

DELPHI CORP
Form 10-K
July 11, 2006

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

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 fiscal year ended December 31, 2005
OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.
Commission file number: 1-14787
DELPHI CORPORATION
(Exact name of registrant as specified in its charter)**

Delaware
(State or other jurisdiction of
incorporation or organization)

38-3430473
(I.R.S. Employer Identification No.)

5725 Delphi Drive, Troy, Michigan
(Address of principal executive offices)

48098
(Zip Code)

(248) 813-2000

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act: None

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

Title of class

Common Stock, \$0.01 par value per share (including the associated Preferred Share Purchase Rights)

6¹/₂ % senior notes due May 1, 2009

7¹/₈ % debentures due May 1, 2029

8¹/₄ % Cumulative Trust Preferred Stock of Delphi Trust I

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of June 30, 2005, 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 \$2.6 billion. The closing price of the Common Stock on June 30, 2005 as reported on the New York Stock Exchange was \$4.65 per share. As of June 30, 2005, the number of shares outstanding of the registrant's Common Stock was 561,415,901 shares. On November 11, 2005, the New York Stock Exchange delisted the Common Stock, see Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities in this Annual Report for additional information on this matter.

The number of shares outstanding of the registrant's common stock, \$0.01 par value per share as of May 31, 2006 was 561,781,590.

DOCUMENTS INCORPORATED BY REFERENCE

Not applicable.

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
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**PART I
DELPHI CORPORATION**

ITEM BUSINESS

1.

As further described below, Delphi Corporation (Delphi or the Company) and certain of its United States (U.S.) subsidiaries filed voluntary petitions for reorganization relief under chapter 11 of the United States Bankruptcy Code (Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of New York (the Court) and are currently operating as debtors-in-possession under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Court. Delphi's non-U.S. subsidiaries were not included in the filings, will continue their business operations without supervision from the U.S. court and will not be subject to the requirements of the Bankruptcy Code.

Overview. Delphi has become a leading global technology innovator with significant engineering resources and technical competencies in a variety of disciplines. Delphi was incorporated in 1998 in contemplation of our separation from General Motors Corporation (GM) in 1999 (the Separation). Today, the Company is one of the largest global suppliers of vehicle electronics, transportation components, integrated systems and modules and other electronic technology. Technology developed and products manufactured by Delphi are changing the way drivers interact with their vehicles. Delphi is a leader in the breadth and depth of technology to help make cars and trucks smarter, safer and better. The Company supplies products to nearly every major global automotive original equipment manufacturer.

In addition, Delphi has diversified its customer base by taking advantage of its technological and manufacturing core competencies. Delphi is making increasingly significant contributions in communications (including telematics), computers, automotive aftermarket, consumer electronics, energy and the medical devices industry.

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 2005, 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.

Chapter 11 Cases. Delphi Corporation and certain of its U.S. subsidiaries filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code, in the United States Bankruptcy Court for the Southern District of New York and are currently operating as debtors-in-possession . The following discussion provides general background information regarding our chapter 11 cases as relevant to the consolidated financial statements of Delphi and its subsidiaries and is not intended to be an exhaustive summary.

Additional information on Delphi's filing under the Bankruptcy Code, including access to Court documents and other general information about the chapter 11 cases, is available online at www.delphidocket.com. Financial information available on that website generally is prepared according to requirements of federal bankruptcy law. While such financial information accurately reflects information

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required under federal bankruptcy law, such information may be unconsolidated, unaudited, and prepared in a format different from that used in Delphi's consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) and filed under the U.S. securities laws. Moreover, the materials filed with the Court are not prepared for the purpose of providing a basis for an investment decision relating to Delphi's stock or debt or for comparison with other financial information filed with the U.S. Securities and Exchange Commission (SEC).

Commencement of Cases

On October 8, 2005 (the Petition Date), Delphi and certain of its U.S. subsidiaries (the Initial Filers) filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code, and on October 14, 2005, three additional U.S. subsidiaries of Delphi (together with the Initial Filers, collectively, the Debtors) filed voluntary petitions for reorganization relief under the Bankruptcy Code (collectively, the Debtors October 8, 2005 and October 14, 2005 filings are referred to herein as the Chapter 11 Filings). The Court is jointly administering these cases as In re Delphi Corporation, et al., Case No. 05-44481 (RDD).

Delphi's non-U.S. subsidiaries were not included in the filings, continue their business operations without supervision from the Court and are not subject to the requirements of the Bankruptcy Code.

Court Orders

First Day and Other Operational Orders. Since the commencement of the cases, a number of orders have been entered by the Court intended to generally stabilize the Debtors' operations and allow the Debtors to operate substantially in the ordinary course of business. These orders, certain of which were approved on an interim basis subject to a final hearing before the Court, covered, among other things:

Human capital obligations, permitting payment of wages and other employee obligations and the continuation of employee and retiree benefit programs;

Supplier relations, permitting payment programs intended to address the requirements of Delphi's financially-stressed vendors in order to secure those vendors' post-petition performance, to avoid unnecessary disruption of Delphi's businesses;

Customer relations, authorizing, but not directing, the Company to honor prepetition obligations to customers, including the Company's prepetition warranty programs and otherwise to continue customer programs in the ordinary course of business;

Business operations, permitting payments to certain shippers, warehousemen and contractors;

Cash management, permitting maintenance of bank accounts and cash management systems and allowing certain investments; and

Retention of certain professional service providers.

On October 28, 2005, the Court entered an order granting Delphi's request for \$2 billion in senior secured debtor-in-possession (DIP) financing being provided by a group of lenders led by JPMorgan Chase Bank and Citigroup Global Markets, Inc. The Court also approved an adequate protection package for Delphi's outstanding \$2.5 billion prepetition secured indebtedness under its prepetition credit facility. The proceeds of the DIP financing together with cash generated from daily operations and cash on hand are being used to fund post-petition operating expenses, including supplier obligations and employee wages, salaries and benefits. Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in this Annual Report for further details on Delphi's sources and uses of liquidity and for a more detailed description of the terms of Delphi's DIP financing.

Trading Order. On January 6, 2006, the Court approved a motion to restrict, in certain circumstances and subject to certain terms and conditions, trading in securities and claims of Delphi by persons who would acquire, or dispose

of, substantial amounts of such securities and claims. The order also requires, in

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certain circumstances and subject to certain terms and conditions, substantial holders of indebtedness of the Debtors to dispose of such indebtedness. This order was intended to preserve the availability of the benefit of certain tax attributes of the Debtors.

Key Employee Compensation Program. On February 17, 2006, the Court entered a final order for a Key Employee Compensation Program (KECP) granting the motion of the Debtors to implement an at risk incentive plan (the Final Revised AIP) for the period commencing on January 1, 2006 and continuing through June 30, 2006 (the Performance Period). The Final Revised AIP applies to approximately 460 individuals holding executive positions with Delphi or one of its affiliated Debtors in the U.S. during the Performance Period (such persons, the Executives). Delphi's current Chairman and CEO has voluntarily excluded himself from participating in the KECP. The Final Revised AIP provides the opportunity for at risk incentive payments to the Executives provided that certain corporate and divisional targets are met. Additionally, an incentive plan mirroring the Final Revised AIP will apply to approximately 100 individuals holding executive positions at non-Debtor subsidiaries of Delphi. The portion of the KECP relating to annual incentive plans beyond June 30, 2006 and proposed cash and equity incentive emergence awards is currently scheduled to be heard at the July omnibus hearing. In conjunction with the approval of the Final Revised AIP, certain incentive compensation plans previously in place for Delphi executives were cancelled resulting in the reduction of accruals for incentive compensation in the first quarter of 2006.

Committees

On October 17, 2005, the Court formed a committee of unsecured creditors in the chapter 11 cases (the Creditors Committee). On April 28, 2006, the U.S. Trustee, acting pursuant to the Court's order issued March 30, 2006, formed an equity committee, consisting of two investment management funds and five individual shareholders, to represent holders of Delphi's common stock in the chapter 11 cases (the Equity Committee). On May 11, 2006, the U.S. Trustee amended the Equity Committee to consist of three investment management funds and four individual shareholders. However, the Court in its order directing the formation of an Equity Committee held that the Equity Committee should not inject itself into negotiations between or among the Debtors, the unions and GM, and further provided that the Court will entertain motions to disband the Equity Committee if the Debtors appear to be hopelessly insolvent or in certain other circumstances. There can be no assurance that the Creditors' Committee or the Equity Committee will support the Debtors' positions or the Debtors' plan of reorganization and any disagreements between the Creditors Committee or the Equity Committee and the Debtors could protract the chapter 11 process, hinder the Debtors' ability to operate during the chapter 11 process and delay the Debtors' emergence from chapter 11.

Activity Throughout Duration of Chapter 11 Cases

Status of Operations. The Debtors continue to operate their businesses as debtors-in-possession under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure and Court orders. In general, as debtors-in-possession, the Debtors are authorized under chapter 11 to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the prior approval of the Court. All vendors are being paid for all goods furnished and services provided in the ordinary course of business after the Petition Date.

Treatment of Prepetition Claims. Under section 362 of the Bankruptcy Code, actions to collect most of the Debtors' prepetition liabilities, including payments owing to vendors in respect of goods furnished and services provided prior to the Petition Date, are automatically stayed and other contractual obligations of the Debtors generally may not be enforced. Shortly after the Petition Date, the Debtors began notifying all known actual or potential creditors of the Debtors for the purpose of identifying all prepetition claims against the Debtors. The Chapter 11 Filings triggered defaults on substantially all debt obligations of the Debtors. The stay of proceedings provisions of section 362 of the Bankruptcy Code, however, also apply to actions to collect prepetition indebtedness or to exercise control over the property of the Debtors' estate in

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respect of such defaults. The rights of and ultimate payments by the Debtors under prepetition obligations will be addressed in any plan of reorganization and may be substantially altered. This could result in unsecured claims being compromised at less, and possibly substantially less, than 100% of their face value. For additional information, refer to Note 12, Liabilities Subject to Compromise of the consolidated financial statements in this Annual Report.

Contract Rejection and Assumption Process. Section 365 of the Bankruptcy Code permits the Debtors to assume, assume and assign, or reject certain prepetition executory contracts subject to the approval of the Court and certain other conditions. Rejection constitutes a court-authorized breach of the contract in question and, subject to certain exceptions, relieves the Debtors of their future obligations under such contract but creates a deemed prepetition claim for damages caused by such breach or rejection. Parties whose contracts are rejected may file claims against the rejecting Debtor for damages. Generally, the assumption, or assumption and assignment, of an executory contract requires the Debtors to cure all prior defaults under such executory contract and to provide adequate assurance of future performance. In this regard, Delphi expects that additional liabilities subject to compromise and resolution in the chapter 11 cases may arise as a result of damage claims created by the Debtors' rejection of executory contracts. Conversely, Delphi would expect that the assumption of certain executory contracts may convert existing liabilities shown as subject to compromise to liabilities not subject to compromise in future financial statements. Due to the uncertain nature of many of the potential claims, Delphi is unable to project the magnitude of such claims with any degree of certainty at this time.

Over 11,000 contracts for the supply of goods to the Company's manufacturing operations were scheduled to expire by December 31, 2005. In order to provide an alternative mechanism to extend those contracts for the supply of sole-sourced goods required by the Company following expiration, avoid interruption of automotive parts manufacturing operations, and systematically address the large number of contracts expiring at the end of 2005 and throughout 2006, the Company requested and was granted authority by the Court to assume certain contracts on a limited, focused, and narrowly-tailored basis. To date, the Company has been able to extend nearly all of its expiring supplier contracts in the ordinary course of business and has made use of the provisions of the Court order as circumstances have warranted.

