 were inaccurate. Specifically, we overstated this measure of operating cash flow by $30 million in the first quarter of 2003 and understated the measure by the same amount in the second quarter of 2003. The Company has enhanced the

disclosure in the Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) Liquidity and Capital Resources section of this Form 10-K to clarify the extent to which the Company uses factoring facilities as a source of liquidity.

Delphi is fully cooperating with the SEC s ongoing investigation and requests for information as well as the related investigation being conducted by the Department of Justice. The Company has entered into an agreement with the SEC to suspend the running of the applicable statute of limitations until April 6, 2006. Until these investigations are complete, Delphi is not able to predict the effect, if any, that these investigations will have on Delphi s business and financial condition.

Industry

The automotive parts industry provides components, systems, subsystems and modules to VMs for the manufacture of new vehicles, as well as to the aftermarket for use as replacement parts for current production and older vehicles. We believe that several key trends have been reshaping the automotive parts industry over the past several years:

Increasing Electronic and Technological Content. The electronic and technological content of vehicles continues to expand, largely driven by consumer demand for greater vehicle performance, functionality and affordable convenience options as a result of increased communication abilities in vehicles as well as increasingly stringent regulatory standards for energy efficiency, emissions reduction, and increased safety through crash avoidance and occupant protection systems. Electronics integration, which generally refers to products that combine integrated circuits, software algorithms, sensor technologies and mechanical components within the vehicle, allows VMs to achieve substantial reductions in weight and mechanical complexity, resulting in easier assembly, enhanced fuel economy, improved emissions control and better vehicle performance. The technology content of vehicles continues to increase as consumers demand greater safety, entertainment, productivity and convenience while driving. Advanced technologies offering mobile voice and data communication such as those used in our mobile electronics products coupled with global positioning sensors and in-vehicle entertainment are making steady inroads into the transportation industry.

Global Capabilities of Suppliers. In order to serve multiple markets in a more cost-effective manner, many VMs are turning to global vehicle platforms such as world cars, which typically are designed in one location but produced and sold in many different geographic markets around the world. Broader global markets for vehicle sales and the desire of VMs to adapt their products to satisfy regional and cultural variations have driven suppliers to establish capabilities within the major regions, as they follow their customers.

Optimizing Supply Chain Value Stream. In order to continue to respond to increasingly competitive market pricing dynamics, suppliers are establishing comprehensive plans to remove waste from the enterprise value stream. This includes optimizing the flow of information between the VM, the Tier 1 supplier (a supplier which sells directly to a VM), and other tiers of the supply chain. Value stream efficiencies are also increasingly being achieved through earlier collaboration between VMs and suppliers in the advanced product design, engineering and manufacturing phases of the product delivery cycle. Additional benefits are also being realized due to greater collaboration between Tier 1 and lower tier suppliers on product design, material selection, manufacturing, processing, and product packaging. Many of these efficiencies are enabled by internet based supply chain management tools, computerized modeling and computerized product design software tools.

Increased Emphasis on Systems and Modules Sourcing. To simplify the vehicle design and assembly processes and reduce their costs, VMs increasingly look to their suppliers to provide fully engineered systems and pre-assembled combinations of components rather than individual components. By offering sophisticated systems and modules rather than individual components, Tier 1 suppliers such as Delphi have assumed many of the design, engineering, research and development and assembly functions traditionally performed by VMs. In addition, suppliers often manufacture and ship components to the general location of a VM s assembly line and then provide local assembly of systems and modules.

Ongoing Industry Consolidation. The trend of consolidation among worldwide suppliers is expected to continue as suppliers seek to achieve operating synergies and value stream efficiencies through business combinations, build stronger customer relationships by following their customers as they expand globally, acquire complementary technologies, and shift production among locations. The need for suppliers to provide VMs with single-point sourcing of integrated systems and modules on a global basis has also fueled industry consolidation. Additionally, VMs are experiencing rapid consolidation which impacts customer/supplier relationships and provides opportunities and risks as suppliers attempt to secure global supply contracts across broader vehicle platforms.

Shorter Product Development Cycles. Suppliers are under pressure from VMs to respond more quickly with new designs and product innovations to support rapidly changing consumer tastes and regulatory requirements. For example, vehicle demand in North America has shifted from cars to light trucks and vans over the last several years, and, more recently, crossover and hybrid vehicles are being introduced into the market. In developing countries, broad economic improvements continue to be made, increasing the demand for smaller, less expensive vehicles that satisfy basic transportation needs. In addition, increasingly stringent government regulations regarding vehicle safety and environmental standards are accelerating new product development cycles.

Increased Emphasis on Fuel Efficiency and Lower Emissions. VM s continue to focus on improving fuel efficiency and reducing emissions in order to meet increasingly stringent regulatory requirements in various markets. As a result, suppliers are competing intensely to develop and market new and alternative technologies, such as hybrid vehicles, fuel cells, and diesel engines to improve fuel economy and emissions.

Research, Development and Intellectual Property

Delphi maintains technical engineering centers in every major region of the world to develop and provide advanced products, processes and manufacturing support for all of our manufacturing sites, and to provide our customers with local engineering capabilities and design development on a global basis. As of December 31, 2004, we employed approximately 17,000 engineers, scientists and technicians around the world with over one-third focused on electronic and high technology products, including software algorithm development. We introduced approximately 322 new products and processes in 2004, a 29% increase over 2003. We believe that 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 market. We believe that continued research and development activities (including engineering) are critical to maintaining our pipeline of technologically advanced products. We have aggressively managed costs in other portions of our business, such as material cost, manufacturing cost and selling, general and administrative costs, in order to maintain our total expenditures for research and development activities (including engineering). Total expenditures for research and development activities (including engineering) are approximately $2.1 billion for the year ended December 31, 2004, $2.0 billion for the year ended December 31, 2003, and $1.9 billion for the year ended December 31, 2002.

We have generated a significant number of patents in the operation of our business. While no individual patent taken alone is considered material to our business, taken in the aggregate, these patents are critical to supporting continued technological innovation. Similarly, while our trademarks are important to identify Delphi s position in the industry, and we have obtained certain licenses to use intellectual property owned by others, we do not believe that any of these are individually material to our business. We are actively pursuing marketing opportunities to commercialize and license our technology to both automotive and non-automotive industries. This leveraging activity is expected to further enhance the value of our intellectual property portfolio.

Products and Competition

Critical success factors for us include managing our overall global manufacturing footprint to ensure proper placement and workforce levels in line with business needs as well as competitive wages and

benefits, maximizing efficiencies in manufacturing processes, fixing or exiting unprofitable businesses, including those that are part of our Automotive Holdings Group operations, and reducing overall material costs.

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, reliability and timeliness of delivery, product design capability, technical expertise and development capability, new product innovation, leanness of facilities, operational flexibility, customer service and overall management. In addition, our customers generally require that we demonstrate improved efficiencies, through cost reductions and/or price decreases, on a year over year basis.

During 2004, our product offerings were organized in two product sectors: Dynamics, Propulsion, Thermal & Interior and Electrical, Electronics & Safety, as well as the Automotive Holdings Group. To our knowledge, no other Tier 1 supplier competes across the full range of our product areas within the automotive industry and other transportation markets. Our product sector offerings and principal competitors as of December 31, 2004 are described below.

Dynamics, Propulsion, Thermal & Interior. Our Dynamics, Propulsion, Thermal & Interior product sector accounted for $13.3 billion of our 2004 sales (46.3% excluding inter-sector sales). This sector offers a wide range of electronic energy and engine management systems designed to optimize engine performance and emissions control through management of vehicle air intake, fuel delivery, combustion and exhaust after-treatment. These systems include diesel fuel-injection systems for light-, medium-, and heavy-duty vehicles. We believe Delphi s solenoid-based common-rail system offers the best system performance and cost trade-off to customers. These systems eliminate the need for high-pressure control valves (a major cost savings) and they provide precise fuel quantities and timing; consistently superior emissions and noise performance over the vehicle s life (durability); superior actuation speed and performance; and precise fuel delivery leading to reduced fuel consumption, lower fuel return temperature, and the elimination of fuel coolers. The sector also offers all major electronic chassis control systems steering, braking, suspension and engine, with a focus on providing superior ride and handling performance, high reliability, reduced mass and improved fuel efficiency. In addition, the sector offers complete thermal management products including powertrain cooling and climate control systems. These systems provide energy efficient solutions that maintain passenger comfort and convenience while lowering costs and improving quality. Our principal competitors in the Dynamics, Propulsion, Thermal & Interior product sector include the following: Robert Bosch GmbH, NSK Ltd., Siemens AG, Continental Teves, TRW Automotive, Valeo SA, and Visteon Corporation.

Our principal Dynamics, Propulsion, Thermal & Interior product lines include: gasoline and diesel engine management systems that electronically optimize engine performance with components such as Inlet Metering Valve, Rail-Valve Discharge software strategy, Individual-Injector Characterization (I2C) and Accelerometer-Pilot Control (APC); sensors and actuators which provide essential data and control for integrated vehicle systems; air/fuel management subsystems; exhaust emission systems; batteries/energy storage products; valve train systems; ignition products; fuel handling systems and evaporative emissions canisters; vehicle stability control systems; controlled suspension systems such as MAGNERIDE Ride & Handling System; dynamic body control systems; suspension and brake components; steering systems including high-efficiency power steering systems, and magnetic assist steering systems; steering columns; hydraulic steering components; driveline systems; heating, ventilation and air conditioning (HVAC) modules; powertrain cooling systems; climate control systems; thermal management systems; door modules; power closure systems; cockpit and interior systems; instrument panels; and modular products that unify several systems and subsystems into one simple-to-install-piece for the manufacturer. This sector is also developing solid oxide fuel cell technology.

Electrical, Electronics & Safety. Our Electrical, Electronics & Safety product sector accounted for $13.5 billion of our 2004 sales (47.2% excluding inter-sector sales). This sector is one of the leading global providers of automotive electronics in addition to being a global leader in the production of connectors,

wiring harnesses, switches and sensors for electrical/electronic systems. The sector also offers a wide range of products related to vehicle safety systems as well as the expertise to integrate them into individual vehicle designs to simplify manufacturer assembly and enhance vehicle marketability. In addition to original equipment supply, the sector is also responsible for Delphi s growing aftermarket and consumer electronics businesses offering products and services to a wide variety of customers. Principal competitors for the Electrical, Electronics & Safety sector include: Autoliv Inc., Robert Bosch GmbH, Denso Inc., Motorola Inc., Siemens AG, TRW Automotive, Visteon Corporation, and Yazaki Corporation.

Our principal Electrical, Electronics & Safety product lines include: a complete range of advanced audio systems and components, including satellite reception systems for vehicles and home use and fully integrated audio systems providing a variety of playback formats and which may be tailored to the requirements of specific customers; wireless products which provide mobile connectivity, entertainment and information; powertrain and engine control modules incorporating state-of-the-art computer technology to measure and optimize vehicle performance, improve fuel economy and reduce emissions; sensors and actuators for advanced digital control systems; body and security systems; safety systems electronics including passenger detection systems with advanced electronic sensors; reception systems for vehicle entertainment, communication and information system solutions; collision warning systems; connection systems; switches and mechatronic devices; electrical/electronic distribution systems; electrical centers; and occupant protection systems. This sector s product lines also encompass aftermarket products offered through Delphi Products & Service Solutions including vehicle electronics, batteries, climate control products, diesel products and advanced diagnostic equipment for diesel and gas engines, undercar products and wireless handheld vehicle diagnostic systems. Consumer electronics products include products such as Delphi MyFi, Delphi XM SKYFi2 and Delphi XM Roady2 satellite radio receivers and Roady2 Personal Audio System, and a variety of accessories for home, vehicle, and portable use; and Delphi rear-seat entertainment systems all for the consumer market.

Automotive Holdings Group. Our Automotive Holdings Group (AHG) accounted for $1.9 billion of our 2004 sales (6.5% excluding inter-sector sales). AHG is comprised of select plant sites and product lines that do not meet our targets for net income or other financial metrics. AHG enables consistent and targeted management focus on finding solutions for these businesses and sites. By bringing a separate reporting structure for the AHG, we have created a better environment for change. We have increased transparency, accountability, focus and the level of urgency. AHG fosters an entrepreneurial approach where there are no one size fits all solutions and all the key stakeholders, customers, unions, employees, suppliers and communities alike are being engaged to help resolve issues. Our principal AHG product lines include: halfshafts, batteries, filters, spark plugs, generators and compressors. We originally had twelve plant sites included in the AHG. One site was closed in 2003, one site was consolidated and one site ceased operations in 2004. In addition, we have ceased manufacturing operations at the Olathe, Kansas and Anaheim, California sites in the first quarter of 2005. On December 10, 2004, Delphi announced that effective January 1, 2005, we are moving three additional manufacturing operations to AHG to accelerate efforts to bring these sites back to profitability or resolve issues at these operations through other actions. The additional operations named to Delphi s AHG include: Laurel, Mississippi; Kettering, Ohio; and Home Avenue/ Vandalia, Ohio. The total revenue for these three sites in 2004 was approximately $460 million.

Customers

We primarily sell our products and services to the major global VMs. As a percentage of sales, our non-GM sales were 46% in 2004. While our business with customers other than GM, including sales to other Tier I suppliers that supply GM, has increased since our separation from GM in 1999 (the Separation), and we expect such business to continue to increase over time, we also expect that GM will remain our largest customer for a significant period of time due to the long-term nature of sales contracts in our industry and our strong customer-supplier relationship with GM. Our sales to GM continue to decline, principally reflecting the impact of customer trends, the exit of some businesses, changes in GM vehicle content and the product mix supplied to them, as well as GM s diversification of

Table of Contents

its supply base. While we intend to continue to focus on retaining and winning GM s business, we cannot provide assurance that we will succeed in doing so. Additionally, our revenues may be affected by increases or decreases in GM s business or market share and the impact will likely vary by region. We continue to project our sales beyond 2004 to grow modestly with non-GM sales increasing, particularly in Europe and Asia Pacific and GM sales likely decreasing, particularly in North America, assuming projected production levels, consistency of current market trends and our ability to exit businesses as planned.

We currently supply parts to each regional sector of GM s Automotive Operations, including its automotive operations in the United States (U.S.), Canada and Mexico (GM-North America), and GM s automotive operations throughout the rest of the world (GM-International). In addition, we sell our products to the worldwide aftermarket for replacement parts, including GM s Service and Parts Operations (GM-SPO) and to other distributors and retailers (Independent Aftermarket and Consumer Electronics).

The following table shows this breakdown of our total net sales for each of the last three years.

	Total Net Sales Year Ended December 31,					
	2004		2003		2002	
Customer	$	%	$	%	$	%
			(As Restated See Note 2)		(As Restated See Note 2)	
	(dollars in millions)					
GM-North America	$ 12,706	44.4%	$ 14,360	51.2%	$ 15,506	56.1%
GM-International	1,788	6.3%	1,705	6.1%	1,452	5.3%
GM-SPO	923	3.2%	964	3.4%	1,136	4.1%
Total GM	15,417	53.9%	17,029	60.7%	18,094	65.5%
Other customers	13,205	46.1%	11,048	39.3%	9,547	34.5%
Total net sales	$ 28,622	100.0%	$ 28,077	100.0%	$ 27,641	100.0%

Included in sales to other customers in the foregoing table are sales to each of the major global VMs other than GM. Sales to four of these other major global VMs exceeded $850 million in 2004 including Ford Motor Company, DaimlerChrysler Corporation, Renault/ Nissan Motor Company, Ltd, and Volkswagen Group. Also included in sales to other customers are sales to independent aftermarket customers (Independent Aftermarket), consumer electronics customers (Consumer Electronics), manufacturers of medium-duty and heavy-duty trucks and off-road equipment (Commercial Vehicles), and other new customers beyond our traditional automotive customer base (New Markets). We are continuing our efforts to diversify our business by supplying certain products, including audio systems, fiber optic links, electronics cooling systems, connection systems, flex-circuits, wiring, instrumentation, pressure sensors, safety systems, and Engine Management Systems and components to these non-VM customers. These products are used in the commercial vehicle, construction, aftermarket, recreational vehicle (e.g., boats), motorcycle, aerospace, defense, medical, appliance, consumer electronics, and computer industries. We have over 5,000 Independent Aftermarket customers including our Consumer Electronics customers such as Wal-Mart, Best Buy, and Circuit City. In addition, our Commercial Vehicle and New Markets customers include Caterpillar, Deere and Company, Freightliner, Volvo Truck, Hyundai, Tata Motors, Paccar, International Truck, Harley-Davidson, Lockheed Martin, General Electric, Siemens Medical, and Raytheon. We expect these sales to continue to grow in future years as we

commercialize existing technology and continue our focus on diversifying our customer base, although we can provide no assurance that this will occur. In 2004, sales to our Independent Aftermarket, including Consumer Electronics that are sold through retail channels, Commercial Vehicle and New Markets customers were $2,264 million as compared to $1,688 million for 2003. Additional information regarding net sales by customer and geographic area and net property by geographic area is included in Note 17 Segment Reporting to the consolidated financial statements.

Variability in Delphi s Business

A significant portion of our business is generally related to automotive sales, which vary directly with the production schedules of our VM customers. The market for vehicles is cyclical and dependent on general economic conditions, consumer spending and preferences. The rate at which our customers build vehicles depends on their market performance as well as company specific inventory and incentive strategies. Any significant reduction or increase in automotive production by our customers may have a material effect on our business.

We have substantial operations in every major region of the world and economic conditions in these regions often differ, which may have varying effects on our business. Our business is moderately seasonal as our primary North American customers historically halt operations for approximately two weeks in July and approximately one week in December. Our European customers generally reduce production during the months of July and August and one week in December. In addition, third quarter automotive production is traditionally lower as new models enter production. Accordingly, our results may reflect this seasonality.

Raw Materials

We purchase various raw materials for use in manufacturing our products. The principal raw materials we purchase include platinum group metals, copper, aluminum, steel, lead and resins. All of these raw materials, except the platinum group metals, which we use primarily to produce our catalytic converters, are available from numerous sources. Currently, most of the platinum group metals we use for catalytic converters produced for GM are procured directly from GM. Delphi purchases its remaining platinum group metal requirements directly from Delphi suppliers, which primarily obtain or produce platinum group metals from locations in South Africa, North America and Russia. We have not experienced any significant shortages of raw materials and normally do not carry inventories of such raw materials in excess of those reasonably required to meet our production and shipping schedules.

During 2004, we were challenged by commodity cost increases, most notably steel and petroleum-based resin products. We continue to proactively work with our suppliers to manage these cost pressures. Despite our efforts, surcharges and other cost increases, particularly when necessary to ensure the continued financial viability of a key supplier, had the effect of reducing our earnings during 2004. We expect commodity cost pressures will continue to intensify as our supply contracts expire during 2005. We will seek to manage these cost pressures using a combination of techniques including working with our suppliers to mitigate costs, seeking alternative product designs and material specifications, combining our purchase requirements with our customers, changing suppliers and other means. To the extent that we experience cost increases we will seek to pass these cost increases on to our customers, but if we are not successful, our earnings in future periods may be adversely impacted.

Environmental Compliance

Delphi is subject to the requirements of U.S. federal, state, local and non-U.S. environmental and occupational safety and health laws and regulations. These include laws regulating air emissions, water discharge and waste management. The Company has an environmental management structure designed to facilitate and support its compliance with these requirements globally. Although it is the Company s intent to comply with all such requirements and regulations, it cannot provide assurance that it is at all times in compliance. Delphi has made and will continue to make capital and other expenditures to comply with environmental requirements. The amount of such expenditures was not material during the past three years and Delphi does not expect such expenditures to be material in 2005. Environmental requirements are complex, change frequently and have tended to become more stringent over time. Accordingly, Delphi cannot provide assurance that these requirements will not change or become more stringent in the future.

Delphi is also subject to complex laws governing the protection of the environment and requiring investigation and cleanup of environmental contamination. Delphi is in various stages of investigation and cleanup at its manufacturing sites where contamination has been discovered. Additionally, Delphi has

received notices that it is a potentially responsible party (PRP) in proceedings at various sites, including the Tremont City Landfill Site located in Tremont, Ohio which is alleged to involve ground water contamination. In September 2002, Delphi and other PRPs entered into a Consent Order with the Environmental Protection Agency (EPA) to perform a Remedial Investigation and Feasibility Study concerning a portion of the Tremont site, which is expected to be completed during 2006. Based on findings to date, Delphi believes that a reasonably possible outcome of the investigative study is capping and future monitoring of this site, which would substantially limit future remediation costs. It has included an estimate of the Company s share of the potential costs plus the cost to complete the investigation in its overall reserve estimate. Because the scope of the investigation and the extent of the required remediation are still being determined, it is possible that the final resolution of this matter may require that Delphi make material future expenditures for remediation, possibly over an extended period of time and possibly in excess of its existing reserves. The Company will continue to re-assess any potential remediation costs and, as appropriate, its overall environmental reserves as the investigation proceeds. Delphi may be named as a PRP at other sites in the future, including with respect to divested and acquired businesses.

When it has been possible to provide reasonable estimates of Delphi s liability with respect to environmental sites, provisions have been made in accordance with generally accepted accounting principles. As of December 31, 2004, our reserve for such environmental investigation and cleanup was approximately $29 million, which reflects in part the retention by GM of the environmental liability for certain inactive sites as part of the Separation. We cannot ensure that environmental requirements will not change or become more stringent over time or that our eventual environmental cleanup costs and liabilities will not exceed the amount of our current reserves.

Arrangements Between Delphi and GM

The Separation of Delphi from GM was effective January 1, 1999, when we assumed the assets and related liabilities of GM s automotive components businesses. In connection with the Separation, we entered into agreements allocating assets, liabilities and responsibilities in a number of areas including taxes, environmental matters, intellectual property, product liability claims, warranty, employee matters, and general litigation claims. We also agreed to indemnify GM against substantially all losses, claims, damages, liabilities or activities arising out of or in connection with our business post-separation.

In connection with the Separation we also agreed to keep GM informed of any proposal to close a plant, eliminate a product line or divest of a division, and in good faith reasonably consider GM s concerns. Upon our selection of a qualified buyer, existing contracts with GM relating to the business being sold may be assigned to the buyer upon GM s consent, which will not be unreasonably withheld.

VM Supply Agreements. GM continues to be our largest customer and to compete effectively, we will need to continue to satisfy GM s pricing, service, technology and increasingly stringent quality and reliability requirements, which, because we are GM s largest supplier, particularly affect us.

Our business with GM and with other VMs is governed by applicable supply contracts. Consistent with GM s contracts with other suppliers, on a case by case basis, GM may terminate a supply contract (including supply contracts in place prior to the Separation) with Delphi and re-source the business to another supplier for a variety of factors, such as our non-competitiveness (including, in many cases, price as well as quality, service, design, and technology), cause, expiration and, in some cases, termination for convenience. However, except with respect to annual purchase orders, where GM is exercising its re-sourcing rights due to non-competitiveness for a particular product, GM is required to notify us of any such non-competitiveness and provide us with a reasonable period of time during which to correct any such non-competitiveness before GM may re-source the business. Termination for convenience means GM can terminate the contract at any time for any reason. The majority of our supply contracts with GM having termination for convenience provisions are annual purchase orders or long-term contracts. With respect to long-term contracts entered into prior to October 1, 2003, GM had agreed that it would not re-source for non-competitive pricing or exercise its right to terminate for convenience during the first 18 months of the contract. With respect to long-term contracts signed after October 1, 2003, GM has

eliminated its right to terminate the contract for convenience except in the case of cancellation or substantial modification of the related vehicle program, however GM may re-source for non-competitive pricing at any time during the contract period, subject to the requirement of notice and reasonable opportunity for us to become competitive. In addition, our supply contracts with GM generally give GM the right to terminate in the event of a change in control of Delphi. Termination of a majority of our supply contracts with GM would likely have a material adverse effect on our company.

Our supply contracts also cover service parts we provide to GM for sale to GM-authorized dealers worldwide. Generally, similar to supply contracts with other VMs, the unit pricing on service parts that are not past model will continue at the prices charged to GM until three years after such service parts go past model. The term past model refers to parts which are used on vehicle models which are no longer in production. Thereafter, unit prices for such service parts will be negotiated between the parties.

Aftermarket Sales. Through December 31, 2003, aftermarket sales in the U.S. were covered by a Memorandum of Understanding (MOU) between GM-SPO and Delphi entered into in 2000 that, among other things required GM-SPO to buy aftermarket product from us if we met the market price for the particular product, which was determined by reference to pricing in effect during calendar year 2000 and mutually agreed upon market based adjustments. Alternatively, if we chose not to meet the market price for a particular aftermarket product, GM-SPO could re-source and Delphi would cease supplying such product to GM-SPO for the aftermarket in the U.S. or GM-SPO could purchase the products from Delphi at the higher price. Since the Aftermarket Supply Agreement expired on December 31, 2003, throughout 2004, we have been negotiating with GM-SPO standard GM purchase order terms for those products that GM wants to continue to source from Delphi. We do not believe the expiration of the Aftermarket Supply Agreements has had a material adverse impact on our aftermarket sales to GM-SPO.

Employee Matters. As part of the Separation, we entered into several agreements with GM to allocate responsibility and liability for certain employee related matters. In connection with our separation from GM, GM granted the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) guarantees covering benefits to be provided to certain former U.S. hourly employees who became our employees. We have entered into an agreement with GM that requires us to indemnify GM if GM is called on under this guarantee. Our indemnification obligations remain in effect until October 18, 2007. As a means of mitigating the risk that the guarantee will be called upon, we have also agreed until October 18, 2007 to consult with GM before taking certain fundamental corporate actions and obtain GM s consent (not to be unreasonably withheld) before entering into transactions which might significantly adversely affect our ability to meet our pension and postretirement benefits by causing our credit rating to be downgraded below B1 from Moody s or B+ from Standard & Poors. Delphi has not taken any corporate actions meeting this definition. Nevertheless, we are currently rated B3 by Moody s and B- by Standard & Poors.

Flowback Rights. Certain of our hourly employees in the U.S. are provided with opportunities to transfer to GM as appropriate job openings become available at GM and GM employees in the U.S. have similar opportunities to transfer to our company to the extent job openings become available at our company. If such a transfer occurs, in general, both our company and GM will be responsible for pension payments, which in total reflect such employee s entire eligible years of service. Allocation of responsibility between Delphi and GM will be on a pro rata basis depending on the length of service at each company (although service at Delphi includes service with GM prior to the Separation). There will be no transfer of pension assets or liabilities between GM and us with respect to such employees that transfer between our companies. The company, to which the employee transfers, however, will be responsible for postretirement benefit (OPEB) obligations. An agreement with GM provides for a mechanism for determining a cash settlement amount for OPEB obligations (also calculated on a pro rata basis) associated with employees that transfer between our company and GM.

Table of Contents

Employees Union Representation

As of December 31, 2004, we employed approximately 185,200 people, of whom approximately 37,300 were salaried employees and approximately 147,900 were hourly employees. On a comparable basis, as of December 31, 2003, we employed approximately 190,000 people, of whom approximately 37,000 were salaried employees and approximately 153,000 were hourly employees. Of our hourly employees as of December 31, 2004, approximately 110,600 or 74.8% are represented by approximately 55 unions, including UAW; Industrial Division of the Communication Workers of America, AFL-CIO, CLC (IUE-CWA); the United Steel Workers (USWA); and Confederacion De Trabajadores Mexicanos (CTM). As of December 31, 2004, approximately 25,200 hourly employees were represented by the UAW, approximately 8,400 by the IUE-CWA and approximately 1,100 by the USWA.

The Delphi-UAW National Labor Agreement and the Delphi-IUE-CWA National Labor Agreement expired in September 2003 and November 2003, respectively. We entered into a new contract, covering a four-year term through 2007 with each union. We assumed the terms of existing collective bargaining agreements for our U.S. employees represented by other unions, including those represented by the USWA, in connection with the Separation. The Delphi-USWA National Labor Agreement expires in September 2007. Under the terms of our collective bargaining agreements, Delphi is obligated to maintain specified employment levels at certain sites. These obligations are subject to modification by joint agreement of Delphi and the union representing that site. As of December 31, 2004, actual employment levels at certain sites were below the specified employment levels.

In April 2004, we finalized a seven-year Supplement to the UAW National Labor agreement with the UAW. The Supplement sets new wage and benefit levels for future hires. Given the current automotive production environment in the U.S., specifically at GM North America, we do not currently anticipate hiring any meaningful number of U.S. hourly employees under the terms of the supplement for the foreseeable future. With regard to benefits, a cash balance pension plan and credit balance retiree medical plan provide solid protection for employees in retirement while alleviating financial pressure on the balance sheet. The healthcare plan for new employees provides important benefits with cost-sharing more in line with industry competition.

ITEM 2. PROPERTIES

Our world headquarters campus is located in Troy, Michigan. As of December 31, 2004, we occupied this facility, as well as certain other facilities, under lease agreements. Regional headquarters are also maintained in Tokyo, Japan; Paris, France; and São Paulo, Brazil. Excluding our joint ventures and other investments, as of December 31, 2004, we maintained 335 sites in 40 countries throughout the world, including 171 manufacturing facilities, 33 technical centers, and 52 customer centers and sales offices. Of the 335 sites, 49 were owned and 49 were leased in the United States and Canada, 39 were owned and 12 were leased in Mexico, 78 were owned and 53 were leased in Europe/ Middle East/ Africa, 11 were owned and 5 were leased in South America and 13 were owned and 26 were leased in Asia/ Pacific.

We are continuously evaluating plans for effective worldwide engineering and technical centers to provide a customer-focused engineering support network. We believe these efforts will continue to enhance the engineering and technical support provided to our customers around the world, while controlling associated operating costs.

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

ITEM 3. LEGAL PROCEEDINGS

Ordinary Business Litigation

In addition to the matters referred to below, Delphi is involved in routine litigation incidental to the conduct of its business. Although the Company does not believe this routine litigation to which it is currently a party will have a material adverse effect on its business or financial condition, the Company

faces an inherent business risk of exposure to product liability claims in the event that the failure of its products results or is alleged to result in personal injury or death, and it cannot provide assurance that Delphi will not experience any material product liability losses in the future. In addition, as the Company successfully diversifies its customer base and adapts its automotive technology to new markets, it may or may not face an increased risk of product liability suits as plaintiffs become more aware of the Company s independent existence from GM and it becomes more visible to the end-consumer of its products.

With respect to product liability, if any Delphi-designed products are or are alleged to be defective, Delphi may be required to participate in a recall involving such products. Each VM has its own policy regarding product recalls and other product liability actions relating to its suppliers. As suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, VMs are increasingly looking to their suppliers for contribution when faced with product liability claims. In connection with the Separation, GM agreed to retain responsibility for all product liability actions relating to products the Company manufactured prior to January 1, 1999 and sold or otherwise supplied to GM either before or after that date. Delphi is responsible for all product liability actions relating to products it sold at any time to customers other than GM. Responsibility for product liability actions relating to products manufactured on or after January 1, 1999 and sold to GM are determined in accordance with the agreements for such sales. Delphi may also be subject to significant financial and legal obligations with respect to certain divested businesses.