Transformation Plan. On March 31, 2006, the Debtors announced their transformation plan. On the same date, Delphi initiated a dual track process to reject its collective bargaining agreements and certain unprofitable contracts with GM, while at the same time continuing discussions with its labor unions and GM. On the same date, the Debtors filed a motion with the Court seeking authority to reject certain customer contracts with GM. The initial GM contract rejection motion covers approximately half of the North American annual purchase volume revenue from GM. The initial GM contract rejection motion is not scheduled to be heard by the Court until at least August 15, 2006. On March 31, 2006, the Company also delivered a letter to GM initiating a process to reset the terms and conditions of more than 400 commercial agreements that expired between October 1, 2005 and March 31, 2006. To date, the Company has not unilaterally revised the terms and conditions on which it has been providing interim supply of parts to GM in connection with the expired contracts or filed additional contract rejection motions. The Company also filed a motion to reject certain collective bargaining agreements and to modify certain retiree benefits. A hearing on the motion was held throughout May 2006, continued into June, and has been adjourned until August 11, 2006.

Potential Divestitures, Consolidations and Wind-Downs. As part of the transformation plan, Delphi identified non-core product lines and manufacturing sites that do not fit into Delphi's future strategic framework, which it is seeking to sell or wind-down. Any sale or wind-down process is being conducted in consultation with the Company's customers, unions and other stakeholders to carefully manage the transition of affected product lines. The disposition of any U.S. operations is also being accomplished in accordance with the requirements of the Bankruptcy Code and labor contracts as applicable. The Company also has begun consultations with the works councils in accordance with applicable laws regarding any sale or wind-down of affected manufacturing sites in Europe. Non-core product lines include brake and chassis systems, catalysts, cockpits and instrument panels, door modules and latches, ride dynamics, steering and wheel bearings. The Company continually evaluates its product portfolio and could retain or exit certain businesses

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depending on market forces or cost structure changes. The Company intends to sell or wind-down non-core product lines and manufacturing sites by January 1, 2008. Delphi has also begun discussions with certain governmental agencies whose policies could help improve the competitiveness of plants and product lines regardless of whether they are being retained or offered for sale.

Case Resolution

Exclusivity. Under the Bankruptcy Code, the Debtors have the exclusive right for 120 days from the date of the filing to file a plan of reorganization and 60 additional days to obtain necessary acceptances. Such periods may be extended by the Court. At the Debtors' request, the Court extended the period for filing a plan to August 5, 2006 and the period for obtaining necessary acceptances to October 4, 2006. On June 19, 2006, the Court further extended the period for filing a plan of reorganization to February 1, 2007 and the period for obtaining necessary acceptances to April 2, 2007. We may request additional extensions. If the Debtors' exclusivity period lapses, any party in interest may file a plan of reorganization for the Debtors.

Proofs of Claim. On April 12, 2006, the Court entered an order establishing July 31, 2006 as the bar date. The bar date is the date by which claims against the Debtors arising prior to the Debtors' chapter 11 filings must be filed if the claimants wish to receive any distribution in the chapter 11 cases. On April 17, 2006, the Debtors commenced notification, including publication, to all known actual and potential creditors informing them of the bar date and the required procedures with respect to the filing of proofs of claim with the Court. Any differences between claim amounts listed by the Debtors in their Schedules of Assets and Liabilities (as amended) and claims filed by creditors will be investigated and, if necessary, the Court will make the final determination as to the amount, nature, and validity of claims.

Plan of Reorganization Generally; Impact of Reorganization. After a plan of reorganization has been filed with the Court, the plan, along with a disclosure statement approved by the Court, will be sent to all creditors, equity holders and parties in interest. Following the solicitation period, the Court will consider whether to confirm the plan. In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be approved, or confirmed, by the Court in order to become effective. Under certain circumstances, the Court may confirm a plan even if such plan has not been accepted by all impaired classes of claims and equity interests. A class of claims or an equity interest that does not receive or retain any property under the plan on account of such claims or interests is deemed to have voted to reject the plan. The precise requirements and evidentiary showing for confirming a plan notwithstanding its rejection by one or more impaired classes of claims or equity interests depends upon a number of factors, including the status and seniority of the claims or equity interests in the rejecting class, i.e., secured claims or unsecured claims, subordinated or senior claims, preferred or common stock.

As a result of the Chapter 11 Filings, realization of assets and liquidation of liabilities are subject to uncertainty. Further, a plan of reorganization could materially change the amounts and classifications reported in the consolidated financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of confirmation of a plan of reorganization.

Under the priority scheme established by the Bankruptcy Code, unless creditors agree otherwise, post-petition liabilities and prepetition liabilities must be satisfied in full before shareholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or shareholders, if any, will not be determined until confirmation of a plan of reorganization. No assurance can be given as to what values, if any, will be ascribed in the chapter 11 cases to each of these constituencies or what types or amounts of distributions, if any, they would receive. In addition, as Delphi executes its transformation plan through the chapter 11 process, it will likely incur additional prepetition claims as collective bargaining agreements, executory contracts, retiree health benefits and pension plans, and the other liabilities of the Company are addressed and resolved to maximize stakeholder value going forward.

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A plan of reorganization could result in holders of Delphi's stock receiving no distribution on account of their interests and cancellation of their existing stock. If certain requirements of the Bankruptcy Code are met, a plan of reorganization can be confirmed notwithstanding its rejection by Delphi's equity security holders and notwithstanding the fact that such equity security holders do not receive or retain any property on account of their equity interests under the plan. Delphi considers the value of its common stock to be highly speculative and strongly cautions equity holders that the stock may ultimately be determined to have no value. Accordingly, the Company urges that appropriate caution be exercised with respect to existing and future investments in its common stock or other equity securities, or any claims relating to prepetition liabilities.

Legacy Liabilities; Key Stakeholders. On March 31, 2006, the Debtors filed a motion with the Court under sections 1113 and 1114 of the Bankruptcy Code seeking authority to reject U.S. labor agreements and to modify retiree benefits. The section 1113 and 1114 filing is consistent with the scheduling order signed by the Court on February 17, 2006. A hearing on the section 1113 and 1114 motion was held throughout May 2006, continued into June, and has been adjourned until August 11, 2006. The bankruptcy Court judge hearing the motion has urged Delphi and its unions to continue to seek a negotiated solution with each other during the pendency of the hearing and the motion.

Prior to filing the motion to reject the Debtors' U.S. labor agreements, Delphi, GM and the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) agreed on a special attrition program, pursuant to which certain eligible Delphi U.S. hourly employees represented by the UAW were offered normal and early voluntary retirements with a lump sum incentive payment of \$35,000 (the Special Attrition Program). The lump sum incentive payment applied to all eligible retirements from October 1, 2005 forward. The program also provided additional retirement opportunities; including transfer to and retirement from GM. Approximately 14,500 U.S. hourly employees represented by the UAW were eligible to participate in the program. Additionally, GM has agreed 5,000 of Delphi's U.S. hourly employees represented by the UAW may return (flowback) to GM through the beginning of September 2007. GM has agreed to provide substantial financial support under the agreement. Delphi believes that the agreement will enable a more rapid transformation to a reduced labor cost structure across Delphi's U.S. manufacturing operations. As of June 30, 2006, approximately 12,500 employees had elected to participate in the Special Attrition Program. On May 5, 2006, the Court entered the order approving the motion with certain modifications, which was subsequently amended on May 12, 2006. If similar agreements are negotiated with other unions representing the Debtors' U.S. hourly employees, such agreements and programs also will be required to be submitted to the Court for approval.

On May 18, 2006, Wilmington Trust Company, as indenture trustee to the Debtors' senior notes and debentures, filed a notice of appeal from the order approving the Special Attrition Program. Additionally, on May 31, 2006, Appaloosa Management L.P., Wexford Capital LLC and Lampe Conway and Company LLC filed a notice of appeal from the same order, but the Debtors believe such notice was not timely filed.

Delphi, GM, and the UAW subsequently agreed on a supplemental agreement that will expand the Special Attrition Program to include a pre-retirement program for employees with 26 years of credited service and provide buyouts for UAW-represented hourly employees. This supplemental agreement also includes buyout payments, which depending on the amount of seniority or credited service, would range from \$40,000 to \$140,000. GM has agreed to pay one-half of these buyout amounts. The supplemental agreement was approved by the Court on June 29, 2006. The new options added to the Special Attrition Program are enabled by the financial support from GM.

On June 16, 2006, Delphi reached agreement on the terms of a special attrition program pursuant to which certain eligible Delphi hourly employees represented by the Industrial Division of the Communication Workers of America, AFL-CIO, CLC (IUE-CWA) would be offered normal and early voluntary retirements with a lump sum incentive payment of \$35,000, additional retirement opportunities (including transfer to and from GM), or buy-out payments, which, depending on the amount of seniority or credited service, would range from \$40,000 to \$140,000 (the IUE-CWA Special Attrition Program).

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GM has agreed to pay the incentive payment of \$35,000 and to pay one-half of the buy-out payments, except for employees at Delphi's New Brunswick operations where previously agreed upon terms apply. The IUE-CWA Special Attrition Program was approved by the Court on June 29, 2006. Delphi continues framework discussion with other unions to offer, with GM support, similar attrition programs for their members.

Although the Debtors believe discussions with the Debtors' unions and GM are progressing constructively, the parties have not yet reached comprehensive agreements. As a result, on March 31, 2006 the Debtors filed a motion under sections 1113 and 1114 of the Bankruptcy Code. While we believe that the filing of the 1113 and 1114 motion with the Court is necessary to protect the Debtors' interests, we are continuing discussions and remain focused on pursuing a consensual resolution with all of our unions and GM.

Costs. We have incurred, and will continue to incur, significant costs associated with the reorganization for professional fees for advisors to the Debtors, and to other stakeholders in the chapter 11 cases.

Intentions. Upon the conclusion of this process, we expect to emerge from chapter 11 as a stronger, more financially sound business with viable U.S. operations that are well-positioned to advance global enterprise objectives. During the chapter 11 process, Delphi intends to continue to marshal all of its resources to deliver value and high-quality products to its customers globally and to preserve and continue the strategic growth of its non-U.S. operations.

In addition to addressing our legacy liabilities and improving the competitiveness of our U.S. operations through negotiation with our unions and GM and by rationalizing our portfolio, we have identified other necessary elements of a comprehensive transformation plan, including reducing our selling, general and administrative costs, realigning our salaried benefit programs to size these costs with the rationalized portfolio and make them competitive with more cost-competitive companies and obtaining relief permitting us to amortize funding obligations to our defined benefit U.S. pension plans over a longer period of time than would otherwise be available once we emerge from chapter 11. We have identified cost saving opportunities with the planned portfolio and product rationalizations and we expect to reduce our global salaried workforce by as many as 8,500 employees using existing salaried separation pay programs. In addition, in order to retain our existing U.S. defined benefit pension plans for both hourly and salaried workers, we intend to freeze those plans and going forward adopt or modify existing defined contribution plans that will include flexibility for both direct Company contributions and Company matching employee contributions. At the same time, salaried health care plans will be restructured to implement increased employee cost sharing.

There can be no assurances, however, that we will be successful in achieving our objectives. Our ability to achieve our objectives is conditioned, in most instances, on the approval of the Court, and the support of our stakeholders, including GM, our labor unions, and our creditors. For a discussion of certain risks and uncertainties related to the Debtors' chapter 11 cases and reorganization objectives refer to Item 1A. Risk Factors in this Annual Report.

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. These trends are impacting product design and focus, VM sourcing decisions and global footprint. In addition, increasing competition from foreign suppliers coupled with lower volumes of domestic VMs is driving further consolidation in the domestic supplier industry. Delphi's challenge is to continue developing leading edge technology, focus that technology toward products with sustainable margins that enable our customers, both VMs and others, to produce distinctive market-leading products, and use the chapter 11 process to address the competitiveness of our core U.S. operations and lower our overall cost structure. As part of our transformation plan we have identified a core portfolio of products that draw on our technical strengths and where we believe we can provide differentiation to our automotive, aftermarket, consumer electronics, and adjacent markets such as

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commercial vehicles, medical systems, computers and peripherals, military/aerospace, telecommunications, commercial, residential, and transportation products. For more information on our core product portfolio refer to Item 1. Business Products and Competition in this Annual Report.

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 systems and in-vehicle entertainment continue to be key products in the transportation industry.

Increased Emphasis on Systems and Modules Sourcing. To simplify the vehicle design and assembly processes and reduce 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 VMs assembly line and then provide local assembly of systems and modules.

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. VMs 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.

Global Capabilities of Suppliers. In order to serve multiple markets in a more cost-effective manner, many VMs are turning to global vehicle platforms, 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.

Volume Reductions for Domestic VMs. The domestic VMs have experienced decreasing sales volume in recent years of overall North American market growth. The resultant loss of market share has had an adverse effect on the domestic automotive suppliers. Growth of foreign VMs, accounting for increasing percentages of vehicles sold in North America, has been accompanied by relative sales growth for transplant suppliers. We are focusing our efforts on offsetting the declining position of the domestic VMs by expanding beyond the traditional customer base both within North America and globally.

Commodity Economics. The automotive supplier industry has been experiencing inflationary cost pressures related to commodity pricing. Key areas of commodity cost pressures for the industry include steel, petroleum-based resins, copper, aluminum, and platinum group metals. We anticipate continued pressure on the industry as suppliers are not typically able to pass the increased commodity costs onto the

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VMs, particularly domestic VMs who have historically competed on the basis of price, and have recently been losing market share to foreign VMs.

Benefit Costs. Healthcare and retirement benefit costs continue to be a prominent concern for many corporations. U.S. automotive suppliers are currently working under growing pressure to bring these costs in line with global competitors that have significantly lower healthcare, pension and other postemployment benefits (OPEB) costs.

Ongoing Industry Consolidation and Restructuring. 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 affects customer/supplier relationships and provides opportunities and risks as suppliers attempt to secure global supply contracts across broader vehicle platforms. Finally, the combination of decreasing volumes of domestic VMs, and increasing competition from foreign VMs and transplant suppliers, who generally have lower and more flexible cost structures, has accelerated the pace of consolidation and the need of many domestic suppliers, including Delphi, to restructure operations and refocus product design and development to enable them to compete more effectively.

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, 2005, we employed approximately 26,000 engineers, scientists and technicians around the world, including 17,000 at our technical centers and customer centers, with over one-third focused on electronic and high technology products, including software algorithm development. We introduced over 200 new products and processes in 2005. 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 and during 2005 and maintained our total expenditures for research and development activities (including engineering) despite cost pressures in other aspects of our business. Total expenditures for research and development activities (including engineering) were approximately \$2.2 billion, \$2.1 billion, and \$2.0 billion for the years ended December 31, 2005, 2004, and 2003, respectively. We seek to maintain our research and development activities in a more focused product portfolio and to allocate our capital and resources to those products with distinctive technologies and greater electronics content; however, our ability to do so will depend significantly on our ability to continue to generate sufficient cash from operations over and above that needed to support ongoing operations and the significant reorganization activity planned.

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 provide meaningful protection for Delphi's products and technical innovations. 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.

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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 2005, our product offerings were organized in the following 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, 2005 are described below. Refer to Note 19, Segment Reporting to the consolidated financial statements in this Annual Report for additional financial information regarding each sector.

Dynamics, Propulsion, Thermal & Interior. Our Dynamics, Propulsion, Thermal & Interior product sector accounted for \$11.8 billion of our 2005 sales (43.8% 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, safety, reduced mass and improved fuel efficiency. In addition, the sector offers comfort and convenience technologies and products such as thermal management systems, integrated closure systems, and cockpits and interior systems. These systems provide environmentally responsible and 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, Denso Corporation, NSK Ltd., Siemens VDO Automotive AG, Continental Teves AG, TRW Automotive Inc., 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 and Accelerometer-Pilot Control; sensors and actuators which provide essential data and control for integrated vehicle systems; air/fuel management subsystems; exhaust emission systems; valve train systems; ignition products; fuel handling systems and evaporative emissions canisters; vehicle stability control systems; MagneRide™ high-performance, semi-active suspension control systems; dynamic body control systems; other suspension components; brake systems; hydraulic and electric steering systems and components including high-efficiency and high performance power steering systems; energy absorbing steering columns and driver protection modules; driveline systems; constant velocity joints and propshafts; heating, ventilation and air conditioning 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

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the manufacturer. This sector is also developing solid oxide fuel cell technology and applications for the electronics cooling, stationary air conditioning, and related thermal markets.

Electrical, Electronics & Safety. Our Electrical, Electronics & Safety product sector accounted for \$13.1 billion of our 2005 sales (48.8% 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 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., Siemens VDO Automotive 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 that 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, 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 Rody XT™ satellite radio receivers and Rody XT Personal Audio System™, and a variety of accessories for home, vehicle, and portable use; and Delphi rear-seat entertainment systems and navigation products all for the consumer market.

Automotive Holdings Group. Our Automotive Holdings Group (AHG) accounted for \$1.9 billion of our 2005 sales (7.1% excluding inter-sector sales). During 2005, AHG was comprised of select plant sites and non-core product lines that we will seek to sell or wind-down, for further information, refer to Item 1. Business Chapter 11 Cases Activity Throughout Duration of Chapter 11 Cases, Potential Divestitures, Consolidations, & Wind-downs in this Annual Report. Examples of AHG manufactured products include: suspension, brake, compressors, ignition, instrument clusters, fuel handling and spark plugs.

Core Product Portfolio Upon Emergence. As announced on March 31, 2006, Delphi plans to focus its product portfolio on those core technologies for which we believe we have significant competitive and technological advantages. We do not expect the portfolio changes will have a significant impact on Delphi's independent aftermarket or consumer electronics businesses. Delphi will concentrate the organization around the following core strategic product lines:

Controls & Security (Body Security, Mechatronics, Power Products and Displays)

Electrical/ Electronic Architecture (Electrical/ Electronic Distribution Systems, Connection Systems and Electrical Centers)

Entertainment & Communications (Audio, Navigation and Telematics)

Powertrain (Diesel and Gas Engine Management Systems)

Safety (Occupant Protection and Safety Electronics)

Thermal (Climate Control & Powertrain Cooling)

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Delphi intends to implement changes to our organizational structure and management reporting to support the management of these core product lines. In conjunction with these organizational and management reporting changes Delphi will re-evaluate its reportable segments as required by Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information. The Company expects to change its reporting segments in the third quarter of 2006, as the organizational changes will be effective July 1, 2006.

Customers

We primarily sell our products and services to the major global VMs. GM activity includes GM and its consolidated subsidiaries. Activity with GM's non-consolidated subsidiaries (such as GM Shanghai) and activity with other Tier 1 suppliers who sell directly to GM is classified as other customer activity and not as GM activity. As a percentage of sales, our non-GM sales were 52% in 2005. Our business with customers other than GM has increased since the Separation from GM in 1999. While we expect our non-GM business to continue to increase, we anticipate that GM will remain our largest customer for a significant period of time due to forward commitments to supply relationships, impediments to moving substantial business and our historic relationship with GM. Our sales to GM continue to decline, 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 GM. Delphi is currently facing considerable challenges due to revenue decreases and related pricing pressures stemming from a substantial reduction in GM's North American vehicle production. We currently supply parts to each regional sector of GM's Automotive Operations, including its automotive operations in the 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). 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 that impact will likely vary by region.

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

Customer	Total Net Sales Year Ended December 31,					
	2005		2004		2003	
	\$	%	\$	%	\$	%
	(dollars in millions)					
GM-North America	\$ 10,643	39.5%	\$ 12,706	44.4%	\$ 14,360	51.2%
GM-International	1,464	5.4%	1,788	6.3%	1,705	6.1%
GM-SPO	753	2.8%	923	3.2%	964	3.4%
Total GM	12,860	47.7%	15,417	53.9%	17,029	60.7%
Other customers	14,087	52.3%	13,205	46.1%	11,048	39.3%
Total net sales	\$ 26,947	100.0%	\$ 28,622	100.0%	\$ 28,077	100.0%

Included in sales to other customers in the foregoing table are sales to all customers other than GM and its consolidated subsidiaries, including sales to other major global VMs and sales to other Tier 1 suppliers who ultimately sell to GM. Sales to four of these other major global VMs exceeded \$850 million in 2005 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,

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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 approximately 12,000 customers globally including Consumer Electronics customers such as Wal-Mart, Best Buy, and Circuit City and Independent Aftermarket customers such as NAPA, Carquest, Group Auto Union and many others. 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 2005, sales to our Independent Aftermarket, including Consumer Electronics that are sold through retail channels, Commercial Vehicle and New Markets customers were \$2,605 million as compared to \$2,264 million for 2004. Additional information regarding net sales by customer and geographic area and net property by geographic area is included in Note 19, 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 buying 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 for one week in December. 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 aluminum, copper, lead, platinum group metals, resins, and steel. All of these raw materials, except the platinum group metals, 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 2005, we were challenged by commodity cost increases, most notably steel, petroleum-based resin products and copper. We continue to proactively work with our suppliers and customers 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 2005. Steel supply has continued to be constrained and commodity cost pressures continued to intensify as our supply contracts expired during 2005. We expect commodity cost pressures will continue during 2006. 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 operations in future periods may be adversely impacted. To date, due to existing contractual terms, our success in passing commodity cost increases on to our

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customers has been limited. As contracts with our customers expire, we will seek to renegotiate terms that allow us to recover the actual commodity costs we are incurring.

Environmental Compliance

We are 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. We have an environmental management structure designed to facilitate and support our compliance with these requirements globally. Although it is our intent to comply with all such requirements and regulations, we cannot provide assurance that we are at all times in compliance. We have made and will continue to make capital and other expenditures to comply with environmental requirements, although such expenditures were not material during the past three years. Environmental requirements are complex, change frequently and have tended to become more stringent over time. Accordingly, we cannot assure that environmental requirements will not change or become more stringent over time or that our eventual environmental cleanup costs and liabilities will not be material.

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 site, which is expected to be completed during 2006. Based on findings to date, we believe that a reasonably possible outcome of the investigative study is capping and future monitoring of this site, which would substantially limit future remediation costs. We have included an estimate of our share of the potential costs of such a remedy plus the cost to complete the investigation in our 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 we make material future expenditures for remediation, possibly over an extended period of time and possibly in excess of our existing reserves. We will continue to re-assess any potential remediation costs and, as appropriate, our overall environmental reserves as the investigation proceeds.

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 U.S. GAAP. As of December 31, 2005, our reserve for such environmental investigation and cleanup was approximately \$51 million, including approximately \$3 million included in liabilities subject to compromise, 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. Moreover, facility sales and/or closures relating to the restructuring process could trigger additional and perhaps material environmental remediation costs, as previously unknown conditions may be identified.

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

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concerns. GM in turn agreed that it would not unreasonably withhold its consent to assignment of existing contracts with GM relating to the business being sold to a qualified buyer.

As discussed above, as part of its transformation plan, Delphi identified non-core product lines that do not fit into Delphi's future strategic framework, which we are seeking to sell or wind-down. Any sale or wind-down process, however, is being conducted in consultation with the Company's customers, unions and other stakeholders to carefully manage the transition of affected product lines. Generally we are seeking GM's support with respect to any sale of product lines which could impact their business, including seeking their consent to assign GM contracts. Our ability to obtain or require that GM's consent to an assignment of its existing agreements to a prospective buyer of a product line will also be impacted by the extent to which we exercise our rights to reject, or assign and assume, contracts under the Bankruptcy Code. For more information regarding these matters, refer to Item 1. Business Chapter 11 Cases, Contract Rejection and Assumption Process in this Annual Report.