From time to time, in the ordinary course of business, Delphi receives notices from customers that products may not function properly. The terms and conditions of the applicable contract generally govern Delphi s warranty responsibility for its products, which vary from contract to contract. Most of the Company s contracts require that it make certain warranties to its customers regarding, among other things, conformity to specifications and freedom from defect. VMs generally offer warranties to new vehicle purchasers, which cover the repair and replacement of defective parts on their vehicles for a specified period of time. Traditionally, VMs have borne the cost associated with such warranty programs, including costs related to the repair and replacement of parts supplied to the VM by the supplier. VMs are increasingly requiring their outside suppliers to bear these costs. Depending on the terms under which Delphi supplies products to a VM, a VM might seek to hold Delphi responsible for some or all of the repair or replacement costs of such products under new vehicle warranties, when the product supplied did not perform as represented. VMs (including GM) are increasingly vigorous in pursuing warranty claims. In particular, as previously disclosed, during the third quarter of 2003, Delphi resolved known pre-separation warranty claims and most outstanding pricing and sourcing disputes with GM. GM may assert additional pre-separation claims in the future. The Company does not know of, nor has GM communicated to Delphi, any outstanding pre-separation warranty, pricing or sourcing disputes between the companies at this time. Although it cannot ensure that the future costs of warranty claims by GM or other customers will not be material, it believes its established reserves are adequate to cover potential warranty settlements. Delphi s warranty reserves are based upon the Company s best estimates of amounts necessary to settle future and existing claims. Delphi regularly evaluates the appropriateness of these reserves, and makes adjustments when appropriate. However, the final amounts determined to be due related to warranty matters could differ materially from its recorded estimates.

As Delphi actively pursues additional technological innovation in both automotive and non-automotive industries and enhances the value of its intellectual property portfolio, Delphi incurs ongoing costs to enforce and defend the Company s intellectual property and face an inherent risk of exposure to the claims of other suppliers and parties that it has allegedly violated their intellectual property rights. Delphi cannot ensure that it will not experience any material intellectual property claim losses in the future or that it will not incur significant costs to defend such claims. As previously disclosed, the Company has been mediating a number of patent disputes regarding vehicle occupant detection technologies with Takata Corporation and its subsidiaries. On December 1, 2004, the parties resolved these disputes to their mutual satisfaction by entering into a cross-license agreement concerning various patents in the field of vehicle occupant detection technologies.

Delphi believes that it is adequately insured, with respect to product liability coverage, at levels sufficient to cover any potential claims, subject to commercially reasonable deductible amounts. The Company has also established reserves in amounts it believes are reasonably adequate to cover any adverse judgments with respect to the other claims described above. However, any adverse judgment in excess of the Company s insurance coverage and such reserves could have a material adverse effect on its business.

Shareholder Lawsuits

Subsequent to the Company s announcement of its intention to restate originally issued financial restatements, several purported class-action lawsuits have been filed against the Company, several of Delphi s subsidiaries, certain current and former directors and officers of Delphi, General Motors Investment Management Corporation (the named fiduciary for investment purposes and investment manager to Delphi s employee benefit plans), and several current and former employees of Delphi or Delphi s subsidiaries. The lawsuits fall into three categories.

One group has been brought under the Employee Retirement Income Security Act of 1974, as amended (ERISA), purportedly on behalf of participants in certain of the Company s and its subsidiaries defined contribution employee benefit pension plans who invested in the Delphi Corporation Common Stock Fund. Plaintiffs allege that the plans suffered losses due to the defendants breaches of fiduciary duties under ERISA. To date, the Company has received service in five such lawsuits and is aware of an additional eleven that are pending. All pending cases have been filed in U.S. District Court for the Eastern District of Michigan.

The second group of purported class action lawsuits variously alleges that the Company and certain of its current and former directors and officers made materially false and misleading statements in violation of federal securities laws. To date, the Company has been served in six such lawsuits and is aware of eight additional lawsuits. The lawsuits have been filed in the U.S. District Court for the Eastern District of Michigan, the U.S. District Court for the Southern District of New York, and the U.S. District Court for the Southern District of Florida.

The third group of lawsuits pertains to two shareholder derivative cases and a demand. To date, certain current and former directors and officers have been named in two such lawsuits. One has been served in Oakland County Circuit Court in Pontiac, Michigan, and a second is pending in the U.S. District Court for the Southern District of New York. In addition, the Company has received a demand letter from a shareholder requesting that the Company consider bringing a derivative action against certain current and former officers. The derivative lawsuits and the request demand the Company consider further derivative action premised on allegations that certain current and former officers made materially false and misleading statements in violation of federal securities laws. The Company has appointed a special committee of the Board of Directors to consider the demand request.

Due to the preliminary nature of these cases, the Company is not able to predict with certainty the outcome of this litigation or its potential exposure related thereto. Although Delphi believes that any loss that the Company would suffer under such lawsuits should, after payment of a $10 million deductible, be covered by its director and officer insurance policy, it cannot assure you that the impact of any loss not covered by insurance or applicable reserves would not be material. Delphi has recorded a reserve related to these lawsuits equal to the amount of its insurance deductible.

Regulatory Actions and Other Matters

As previously reported, Delphi is the subject of an ongoing investigation by the SEC and other federal authorities involving Delphi s accounting and adequacy of disclosure for a number of transactions. Delphi is fully cooperating with the SEC s ongoing investigation and requests for information as well as the related investigation being conducted by the Department of Justice. The Company has entered into an agreement with the SEC to suspend the running of the applicable statute of limitations until April 6, 2006. Until these investigations are complete, Delphi is not able to predict the effect, if any, that these investigations will have on Delphi s business and financial condition.

Table of Contents

Management concluded that Delphi s controls over financial reporting and disclosure procedures were ineffective. Delphi has undertaken and is continuing to take actions to address material weaknesses on its internal controls over financial reporting and the deficiencies in its disclosure controls and procedures. For more detail on the weaknesses and deficiencies identified and remedial actions see Part II, Item 9A. Controls and Procedures. Delphi s failure to timely and effectively remediate its control weaknesses and deficiencies may have a material adverse affect on its business.

The Company also believes that the Enforcement Division of the SEC has taken a more proactive role, what it refers to as a risk based approach, by seeking information from issuers in an effort to assess issuer accounting or disclosure practices before identifying specific wrong-doing. Delphi believes that the previously disclosed inquiry it received during the fourth quarter of 2004 regarding accounting practices related to defined benefit pension plans and other postretirement benefit plans is an example of this practice. While the Company intends to continue fully cooperating with the SEC s informal inquiry in this matter and in any other similar inquiry, Delphi s costs of compliance may be impacted.

Delphi is subject to the requirements of U.S. federal, state, local and non-U.S. environmental and occupational safety and health laws and regulations. For a discussion of matters relating to compliance with laws for the protection of the environment, see Environmental Compliance.

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

During the fourth quarter of the year covered by this report on Form 10-K, no matters were submitted to a vote of security holders.

SUPPLEMENTARY ITEM. EXECUTIVE OFFICERS AND STRATEGY BOARD MEMBERS OF THE REGISTRANT

Executive Officers

The name, age and position as of January 1, 2005 of each of the executive officers of Delphi are listed below. There was no family relationship among the executive officers or between any executive officer and a director. Executive officers of Delphi are elected annually by the Board of Directors and hold office until their successors are elected and qualified or until their earlier resignation or removal.

Name	Age	Position
J. T. Battenberg III	61	Chairman of the Board, Chief Executive Officer & President
Alan S. Dawes	50	Director, Vice Chairman & Chief Financial Officer
Donald L. Runkle	59	Director, Vice Chairman, Enterprise Technologies
Rodney O Neal	51	President, Dynamics, Propulsion, Thermal & Interior Sector
Mark R. Weber	56	Executive Vice President, Operations, Human Resource Management and Corporate Affairs
David B. Wohleen	54	President, Electrical, Electronics & Safety Sector

On January 7, 2005, we announced changes in our management structure, including the appointment of Rodney O Neal as president and chief operating officer and David Wohleen as vice-chairman. In addition, we announced the planned retirement of Donald Runkle, vice-chairman, enterprise technologies, who will be retiring effective July 1, 2005. These appointments and changes were effective as of January 7, 2005.

On March 4, 2005, we announced the resignation, effective March 4, 2005, of the Company s vice chairman and chief financial officer, Alan S. Dawes. Mr. Dawes also resigned from Delphi s Board of Directors. John D. Sheehan, the current chief accounting officer and controller of the Company was appointed to the additional position of acting chief financial officer. The Board is conducting an internal and external search for Mr. Dawes successor.

On June 23, 2005, we announced that effective July 1, 2005, J. T. Battenberg III will be retiring from the Company. His successor will be Robert S. Miller. Mr. Miller will succeed Mr. Battenberg as chairman and chief executive officer of Delphi when Mr. Battenberg retires on July 1, 2005. Mr. Miller was the non-executive chairman of Federal-Mogul, and also serves as a director of four other diverse public companies, including Waste Management, Inc., Symantec Corporation, United Airlines and RJ Reynolds Tobacco Holdings.

As of the date of this filing, the name, age, position and a description of the business experience of each of the executive officers of Delphi is listed below. There is no family relationship among the executive officers or between any executive officer and a director. Executive officers of Delphi are elected annually by the Board of Directors and hold office until their successors are elected and qualified or until their earlier resignation or removal.

Name	Age	Position
J. T. Battenberg III	62	Chairman of the Board & Chief Executive Officer
Rodney O Neal	51	Director, President & Chief Operating Officer
David B. Wohleen	55	Vice Chairman
Mark R. Weber	57	Executive Vice President, Operations, Human Resource Management and Corporate Affairs
John D. Sheehan	44	Acting Chief Financial Officer, Chief Accounting Officer and Controller

Mr. Battenberg has led Delphi and its predecessor, the GM Automotive Components Group Worldwide (ACG Worldwide) since 1992. He is a member of the Board of Directors of Sara Lee Corporation. Mr. Battenberg is on the Board of Trustees of Kettering University, Columbia University Business School and the National Advisory Board for J.P. Morgan Chase & Co. He is also a member of the Business Roundtable and Chairman of its Fiscal Policy Task Force, the Business Council Executive Committee, the Group of 100, the Economic Club of Detroit, and FIRST (For Inspiration and Recognition of Science and Technology).

Mr. O Neal was named president and chief operating officer of Delphi Corporation effective January 7, 2005. Prior to that position Mr. O Neal served as president of the Dynamics, Propulsion and Thermal sector effective January 1, 2003. This sector was realigned effective January 1, 2004 and is now the Dynamics, Propulsion, Thermal & Interior sector. He assumed additional responsibility for Europe and South America in January 2004. He had been executive vice president of Delphi and president of the former Safety, Thermal and Electrical Architecture sector since January 2000. Previously, he had been vice president and president of Delphi Interior Systems since November 1998 and general manager of the former Delphi Interior & Lighting Systems since May 1997. Mr. O Neal is a member of the Board of Directors of Goodyear Tire & Rubber Company. He is a member of the Executive Leadership Council.

Mr. Wohleen was named vice chairman of Delphi Corporation effective January 7, 2005. Prior to that position Mr. Wohleen served as president of the Electrical, Electronics, Safety & Interior sector effective January 1, 2003. This sector was realigned effective January 1, 2004 and is now the Electrical, Electronics & Safety sector. He assumed additional responsibility for Asia-Pacific in January 2004. He had been a Delphi executive vice president and president of the former Delphi Electronic and Mobile Communication sector since January 2000. Previously, he was vice president and president of Delphi Delco Electronics Systems since November 1998 and general manager of Delphi Delco Electronics Systems since August 1998. He is the executive champion for Delphi s GM Customer Team. He is also a member of the Board of Directors for the National Association of Manufacturers and serves on the Board of Trustees for Lawrence Technological University in Southfield, MI.

Mr. Weber was named executive vice president, Operations, Human Resource Management and Corporate Affairs for Delphi effective January 1, 2000. He had been vice president of Human Resource Management for Delphi since November 1998 and executive director of Human Resource Management

Table of Contents

for Delphi since January 1995. He is the executive champion for Delphi s Harley-Davidson Customer Team.

Mr. Sheehan, the current chief accounting officer and controller of Delphi Corporation, was appointed to the additional position of acting chief financial officer effective March 4, 2005. He was named chief accounting officer and controller of Delphi Corporation effective July 1, 2002. Previously, he was a partner at KPMG LLP since 1995. His experience at KPMG LLP included 20 years in a number of assignments in the United States, England, and Germany.

For purposes of calculating the aggregate market value of Delphi s common stock held by non-affiliates, as shown on the cover page of this report, it has been assumed that all the outstanding shares were held by non-affiliates, except for the shares held by directors, and executive officers of Delphi. However, this should not be deemed to constitute an admission that all such persons of Delphi are, in fact, affiliates of Delphi, or that there are not other persons who may be deemed to be affiliates of Delphi. Further information concerning shareholdings of executive officers, directors and principal shareholders is included in Part III, Item 12, of this report.

Table of Contents

PART II

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

Our Common Stock is listed on the New York Stock Exchange under the symbol DPH. The Transfer Agent and Registrar for our Common Stock is The Bank of New York. On December 31, 2004 and May 31, 2005, there were 310,599 and 301,288 holders of record, respectively, of our Common Stock.

We declared dividends of $0.07 per share on March 1, June 22, September 9, and December 8, 2004, and on March 26, June 18, September 3, and December 3, 2003. We declared a dividend of $0.03 per share on March 23, 2005. Our Board is free to change its dividend practices at any time and to decrease or increase the dividend paid, or not to pay a dividend, on our Common Stock on the basis of the results of operations, financial condition, cash requirements and future prospects of our company and other factors deemed relevant by our Board.

The following table sets forth the high and low sales price per share of our Common Stock, as reported by the New York Stock Exchange, for the last two years. Please see Note 16 Stock Incentive Plans to the consolidated financial statements for additional information regarding equity compensation plans.

	Price Range of Common Stock	
Year Ended December 31, 2004	**High**	**Low**
4th Quarter	$ 9.63	$ 8.10
3rd Quarter	$ 10.69	$ 8.61
2nd Quarter	$ 11.01	$ 9.55
1st Quarter	$ 11.78	$ 9.39

	Price Range of Common Stock	
Year Ended December 31, 2003	**High**	**Low**
4th Quarter	$ 10.30	$ 8.10
3rd Quarter	$ 9.76	$ 7.85
2nd Quarter	$ 9.92	$ 6.70
1st Quarter	$ 9.40	$ 6.39

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth, for each of the months indicated, the total number of shares purchased by Delphi or on our behalf by any affiliated purchaser, the average price paid per share, the number of shares purchased as part of a publicly announced repurchase plan or program, and the maximum number of shares or approximate dollar value that may yet be purchased under the plans or programs.

	Total Number	Average	Total Number of Shares	Maximum Number of Shares that may yet be Purchased

Period	of Shares Purchased	Price Paid Per Share	Purchased as Part of Publicly Announced Plans or Programs(a)	Under the Plans or Programs(a)
October 1, 2004 through October 31, 2004	988,575(b)	$ 8.31		19,000,000
November 1, 2004 through November 30, 2004	N/A	N/A		19,000,000
December 1, 2004 through December 31, 2004	372,853(b)	$ 8.42		19,000,000
Total	1,361,428	$ 8.34		19,000,000

Table of Contents

(a) As part of Delphi s stock repurchase program in January of 2004, the Board of Directors authorized the repurchase of up to an aggregate of 19 million shares of our common stock through the first quarter of 2005 to fund obligations for our stock options and other awards issued under its equity based compensation plan. To date no repurchases have been made pursuant to that plan.

(b) Primarily includes open-market purchases by the trustee of Delphi s 401(k) plans to fund investments by employees in our common stock, one of the investment options available under such plans. Also includes minimal shares of common stock that were withheld to satisfy the company s tax withholding obligations arising upon vesting of restricted stock units issued pursuant to the company s equity based compensation plan.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data reflects the results of operations and balance sheet data for the years ended 2000 to 2004. The data below should be read in conjunction with, and is qualified by reference to Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this report. The financial information presented may not be indicative of our future performance.

The following selected consolidated financial data for 2003, 2002, 2001 and 2000 has been restated to reflect adjustments resulting from matters discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and, with respect to the three years ended December 31, 2004, in Note 2, Restatement, to our consolidated financial statements included elsewhere in this Report on Form 10-K. We encourage you to read the MD&A and Note 2 Restatement to our consolidated financial statements for further discussion of the restatement adjustments.

	Year Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
		(As Restated See Note 2)	**(As Restated See Note 2)**	**(As Restated See Note 2)**	**(As Restated See Note 2)**
	(in millions, except per share amounts)				
Statement of Operations Data:					
Net sales	$ 28,622	$ 28,077	$ 27,641	$ 26,302	$ 29,224
Net (loss) income(1)(2)	$ (4,753)	$ (10)	$ 318	$ (428)	$ 817
Basic (loss) earnings per share	$ (8.47)	$ (0.02)	$ 0.57	$ (0.76)	$ 1.46
Diluted (loss) earnings per share	$ (8.47)	$ (0.02)	$ 0.57	$ (0.76)	$ 1.45
Cash dividends declared per share	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28
Ratio of earnings to fixed charges(3)	N/A	N/A	2.6	N/A	5.7
Balance Sheet Data:					
Total assets	$ 16,593	$ 21,066	$ 19,692	$ 18,928	$ 18,986
Total debt	2,980	3,456	3,215	3,629	3,677
Stockholders (deficit) equity	(3,539)	1,446	1,232	2,267	3,676

(1) Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets and no longer amortize purchased goodwill.

(2) 2004 net loss includes $4.7 billion of income tax expense recorded to provide a non-cash valuation allowance on U.S. deferred tax assets, as described in Note 6, Income Taxes, to our consolidated financial statements included elsewhere in this report on Form 10-K.

(3) Fixed charges exceeded earnings by $719 million, $137 million and $663 million for the years ended December 31, 2004, 2003 and 2001, respectively resulting in a ratio of less than one.

Table of Contents

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

The following management discussion and analysis gives effect to the restatement discussed in Note 2 Restatement.

Restatement and Conclusions of Audit Committee Investigation

Subsequent to the issuance of Delphi s consolidated financial statements for the years ended December 31, 2003 and 2002, and following an internal investigation conducted by the Audit Committee of its Board of Directors, Delphi management determined that its originally issued financial statements for those periods required restatement to correct the accounting for a number of transactions recorded in prior years. Such transactions included (i) rebates, credits and other lump sum payments from suppliers; (ii) disposition of indirect material and other inventories; (iii) warranty settlements with Delphi s former parent company; and (iv) certain other transactions. The effects of the restatement adjustments on Delphi s originally reported financial position, results of operations and cash flows as of and for the year ended December 31, 2003 and 2002, and on its originally reported retained earnings at December 31, 2001, are summarized below.

Delphi is subject to stringent disclosure standards, and accounting, corporate governance and other securities regulations, including compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404), as well as the listing standards of the New York Stock Exchange. Delphi management s assessment pursuant to Section 404 determined that Delphi had not maintained effective internal controls over financial reporting at December 31, 2004. In addition, management concluded that during such periods, Delphi s disclosure controls and procedures were also ineffective. Delphi has undertaken and is continuing to take actions to address material weaknesses in its internal controls over financial reporting and the deficiencies in its disclosure controls and procedures. For more detail on the weaknesses and deficiencies identified and remedial actions see Part II, Item 9A Controls and Procedures. Delphi s failure to timely and effectively remediate its control weaknesses and deficiencies may have a material adverse affect on its business.

Table of Contents

The following table summarizes the effects of the restatement adjustments on Delphi s originally reported net income (loss) for the years ended December 31, 2003 and 2002 and on its originally reported retained earnings at December 31, 2001.

	Income (loss) Year Ended December 31,		Retained Earnings at December 31,
	2003	**2002**	**2001**
As originally reported	$ (56)	$ 342	$ 1,268
Adjustments for:			
Information technology service provider rebates(a)	13	13	(58)
Non-IT supplier rebates(a)	(5)	2	(28)
Deferred expense recognition for IT services(b)	20	(22)	
Indirect material dispositions(c)	45		(50)
Inventory disposal transactions(d)		1	(1)
Warranty settlements with former parent company(e)	28	(20)	(225)
Period-end accruals and other out of period items(f)	(34)	(14)	(29)
Other(g)		(19)	(40)
Total	67	(59)	(431)
Related tax effects	(21)	35	166
Total adjustments, net of tax	46	(24)	(265)
As restated	$ (10)	$ 318	$ 1,003

The following represents a summary of the nature and amount of the adjustments reflected in the restatement (all amounts are pre-tax unless otherwise noted):

(a) *Information technology service provider and non-IT supplier rebates*

Delphi did not recognize certain liabilities or appropriately defer recognition of payments and credits that were received in conjunction with agreements for future information technology services. In addition, the investigation identified other rebate transactions occurring between 1999 and 2004 in which the payments and credits received by Delphi from suppliers were tied to agreements for the provision of future services or products, and for which Delphi recognized the payment or credit when received rather than as the services were performed or products were purchased. In addition, in certain of these transactions, credits were accrued without sufficient certainty of the collectibility of the amount recorded. The impact of these adjustments on originally reported retained earnings at December 31, 2001 and on 2002 and 2003 pre-tax income is $(86) million, $15 million and $8 million, respectively.

(b) *Deferred expense recognition for IT services*

Delphi improperly deferred recognition of approximately $22 million of payments made for system implementation services in 2002. These payments should have been recorded as expense when services were rendered, rather than deferred and recorded as an expense in later periods.

(c) *Indirect material dispositions*

In 1999 and 2000, Delphi improperly recorded asset dispositions, in a series of transactions, amounting to approximately $145 million of indirect materials to an indirect material management company. Delphi recorded pre-tax income of approximately $60 million in 1999 and an additional $16 million in 2000 from the transactions. The transactions should not have been accounted for as asset dispositions but rather as financing transactions, principally because Delphi had an obligation to repurchase such materials. The gain recognized at the time of sale and subsequent expense recognized in periods when

materials were repurchased has been eliminated. The pre-tax operating income effect primarily reflects earlier recognition of valuation allowances related to this material resulting in a decrease in retained earnings at December 31, 2001 of $50 million and a reduction of $45 million in the pre-tax loss for 2003. The cash flow effect of accounting for these transactions as financings is to reclassify approximately $138 million and $33 million of cash flow from operations to cash flow from financing activities in 1999 and 2000, respectively. In 2002 and 2003, Delphi repurchased certain indirect materials from the indirect material management company, recording a portion of the material repurchased as assets and writing-off the remainder.

(d) *Inventory disposal transactions*

In 2000 and 2001, Delphi entered into several transactions, in each case improperly recording the transaction as a disposal of inventory to a third party and repurchasing the same inventories in subsequent periods. Each of these transactions should have been accounted for as a financing transaction, not a disposal. Specifically, in the fourth quarter of 2000, Delphi entered into transactions, one for approximately $70 million, a second to a different third party for approximately $200 million, and a third, also with a different third party, for approximately $7 million. In the first transaction, Delphi recorded a disposal of inventory at book value; in the second, which involved precious metals, Delphi recorded a disposal of inventory at a gain of approximately $6 million, and in the third, Delphi recorded a disposal of inventory of a gain of approximately $1 million. In the first and fourth quarters of 2001, Delphi disposed of $10 million and $9 million, respectively of inventory at book value. Recording the fourth quarter transactions as inventory disposals resulted in the recognition of LIFO inventory gains that increased pre-tax income for the year ended December 31, 2000 by approximately $100 million. Finally, in the case of the $70 million transaction in 2000 and each of the transactions in 2001, Delphi recorded an account receivable for the purchase price, and then allowed the third party to settle the account receivable using cash received through financing arranged by Delphi. As a result, Delphi received no increased cash flow in the quarter the inventory was sold. Because Delphi changed its accounting for inventories from the LIFO method to the first-in-first-out method (FIFO) in 2003, and generally accepted accounting principles required the restatement of its historical financial statements to give retroactive effect to the accounting change, the transactions impact on LIFO reserves had been previously eliminated. Accordingly, the impact of these transactions on originally reported pre-tax income was to reduce 2000 pre-tax income by approximately $7 million and increase 2001 pre-tax income by approximately $6 million. The cash flow statement impact on originally reported results is to reclassify approximately $200 million included in 2000 cash flow from operations to cash provided by financing activities and to conversely increase 2001 cash flow from operations and cash used for financing activities each by approximately $200 million.

(e) *Warranty settlements with former parent company*

Delphi improperly accounted for $202 million in cash payments made to its former parent in calendar year 2000 as a pension settlement agreement. The payment should have been accounted for as a settlement of warranty claims and should have been expensed or charged against the warranty accrual in 2000 rather than reflected as an adjustment to post retirement obligations and amortized over future periods. Furthermore, with respect to $85 million in credits received in 2001 from its former parent, Delphi determined that $30 million of such credits were improperly recorded as a reduction to expense in 2001 and 2002. The credits should have been recognized as a reduction to warranty obligations when utilized. The net effect of these changes is to reduce 2001 pre-tax income by $30 million, reduce 2002 pre-tax income by $20 million and increase 2003 pre- tax income by $20 million. In addition, in conjunction with a separate agreement, Delphi should have recognized a $10 million warranty obligation to its former parent in the first quarter of 2003. This adjustment has the effect of reducing 2003 pre-tax earnings by $10 million. The income impact of the warranty settlement adjustments is partially offset by the reversal of a portion of pension expense being recognized in conjunction with the original accounting treatment, $7 million, $0 and $18 million in 2001, 2002 and 2003 respectively.

(f) *Period-end Accruals and Other Out of Period Adjustments*

Delphi identified obligations that were not properly accrued for at the end of an accounting period. Delphi also identified other accounting adjustments that were not recorded in the proper period. These out of period adjustments were not material to the financial statements as originally reported; however, as part of the restatement, are being recognized in the period in which the underlying transaction occurred. The impact of these adjustments on originally reported pre-tax income for 2002 and 2003 is $(14) million and $(34) million, respectively.

(g) *Other*

As part of the restatement, other adjustments were identified, none of which are individually significant.

Executive Summary of Business

We are a global supplier of vehicle electronics, transportation components, integrated systems and modules and other electronic technology. Our technologies are present in more than 75 million vehicles on the road worldwide as well as in communication, computer, consumer electronic, energy and medical applications. We operate in extremely competitive markets. Our customers select us based upon numerous factors including technology, quality and price. Supplier selection in the auto industry is generally finalized several years prior to the start of production of the vehicle. As a result, business that we win in 2005 will generally not impact our financial results until 2007 or beyond. Additionally, our results are heavily dependent on overall vehicle production throughout the world. Consistent with one of the primary rationales for separating Delphi from General Motors (GM), we have diversified our customer base significantly since our separation from GM in 1999 (the Separation). Our sales to GM have declined since the Separation; principally reflecting the impact of customer trends, the exit of some businesses, changes in our vehicle content and the product mix supplied to them, as well as GM s diversification of its supply base.

Critical success factors for us include managing our overall global manufacturing footprint to ensure proper placement and workforce levels in line with business needs as well as competitive wages and benefits, maximizing efficiencies in manufacturing processes, fixing or eliminating unprofitable businesses, including those that are part of our Automotive Holdings Group (AHG) operations, and reducing overall material costs. In addition, our customers generally require that we demonstrate improved efficiencies, through cost reductions and/or price decreases, on a year over year basis. See Results of Operations for more details as to the factors, which drive year-over-year performance.

Our 2004 net sales were $28.6 billion, up from $28.1 billion from 2003. Non-GM revenues were $13.2 billion, or 46% of sales, up 20% from 2003. Our 2004 GM sales were $15.4 billion, down 9% from last year. For the full year, we benefited from the steady growth of our non-GM business and have continued to diversify our customer base through sales of technology-rich products and systems-based solutions for vehicles and non-auto applications. The employee and product line initiatives announced in 2003 are now complete. Savings realized from our prior restructuring plans combined with other operating performance improvements have allowed us to partially offset the challenges of rising wages, pension and healthcare costs, as well as continued price pressures. We remain focused on reducing structural costs. In 2004, we experienced a more challenging U.S. vehicle manufacturer production environment combined with slowing attrition of our U.S. hourly workforce, increased commodity price pressures as well as program launch and volume related cost issues.

During 2004, we were challenged by commodity cost increases, most notably steel and petroleum-based resin products. We continue to proactively work with our suppliers and customers to manage these cost pressures. Despite our efforts, cost increases, particularly when necessary to ensure the continued financial viability of key suppliers, had the effect of reducing our earnings during 2004. Raw material steel supply has continued to be constrained and commodity cost pressures have continued to intensify as our supply contracts expire during 2005. For 2005, we expect to incur $0.4 billion of higher commodity cost

Table of Contents

than 2004. This amount includes $0.1 billion for costs associated with troubled suppliers. We have been seeking to manage these cost pressures using a combination of techniques, including working with our suppliers to mitigate costs, seeking alternative product designs and material specifications, combining our purchase requirements with our customers and/or suppliers, changing suppliers and other means. To the extent that we experience cost increases we will seek to pass these cost increases on to our customers, but if we are not successful, our earnings in future periods may be adversely impacted. To date, due to previously established contractual terms, our success in passing commodity cost increases on to our customers has been limited. As contracts with our customers expire, we will seek to renegotiate terms that enable us to recover the actual commodity costs we are incurring.

Our Board of Directors and management use cash generated by the businesses as a measure of our performance. We believe the ability to consistently generate cash flow from operations is critical to increasing Delphi s value. We use the cash that we generate in our operations for strengthening our balance sheet, including reducing legacy liabilities such as pensions, restructuring our operations, and paying dividends. We believe that looking at our ability to generate cash provides investors with additional insight into our performance. Refer to further discussion of cash flows in Liquidity and Capital Resources below.

In the fourth quarter of 2004, Delphi recorded charges totaling $502 million pre-tax, primarily related to the recoverability of certain of Delphi s U.S. legacy plant and employee cost structure. Included in the $502 million total are asset impairment charges of $363 million, $81 million of postemployment obligations, $46 million of goodwill impairment and $14 million of other exit costs, reduced by $2 million reversal of the employee and product line charges taken in Q3 2003. The asset impairment and employee charges were principally necessitated by the substantial decline during the second half of 2004 in Delphi s U.S. profitability, especially at the impaired sites, combined with the budget business plan outlook for such sites and product lines. Where the carrying value exceeded the future cash flows, an impairment charge is being recognized for the amount that the carrying value exceeds the discounted future cash flows. The $81 million of postemployment benefit liability represents estimated costs for inactive employees, primarily at U.S. sites being consolidated throughout the duration of their contractual employment. The postemployment and other exit charges will result in future cash expenditures of approximately $81 million. The $46 million goodwill impairment charge is primarily attributable to a decrease in reporting units estimated fair values based upon the effect of market conditions on current operating results and on management s projections of future financial performance, specifically lower North American vehicle production levels and higher commodity costs.

In the fourth quarter of 2004, Delphi also recorded an additional $4.7 billion valuation allowance on the U.S. deferred tax assets due to a change in our assessment of the recoverability of these assets. Of this amount, $4.7 billion was recorded to income tax expense and $64 million was recorded to other comprehensive income. See Taxes below in Results of Operations for a more detailed discussion on the charge.