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 supply contracts. Consistent with GM's contracts with other suppliers, on a case by case basis, GM may terminate a supply contract 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, termination for convenience. However, except with respect to annual purchase orders where GM reserves a right to terminate for convenience, before GM exercises 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 at any time during the contract period if our goods become non-competitive with respect to price, technology, design or quality and we do not agree to become competitive. 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. Unilateral termination by GM of a majority of its supply contracts with us would have a material adverse effect on our business.

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 in a range of three to five years after such service parts go past model. The term past model refers to parts for vehicles that are no longer in production. Thereafter, unit prices for such service parts will be negotiated between the parties.

On March 31, 2006, Debtors filed a motion with the Court seeking authority to reject certain customer contracts with GM, for further information, refer to Item 1. Business Chapter 11 Cases, Contract Rejection and Assumption Process in this Annual Report. Although to date the Company has not unilaterally revised the terms and conditions on which it has been providing interim supply of parts to GM in connection with the expired contracts or filed additional contract rejection motions, there can be no assurances that GM will not take such actions now or in the future. The initial contract rejection motion is not scheduled to be heard by the Court until at least August 15, 2006.

Aftermarket Sales. Through December 31, 2003, aftermarket sales in the U.S. were covered by a Memorandum of Understanding 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

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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, for the past two years, we have been negotiating with GM-SPO standard GM purchase order terms for those aftermarket products that GM wants to continue to source from Delphi. The expiration of this agreement has not 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 UAW, IUE-CWA, and United Steel Workers (USWA) represented employees 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 to perform under the GM-UAW guarantee. Our indemnification obligations remain in effect until October 18, 2007. If our negotiations with our unions, including the UAW, and GM, do not result in a negotiated comprehensive restructuring plan which addresses our benefit obligations to our U.S. hourly employees or if we prevail in our motions currently before the Court and then use the Court-authority requested to reject the collective bargaining agreements and modify or eliminate retiree medical and life insurance benefits for union retirees, GM's guarantee may be called upon. If in turn, GM requests indemnification, our obligation to indemnify GM will become a prepetition claim which will be subject to compromise in the chapter 11 cases. For further information refer to Item 1. Business Legacy Liabilities; Key Stakeholders in this Annual Report.

Flowback Rights. Certain of our hourly UAW represented 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 Delphi 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 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 who transfer between our company and GM.

Employees Union Representation

As of December 31, 2005, we employed approximately 184,200 people, of whom approximately 37,200 were salaried employees and approximately 147,000 were hourly employees. On a comparable basis, 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. Our unionized employees are represented worldwide by approximately 50 unions, including the UAW, the IUE-CWA, the USWA, and Confederacion De Trabajadores Mexicanos (CTM). As of December 31, 2005, approximately 22,900 hourly employees were represented by the UAW, approximately 7,900 by the IUE-CWA and approximately 900 by the USWA.

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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 certain 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, 2005, actual employment levels at certain sites were below the specified employment levels.

As part of our chapter 11 cases, we are seeking modifications to our existing collective bargaining agreements. For further information refer to Item 1. Business Legacy Liabilities; Key Stakeholders in this Annual Report.

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ITEM RISK FACTORS

1A.

Set forth below (not necessarily in order of importance or probability of occurrence) are certain risks and uncertainties that could adversely affect our results of operations or financial condition and cause our actual results to differ materially from those expressed in forward-looking statements made by the Company. Also refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements in this Annual Report.

Risk Factors Specifically Related to our Current Reorganization Cases Under Chapter 11 of the U.S.

Bankruptcy Code

If We Are Unable To Successfully Reorganize Our Capital Structure And Operations And Implement Our Transformation Plan Through the Chapter 11 Process, The Debtors May Be Required To Liquidate Our Assets.

Commencing October 8, 2005, and October 14, 2005, the Company and certain of our U.S. subsidiaries filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code. Risk factors involving the Chapter 11 Filings include, but are not limited to, the following:

The chapter 11 cases may adversely affect our business prospects and/or our ability to operate during the reorganization cases.

We may have difficulty continuing to obtain and maintain contracts, including critical supply agreements, necessary to continue our operations and at affordable rates with competitive terms.

We may have difficulty maintaining existing customer relationships and winning awards for new business.

We may not be able to further diversify our customer base and maintain our customer base in our non-Debtor entities, both during and assuming successful emergence from chapter 11.

Debtor entity transactions outside the ordinary course of business are subject to the prior approval of the Court, which may limit our ability to respond timely to certain events or take advantage of certain opportunities.

The Debtors may not be able to obtain Court approval or such approval may be delayed with respect to motions made in the reorganization cases.

We may be unable to retain and motivate key executives and associates through the process of reorganization, and we may have difficulty attracting new employees.

The Debtors may be unable to maintain satisfactory labor relations as they seek to negotiate changes to their existing collective bargaining agreements and modify certain retiree benefits.

Representatives of certain of the unions representing the Debtors' U.S. hourly employees, including the UAW and IUE-CWA, have indicated that they received membership authorization and may call for a strike by their employee members in the event the Debtor's labor agreements are rejected pursuant to the Debtors' pending motion before the Court under sections 1113 and 1114 of the Bankruptcy Code.

There can be no assurance as to our ability to maintain sufficient financing sources to fund our reorganization plan and meet future obligations. We are currently financing our operations during our reorganization cases using funds from operations and borrowings under our DIP financing, prepetition secured debt, and overseas factoring and securitization. We may be unable to operate pursuant to the terms of our DIP financing arrangements, including the financial covenants and restrictions contained therein, or to negotiate and obtain necessary approvals, amendments, waivers or other types of modifications, and to otherwise fund and execute our business plans throughout the duration of the chapter 11 cases. For more information regarding the terms of our DIP facility and other uses and

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sources of financing, refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in this Annual Report.

There can be no assurance that we will be able to successfully develop, prosecute, confirm and consummate one or more plans of reorganization with respect to the chapter 11 cases that are acceptable to the Court and the Company's creditors, equity holders and other parties in interest. Additionally, third parties may seek and obtain Court approval to terminate or shorten the exclusivity period for Delphi to propose and confirm one or more plans of reorganization, to appoint a chapter 11 trustee, or to convert the cases to chapter 7 cases.

Even assuming a successful emergence from chapter 11, there can be no assurance as to the overall long-term viability of our operational reorganization.

In addition, the uncertainty regarding the eventual outcome of our restructuring, and the effect of other unknown adverse factors, could threaten our existence as a going concern. Continuing on a going concern basis is dependent upon, among other things, the success and Court approval of a reorganization plan, maintaining the support of key vendors and customers, and retaining key personnel, along with financial, business, and other factors, many of which are beyond our control.

Under the priority scheme established by the Bankruptcy Code, unless creditors agree otherwise, prepetition liabilities and post-petition liabilities must be satisfied in full before shareholders may be entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or shareholders, if any, will not be determined until confirmation of a plan of reorganization. No assurance can be given as to what values, if any, will be ascribed in the chapter 11 cases to each of these constituencies or what types or amounts of distributions, if any, they would receive. A plan of reorganization could result in holders of Delphi's stock receiving no distribution on account of their interests and cancellation of their existing stock. If certain requirements of the Bankruptcy Code are met, a plan of reorganization can be confirmed notwithstanding its rejection by Delphi's equity security holders and notwithstanding the fact that such equity security holders do not receive or retain any property on account of their equity interests under the plan. Delphi considers the value of its common stock to be highly speculative and strongly cautions equity holders that the stock may ultimately be determined to have no value. Accordingly, the Company urges that appropriate caution be exercised with respect to existing and future investments in its common stock or other equity securities, or any claims relating to prepetition liabilities.

Business Environment and Economic Conditions

The Cyclical Nature Of Automotive Sales And Production Can Adversely Affect Our Business.

Our business is directly related to automotive sales and automotive vehicle production by our customers. Automotive sales and production are highly cyclical and depend on general economic conditions and other factors, including consumer spending and preferences as well as changes in interest rate levels, consumer confidence and fuel costs. In addition, automotive sales and production can be affected by labor relations issues, regulatory requirements, trade agreements and other factors. Any significant economic decline that results in a reduction in automotive sales and production by our customers can have a material adverse effect on our business, results of operations and financial condition.

Our sales are also affected by inventory levels and VMs production levels. We cannot predict when VMs will decide to either build or reduce inventory levels or whether new inventory levels will approximate historical inventory levels. This may result in variability in our sales and financial condition. Uncertainty regarding inventory levels may be exacerbated by favorable consumer financing programs initiated by VMs which may accelerate sales that otherwise would occur in future periods. We also have historically experienced sales declines during the VMs scheduled shut-downs or shut-downs resulting from unforeseen events. Continued uncertainty and other unexpected fluctuations could have a material adverse effect on our business and financial condition.

Table of Contents***Drop In The Market Share And Changes In Product Mix Offered By Our Customers Can Impact Our Revenues.***

The mix of vehicle offerings by our VM customers also impacts our sales. A decrease in consumer demand for specific types of vehicles where Delphi has traditionally provided significant content could have a significant effect on our business and financial condition. Our sales of products in adjacent markets to our customers also depend on the success of these customers retaining their market share. In addition, we may not be able to adapt our product offerings to meet changing consumer preferences and our customers' supply requirements on a timely, cost effective basis. The ability to respond to competitive pressures and react quickly to other major changes in the marketplace including in the case of automotive sales, increased gasoline prices or consumer desire for and availability of vehicles using alternative fuels is also a risk to our future financial performance.

We Depend On General Motors Corporation As A Customer, And We May Not Be Successful At Attracting New Customers.

GM is our largest customer and accounted for 48% of our total net sales in 2005. In addition, GM accounts for an even greater percentage of our net sales in North America where we have limited ability to adjust our cost structure to changing economic and industry conditions and where we are faced with high wage and benefit costs. Additionally, our revenues may be affected by decreases in GM's business or market share. GM has reported a variety of challenges it is facing, including with respect to its debt ratings, its relationships with its unions and large shareholders and its cost and pricing structures. If GM is unable or unwilling to engage in a business relationship with us on a basis that involves improved terms for Delphi (as compared to those currently in place), we believe that the Company's sales, cost structure and profitability will be adversely affected. For these reasons, we cannot provide any assurance as to the amount of our future business with GM. To the extent that we do not maintain our existing level of business with GM, we will need to attract new customers or our results of operations and financial condition will be adversely affected. There can be no assurance that we will be successful in expanding our existing customer base.

Contract Terms Continued Pricing Pressures, VM Cost Reduction Initiatives And Ability Of VMs To Resource Or Cancel Vehicle Programs May Result In Lower Than Anticipated Margins, Or Losses, Which May Have A Significant Negative Impact On Our Business.

Cost-cutting initiatives adopted by our customers generally result in increased downward pressure on pricing. Our customer supply agreements generally require step downs in component pricing over the period of production. VMs historically have had significant leverage over their outside suppliers because the automotive component supply industry is fragmented and serves a limited number of automotive VMs, and, as such, Tier 1 suppliers are subject to substantial continuing pressure from VMs to reduce the price of their products. We believe these pricing pressures may further intensify, particularly in North America, as domestic VMs pursue restructuring and cost cutting initiatives to better compete with their foreign competitors. If we are unable to generate sufficient production cost savings in the future to offset price reductions, our gross margin and profitability would be adversely affected.

Furthermore, in most instances our VM customers are not required to purchase any minimum amount of products from us. The contracts we have entered into with most of our customers provide for supplying the customers for a particular vehicle model, rather than for manufacturing a specific quantity of products. Such contracts range from one year to the life of the model (usually three to seven years), typically are non-exclusive or permit the VM to resource if we do not remain competitive and achieve and pass through cost savings in the form of lower prices over the life of the contract, and do not require the purchase by the customer of any minimum number of parts from us. Pricing and capital investment decisions are made by us at the time the contract is entered into based on projected volumes. Therefore, a significant decrease in demand for certain key models or group of related models sold by any of our major customers or the ability of a manufacturer to resource and discontinue purchasing from us, for a particular model or group of models, could have a material adverse effect on us.