In the third quarter of 2003, Delphi approved plans to reduce our U.S. hourly workforce by up to approximately 5,000 employees, our U.S. salaried workforce by approximately 500 employees, and our non-U.S. workforce by approximately 3,000 employees over a 15-month period. In the third quarter of 2004, we anticipated more than 1,000 additional U.S. hourly employees would leave Delphi bringing our total U.S. hourly attrition to more than 6,000. We achieved our planned reduction in our U.S. salaried and non-U.S. hourly workforce during this 15-month timeframe. With respect to our U.S. hourly workforce reductions, we achieved a reduction of approximately 6,175 employees in comparison to our plan of more than 6,000 employees. A substantial portion of this reduction was achieved in the first half of 2004 due in part to the completion of the new hourly labor contracts negotiated at the end of 2003. During the second half of 2004, we experienced much lower attrition rates among our U.S. hourly workforce as compared to the first half of the year.

During 2004, we incurred charges related to these initiatives of approximately $185 million ($86 million in cost of sales and $99 million in employee and product line charges). The charges to cost

of sales include costs for employees who are idled prior to separation. Plans to separate U.S. salaried and non-U.S. salaried employees under a variety of programs were substantially completed during the first quarter of 2004. During 2004, approximately 4,575 U.S. hourly employees flowed back to GM, retired, or separated through other means.

We will continue to seek savings from restructuring plans and improvements in operating performance to address the challenges of legacy costs associated with declining GM revenues, rising commodity costs, increased wages, pension and healthcare costs, as well as continued price pressures. On December 10, 2004, we announced restructuring plans for 2005 to further reduce our workforce by 8,500 positions in 2005 through GM flowbacks, normal attrition and incentivized retirements. Of the total reductions, 3,000 are expected to be U.S. hourly employees and 5,500 are planned to be non-U.S. employees. Total charges related to these initiatives are expected to be primarily cash charges of approximately $163 million pre-tax.

Acquisitions and Divestitures

On December 7, 2004, Delphi Medical Systems, a subsidiary of Delphi, acquired Peak Industries, Inc. (Peak), for approximately $44 million, net of cash acquired. Peak is a Colorado-based contract manufacturer of medical devices. This strategic acquisition provides Delphi Medical Systems access to new customers in its target markets of dialysis, infusion, patient monitoring, and respiratory devices, thus contributing significantly to Delphi s strategy of customer diversification. The addition of this operation will complement Delphi Medical Systems existing capabilities by enhancing its medical device manufacturing compliance expertise. In addition, employees from this new company are trained and experienced in manufacturing for the medical device industry and have broad expertise in manufacturing complex, state-of-the-art commercial and medical devices under the highest quality standards, and compliant with Food and Drug Administration and ISO-13485 standards.

On September 1, 2004, Delphi acquired the intellectual property and substantially all the assets and certain liabilities of Dynamit Nobel AIS GmbH Automotive Ignition Systems (Dynamit Nobel AIS), a wholly-owned subsidiary of mg technologies AG, for approximately $17 million, net of cash acquired. Dynamit Nobel AIS is a designer and manufacturer of igniters, propellants, micro-gas generators and related products for the automotive industry.

The acquisitions have been accounted for under the purchase method of accounting and the results of operations are included in our consolidated financial statements from the date of acquisition. The purchase prices and related allocations are preliminary and may be revised as additional information is obtained.

Results of Operations

2004 versus 2003

Net Sales. Net sales by product sector and in total for the years ended December 31, 2004 and 2003 were as follows:

	Year Ended December 31,	
Product Sector	**2004**	**2003(a)**
		(As Restated See Note 2)
	(in millions)	
Dynamics, Propulsion, Thermal & Interior	$ 14,120	$ 14,175
Electrical, Electronics & Safety	13,883	12,925
Automotive Holdings Group	2,567	2,994
Other	(1,948)	(2,017)
Net sales	$ 28,622	$ 28,077

Table of Contents

(a) The 2003 data has been reclassified to conform to the realignment of our business sectors in 2004 which combined the interior product lines into the Dynamics, Propulsion, Thermal & Interior sector (2004 sector realignment), which were previously included in the Electrical, Electronics, Safety & Interior sector.

Consolidated net sales for 2004 were $28.6 billion compared to $28.1 billion for 2003. The increase of $545 million was more than explained by approximately $710 million of increase due to currency exchange rate movement, primarily the strengthening of the euro versus the U.S. dollar. Our non-GM sales increased by $2.2 billion including approximately $560 million resulting from favorable currency exchange rates. Excluding the effects of favorable currency exchange rates, our non-GM sales increased approximately $1.6 billion or 14.4%. Management evaluates year-over-year performance on a constant exchange rate basis and changes in revenues attributed to movements in currency exchange rates generally do not impact our operating income; see Results of Operations Operating Income. This non-GM sales increase was due to new business from diversifying our global customer base, incremental sales due to our Delphi Grundig acquisition in 2003, and the migration of certain product programs from sales to GM to sales to customers that are Tier I suppliers of GM, partially offset by price decreases. As a percent of our net sales for 2004, our non-GM sales were 46%. Net sales to GM decreased by $1.6 billion, net of an increase of approximately $150 million resulting from favorable currency exchange rates. Excluding the effects of favorable currency exchange rates, our GM sales decreased $1.8 billion or 10.4%. The GM sales decrease was due to volume and price decreases and decisions to exit certain businesses. Generally the decrease in our GM sales has been more than offset by the increase in our non-GM sales in each year excluding the effects of change in currency exchange rates. However, in the fourth quarter of 2004 we saw a significant decline in GM production volumes. Additionally, our net sales were reduced by continued price pressures that resulted in price reductions of approximately $560 million or 2.0% for 2004, compared to approximately $460 million or 1.7% for 2003. On a going forward basis, we expect future annual price reductions to continue to be approximately 2%.

Gross Margin. Our gross margin was 9.9% for 2004 compared to gross margin of 11.4% for 2003. Excluding the increase of $16 million between restructuring charges in 2003 and 2004, the 2004 gross margin as compared to the prior year was negatively impacted by reductions in selling prices of approximately 2% of sales, increased wage and benefit costs of approximately 2% of sales and commodity price increases of $0.1 billion. These cost increases were only partially offset by savings resulting from our restructuring activities and on-going cost reduction efforts totaling approximately 3% of sales. Slower U.S. hourly workforce attrition combined with lower production volumes and launch challenges negatively impacted our ability to offset the cost increase noted above.

Selling, General and Administrative. Selling, general and administrative (SG&A) expenses were $1.6 billion, or 5.6% of total net sales for 2004, compared to $1.6 billion or 5.7% of total net sales for 2003. The slight decrease as a percentage of total net sales for 2004 is primarily due to the 2003 legal settlement discussed below, partially offset by the impact of currency exchange rates. In 2003, SG&A expenses were adversely impacted by a legal settlement in connection with a commercial dispute with a former supplier of approximately $38 million. Excluding the legal settlement, SG&A expenses were 5.5% of total net sales for 2003.

Depreciation and Amortization. Depreciation and amortization was $1.5 billion for 2004 compared to $1.1 billion for 2003; the increase primarily reflects $326 million of charges related to product line impairments and $46 million of charges related to goodwill impairment in 2004. Excluding asset impairments, the increase reflects the impact of currency exchange rates as well as the depreciation of assets newly placed in service. 2003 depreciation and amortization includes $58 million of charges related to product line impairments. Refer to Employee and Product Line Charges below for discussion of asset impairments recorded in conjunction with the employee and product line charges recorded in 2004 and 2003.

Table of Contents

Employee and Product Line Charges. In the fourth quarter of 2004, Delphi recorded charges totaling $456 million pre-tax, primarily related to the recoverability of certain of Delphi s U.S. legacy plant and employee cost structure. Included in the $456 million total are asset impairment charges of $363 million ($326 million of which is included in depreciation and amortization expense), $81 million of postemployment obligations and $14 million of other exit costs, reduced by a $2 million reversal of the employee and product line charges taken in Q3 2003. The asset impairment and employee charges were principally necessitated by the substantial decline during the second half of 2004 in Delphi s U.S. profitability, especially at the impaired sites, combined with the budget business plan outlook for such sites and product lines. Management determined the asset impairment charges by comparing the estimated future cash flows against carrying values of plant and product line assets. Where the carrying value exceeded the future cash flows, an impairment charge was recognized for the amount that the carrying value exceeded the discounted future cash flows. The $81 million of postemployment benefit liability represents estimated costs for inactive employees, primarily at U.S. sites being consolidated throughout the duration of their contractual employment. The postemployment and other exit charges will result in future cash expenditures of approximately $81 million.

In the third quarter of 2003, Delphi approved plans to reduce our U.S. hourly workforce by up to approximately 5,000 employees, our U.S. salaried workforce by approximately 500 employees, and our non-U.S. workforce by approximately 3,000 employees over a 15-month period. In the third quarter of 2004, we anticipated more than 1,000 additional U.S. hourly employees would leave Delphi bringing our total U.S. hourly attrition to more than 6,000. We achieved our planned reduction in our U.S. salaried and non-U.S. hourly workforce during this 15-month timeframe. With respect to our U.S. hourly workforce reductions, we achieved approximately 6,175 reductions in comparison to our plan of more than 6,000 employees. A substantial portion of this reduction was achieved in the first half of 2004 due in part to the completion of the new hourly labor contracts negotiated at the end of 2003. During the second half of 2004, we experienced much lower attrition rates among our U.S. hourly workforce as compared to the first half of the year. Our plans entailed reductions to our workforce through a variety of methods including regular attrition and retirements, and voluntary and involuntary separations, as applicable. Under certain elements of the plans, the International Union, United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW) hourly employees were permitted to return to GM (flowback).

As required under generally accepted accounting principles, we record the costs associated with flowbacks as the employees accept the offer to exit Delphi. We incurred total charges related to these initiatives of approximately $746 million (pre-tax) through December 31, 2004, of which $185 million ($86 million in cost of sales and $99 million in employee and product line charges) were recorded during 2004, and $561 million was recorded in 2003. The charges to cost of sales include costs for employees who are idled prior to separation. Plans to separate U.S. salaried and non-U.S. salaried employees under a variety of programs were completed during 2004. During 2004, approximately 4,575 U.S. hourly employees flowed back to GM, retired, or separated through other means.

Delphi completed the restructuring actions as planned in the first quarter of 2003 related to the 2002 restructuring. The 2002 restructuring charges are discussed in the 2003 versus 2002 Employee and Product Line Charges . The cash outflows for the first quarter of 2003 were $24 million, with $17 million for employee costs and $7 million for other exit costs.

Table of Contents

Following is a summary of the activity in the 2003 and 2004 employee and product line charges (in millions):

Employee and Product Line Charges	Employee Costs	Exit Costs	Total
2003 charges	$ 381	$ 15	$ 396
Usage during 2003	(135)	(3)	(138)(a)
Transfer to long-term liabilities		(7)	(7)
Balance at December 31, 2003	$ 246	$ 5	$ 251
Charges during 2004	180	14	194
Usage during 2004	(302)	(1)	(303)(b)
Less: reversal of 2003 charges		(2)	(2)
Balance at December 31, 2004	$ 124	$ 16	$ 140(c)

(a) The total cash paid in 2003 was $156 million, as shown on our consolidated statement of cash flows. Of this amount, $132 million was paid in 2003 related to the 2003 charges and $24 million was paid in the first quarter of 2003 related to the 2002 charges discussed below. The $138 million of usage in 2003 includes $6 million of non-cash special termination pension and postretirement benefits. In addition, we paid $44 million associated with the 2003 charges that was recorded in cost of sales. The total cash paid for 2003 was $200 million.

(b) The total cash paid for 2004 was $296 million, as shown on our consolidated statement of cash flows. Our total usage was $303 million with $7 million of non-cash special termination pension and postretirement benefits for the year ended December 31, 2004. In addition, we paid $94 million associated with the 2003 charges for the year ended December 31, 2004 that was recorded in cost of sales. The total cash paid for 2004 was $390 million.

(c) This amount is included in accrued liabilities in the accompanying consolidated balance sheet.

Table of Contents

Operating Results. Our operating loss was $482 million for 2004 compared to operating income of $89 million in 2003. The 2004 operating loss includes charges of $123 million in cost of sales, $372 million in depreciation and amortization and $192 million in employee and product line charges (the 2004 Charges). The operating income for 2003 includes charges of $107 million in cost of sales, $58 million in depreciation and amortization and $396 million in employee and product line charges (the 2003 Charges). Management reviews our sector operating income results excluding the 2004 Charges and the 2003 Charges. Accordingly, we have separately presented such amounts in the table below. In addition, the 2003 data below has been reclassified to conform to the 2004 sector realignment.

Product Sector	**Year Ended December 31, 2004**	**2003 (As Restated See Note 2)**
	(in millions)	
Dynamics, Propulsion, Thermal & Interior	$ (65)	$ 398
Electrical, Electronics & Safety	955	974
Automotive Holdings Group	(590)	(591)
Other	(95)	(131)
Subtotal	205	650
2004 Charges(a) and 2003 Charges(b)	(687)	(561)
Total operating (loss) income	$ (482)	$ 89

(a) Represents the 2004 Charges of $194 million for Dynamics, Propulsion, Thermal & Interior, $91 million for Electrical, Electronics & Safety, $395 million for Automotive Holdings Group and $7 million for Other.

(b) Represents the 2003 Charges of $86 million for Dynamics, Propulsion, Thermal & Interior, $114 million for Electrical, Electronics & Safety, $319 million for Automotive Holdings Group and $42 million for Other.

Excluding the impact of the 2004 Charges and 2003 Charges, our operating income for the year ended December 31, 2004 was $205 million compared to $650 million for the year ended December 31, 2003. Operating income was negatively impacted by selling price decreases of approximately 2% of sales, increased wage and benefit costs of approximately 2% of sales and commodity price increases. These cost increases were partially offset by savings resulting from our restructuring activities and on going cost reduction efforts totaling approximately 3% of sales. In addition, the operating income for 2003 included the legal settlement discussed above.

Interest Expense. Interest expense increased by $21 million primarily attributable to a full year of interest related to the junior subordinated notes due to Delphi Trust I and II and the 6.50% unsecured notes due in 2013 which were outstanding during all of 2004 and only part of 2003. See discussion below in Liquidity and Capital Resources.

Taxes. We recorded an income tax expense for the year ended December 31, 2004 of $4.1 billion as compared to an income tax benefit for the year ended December 31, 2003 of $69 million. During 2004 and continuing into 2005, the amount of pre-tax losses we incurred in the U.S. increased significantly due to lower vehicle manufacturer production volumes in the U.S., declining content per vehicle with GM in the U.S., and the fixed cost nature of our U.S. manufacturing operations. As a result, we re-evaluated the recoverability of our U.S. deferred tax assets. Due to our history of U.S. losses over the past three years, combined with the current U.S. operating outlook for the near to

mid-term, we determined that we could no longer support realization of such amounts under the application of U.S. GAAP. Accordingly, we recorded a valuation allowance of $4.7 billion against all of our net U.S. deferred tax assets as of

Table of Contents

December 31, 2004, of this amount $4.7 billion was recorded to income tax expense and $64 million was recorded to other comprehensive income. We continue to maintain the underlying tax benefits to offset future taxable income and will evaluate the continued need for a valuation allowance based on the profitability of our U.S. operations. In addition, our 2004 income tax expense includes $177 million of benefits recognized upon the completion of income tax audits for prior periods, including periods prior to our separation from GM (more fully discussed below). Our 2003 income tax benefit includes $214 million of benefits recognized in connection with restructuring charges.

Under an agreement entered into with GM, in connection with our separation agreement in 1999, Delphi is responsible for all foreign income taxes and certain U.S. federal and state income taxes applicable to Delphi operations prior to the separation. During the fourth quarter of 2004, GM resolved Internal Revenue Service audits for the tax years through 1997. Upon completion of this process, Delphi and GM determined the amounts due between Delphi and GM under the agreement and GM paid Delphi $4 million prior to December 31, 2004. At the conclusion of these discussions, we reevaluated the related tax reserves applicable to 1998 and prior tax periods and as a result determined that approximately $161 million of tax reserves were no longer necessary and an adjustment to reduce the reserve was recorded during the fourth quarter of 2004. Additionally, during the second quarter of 2004, the routine U.S. federal tax audit of our tax returns for the portion of 1999 following spin-off from GM and for 2000 was substantially completed. As a result of this audit, we made a tax payment in the third quarter of 2004 of approximately $9 million (including interest). Upon completion of the audit, we determined that approximately $12 million of tax reserves were no longer required and an adjustment to reduce the reserve was recorded during the second quarter of 2004.

2003 versus 2002

Net Sales. Net sales by product sector and in total for the years ended December 31, 2003 and 2002 were as follows:

	Year Ended December 31,	
Product Sector	**2003**	**2002**
	(As Restated See Note 2) (in millions)	
Dynamics, Propulsion, Thermal & Interior	$ 14,175	$ 14,199
Electrical, Electronics & Safety	12,925	12,037
Automotive Holdings Group	2,994	3,550
Other	(2,017)	(2,145)
Net sales	$ 28,077	$ 27,641

The 2003 and 2002 data above has been reclassified to conform to the 2004 sector realignment.

Net sales for 2003 were $28.1 billion compared to $27.6 billion for 2002. The increase of approximately $440 million was more than explained by approximately $960 million of currency exchange rates, primarily the euro. Our non-GM sales increased by $1.5 billion or 15.7%, including approximately $760 million resulting from currency exchange rates and $54 million attributable to the Grundig Car InterMedia System GMBH (Grundig) acquisition. Management evaluates year-over-year performance on a constant exchange rate basis and changes in revenues attributed to movements in currency exchange rates generally do not impact our operating income; see Results of Operations Operating Income. Excluding the effects of currency exchange rates, our non-GM sales increased approximately $740 million which was due to increased production volumes and new business from diversifying our

global customer base, partially offset by price decreases. As a percent of our net sales for 2003, our non-GM sales were 39%. Net sales to GM decreased by $1.1 billion, after approximately $200 million of currency exchange rates. Excluding the effects of changes in currency exchange rates, our GM sales decreased $1.3 billion.

Table of Contents

This GM sales decrease was due to lower production volumes in North America, price decreases and our decision to exit certain businesses. Our net sales were also impacted by continued price pressures that resulted in price reductions of approximately $460 million, or 1.7% for 2003 compared to approximately $450 million or 1.7% for 2002. On a going forward basis, we expect future annual price reductions to continue to be in the 2% range.

Gross Margin. Our gross margin was 11.4% for 2003 compared to 12.1% for 2002. The decrease was primarily due to volume reductions with a gross margin effect of approximately $300 million and approximately $110 million of retiree lump sum payments and inventory and warranty charges. Additionally, we experienced approximately $740 million of higher wages and increased U.S. pension and healthcare costs and approximately $460 million of price decreases offset by lower material costs, manufacturing performance and savings realized from our restructuring plans. The gross margin for 2002 included a charge of $37 million related to our generator product line.

Selling, General and Administrative. Selling, general and administrative expense was $1.6 billion, 5.7% of total net sales for 2003, compared to $1.5 billion or 5.3% of total net sales for 2002. Selling, general and administrative expense for 2003 was adversely impacted by a legal settlement to one of our former suppliers of approximately $38 million ($25 million after-tax), in connection with a commercial dispute. Excluding the impact of the legal settlement, selling, general and administrative expense was 5.5% of total net sales for 2003.

Depreciation and Amortization. Depreciation and amortization for 2003 includes $58 million of charges related to product line impairments. Excluding these impairment charges, depreciation and amortization for 2003 was consistent with amounts for 2002.

Employee and Product Line Charges. The charges for 2003 are discussed in the 2004 versus 2003 Employee and Product Line Charges included above in the 2004 versus 2003 analysis.

In the first quarter of 2002, Delphi approved restructuring plans to eliminate approximately 6,100 positions from our global workforce, which included 3,100 U.S. employees and 3,000 employees in non-U.S. locations, downsize more than 25 selected facilities in the U.S. and Europe, and exit certain other activities by the end of the first quarter of 2003. The restructuring charge totaled $231 million with $222 million of employee costs (including postemployment benefits and special termination pension benefits) and $9 million in other exit costs (lease and contract cancellation fees). This charge, reduced by a $6 million reversal for the 2001 restructuring reserve, resulted in a net restructuring charge of $225 million in the first quarter of 2002. The restructuring actions were completed as planned in the first quarter of 2003. Total cash paid for restructuring was $200 million, with $191 million for employee costs and $9 million for other exit costs. The cash outflows for the first quarter of 2003 were $24 million, with $17 million for employee costs and $7 million for other exit costs. We have realized savings, principally payroll and related costs, of approximately $125 million (after-tax) associated with the restructurings ratably in all sectors.

Following is a summary of our actions related to our 2002 restructuring charge (in millions):

Employee and Product Line Charges	**Employee Costs**	**Exit Costs**	**Total**
First quarter 2002 restructuring charge	$ 222	$ 9	$ 231
Usage in 2002	(205)	(2)	(207)
Balance at December 31, 2002	$ 17	$ 7	$ 24
Usage in first quarter 2003	(17)	(7)	(24)(a)
Balance at March 31, 2003	$	$	$

(a) The total cash paid in 2003 was $156 million, as shown on our Consolidated Statement of Cash Flows. Of this amount, $132 million was paid in 2003 related to the 2003 charges discussed above and $24 million was paid in

the first quarter related to the 2002 charges.

Table of Contents

Operating Income. Operating income was $89 million for 2003 compared to $638 million in 2002. The 2003 operating income includes charges of $107 million in cost of sales, $58 million in depreciation and amortization and $396 million in employee and product line charges (the 2003 Charges). Similarly, the operating income for 2002 includes charges of $37 million in costs of sales and $225 million in employee and product line charges (the 2002 Charges). Management reviews our sector operating results excluding the 2003 Charges and the 2002 Charges. Accordingly, we have separately presented such amounts in the table below. In addition, the 2003 and 2002 data below has been reclassified to conform to the 2004 sector realignment.

Product Sector	Year Ended December 31, 2003	Year Ended December 31, 2002
	(As Restated See Note 2) (in millions)	
Dynamics, Propulsion, Thermal & Interior	$ 398	$ 433
Electrical, Electronics & Safety	974	920
Automotive Holdings Group	(591)	(378)
Other	(131)	(75)
Subtotal	650	900
2003 Charges(a) and 2002 Charges(b)	(561)	(262)
Total operating income	$ 89	$ 638

(a) Represents the 2003 Charges of $86 million for Dynamics, Propulsion, Thermal & Interior, $114 million for Electrical, Electronics & Safety, $319 million for Automotive Holdings Group and $42 million for Other.
(b) Represents the 2002 Charges of $97 million for Dynamics, Propulsion, Thermal & Interior, $45 million for Electrical, Electronics & Safety, $104 million for Automotive Holdings Group and $16 million for Other.

The decrease in operating income from 2002 primarily reflects the 2003 Charges in excess of the 2002 Charges and is primarily due to decreases in volume, as well as increased pension, healthcare and wages, lower pricing, offset by savings realized from our restructuring plans, material cost savings, manufacturing performance and the legal settlement in connection with a commercial dispute. The increase in net sales attributable to currency exchange rates did not significantly impact our operating income, as we manage our currency exposure through hedging techniques, including derivative instruments.

Interest Expense. Interest expense increased by $1 million primarily attributable to interest on the junior subordinated notes due to Delphi Trust I and II and the 6.50% unsecured notes due in 2013. See discussion below in Liquidity and Capital Resources.

Taxes. Our effective tax rate (including the tax related to minority interest) for 2003 was a benefit of 45% compared to an expense of 32% for 2002. The 2003 rate was influenced by entity restructuring, which allowed substantial earnings from the Asia-Pacific region to be considered indefinitely reinvested in foreign operations. In addition, during 2003 we experienced higher than expected earnings outside of the U.S. (where effective tax rates in certain jurisdictions are lower than the effective U.S. tax rate).

Liquidity and Capital Resources

Overview of Capital Structure

Our objective is to appropriately finance our business through a mix of long-term and short-term debt, and to ensure that we have adequate access to liquidity. Of our $3.0 billion of outstanding debt as of December 31, 2004, $2.0 billion was senior, unsecured debt with maturities ranging from 2006 2029 and

32

approximately $0.4 billion was junior subordinated notes due to Delphi Trust I and II. This long-term debt primarily finances our long-term fixed assets. As of December 31, 2004, we had approximately $0.6 billion of short-term debt and other debt. We have varying needs for short-term working capital financing as a result of the nature of our business. Our cash flows during the year are impacted by the volume and timing of vehicle production, which includes a halt in certain operations of our North American customers for approximately two weeks in July and one week in December and reduced production in July and August for certain European customers. We finance our working capital through a mix of committed facilities, including receivables securitization programs, and uncommitted facilities, including bank lines and factoring lines and to a lesser extent commercial paper. Although the latter group was not committed, these facilities have always been available to us. Throughout 2004, we also maintained $3.0 billion of committed unsecured Credit Facilities. These Credit Facilities consisted of a 364-day revolving credit line in the amount of $1.5 billion, which expired in June 2005, and a five-year revolving credit line in the amount of $1.5 billion, which will expire in June 2009. As disclosed in our Form 8-K filed with the SEC on June 15, 2005, we recently amended our five-year $1.5 billion credit line by increasing the available credit to $1.8 billion and securing the facility with a first lien on substantially all material tangible and intangible assets of Delphi including 65% of the capital stock of our first tier of foreign subsidiaries. In addition, the Company raised $1.0 billion through a cross-collateralized term loan. We used a portion of the term loan to fund $0.6 billion of pension contributions while the remainder was used to pay down short-term debt. As a result of the foregoing refinancing, Delphi maintains access to $1.8 billion of committed liquidity through the revolving credit facility, $730 million through the U.S. securitization program, and 225 million and £10 million through the European securitization programs subject to the limits imposed by our financial covenants. We view these facilities as providing a sufficient source of back-up liquidity that is available in case of an unanticipated event.

Our capital planning process is focused on ensuring that we use our cash flow generated from our operations in ways that enhance the value of our company. Historically, we used our cash for a mix of activities focused on revenue growth, cost reduction, balance sheet strengthening and to pay dividends. In 2004, we used our cash primarily for funding our employee and product line programs and balance sheet strengthening, as we contributed a significant portion of our operating cash flow to our pension plans and to a lesser extent for dividends. In 2005, we plan to use our cash primarily to strengthen our balance sheet, reduce operating costs and to continue to pay dividends to the extent approved by our Board of Directors. Our Board is free to change its dividend practices at any time and to decrease or increase the dividend paid, or not to pay a dividend, on our Common Stock on the basis of the results of operations, financial condition, cash requirements and future prospects of our company and other factors deemed relevant by our Board. As part of our capital planning, we have taken into account that we currently have ERISA pension funding minimums of $1.1 billion in 2006. Based upon current overall macroeconomic conditions, we will likely face additional ERISA minimums in 2007. Further discussion regarding pension plan contributions can be found in Outlook-U.S. Pension Plans and Other Postretirement Benefits. In addition, we anticipate approximately $0.2 billion of product line and employee cost payments, from our previously announced and ongoing restructuring programs, and approximately $20 million to $70 million of dividends in 2005. We expect that we will be able to fund these amounts with cash flow from operations, the repatriation of earnings and excess cash from non-U.S. operations and the new $1.0 billion term loan. We further expect that we will be able to fund our longer-term requirements, including repayments of debt securities and payments for purchase options and residual value guarantees on operating leases, if exercised, as they become due.

Bonds and Trust Preferred Securities

Our unsecured debt includes $500 million of securities bearing interest at 6.50% and maturing on August 15, 2013. We pay interest on these notes on February 15 and August 15 of each year which began February 15, 2004. In addition, our unsecured debt includes our next maturity of $500 million of securities bearing interest at 6.55% and maturing on June 15, 2006, $500 million of securities bearing interest at 6.50% and maturing on May 1, 2009, and $500 million of securities bearing interest at 7.125% and maturing on May 1, 2029.

We also have trust preferred securities that were issued by our wholly-owned subsidiaries, Delphi Trust I and Delphi Trust II. Delphi Trust I (Trust I) issued 10,000,000 shares of $8^{1}/4$% Cumulative Trust Preferred Securities, with a liquidation amount of $25 per trust preferred security and an aggregate liquidation preference amount of $250 million. These securities are listed on the New York Stock Exchange under the symbol DPHprA. The sole assets of Trust I are $257 million of aggregate principal amount of Delphi junior subordinated notes due 2033. Trust I will pay cumulative cash distributions at an annual rate equal to $8^{1}/4$% of the liquidation amount on the preferred securities. Delphi Trust II (Trust II) issued 150,000 shares of Adjustable Rate Trust Preferred Securities with a five-year initial rate of 6.197%, a liquidation amount of $1,000 per trust preferred security and an aggregate liquidation preference amount of $150 million. The sole assets of Trust II are $155 million aggregate principal amount of Delphi junior subordinated notes due 2033. Trust II pays cumulative cash distributions at an annual rate equal to 6.197% of the liquidation amount during the initial fixed rate period (which is through November 15, 2008) on the preferred securities.

Since our Form 10-Q for the third quarter of 2004, Form 10-K for the year ended 2004, and Form 10-Q for the first quarter of 2005 were not filed timely due to the Audit Committee investigation, we are now deficient in our SEC filings. We are currently ineligible to use Forms S-2 and S-3 to register securities until all required reports under the Securities Exchange Act of 1934 have been timely filed for the 12 months prior to the filing of the registration statement for those securities. This means that we are unable to use our presently effective shelf registration statement to sell securities in the public market without first obtaining a waiver from the SEC. However, we do not believe this will have a material impact on our liquidity as we have secured financing through private institutional investors. In addition, we do not believe that the delay in our filing situation has had a material adverse effect on our available credit facilities (described above) or the indentures governing our debt obligations. We anticipate that shortly following the filing of our Form 10-K for the year ended 2004, we will file our other delinquent filings and as such will return to compliant filing status.

Available Credit Facilities

Throughout 2004, Delphi had two financing arrangements with a syndicate of lenders providing for an aggregate of $3.0 billion in available revolving credit facilities (the Credit Facilities), reduced by the amount of any outstanding letters of credit. The terms of the Credit Facilities provided for a five-year revolving credit line in the amount of $1.5 billion, which was renewed in 2004 and now expires in June 2009, and a 364-day revolving credit line in the amount of $1.5 billion, which expired in June 2005. We have never borrowed under either of these Credit Facilities. However, Delphi had approximately $57 million in letters of credit outstanding against the Credit Facilities as of December 31, 2004. Our Credit Facilities also contain certain affirmative and negative covenants including a financial covenant requirement for a debt to EBITDA coverage ratio not to exceed 3.25 to 1.0 at December 31, 2004. In addition, certain of our lease facilities discussed below contain cross-default provisions to our Credit Facilities. We were in compliance with the financial covenant and all other covenants as of December 31, 2004.

On March 28, 2005, Delphi reached agreement with its syndicate of lenders to amend certain terms of its $3.0 billion revolving credit facilities including its EBITDA coverage ratio. Delphi also agreed to the elimination of its option to extend repayment for up to one year beyond the expiration date of its 364-day revolving credit line for any amounts outstanding on the expiration date. Additionally, the syndicate of lenders waived Delphi s obligation to provide audited financial statements for the year ended December 31, 2004 until June 30, 2005.