Table of Contents***Competition We Operate In The Highly Competitive Automotive Supply Industry.***

The automotive component supply industry is highly competitive, both domestically and internationally. Competition is based primarily on price, technology, quality, delivery and overall customer service. Many of our competitors operate with lower overall and/or more flexible cost structures than we do. In particular, we face restrictions in our ability to adjust our cost structure to reduced VM production volumes or demand for our products. This in turn may limit our ability to redeploy resources toward research and development of new technology or to quickly respond to changing market demand or consumer preferences. There can be no assurance that our products will be able to compete successfully with the products of our competitors. Furthermore, the rapidly evolving nature of the markets in which we compete may attract new entrants, particularly in low cost countries. As a result, our sales levels and margins could be adversely affected by pricing pressures caused by such new entrants. These factors led to selective resourcing of future business to foreign competitors in the past and may continue to do so in the future. In addition, any of our competitors may foresee the course of market development more accurately than us, develop products that are superior to our products, have the ability to produce similar products at a lower cost than us, or adapt more quickly than us to new technologies or evolving customer requirements. As a result, our products may not be able to compete successfully with their products.

Certain Disruptions In Supply Of And Changes In the Competitive Environment For Raw Materials Integral To Our Products May Adversely Affect Our Profitability.

We use a broad range of materials and supplies, including metals, castings, chemicals and electronic components in our products. A significant disruption in the supply of these materials could decrease production and shipping levels, materially increase our operating costs and materially adversely affect our profit margins. Shortages of materials or interruptions in transportation systems, labor strikes, work stoppages, or other interruptions to or difficulties in the employment of labor or transportation in the markets where our company purchases material, components and supplies for the production of our products or where our products are produced, distributed or sold, whether as a result of labor strife, war, further acts of terrorism or otherwise, in each case may adversely affect our profitability. Significant changes in the competitive environment in the markets where our company purchases material, components and supplies for the production of our products or where our products are produced, distributed or sold also may adversely affect our profitability. In addition, our profitability may be adversely affected by changes in economic conditions or political stability in the markets where our company procures material, components, and supplies for the production of our principal products or where our products are produced, distributed, or sold (e.g., North America, Europe, Latin America and Asia-Pacific).

In recent periods there have been significant increases in the global prices of steel, resins, and copper, which have had and may continue to have an unfavorable impact on our business. We anticipate that these increases will continue to adversely affect our business throughout fiscal 2006. Any continued fluctuations in the price or availability of steel, resins or copper may have a material adverse effect on our business, results of operations or financial condition. To address increased costs associated with these market forces, a number of our suppliers have implemented surcharges on existing fixed price contracts. Without the surcharge, some suppliers claim they will be unable to provide adequate supply. We have implemented a steel raw material resale program with several suppliers whereby we leverage Delphi's purchase volume. We have resourced 10-15% of our direct steel purchases to reduce the impact of these surcharges, but still at prices higher than the original contract. As the resin raw material market related cost pressure continues, we expect to see increasing costs in our resin as well as our plastic component supplier value streams. We will continue efforts to pass some of the supply and raw material cost increases onto our customers, although competitive and marketing pressures have limited our ability to do that particularly with domestic VMs and may prevent us from doing so in the future. In addition, our customers are generally not obligated to accept price increases that we may desire to pass along to them. This inability to pass on price increases to our customers when raw material prices increase rapidly or to significantly higher than historic levels could adversely affect our operating margins and cash flow, possibly resulting in lower operating income and profitability.

Table of Contents***We May Not Be Able To Respond Quickly Enough To Changes In Technology And Technological Risks, And To Develop Our Intellectual Property Into Commercially Viable Products.***

Changes in legislative, regulatory or industry requirements or in competitive technologies may render certain of our products obsolete or less attractive. Our ability to anticipate changes in technology and regulatory standards and to successfully develop and introduce new and enhanced products on a timely basis will be a significant factor in our ability to remain competitive. We cannot provide assurance that we will be able to achieve the technological advances that may be necessary for us to remain competitive or that certain of our products will not become obsolete. We are also subject to the risks generally associated with new product introductions and applications, including lack of market acceptance, delays in product development and failure of products to operate properly.

In order to effectively compete in the automotive supply industry, we must be able to launch new products to meet our customers' demand in a timely manner. We cannot provide assurance, however, that we will be able to install and certify the equipment needed to produce products for new product programs in time for the start of production, or that the transitioning of our manufacturing facilities and resources to full production under new product programs will not impact production rates or other operational efficiency measures at our facilities. In addition, we cannot provide assurance that our customers will execute on schedule the launch of their new product programs, for which we might supply products. Our failure to successfully launch new products, or a failure by our customers to successfully launch new programs, could adversely affect our results.

We May Not Succeed In Our Attempts To Improve Our Cost Structure

We may have difficulty in generating cost savings and operational improvements in the future and in adapting our cost structure, particularly at our legacy sites, adequately to adjust for significant changes in vehicle production rates, and to offset price reductions and increases in raw material or labor costs. Our labor costs may include increased funding requirements for pensions or healthcare costs (some of which have been deferred during the chapter 11 cases). Certain commodity prices, particularly steel, resins and copper, have markedly increased. Price reductions are often required pursuant to contracts or to remain competitive with our peers and are sometimes necessary to win additional business. In addition, our cost structure may be adversely affected by changes in the laws, regulations, policies or other activities of governments, agencies and similar organizations where such actions may affect the production, licensing, distribution or sale of our company's products, the cost thereof or applicable tax rates, or affect the cost of legal and regulatory compliance or the cost of financing.

Asset Impairment And Other Restructuring Charges We May Suffer Future Asset Impairment And Other Restructuring Charges, Including Write Downs of Goodwill Or Intangible Assets.

From time to time in the past, we have recorded asset impairment losses and closure, severance and restructuring losses relating to specific plants and operations. Generally, we record asset impairment losses when we determine that our estimates of the future undiscounted cash flows from an operation will not be sufficient to recover the carrying value of that facility's building, fixed assets and production tooling. During 2005, we recorded total asset impairment losses of \$629 million. In light of the shifting nature of the competitive environment in which we operate, it is possible that we will incur similar losses and charges in the future, and those losses and charges may be significant. Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations in this Annual Report.

We May Be Unable To Generate Sufficient Excess Cash Flow To Meet Increased U.S. Pension And OPEB Funding Obligations Upon Emergence.

Our ability to generate sufficient cash may be impacted because of market volatility that adversely affects our asset return expectations, the declining interest rate environment and for other reasons. Delphi's U.S. hourly pension and OPEB exposed Delphi to approximately \$10.7 billion in unfunded liabilities at

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December 31, 2005, of which approximately \$2.3 billion was attributable to unfunded pension obligations and \$8.4 billion was attributable to OPEB obligations. Prior to the Chapter 11 Filings, Delphi projected that cash outflows for hourly pension contributions and OPEB payments through 2007 would approximate \$1.9 billion. Through the chapter 11 process, Delphi is permitted to defer a significant portion of these contributions until it emerges from chapter 11. Thus, the projected future cash outflows for hourly pension contributions and OPEB payments through 2007 may be significantly less than \$1.9 billion. However, Delphi will be required to make up any deferred pension contributions at the time of emergence from chapter 11. Furthermore, if the pension and OPEB obligations are not addressed as part of the chapter 11 process, the accompanying cash needs beyond 2007 could continue to strain the Company in the future.

Employee Strikes and Labor Related Disruptions May Adversely Affect our Operations.

Our business is labor intensive and utilizes a large number of unionized employees. Approximately 96% of our U.S. hourly workforce is unionized. A strike or other form of significant work disruption by the unions would likely have an adverse effect on our ability to operate our business. We filed a motion for authority to reject collective bargaining agreements and to modify certain retiree benefits. We have received objections from each of the six unions subject to such motion, two objections from non-union parties and a response from GM. If the Court grants the motion, the contracts would be terminated, including the unions' agreement that there will be no strikes over contract negotiations during the term of the agreements. This means that the unions could authorize strikes simultaneously with entry of the Court's order. Representatives of certain unions opposing the motion, including our two largest principal unions, the UAW and the IUE-CWA, have received membership authorization indicating that they may call a strike by their employee members in the event the labor agreements are rejected as a result of the motion. While we are intent upon reaching consensual labor modifications prior to a ruling on our motion, it is possible that no consensual resolution will be reached.

Our Exposure To Foreign Currency Fluctuations May Affect Our Financial Results

We have currency exposures related to buying, selling and financing in currencies other than the local currencies in which we operate. Historically we have reduced our exposure through financial instruments that provide offsets or limits to our exposures, which are opposite to the underlying transactions. We also face an inherent business risk of exposure to commodity prices risks, and have historically offset our exposure, particularly to changes in the price of various non-ferrous metals used in our manufacturing operations, through commodity swaps and option contracts. Post-petition, we continue to manage our exposures to changes in currency rates and commodity prices using these derivative instruments. However, due to the substantial uncertainty perceived by institutions and dealers who normally act as counterparties to such instruments as to whether or not Delphi would seek protection under chapter 11 of the Bankruptcy Code, during a substantial portion of the third quarter and fourth quarter of 2005 we were not able to enter into hedging instruments. As a result we anticipate that in 2006 our exposure to changes, both favorable and unfavorable, in currency rates and the price of non-ferrous metals and certain other commodities will be increased. We cannot provide assurance that fluctuations in currency exposures and commodity prices will not otherwise have a material adverse effect on our financial condition or results of operations, or cause significant fluctuations in quarterly and annual results of operations.

Legal and Accounting Matters***We May Incur Material Losses And Costs As A Result Of Product Liability And Warranty Claims And Intellectual Property Infringement Actions That May Be Brought Against Us.***

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, in the case of product liability, 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 secure, enforce and defend our intellectual property and face an inherent risk of exposure to the claims of other suppliers and parties that

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we have allegedly violated their intellectual property rights. We cannot assure that we will not experience any material warranty, product 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, VMs 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. VMs are also increasingly requiring their 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 VM asserts that the product supplied did not perform as warranted. Although we cannot assure 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 on 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.

Incurrence Of Significant Legal And Accounting Costs May Adversely Affect Our Profitability.

Costs relating to the following matters may be significant: legal and administrative proceedings such as the ongoing SEC and Department of Justice investigation and any related private securities litigation as well as environmental, commercial, product liability and intellectual property related matters, including adverse judgments against Delphi if we fail to prevail in reversing such judgments, or adoption of new or updated accounting policies and practices.

Federal Investigations May Lead To Significant Liabilities.

As previously disclosed, Delphi is the subject of an ongoing investigation by the SEC and the Department of Justice involving Delphi's accounting for and the adequacy of disclosures for a number of transactions dating from Delphi's spin-off from GM. Delphi is fully cooperating with the government's investigations. The Company entered into an agreement with the SEC to suspend the running of the applicable statute of limitations until April 6, 2006 and subsequently agreed to extend the suspension until August 31, 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, results of operations and cash flows. We cannot assure that the SEC will not impose fines or take other corrective actions against us that could have a significant negative impact on our financial condition. In addition, publicity surrounding the SEC's investigation or any enforcement action, even if ultimately resolved favorably for us, could have a material adverse impact on our cash flows, financial condition, results of operations or business. The government's investigations were not suspended as a result of Delphi's filing for chapter 11.

Environmental Factors Relating To Restructuring Activities.

It is expected that Delphi's restructuring activities will include the sale and/or closure of numerous facilities around the world. In the course of this process, environmental investigations will be performed which are likely to identify previously unknown environmental conditions, triggering additional and possibly material environmental remediation costs.