Further, on June 14, 2005, Delphi reached agreement with its syndicate of lenders to amend certain terms of its existing $1.5 billion five-year revolving credit facility (the Revolving Credit Facility). The amendment increased the available credit under Delphi s Revolving Credit Facility to $1.8 billion and added a $1.0 billion six-year term loan (the Term Loan, and together with the Revolving Credit Facility, the Facilities). As previously announced, upon the effectiveness of the new Facilities, Delphi terminated its 364-day revolving credit facility in the amount of $1.5 billion.

Table of Contents

As a result of the foregoing refinancing, Delphi has replaced its previous $3.0 billion revolving credit facility with $2.8 billion of available credit, the Term Loan portion of which has been fully funded. Prior to the amendment, there were no amounts outstanding under the $1.5 billion five-year revolving credit facility or the $1.5 billion 364-day facility, nor had these revolving credit facilities been previously borrowed upon. Delphi believes that the completion of this refinancing plan should provide Delphi with access to sufficient liquidity to continue to address its U.S. legacy cost issues during the current low GM North American production environment. As contemplated under the Facilities, on June 14, 2005 Delphi contributed $475 million to its U.S. pension plans, bringing the total contributions for the quarter to $625 million and fulfilling Delphi s 2005 minimum pension funding requirements.

The Term Loan requires interest payments during the term at a variable interest rate of 650 basis points above the Eurodollar base rate, which is the London Interbank Borrowing Rate (LIBOR). On June 14, 2005, one-month LIBOR was 3.2% per annum. The LIBOR interest rate period can be set at a one, two, three or six-month period as selected by Delphi in accordance with the terms of the Facilities. Accordingly, the interest rate will fluctuate based on the movement of LIBOR through the term of the loan. The Term Loan has a 1% per annum amortization for the first 5 years and 9 months. The then outstanding principal and any accrued and unpaid interest is due in full at the end of term, on June 14, 2011. The Term Loan is not repayable in the first year and, in accordance with the terms of the Facilities, during the second and third year is subject to call premiums on the balance outstanding of 2% and 1%, respectively. After the third year, the then outstanding Term Loan principal is repayable without premium or penalty.

The Revolving Credit Facility carries a variable interest rate of 500 basis points above LIBOR on outstanding borrowings subject to adjustment based on Delphi s credit ratings. The Revolving Credit Facility has a commitment fee payable on the unused portion of 50 bps per annum, which is also subject to adjustment based upon Delphi s credit ratings. Each of the interest rates on borrowings and the commitment fee under the Revolving Credit Facility is adjustable and will fluctuate as described for the Term Loan. The Revolving Credit Facility will expire June 18, 2009. Borrowings under the Revolving Credit Facility are prepayable at Delphi s option without premium or penalty.

The Facilities provide the lenders with a first lien on substantially all material tangible and intangible assets of Delphi and its wholly-owned domestic subsidiaries (however, Delphi is only pledging 65% of the stock of its first tier foreign subsidiaries) and further provides that amounts borrowed under the Facilities will be guaranteed by Delphi s wholly-owned domestic subsidiaries (except for insignificant subsidiaries and subsidiaries that participate in accounts receivable financings). The amount outstanding at any one time is limited by a borrowing base computation. The borrowing base is calculated as the sum of (a) 85% of U.S. accounts receivable (excluding accounts receivable which have been sold into the U.S. accounts receivables securitization program) of Delphi and its subsidiaries, (b) 60% of inventory (including raw materials, work in progress and finished goods, but excluding inventory to the extent subject to accounts receivable financings) of Delphi and its subsidiaries that is located in the United States or which is owned but consigned to Mexican subsidiaries, and (c) $750,000,000 with respect to U.S. plant, property and equipment of Delphi and its subsidiaries. The terms of the Facilities specifically limit the obligations to be secured by a security interest in certain U.S. manufacturing properties and U.S. manufacturing subsidiaries in order to ensure that at the time of any borrowing under the Term Loan or the Revolving Credit Facility, the amount of the applicable borrowing which is secured by such assets (together with other borrowings which are secured by such assets and obligations in respect of certain sale-leaseback transactions) will not exceed 15% of Consolidated Net Tangible Assets (as defined in the indenture applicable to Delphi s outstanding bonds and debentures).

The amended Facilities contain financial covenants based on consolidated leverage ratios, which are tested at each quarter-end using the ratio of (a) secured debt (excluding letters of credit, but including, without limitation, Term Loans, revolving loans, funded debt in respect of receivables securitizations and factoring facilities, and any other secured debt (including second lien debt) permitted under the terms of the Facilities, minus cash on each test date in excess of $500,000,000, (provided that the amount of such cash deducted shall in no event exceed $500,000,000) to (b) the aggregate sum of the preceding four

quarters EBITDA (as defined in the Facilities). The above mentioned ratio cannot exceed 2.75 to 1 for each of the quarters through and including June 30, 2006, 2.50 to 1 for the quarters from September 30, 2006 to and including September 30, 2007, and 2.25 to 1 for the fourth quarter of 2007 and thereafter. Further, the syndicate of lenders waived Delphi s obligation to provide audited financial statements for the year ended December 31, 2004 until September 30, 2005, and agreed not to consider any inaccuracy of Delphi s non-GAAP measures of net liquidity as disclosed in Delphi s Form 8-K Current Report filed with the Securities and Exchange Commission on June 9, 2005 as a material adverse change.

Other Financial Transactions

We maintain a revolving accounts receivable securitization program in the U.S. (U.S. Facility Program). This program was accounted for as a sale of accounts receivable during 2004. As of December 31, 2004, we had $350 million of accounts receivable sold under this program. The U.S. Facility Program had $600 million available and expired on March 24, 2005. The U.S. Facility Program contains a financial covenant and certain other covenants similar to our revolving Credit Facilities that, if not met, could result in a termination of the agreement. At December 31, 2004, we were in compliance with the financial covenant and all other covenants.

In March 2005, Delphi amended and renewed through March 22, 2006 its U.S. Facility Program, increasing the borrowing limit from $600 million to $731 million. In addition, the U.S. Facility Program was amended to conform the leverage ratio financial covenant consistent with the amended Credit Facilities covenant. Also, the U.S. program lenders granted waivers similar to those granted under the Credit Facilities amendments. The U.S. program amendment also allows Delphi to maintain effective control over the receivables such that effective March 2005, this program which was previously accounted for as a sale of receivables, will be accounted for prospectively as a secured borrowing. In June 2005, Delphi further amended the U.S. Facility Program to add a new co-purchaser to the program, to adjust the borrowing limit from $731 million to $730 million, and to conform the leverage ratio financial covenant consistent to the amended Facilities covenant. The U.S. Facility Program lenders also granted waivers similar to those granted under the Facilities amendments.

On December 23, 2004, we renewed the trade receivable securitization program for certain of our European accounts receivable at 225 million ($307 million at December 31, 2004 currency exchange rates) and £10 million ($19 million at December 31, 2004 currency exchange rates). Accounts receivable transferred under this program are accounted for as short-term debt. As of December 31, 2004, we had no significant accounts receivable transferred under this program. The program expires on December 1, 2005 and can be extended, based upon the mutual agreement of the parties. Additionally, the European program contains a financial covenant and certain other covenants similar to our revolving Credit Facilities (discussed above) that, if not met, could result in a termination of the agreement. At December 31, 2004, we were in compliance with all such covenants.

From time to time, certain subsidiaries may also sell receivables on a non-recourse basis in the normal course of their operations. As of December 31, 2004, 2003 and 2002, certain European subsidiaries sold accounts receivable totaling $354 million, $387 million and $371 million, respectively. Changes in the level of receivables sold from year to year are included in the change in accounts receivable within the cash flow from operations.

We have leased certain property, primarily land and buildings that are used in our operations, under leases commonly known as synthetic leases. The leases, which have been accounted for as operating leases, provide us tax treatment equivalent to ownership, and also provide us with the option to purchase these properties at any time during the term or to cause the properties to be remarketed upon lease expiration. The leases also provide that if we do not exercise our purchase option upon expiration of the term and instead elect our remarketing option, we would pay any difference between the purchase option amount and the proceeds of remarketing, up to a maximum of approximately $89 million. At December 31, 2004, the aggregate fair value of these properties exceeded the minimum value guaranteed upon exercise of the remarketing option. As of December 31, 2004, the recorded estimate of the fair value of the residual value

guarantee related to these leases was approximately $2 million. Under the terms of the lease agreements, we also provide certain indemnities to the lessor, including environmental indemnities. In addition, the leases contain certain covenants, including a financial covenant requirement that our debt to EBITDA coverage ratio, as defined in the agreement, not exceed 3.25 to 1. Unlike the Credit Facilities, this financial covenant has not been amended. In the event of a default of the terms of the leases, the lessors have the right to notify us of their election to require that we purchase the synthetically leased properties, which would require us to pay the aggregate purchase price of approximately $131 million. Though we were in compliance with our financial covenants at December 31, 2004, our audited financials indicate that at March 31, 2005, our debt to EBITDA coverage ratio exceeded 3.25 to 1. Although we have received no notices from the lessors of their election to obligate us to purchase the synthetically leased properties, in June we commenced the process of exercising our purchase options. As a result, we completed the purchase of our headquarters property and two manufacturing facilities in the State of Alabama for approximately $103 million on June 28, 2005. The purchase of the second facility, for approximately $28 million, has not yet been completed.

We also from time to time, enter into arrangements with suppliers or other parties that result in variable interest entities as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46). At December 31, 2004, we had one variable interest entity (VIE), which is a supplier to one of our U.S. facilities. Our arrangement with this supplier is to reimburse it for losses incurred related to materials supplied to us and to receive a refund for any profits that it makes as it relates to material supplied to us. This arrangement is in effect through 2007. In 2004, this VIE had sales of approximately $10 million, 69% of which were to Delphi. This supplier has approximately $4 million in assets and $4 million in liabilities; the latter of which include a loan of approximately $2.7 million from Delphi. This VIE does not have any other means of support other than Delphi. As required under FIN 46, we have consolidated this entity and eliminated all intercompany transactions. Given the nature of our relationship with this VIE, it is not possible to estimate the maximum amount of our exposure or the fair value. However, we do not expect such amounts, if any, to be material.

Other Financing Programs

In 2004, we maintained a program with General Electric Capital Corporation (GECC) that allowed some of our suppliers to factor their receivables from us to GECC for early payment. This program also allowed us to have GECC pay our suppliers on our behalf, providing extended payment terms to us. In 2004, Delphi had been working toward minimizing our involvement in this program and it was discontinued in the first quarter of 2005. Our December 31, 2004 and 2003 short-term debt balances include $8 million and $168 million, respectively, of accounts payable that were factored by our suppliers to GECC but which are still within our stated payment terms to our suppliers. There were no payables beyond their stated terms at December 31, 2004 and 2003. Some of our customers have similar arrangements with GECC, which allow us to sell certain of our customer receivables, at a discount, to GECC on a non-recourse basis. When we participate in one of these programs, our receivables are reduced and our cash balances are increased. We did not participate in any of these programs at December 31, 2004 and 2003.

Table of Contents

Cash Requirements

The following table summarizes our expected cash outflows resulting from financial contracts and commitments. We have not included information on our recurring purchases of materials for use in our manufacturing operations. These amounts are generally consistent from year to year, closely reflect our levels of production, and are not long-term in nature (less than three months).

	Payments due by Period				
	Total	**2005**	**2006 & 2007**	**2008 & 2009**	**Thereafter**
			(in millions)		
Debt and capital lease obligations	$ 2,568	$ 507	$ 530	$ 525	$ 1,006
Junior subordinated notes due to Delphi Trust I and Trust II	412				412
Operating lease obligations	507	140	195	102	70
Contractual commitments for capital expenditures	368	351	16	1	
Other contractual purchase commitments, including information technology	906	349	514	35	8
Total(1)(2)	$ 4,761	$ 1,347	$ 1,255	$ 663	$ 1,496

(1) The amounts above exclude our minimum funding requirements as set forth by ERISA, which are $1.7 billion over the next two years, including $0.6 billion contributed in the second quarter of 2005. Our minimum funding requirements after 2005 are dependent on several factors. We also have payments due under our other postretirement benefit (OPEB) plans. These plans are not required to be funded in advance, but are pay as you go. See further discussion in Outlook U.S. Pension Plans and Other Postretirement Benefits below.

(2) The amounts above exclude estimated interest costs of $170 million, $284 million, $249 million and $1,569 million, respectively, for 2005, 2006 and 2007, 2008 and 2009 and thereafter.

We have no financial commitments (such as lines of credit, standby lines of credit, standby repurchase obligations, or guarantees of such items) to or on behalf of entities that are excluded from our consolidated financial statements. From time to time, we enter into purchase commitments with our suppliers under customary purchase order terms. Any significant losses implicit in these contracts would be recognized in accordance with generally accepted accounting principles. At December 31, 2004, no such losses existed.

Credit Ratings

Delphi is rated by Standard & Poor s, Moody s and Fitch Ratings. As of December 31, 2004, we had long-term credit ratings of BB+/ Baa2/ BBB-, respectively, and short-term credit ratings of B/ P2/ F3, respectively. We currently have senior unsecured ratings of B-/ B3/ B, respectively, preferred stock ratings of CCC+/ Caa2/ CCC+, respectively, and senior secured debt ratings of BB-/ B1/ BB-, respectively, due to downgrades in 2005. As a result of the downgrades, our facility fee and borrowing costs under our existing five-year Credit Facility increased although availability was unaffected. We believe we continue to have access to sufficient liquidity; however, our cost of borrowing has increased and our ability to access certain financial markets has been limited. In the event of a further downgrade, the cost of borrowing will continue to increase and availability to liquidity may be further constrained.

Table of Contents

Capital Expenditures

Our capital expenditure program promotes our growth-oriented business strategy by investing in existing 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 by product sector and geographic region for the periods presented were:

	Year Ended December 31,		
	2004	2003	2002
		(in millions)	
Dynamics, Propulsion, Thermal & Interior	$ 440	$ 553	$ 493
Electrical, Electronics & Safety	386	393	469
Automotive Holdings Group	55	85	113
Other	33	15	12
Total capital expenditures	$ 914	$ 1,046	$ 1,087
North America	$ 536	$ 736	$ 751
Europe, Middle East & Africa	242	227	283
Asia-Pacific	114	55	38
South America	22	28	15
Total capital expenditures	$ 914	$ 1,046	$ 1,087

As of December 31, 2004, Delphi had approximately $368 million in outstanding capital commitments. We expect capital expenditures to be approximately $0.9 billion in 2005. We currently expect approximately 45% of our 2005 capital expenditures to occur outside North America.

Cash Flows

Operating Activities. Net cash provided by operating activities totaled $1.5 billion for the year ended December 31, 2004, compared to $0.9 billion in 2003 and $2.0 billion in 2002. Net cash provided by operating activities in 2004 was reduced by contributions to our U.S. pension plans of $0.6 billion and cash paid for employee and product line initiatives of approximately $390 million. Changes in the levels of factoring and securitization also reduced 2004 cash flow from operating activities by approximately $12 million. Net cash provided by operating activities in 2003 was reduced by contributions to our U.S. pension plans of $1.0 billion and cash paid for employee and product line initiatives and lump sum contract signing bonuses totaling approximately $325 million. Changes in the level of factoring and securitization also reduced 2003 cash flow from operating activities by approximately $145 million. Net cash provided by operating activities in 2002 was reduced by a $400 million contribution to our U.S. pension plans and a $143 million second quarter payment to GM for previously recorded separation related obligations for other postretirement benefits. Changes in the level of factoring and securitization increased 2002 cash flow from operating activities by approximately $687 million, primarily due to the implementation of Delphi s U.S. factoring program. In addition to the items described above, operating cash flow is impacted by the timing of payments to suppliers and receipts from customers.