Table of Contents**Debt*****We Have Substantial Levels Of Debt And Debt Service That Will Divert A Significant Amount Of Cash From Our Business Operations.***

We have substantial levels of debt, including debt under our DIP credit facility and other debt instruments. We have a \$250 million in term loans and \$7 million of letters of credit outstanding under our DIP credit facility as of December 31, 2005. Additionally, we have approximately \$2.5 billion in secured indebtedness outstanding under our prepetition credit facilities. As of December 31, 2005, we had \$2.1 billion of debt and \$403 million of trust preferred securities, all of which are subject to compromise, \$650 million of other debt and \$2.2 billion of cash and cash equivalents. The credit facility agreements impose limits on our ability to incur additional debt including our ability to draw down remaining amounts under the \$1.75 billion revolver in our DIP credit facility. In accordance with the limits set forth in those agreements, we may incur additional debt in the future. The degree to which we will be leveraged could have important consequences, including:

requiring a substantial portion of our cash flow from operations to be dedicated to debt service and therefore not available to us for our operations, capital expenditures and future business opportunities;

increasing our vulnerability to a downturn in general economic conditions or in our business;

limiting our ability to adjust to changing market conditions, placing us at a competitive disadvantage compared to our competitors that have relatively less debt; and

limiting our ability to obtain additional financing or access other debt in the future for capital expenditures, working capital or general corporate purposes.

Restrictions And Covenants In the DIP Credit Facility Limit Our Ability To Take Certain Actions And Require Us to Satisfy Certain Financial Tests.

The agreements governing the DIP credit facility contain a number of significant covenants that, among other things, will restrict our ability, and the ability of our subsidiaries, to take certain actions. The DIP credit facility includes affirmative, negative and financial covenants that impose restrictions on Delphi's financial and business operations, including Delphi's ability to, among other things, incur or secure other debt, make investments, sell assets and repurchase stock. Additionally, the DIP credit facility includes negative covenants that prohibit the payment of dividends by the Company. Generally, so long as the Facility Availability Amount (as defined in the DIP credit facility) is equal or greater than \$500 million, compliance with the restrictions on investments, mergers and disposition of assets do not apply (except in respect of investments in, and dispositions to, direct or indirect domestic subsidiaries of Delphi that are not guarantors).

The covenants in the DIP credit facility generally require Delphi to, among other things, (i) maintain a monthly cumulative minimum global earnings before interest, taxes, depreciation, amortization, reorganization and restructuring costs (Global EBITDAR), as defined, for each period beginning on January 1, 2006 and ending on the last day of each fiscal month through November 30, 2006, as described in the DIP credit facility, and (ii) maintain a rolling 12-month cumulative Global EBITDAR for Delphi and its direct and indirect subsidiaries, on a consolidated basis, beginning on December 31, 2006 and ending on October 31, 2007 at the levels set forth in the DIP credit facility. The DIP credit facility contains certain defaults and events of default customary for debtor-in-possession financings of this type. Upon the occurrence and during the continuance of any default in payment of principal, interest or other amounts due under the DIP credit facility, interest on all outstanding amounts is payable on demand at 2% above the then applicable rate.

The DIP credit facility provides 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 to the extent that, in its reasonable business judgment,

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adverse tax consequences would result from the pledge of a greater percentage) and further provides that amounts borrowed under the DIP credit facility will be guaranteed by substantially all of Delphi's affiliated Debtors, each as debtor and debtor-in-possession.

Failure to comply with these covenants would result in an event of default under the DIP credit facility, which would permit the lender to cause the amounts outstanding to become immediately due and payable. In addition, failure to comply could result in termination of the commitments under our revolving credit facility, which would result in Delphi being prohibited from borrowing additional amounts under such facility.

Internal Controls***Failure To Achieve And Maintain Effective Internal Controls In Accordance With Section 404 Of The Sarbanes-Oxley Act of 2002 Could Have A Material Effect On Our Business.***

As a publicly traded company, we are subject to rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires us to include an internal control report from management in this Annual Report on Form 10-K. The internal control report must include the following: (1) a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting, (2) a statement identifying the framework used by management to conduct the required evaluation of the effectiveness of our internal control over financial reporting, (3) management's assessment of the effectiveness of our internal control over financial reporting as of December 31 of each fiscal year, including a statement as to whether or not internal control over financial reporting is effective, and (4) a statement that our independent registered public accounting firm has issued an attestation report on management's assessment of internal control over financial reporting. A material weakness is defined as a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Our assessment as of December 31, 2005 identified a number of material weaknesses in our internal controls over financial reporting, which also adversely impacted our disclosure controls and procedures. For additional information refer to Item 9A. Controls and Procedures in this Annual Report.

Because of the material weaknesses referenced in the preceding paragraph, management has concluded that, as of December 31, 2005, our internal controls over financial reporting were not effective based on those criteria. This failure and any failure in the future to achieve and maintain effective internal controls over financial reporting and otherwise comply with the requirements of Section 404 could have a material adverse effect on our business. Such noncompliance could result in perceptions of our business among customers, suppliers, rating agencies, lenders, investors, securities analysts and others being adversely affected. We may not be able to complete our remediation plans designed to address the identified material weaknesses in our internal controls over financial reporting and continue to attract additional qualified accountants, and auditing and compliance professionals to assist in completing such plans and maintaining compliance programs.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved SEC staff comments to report.

ITEM 2. PROPERTIES

Delphi's world headquarters is in Troy, Michigan. Delphi also maintains regional headquarters in Tokyo, Japan; Paris, France; and Sao Paulo, Brazil. Excluding our joint ventures and other investments, as of December 31, 2005 we maintained 303 sites in 34 countries throughout the world, including manufacturing facilities, technical centers, customer centers and sales offices. As of December 31, 2005, we owned our world headquarters. Of the remaining 302 sites, 33 were owned and 55 were leased in the U.S. and Canada, 35 were owned and 16 were leased in Mexico, 38 were owned and 67 were leased in Europe/ Middle East/ Africa; 11 were owned and 6 were leased in South America; and 9 were owned and 32 were leased in Asia/ Pacific. Debtors have the right, subject to Court approval and certain other

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conditions, to assume or reject their executory contracts, including unexpired leases. The Debtors are currently in the process of evaluating all owned and leased real estate, and as of May 31, 2006, the Debtors have rejected a total of three real property leases and one sublease. For more detailed discussion on the status of the reorganization cases and the potential impact of such cases on Delphi and certain of its subsidiaries rights to occupy and use real property, refer to Item 1. Business and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Executive Summary in this Annual Report.

We continuously evaluate our global footprint to enhance support provided to our customers around the world while at the same time controlling associated operating costs. We continue to seek to efficiently locate our global manufacturing, engineering and sales footprint to serve the needs of our VM customers and to reduce instances of over capacity in some of our manufacturing facilities.

ITEM 3. LEGAL PROCEEDINGS**Bankruptcy Proceedings**

Refer to Item 1. Business section in this Annual Report for further information regarding the chapter 11 cases.

Regulatory Actions and Other Matters

As previously disclosed, Delphi is the subject of an ongoing investigation by the SEC and the Department of Justice involving Delphi's accounting for and the adequacy of disclosures for a number of transactions dating from Delphi's spin-off from GM. Delphi is fully cooperating with the government's investigations. The Company entered into an agreement with the SEC to suspend the running of the applicable statute of limitations until April 6, 2006 and subsequently agreed to extend the suspension until August 31, 2006. The government's investigations were not suspended as a result of Delphi's filing for chapter 11. 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, results of operations and cash flows.

The Company also believes that the Enforcement Division of the SEC has taken a more proactive role, what the SEC refers to as a risk based approach, by seeking information from issuers in an effort to assess issuers' 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 postemployment benefit plans is an example of this practice. Delphi continues to cooperate fully with the SEC's informal inquiry in this matter.

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, refer to Item 1. Business Environmental Compliance in this Annual Report.

Shareholder Lawsuits

The Company, along with Delphi Trust I, Delphi Trust II, current and former directors of the Company, certain current and former officers and employees of the Company or its subsidiaries, and others are named as defendants in several lawsuits that were filed beginning in March 2005 following the Company's announced intention to restate certain of its financial statements.

On December 12, 2005, the Judicial Panel on Multidistrict Litigation entered an order transferring each of the related federal actions to the United States District Court for the Eastern District of Michigan for coordinated or consolidated pretrial proceedings (the Multidistrict Litigation).

The lawsuits transferred fall into three categories. One group of putative class action lawsuits, which are purportedly brought on behalf of participants in certain of the Company's and its subsidiaries' defined contribution employee benefit pension plans that invested in Delphi common stock, is brought under the

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Employee Retirement Income Security Act of 1974, as amended (the ERISA Actions). Plaintiffs in the ERISA Actions allege, among other things, that the plans suffered losses as a result of alleged breaches of fiduciary duties under ERISA. On October 21, 2005, the ERISA Actions were consolidated before one judge in the United States District Court for the Eastern District of Michigan. The ERISA Actions were subsequently transferred to the Multidistrict Litigation. On March 3, 2006, plaintiffs filed a consolidated class action complaint (the Amended ERISA Action) with a putative class period of May 28, 1999 to November 1, 2005. The Company, which was previously named as a defendant in the ERISA Actions, was not named as a defendant in the Amended ERISA Action. The plaintiffs are not currently asserting claims against or seeking relief from the Company in the Amended ERISA Action due to the Company's bankruptcy filing, but have stated that they plan to proceed with claims against the Company in the ongoing bankruptcy cases, and will seek to name the Company as a defendant in the Amended ERISA Action if the bankruptcy stay is modified or lifted to permit such action. The defendants have filed a motion to dismiss the Amended ERISA Action.

A second group of putative class action lawsuits variously alleges, among other things, that the Company and certain of its current and former directors and officers and others made materially false and misleading statements in violation of federal securities laws. On September 23, 2005, these securities actions were consolidated before one judge in the United States District Court for the Southern District of New York. On September 30, 2005, the Court-appointed lead plaintiffs filed a consolidated class action complaint (the Amended Securities Action) on behalf of a putative class consisting of all persons and entities who purchased or otherwise acquired publicly-traded securities of the Company, including securities issued by Delphi Trust I and Delphi Trust II, during a putative class period of March 7, 2000 through March 3, 2005. The Amended Securities Action names several new defendants, including Delphi Trust II, certain former directors, and underwriters and other third parties, and includes securities claims regarding additional offerings of Delphi securities. The securities actions consolidated in the Southern District of New York (and a related securities action filed in the United States District Court for the Southern District of Florida concerning Delphi Trust I) were subsequently transferred to the Eastern District of Michigan as part of the Multidistrict Litigation. The action is stayed against the Company pursuant to the Bankruptcy Code, but is continuing against the other defendants.

The third group of lawsuits is comprised of shareholder derivative actions against certain current and former directors and officers of the Company (Shareholder Derivative Actions). In October 2005, following the filing by the Company of its petition for reorganization relief under chapter 11 of the U.S. Bankruptcy Code, three of the four shareholder derivative actions were closed administratively without prejudice. (Two of the three lawsuits that were closed were pending in the Circuit Court of Oakland County, Michigan, and the other was pending in the United States District Court for the Eastern District of Michigan.) The plaintiff in the remaining shareholder derivative action has agreed to adjourn defendants' time to respond without date. The two federal derivative actions were transferred to the Multidistrict Litigation.

In addition, the Company received a demand from a shareholder that the Company consider bringing a derivative action against certain current and former directors and officers. The Shareholder Derivative Actions and the shareholder demand are premised on allegations that certain current and former directors and officers of the Company made materially false and misleading statements in violation of federal securities laws and/or of their fiduciary duties. The Company has appointed a committee of the Board of Directors to consider the shareholder demand. That committee of the Board of Directors is still investigating the matter.

Due to the preliminary nature of these lawsuits, the Company is not able to predict with certainty the outcome of this litigation or the Company's potential exposure related thereto. In addition, because any recovery on allowed prepetition claims is subject to a confirmed plan of reorganization, the ultimate distribution with respect to allowed claims is not presently ascertainable. While Delphi maintains directors and officers insurance subject to a \$10 million deductible, and has recorded a reserve in the amount of the deductible, the Company cannot assure the extent of coverage or that the impact of any loss not covered by insurance or applicable reserves would not be material.

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Under section 362 of the U.S. Bankruptcy Code, the filing of a bankruptcy petition automatically stays most actions against a debtor, including most actions to collect prepetition indebtedness or to exercise control over the property of the debtor's estate. Absent an order of the Court, substantially all prepetition liabilities of the debtor are subject to settlement under a plan of reorganization.

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 face an increased risk of product liability suits.

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. Historically, 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. For the past several years, VMs, including GM, have been requiring their outside suppliers to bear a greater portion of these costs and have been increasingly vigorous in pursuing warranty claims. Depending on the terms under which Delphi supplies products to a VM, a VM might seek to hold Delphi responsible for some or the entire repair or replacement costs of such products under new vehicle warranties, when the product supplied did not perform as represented. On May 3, 2006, GM notified us and our unsecured creditors committee that it was seeking to exercise set-off rights in the amount of approximately \$67 million, alleging that catalytic converters supplied by Delphi to GM for certain 2001 and 2002 vehicle platforms did not conform to specifications. Delphi believes that GM's claims are without merit and therefore disputes GM's right to set-off amounts against future payments. If the parties cannot resolve the dispute, it will be submitted to mediation and, if not resolved, to binding arbitration, in accordance with the Court's final order approving the Company's DIP credit facility. For more information on product warranty accruals and usage refer to Note 11, Accrued Liabilities of the consolidated financial statements in this Annual Report.

Although the Company 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

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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 secure, enforce and defend the Company's intellectual property and faces 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, on September 7, 2004, we received the arbitrator's binding decision resolving a dispute between Delphi and Litex over alleged infringement of certain patents regarding methods to reduce engine exhaust emissions. As previously disclosed, the results of the arbitration did not have a material impact on Delphi's financial condition, operations or business prospects. However, in March 2005, we received correspondence from counsel representing Litex that Litex intended to file various tort claims against Delphi in California state court. On March 4, 2005, Delphi filed a complaint in the United States Federal Court for the District of Massachusetts seeking declaratory relief to enforce the parties' settlement agreement in the original case, prohibiting Litex from bringing such claims. On April 18, 2005, Litex countersued asserting various tort claims against Delphi and requesting that the court void aspects of the parties' agreement in the original case. On October 17, 2005, the court entered judgment in Delphi's favor and dismissed all of Litex's claims with prejudice. Litex had until December 16, 2005 to file a notice of appeal, but has taken the position that the automatic stay in place in Delphi's chapter 11 cases prevented Litex from doing so. It is Delphi's position that Litex has waived its right to appeal.

Additionally, for the past several years Delphi has been involved in patent licensing negotiations with Denso Corporation (Denso) relating to engine control technology. This matter, including the lawsuit that had been filed by Denso, has now been resolved through entry of a patent cross license agreement. Patent license negotiations are ongoing with Denso in connection with variable valve timing technology and it is expected that these negotiations will be concluded on commercially reasonable terms and in accordance with ordinary industry practices.

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.

Under section 362 of the Bankruptcy Code, the filing of a bankruptcy petition automatically stays most actions against a debtor, including most actions to collect prepetition indebtedness or to exercise control over the property of the debtor's estate. Absent an order of the Court, substantially all prepetition liabilities are subject to settlement under a plan of reorganization.

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.

Table of Contents**SUPPLEMENTARY ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT****Executive Officers**

The name, age, position and a description of the business experience of each of the executive officers of Delphi as of January 1, 2006 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
Robert S. Miller	64	Chairman of the Board & Chief Executive Officer
Rodney O Neal	52	Director, President & Chief Operating Officer
David B. Wohleen	55	Vice Chairman
Robert J. Dellinger	45	Executive Vice President & Chief Financial Officer
Mark R. Weber	57	Executive Vice President, Operations, Human Resource Management & Corporate Affairs
John D. Sheehan	45	Vice President and Chief Restructuring Officer, Chief Accounting Officer and Controller
David M. Sherbin	46	Vice President & General Counsel

Mr. Miller was named chairman and chief executive officer of Delphi Corporation effective July 1, 2005. Prior to joining Delphi, Mr. Miller served as a director of Federal-Mogul Corporation, a global automotive component supplier, since 1993, including as a non-executive chairman from January 11, 2001 to October 1, 2001, and from January 2004 until June 2005, and three times in a transitional role as chief executive officer of Federal-Mogul; in 1996, again in 2000 and again from July 2004 until February 2005. From September 2001 until December 2003, Mr. Miller was the chairman and chief executive officer of Bethlehem Steel Corporation, a steel manufacturing company. He currently serves on the board of directors of United Airlines and Symantec Corporation.

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 was 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. As previously announced, effective June 1, 2006, Mr. Wohleen retired from Delphi and his responsibilities were transitioned to Delphi's other officers.

Mr. Dellinger was named executive vice president and chief financial officer of Delphi Corporation effective October 8, 2005. From June 2002 to September 2005, Mr. Dellinger served as executive vice president and chief financial officer of Sprint Corporation, where he also was executive vice president of finance from April 2002 to June 2002. Before joining Sprint, Mr. Dellinger served as president and chief

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executive officer of GE Frankona Re based in Munich, Germany with responsibility for the European operations of General Electric's Employers Reinsurance Corporation, a global reinsurer, from 2000 to 2002. From 2001 to 2002, he also served as president and chief executive officer of General Electric's Employers Reinsurance Corporation's Property and Casualty Reinsurance business in Europe and Asia. From 1997 to 2000, he served as executive vice president and chief financial officer of General Electric's Employers Reinsurance Corporation. Other positions Mr. Dellinger held at General Electric include manager of finance for GE Motors and Industrial Systems and director of finance and business development for GE Plastics Pacific based in Singapore. Mr. Dellinger is a member of the board of directors of SIRVA, INC.

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

Mr. Sheehan was named vice president and chief restructuring officer for Delphi Corporation effective October 8, 2005. Prior to this position, he served as acting chief financial officer since March 2005. Mr. Sheehan also retained his responsibilities as chief accounting officer and controller. 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 U.S., England, and Germany.

Mr. Sherbin was named vice president and general counsel for Delphi Corporation effective October 1, 2005. He also serves as the Company's chief compliance officer. Prior to his positions at Delphi, Mr. Sherbin was vice president, general counsel and secretary for Pulte Homes, Inc. since January 2005. Prior to joining Pulte Homes, Inc., since 1997 he was an attorney at Federal-Mogul Corporation, including its senior vice president, general counsel and secretary since 2003. Mr. Sherbin presently serves on the Board of Directors of the Michigan Center for Civic Education.

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 in this Annual Report.

Table of Contents**PART II****ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS
5. AND ISSUER PURCHASES OF EQUITY SECURITIES**

On October 11, 2005, the New York Stock Exchange (NYSE) announced suspension of trading of Delphi's common stock (DPH), 6¹/₂% Notes due May 1, 2009 (DPH 09), and its 7¹/₈ % debentures due May 1, 2029 (DPH 29), as well as the 8.25% Cumulative Trust Preferred Securities of Delphi Trust I (DPH PR A). This action followed the NYSE's announcement on October 10, 2005, that it was reviewing Delphi's continued listing status in light of Delphi's announcements involving the filing of voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code. The NYSE subsequently determined to suspend trading based on the trading price for the common stock, which closed at \$0.33 on October 10, 2005, and completed delisting procedures on November 11, 2005.

Delphi's common stock (OTC: DPHIQ) and preferred shares (OTC: DPHAQ) are being traded as of the date of filing this Annual Report on Form 10-K with the SEC on the Pink Sheets LLC (the Pink Sheets), a quotation service for over the counter (OTC) securities, and are no longer subject to the regulations and controls imposed by the NYSE. Pink Sheets is a centralized quotation service that collects and publishes market maker quotes for OTC securities in real-time. Delphi's listing status on the Pink Sheets is dependent on market makers' willingness to provide the service of accepting trades to buyers and sellers of the stock. Unlike securities traded on a stock exchange, such as the NYSE, issuers of securities traded on the Pink Sheets do not have to meet any specific quantitative and qualitative listing and maintenance standards. As of the date of filing this Annual Report on Form 10-K with the SEC, Delphi's 6¹/₂% Notes due May 1, 2009 (DPHIQ.GB) and 7¹/₈ % debentures due May 1, 2029 (DPHIQ.GC) are also trading OTC via the Trade Reporting and Compliance Engine (TRACE), a NASD-developed reporting vehicle for OTC secondary market transactions in eligible fixed income securities that provides debt transaction prices.

The Transfer Agent and Registrar for our common stock is The Bank of New York. On December 31, 2005 and May 31, 2006, there were 295,156 and 288,150 holders of record, respectively, of our common stock.

The Delphi Board of Directors declared dividends on Delphi common stock of \$0.03 per share on March 23, 2005 and \$0.015 per share on June 22, 2005, which was paid on May 2, 2005 and August 2, 2005, respectively. On September 8, 2005, the Board of Directors announced the elimination of Delphi's quarterly dividend on Delphi common stock for the remainder of 2005. In addition, the DIP credit facility includes negative covenants that prohibit the payment of dividends by the Company. The Company does not expect to pay dividends in the near future. In 2004, we declared dividends 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.

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 periods through October 10, 2005 and OTC thereafter. Refer to Note 18, Stock Incentive Plans of the consolidated financial statements in this Annual Report for additional information regarding equity compensation plans.

Year Ended December 31, 2005	Price Range of Common Stock	
	High	Low
4th Quarter	\$ 2.99(a)	\$ 0.23(a)
3rd Quarter	\$ 6.68	\$ 2.42
2nd Quarter	\$ 5.40	\$ 3.20
1st Quarter	\$ 9.07	\$ 4.15

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

(a) As of October 11, 2005, Delphi common stock began trading OTC.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

No shares were purchased by the Company or on its behalf by any affiliated purchaser in the fourth quarter of 2005. As part of Delphi's stock repurchase program in February 2005, 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 2006 to fund obligations for our stock options and other awards issued under our equity based compensation plan. The Company did not repurchase any equity securities in 2005 or in the first quarter of 2006 pursuant to this plan.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data reflects the results of operations and balance sheet data for the years ended 2001 to 2005. The data below should be read in conjunction with, and is qualified by reference to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this Annual Report. The financial information presented may not be indicative of our future performance.

On October 8, 2005 and October 14, 2005, the Debtors filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code. The Debtors will continue to operate their businesses as debtors-in-possession under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Court. Delphi's non-U.S. subsidiaries were not included in the filings and will continue their business operations without supervision from the U.S. courts and will not be subject to the requirements of the Bankruptcy Code. For additional information on the bankruptcy cases, refer to Note 3, Chapter 11 Bankruptcy and Going Concern, of the consolidated financial statements in this Annual Report.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(in millions, except per share amounts)				
Statement of Operations Data:					
Net sales	\$ 26,947	\$ 28,622	\$ 28,077	\$ 27,641	\$ 26,302
Net (loss) income(1)(2)(3)	\$ (2,357)	\$ (4,818)(6)	\$ (10)	\$ 318	\$ (428)
Basic & Diluted (loss) earnings per share	\$ (4.21)	\$ (8.59)(6)	\$ (0.02)	\$ 0.57	\$ (0.76)
Cash dividends declared per share	\$ 0.045	\$ 0.280	\$ 0.280	\$ 0.280	\$ 0.280
Ratio of earnings to fixed charges(4)	N/A	N/A	N/A	2.6	N/A
Balance Sheet Data:					
Total assets	\$ 17,023	\$ 16,559(6)	\$ 21,066	\$ 19,692	\$ 18,928
Total debt	\$ 3,390	\$ 2,980	\$ 3,456	\$ 3,215	\$ 3,629
Liabilities subject to compromise(5)	\$ 15,074	\$	\$	\$	\$

Stockholders (deficit) equity	\$ (6,245)	\$ (3,625)(6)	\$ 1,446	\$ 1,232	\$ 2,267
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- (1) Includes pre-tax impairment charges related to long-lived assets held for use of \$233 million, \$326 million, \$58 million, and \$128 million in 2005, 2004, 2003, and 2001, respectively. Includes pre-tax impairment charges related intangible assets of \$6 million in 2005. Includes pre-tax impairment charges related to goodwill of \$390 million and \$46 million in 2005 and 2004, respectively.