Investing Activities. Cash flows used in investing activities totaled $0.8 billion for the year ended December 31, 2004, and $1.1 billion for the years ended December 31, 2003 and 2002. The principal use of cash in 2004, 2003 and 2002 reflects capital expenditures related to ongoing operations. Additionally, in 2004, we acquired Dynamit Nobel AIS for approximately $17 million, net of cash acquired, and Peak Industries, Inc. for approximately $44 million, net of cash acquired. In 2003, we acquired Grundig Car InterMedia System GmbH for approximately $39 million, net of

cash acquired.

Financing Activities. Net cash used in financing activities totaled $0.7 billion for the year ended December 31, 2004, compared to net cash provided by financing activities of $4 million in 2003 and net

cash used in financing activities of $0.6 billion in 2002. Net cash used in financing activities during 2004 reflected a $500 million repayment of the 6.125% senior notes due May 1, 2004 and $157 million of dividends. Cash provided by financing activities for 2003 includes $892 million of net proceeds from the debt and trust preferred issuances discussed above. In addition, we repaid approximately $707 million of short-term debt and paid $157 million of dividends. Cash used in financing activities during 2002 represented repayment of commercial paper and dividend and treasury stock purchases partially offset by increased borrowings of short-term debt.

Dividends. The Delphi Board of Directors declared dividends on Delphi common stock of $0.07 per share on March 1, June 22, September 9, and December 8, 2004, which were paid on April 12, August 3, October 19, 2004 and January 18, 2005, respectively.

Stock Repurchase Program. The Board of Directors has authorized the repurchase of up to 19 million shares of Delphi common stock to fund stock options and other employee benefit plans. We did not repurchase any shares during 2004 and 2003. We repurchased approximately 3 million shares in the open market during 2002, to offset the effect of shares issued under those plans and to provide for a more consistent number of shares outstanding.

Outlook

General. Delphi continues to implement productivity improvements and related activities designed to reduce overhead, improve manufacturing processes and streamline our value stream. In addition, we continue to rationalize our product lines, reduce excess capacity and operating costs, and respond to global industry conditions and increased employee related costs such as U.S. health care and pensions, as well as wages in non-U.S. locations. We are achieving and anticipate continued hourly attrition as well as flowback of UAW represented Delphi employees to GM. We completed consolidation of one of our AHG sites, Flint West, Michigan during the third quarter of 2004 and consolidated or ceased production at three additional AHG sites: Olathe, Kansas; Tuscaloosa, Alabama; and Anaheim, California in the first quarter of 2005. Also, in April 2004, Delphi and the UAW finalized a seven-year Supplement to the 2003 UAW-Delphi National Agreement, setting new wage and benefit levels for future hires. These future hires are expected to be phased into our operations over the next several years. On December 10, 2004, Delphi announced that effective January 1, 2005, we are moving three additional manufacturing operations into AHG to accelerate efforts to bring these sites back to profitability or resolve issues at these operations through other actions. The additional operations named to Delphi s AHG include: Laurel, Mississippi; Kettering, Ohio; and Home Avenue/ Vandalia, Ohio. Also on December 10, 2004, we announced restructuring plans for 2005 to further reduce our workforce by 8,500 positions in 2005 through GM flowbacks, normal attrition and incentivized retirements. Of the total reductions, 3,000 are expected to be U.S. hourly employees and 5,500 are planned to be non-U.S. employees. As noted below, our achievement of further hourly attrition through GM flowbacks may be limited if lower GM North America production volumes continue.

We currently expect GM North America s 2005 production to decrease approximately 10% to between 4.5 million and 4.6 million units. As a result of the lower GM North America production volumes, an increasing proportion of our U.S. hourly workforce is, and is expected to continue to be in a non-active status. Under the terms of our collective bargaining agreements with our U.S. unions, we are not generally permitted to permanently lay-off idled workers. Furthermore, as a result of GM s lower production volumes, the opportunities for our employees to flowback to GM has been limited. Consequently, although we reduced our U.S. hourly workforce by 15% over the 15 month period ending prior to December 31, 2004, currently approximately 9% of our U.S. hourly workforce is in a non-active status. This situation is placing significant financial burdens on the Company. We have been and will continue to seek, together with our labor unions and GM, solutions to our legacy cost structure challenges. Specifically, we are seeking wage, benefit and contractual provisions that would permit Delphi s U.S. workforce to be competitive with its U.S. peers. To the extent that we are not successful in identifying solutions to these challenges, or that GM s North American production volumes do not increase, Delphi will continue to experience significantly reduced financial performance. We believe that the refinancing

plan we completed in June 2005 will provide us with access to sufficient liquidity to continue to address our U.S. legacy cost issues during the current low GM North American production environment. There can be no assurance that over the medium to long-term, cash generated by operations will continue to be sufficient to meet our cash obligations without a significant change in the current economic outlook for the economy as a whole or GM North America specifically, or a solution to Delphi s legacy cost structure issues.

As stated earlier, during 2004, we were challenged by commodity cost increases, most notably steel and petroleum-based resin products. We continue to proactively work with our suppliers and customers to manage these cost pressures. Despite our efforts, cost increases, particularly when necessary to ensure the continued financial viability of a key supplier, had the effect of reducing our earnings during 2004. Raw material steel supply has continued to be constrained and commodity cost pressures have continued to intensify as our supply contracts expire during 2005. For 2005, we expect to incur $0.4 billion of higher commodity cost than 2004. This amount includes $0.1 billion for costs associated with troubled suppliers. We have been seeking to manage these cost pressures using a combination of strategies, including working with our suppliers to mitigate costs, seeking alternative product designs and material specifications, combining our purchase requirements with our customers and/or suppliers, changing suppliers and other means. To the extent that we experience cost increases we will seek to pass these cost increases on to our customers, but if we are not successful, our earnings in future periods may be adversely impacted. To date, due to previously established contractual terms, our success in passing commodity cost increases on to our customers has been limited. As contracts with our customers expire, we will seek to renegotiate terms which recover the actual commodity costs we are incurring.

In addition to conditions in our market and the economy as a whole, we depend on GM as a customer. GM accounted for 54% of our net sales for 2004. Our sales to GM have declined since our separation from GM; principally due to declining GM production, the impact of customer driven price reductions and the elimination of non-profitable businesses, as well as GM s diversification of its supply base and ongoing changes in our vehicle content and the product mix supplied to them. We continue to exit some businesses as part of our portfolio review process. Reflecting these and other factors, we expect our sales to GM to decline over time. If we are unable to compete effectively for new GM business, our revenues may decline further. Additionally, our revenues may be affected by increases or decreases in GM s business or market share as well as cost-reduction initiatives. In 2004, GM North America produced 5.0 million vehicles excluding CAMI Automotive Inc. and New United Motor Manufacturing, Inc. vehicle production. Our GM North America content per vehicle for 2004 was $2,546, which was slightly lower than the previously expected content per vehicle of $2,571. During 2004, our content per vehicle was reduced due to exiting of select businesses and the migration of certain product programs from GM sales to sales to Tier I customers. We anticipate that our 2005 content per vehicle will be $2,351. As a result of anticipated lower GM North America production levels and lower GM content per vehicle, we expect our 2005 GM revenues to decline approximately 15%. Offsetting the decline in GM revenues, however, we anticipate our non-GM revenue to increase approximately 11% such that our consolidated revenue would decrease approximately 4%.

In December 2004, we entered into an agreement with GM whereby we committed to 2005 annual price reductions on GM s annual purchase value with Delphi. In return for this commitment, GM agreed, among other things, to accelerate their cooperation with certain sourcing and cost reduction initiatives of mutual benefit to the two companies and to source certain business to Delphi. The agreed level of price reduction for 2005 is generally consistent with that which we have been providing to GM in recent years.

We face an inherent business risk of exposure to product liability and warranty claims in the event that our products fail to perform as expected and such failure of our products results, or is alleged to result, in bodily injury and/or property damage. In addition, as we actively pursue additional technological innovation in both automotive and non-automotive industries and enhance the value of our intellectual property portfolio, we incur ongoing costs to enforce and defend our intellectual property and face an inherent risk of exposure to the claims of other suppliers and parties that we have allegedly violated their intellectual property rights. We cannot ensure that we will not experience any material warranty, product

Table of Contents

liability or intellectual property claim losses in the future or that we will not incur significant costs to defend such claims. In addition, if any of our products are or are alleged to be defective, we may be required to participate in a recall involving such products. Each vehicle manufacturer has its own practices 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 of the vehicle assembly functions, vehicle manufacturers are increasingly looking to their suppliers for contribution when faced with recalls and product liability claims. A recall claim brought against us, or a product liability claim brought against us in excess of our available insurance, may have a material adverse effect on our business. Vehicle manufacturers are also increasingly requiring their outside suppliers to guarantee or warrant their products and bear the costs of repair and replacement of such products under new vehicle warranties. Depending on the terms under which we supply products to a vehicle manufacturer, a vehicle manufacturer may attempt to hold us responsible for some or all of the repair or replacement costs of defective products under new vehicle warranties, when the product supplied did not perform as represented. Accordingly, although we cannot ensure that the future costs of warranty claims by our customers will not be material, we believe our established reserves are adequate to cover potential warranty settlements. Our warranty reserves are based upon our best estimates of amounts necessary to settle future and existing claims. We regularly evaluate the level of these reserves, and adjust them when appropriate. However, the final amounts determined to be due related to these matters could differ materially from our recorded estimates.

U.S. Pension Plans and Other Postretirement Benefits. Delphi sponsors defined benefit pension plans covering a significant percentage of our U.S workforce and certain of our non-U.S. workforce. On December 31, 2004, the projected benefit obligation (PBO) of the U.S. defined benefit pension plans exceeded the market value of the plan assets by $4.3 billion, compared to $4.0 billion at December 31, 2003; the increase is explained as follows:

	Underfunded Status (PBO basis)	
	(in billions)	
December 31, 2003	$	(4.0)
Pension contributions		0.6
2004 asset returns 13%		0.9
Impact of discount rate decrease by 50 basis points to 5.75%		(0.7)
Interest and service cost		(1.0)
Other		(0.1)
December 31, 2004	$	(4.3)

During 2004, Delphi contributed $0.6 billion to its pension plans, of which $0.3 billion was our minimum funding requirement as determined by employee benefit and tax laws. Our 2005 minimum funding requirement of approximately $0.6 billion was contributed in the second quarter of 2005. While contributions subsequent to 2005 are dependent on asset returns and a number of other factors, after our contribution of $0.6 billion in the second quarter of 2005, we would be required by employee benefit and tax laws to make additional contributions of approximately $1.1 billion in 2006 and approximately $0.7 billion in 2007, assuming contributions are made prior to June 15 each year. These contribution estimates assume that new legislation extending the current rate relief, which expires after 2005, is passed. If the legislation is not passed, it is likely that Delphi s 2007 minimum funding requirements, as set forth in employee benefit and tax laws, could increase by up to $0.4 billion.

Delphi selected discount rates based on analyzing the results of matching high quality fixed income investments rated AA or higher by Standard and Poor s and the regular and above median Citigroup Pension Discount Curve, with expected benefit cash flows. Since high quality bonds in sufficient quantity and with appropriate maturities are not

available for all years when benefit cash flows are expected to be

Table of Contents

paid, hypothetical bonds were imputed based on combinations of existing bonds, and interpolation and extrapolation reflecting current and past yield trends. The pension discount rate determined on that basis decreased from 6.25% for 2003 to 5.75% for 2004. This 50 basis point decline in the discount rate increased the underfunded status of our U.S. pension plans by approximately $0.7 billion. The other postretirement benefits (OPEB) discount rate determined on that basis decreased from 6.25% for 2003 to 6.00% for 2004. This 25 basis point decline in the discount rate increased the underfunded status of our U.S. OPEB plans by approximately $0.3 billion. Finally, the Bush administration has proposed legislation that would potentially significantly accelerate the funding of pension obligations by certain U.S. corporations. Since such legislation has not been finalized we cannot currently quantify the impact, if any, the actual legislation may have on our U.S. pension funding obligations.

For 2004, Delphi assumed a long-term asset rate of return of 9%. We will also utilize a 9% long-term asset rate of return assumption in 2005. In developing the 9% expected long-term rate of return assumption, we evaluated input from our third party pension plan asset managers, including a review of asset class return expectations and long-term inflation assumptions. We also considered Delphi s post-spin off and GM s pre-spin off historical 15-year compounded return, which was in line with our long-term rate of return assumption. The 9% long-term asset return assumption for 2005 is based on an asset allocation assumption of 50%-75% with U.S. and international equity managers, 25%-40% with fixed income managers, and 0%-10% with other asset managers (primarily real estate). Delphi s asset managers regularly review the actual asset allocation and periodically rebalance our investments to our targeted allocation when considered appropriate. At December 31, 2004, our actual asset allocation was consistent with our asset allocation assumption.

We base our determination of the asset return component of pension expense on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the market value of assets. Since the market-related value of assets recognizes gains or losses over a five-year period, the future value of assets will be impacted as previously deferred gains or losses are recorded. As of December 31, 2004, we had cumulative asset losses of approximately $0.1 billion, which remain to be recognized in the calculation of the market-related value of assets.

The declining interest rate environment and varying asset returns versus expectations in 2000 through 2004 resulted in an accumulated actuarial loss of $3.9 billion at December 31, 2004. Of this amount, $0.1 billion represents the deferred market value of assets adjustment and is not considered when determining 2005 pension expense. An additional $1.3 billion of loss is excluded as it falls within our corridor (10% of pension benefit obligation or fair market value of assets, whichever is higher) in accordance with SFAS No. 87, Employers Accounting for Pensions , when determining 2005 pension expense. The remaining actuarial loss of $2.5 billion at December 31, 2004 is amortized over the remaining service life of our pension plan participants. Our expense related to amortization of actuarial losses in 2005 will be approximately $70 million higher than in 2004.

Delphi s U.S. pension expense was $549 million, $462 million and $293 million in 2004, 2003 and 2002, respectively. As required by generally accepted accounting principles, our pension expense for 2005 is determined at the end of 2004. Our 2005 pension expense is $580 million, excluding any special termination charges. However, for purposes of analysis, the following table highlights the sensitivity of our pension obligations and expense to changes in assumptions:

Change in assumption		Impact on pension expense		Impact on PBO
25 bp decrease in discount rate	+$	25 to 35 Million	+$	0.4 Billion
25 bp increase in discount rate	-$	25 to 35 Million	-$	0.4 Billion
25 bp decrease in long-term return on assets	+$	20 to 30 Million		
25 bp increase in long-term return on assets	-$	20 to 30 Million		

Generally accepted accounting principles also require us to record a charge to stockholders equity when certain conditions are met. As of December 31, 2004, our after-tax charge to stockholders equity was $2,469 million, which is higher than last year s charge to stockholders equity of $2,006 million primarily due to the decline in the discount rate.

In addition, we maintain postretirement benefit plans other than pensions that are not funded. At December 31, 2004 and 2003, the amounts reflected in our consolidated balance sheet for OPEB obligations were $6.6 billion and $6.1 billion, respectively. At December 31, 2004 and 2003, the OPEB liabilities were $9.6 billion and $8.5 billion respectively. The variance between the liability and the amount reflected in our consolidated balance sheet consists primarily of accumulated actuarial losses that will be amortized over the remaining service life of our OPEB plan participants.

These plans do not have minimum funding requirements, but rather are pay as you go. As we currently have 0.33 retirees for each active employee, the cash costs that we incur are lower than the actual expenses. During the 2004 OPEB plan year, we incurred approximately $226 million of cash costs including approximately $72 million of payments to GM for certain of our fo