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- (2) Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets and no longer amortize purchased goodwill.
- (3) 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 8, Income Taxes, to our consolidated financial statements included elsewhere in this report on Form 10-K.
- (4) Fixed charges exceeded earnings by \$2,421 million, \$719 million, \$137 million and \$663 million for the years ended December 31, 2005, 2004, 2003 and 2001, respectively resulting in a ratio of less than one.
- (5) As a result of the Chapter 11 Filings, the payment of prepetition indebtedness is subject to compromise or other treatment under a plan of reorganization. In accordance with Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7) we are required to segregate and disclose all prepetition liabilities that are subject to compromise. For additional information regarding Liabilities Subject to Compromise, refer to Note 12, Liabilities Subject to Compromise, of the consolidated financial statements in this Annual Report.
- (6) Includes the impact of adjustments to previously reported income tax expense as described in Note 2, Restatement, of the consolidated financial statements in this Annual Report which increased net loss by \$65 million.

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

Executive Summary

We are a global supplier of vehicle electronics, transportation components, integrated systems and modules and other electronic technology. In addition, our technologies are present 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. Our efforts to generate new business do not immediately affect our financial results, because 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 2006 will generally not impact our financial results until 2008 or beyond.

In light of continued deterioration in performance, Delphi determined that it was necessary to address and resolve its U.S. legacy liabilities, product portfolio, operational issues and forward looking revenue requirements. As a result, we intensified our efforts during 2005 to engage our unions, as well as GM, in discussions seeking consensual modifications that would permit us to align our U.S. operations to our strategic portfolio and be competitive with our U.S. peers, and to obtain financial support from GM to implement our restructuring plan. Despite significant efforts to reach a resolution, we determined that these discussions were not likely to lead to the implementation of a plan sufficient to address our issues on a timely basis and that Delphi needed to pursue other alternatives to preserve value for its stakeholders.

Accordingly, in order to transform and preserve the value of the Company, which requires resolution of existing legacy issues and the resulting high cost of U.S. operations, on October 8, 2005, Delphi and certain of its U.S. subsidiaries filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code, in the Court, and on October 14, 2005, three additional U.S. subsidiaries of Delphi filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code. The Court is jointly administering these cases as *In re Delphi Corporation, et al.*, Case No. 05-44481 (RDD). We will continue to operate our business as debtors-in-possession under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Court. Delphi's non-U.S. subsidiaries were not included in the filings, will continue their business operations without supervision from the U.S. courts and will not be subject to the requirements of the Bankruptcy Code.

On March 31, 2006, the Debtors announced their transformation plan centered around five key elements:

Obtain, through negotiations with its U.S. labor unions and GM, modifications to its collective bargaining agreements to transform to a competitive U.S. labor cost structure;

Conclude negotiations with GM to finalize its financial support for the legacy and labor costs we currently carry and to ascertain its business commitment to Delphi going forward;

Streamline our product portfolio and focus on those core technologies for which we believe we have significant competitive and technological advantages and make the necessary manufacturing alignment;

Transform our salaried workforce to ensure that our organizational and cost structure is competitive and aligned with our product portfolio and manufacturing footprint; and

Devise a workable solution to our current pension situation, whether by stretching out pension payments or otherwise.

On the same date, Delphi initiated a dual track process to obtain authority to reject its collective bargaining agreements and certain unprofitable contracts with GM, while at the same time continuing discussions with its labor unions and GM. Specifically, on March 31, 2006, the Debtors filed a motion with the Court under sections 1113 and 1114 of the Bankruptcy Code seeking authority to reject U.S. labor agreements with the Debtors' unions and to modify retiree benefits. A hearing on the section 1113

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and 1114 motion was held throughout May 2006, continued into June, and has been adjourned until August 11, 2006. The bankruptcy court judge hearing the motion has urged Delphi and its unions to continue to seek a negotiated solution with each other during the pendency of the hearing and the motion.

Prior to filing the motion to reject the Debtors' U.S. labor agreements, Delphi, GM and the UAW entered into an agreement relating to the Special Attrition Program, pursuant to which certain eligible Delphi U.S. hourly employees represented by the UAW were offered normal and early voluntary retirements with a lump sum incentive payments. The program also provided additional retirement opportunities, including transfer to and retirement from GM. GM has agreed to provide substantial financial support under the agreement.

Delphi, GM, and the UAW subsequently agreed on a supplemental agreement that will expand the Special Attrition Program to include a pre-retirement program for employees with 26 years of credited service and provide buyouts for UAW-represented hourly employees. On May 18, 2006, Wilmington Trust Company, as indenture trustee to the Debtors' senior notes and debentures, filed a notice of appeal from the order approving the Special Attrition Program. Additionally, on May 31, 2006, Appaloosa Management L.P., Wexford Capital LLC and Lampe Conway and Company LLC filed a notice of appeal from the same order, but the Debtors believe such notice was not timely filed. The new options added to the Special Attrition Program are enabled by the financial support from GM. On June 16, 2006, Delphi reached agreement on the terms of the IUE-CWA Special Attrition Program, which is a program for Delphi employees represented by the IUE-CWA comparable to the Special Attrition Program for Delphi employees represented by the UAW. The supplemental agreement to expand the Special Attrition Program and the IUE-CWA Special Attrition Program were approved by the Court on June 29, 2006. Delphi continues framework discussion with other unions to offer, with GM support, similar attrition programs for their members. For further information refer to Item 1. Business Legacy Liabilities, Key Stakeholders in this Annual Report.

On March 31, 2006, the Debtors announced their transformation plan. On the same date, Delphi initiated a dual track process to reject its collective bargaining agreements and certain unprofitable contracts with GM, while at the same time continuing discussions with its labor unions and GM. On the same date, the Debtors filed a motion with the Court seeking authority to reject certain customer contracts with GM. The initial GM contract rejection motion covers approximately half of the North American annual purchase volume revenue from GM. The initial GM contract rejection motion is not scheduled to be heard by the Court until at least August 15, 2006. On March 31, 2006, the Company also delivered a letter to GM initiating a process to reset the terms and conditions of more than 400 commercial agreements that expired between October 1, 2005 and March 31, 2006. To date, the Company has not unilaterally revised the terms and conditions on which it has been providing interim supply of parts to GM in connection with the expired contracts or filed additional contract rejection motions. The Company also filed a motion to reject certain collective bargaining agreements and to modify certain retiree benefits. A hearing on the motion was held throughout May 2006, continued into June, and has been adjourned until August 11, 2006.

As part of the transformation plan, Delphi identified non-core product lines that do not fit into Delphi's future strategic framework and which it is seeking to sell or wind-down these product lines. Any sale or wind-down process is being conducted in consultation with the Company's customers, unions and other stakeholders to carefully manage the transition of affected product lines. The disposition of any U.S. operations is also being accomplished in accordance with the requirements of the Bankruptcy Code and labor contracts. The Company also has begun consultations with the works councils in accordance with applicable laws regarding any sale or wind-down of its operations in Europe. Non-core product lines include brake and chassis systems, catalysts, cockpits and instrument panels, door modules and latches, ride dynamics, steering and wheel bearings. The Company continually evaluates its product portfolio and could retain these or exit certain other businesses depending on market forces or cost structure changes. The Company intends to sell or wind-down non-core product lines and manufacturing sites by January 1, 2008. Delphi has also begun discussions with certain governmental agencies whose policies could help

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improve the competitiveness of plants and product lines regardless of whether they are being retained or offered for sale.

In addition to addressing our legacy liabilities and improving the competitiveness of our U.S. operations through negotiation with our unions and GM and by rationalizing our portfolio, we have identified other necessary elements of a comprehensive transformation plan, including reducing our selling, general and administrative costs, realigning our salaried benefit programs to bring them in line with more cost-competitive companies and obtaining relief to amortize funding obligations to our defined benefit U.S. pension plans over a longer period of time than would otherwise be available once we emerge from chapter 11. We have identified cost saving opportunities with the planned portfolio and product rationalizations and plan to reduce our global salaried workforce by as many as 8,500 employees using existing salaried separation pay programs. In addition, in order to retain our existing U.S. defined benefit U.S. pension plans for both hourly and salaried workers, we intend to freeze those plans and going forward adopt or modify defined contribution plans that will include flexibility for both direct Company contributions and Company matching employee contributions. At the same time, salaried health care plans will be restructured to implement increased employee cost sharing.

Achievement of our transformation objectives in most instances requires the support of our key stakeholders, including GM, our labor unions and our creditors and the approval of the Court. Upon the conclusion of this process, we expect to emerge from chapter 11 as a stronger; more financially sound business with viable U.S. operations that are well-positioned to advance global enterprise objectives. However, there are a number of risks and uncertainties inherent in the chapter 11 process, including those detailed in Item 1A. Risk Factors. In addition, we cannot assure that potential adverse publicity associated with the Chapter 11 Filings and the resulting uncertainty regarding Delphi's future prospects will not materially hinder Delphi's ongoing business activities and its ability to operate, fund and execute its business plan by impairing relations with existing and potential customers; negatively impacting the ability of Delphi to attract, retain and compensate key executives and associates and to retain employees generally; limiting Delphi's ability to obtain trade credit; and impairing present and future relationships with vendors and service providers. Although we expect to file a reorganization plan that provides for emergence from chapter 11 in early to mid-2007, there can be no assurance that a reorganization plan will be proposed by the Company in that timeframe, or confirmed by the Court, or that any such plan will be consummated.

Overview of Performance During 2005

Delphi reported an operating loss of \$482 million for the year ended December 31, 2004. Included in the operating loss were charges totaling \$687 million pre-tax, primarily related to the recoverability of certain of Delphi's U.S. legacy plant and employee cost structure. Delphi's financial condition deteriorated further for the year ended December 31, 2005, incurring an operating loss of \$2.2 billion. Included in the operating loss were charges of \$886 million including \$103 million related to the contractual payments of other than temporarily idled employees, \$233 million asset impairment charges related to the valuation of long-lived assets held for use, \$390 million related to goodwill impairments, \$6 million related to impairments of intangible assets, and \$154 million of costs associated with employee attrition programs. Delphi believes that several significant issues have largely contributed to the deterioration of Delphi's financial performance: (a) a competitive U.S. vehicle production environment for domestic original equipment manufacturers resulting in the reduced number of motor vehicles that GM, our largest customer, produces annually in the U.S. and related pricing pressures; (b) increasing commodity prices; (c) U.S. labor legacy liabilities and noncompetitive wage and benefit levels; and (d) restrictive collectively bargained labor agreement provisions which inhibit Delphi's responsiveness to market conditions, including exiting non-strategic, non-profitable operations.

In light of the current economic climate in the U.S. automotive industry, Delphi is facing considerable challenges due to revenue decreases and related pricing pressures stemming from a substantial reduction in GM's North American vehicle production. Although Delphi has shown growth in its non-GM business, these gains have been overtaken by the decrease of GM sales. GM accounted for 48% of our net sales for the year ended December 31, 2005. Our sales to GM have declined since our Separation from GM; principally

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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 purchased. In 2005, GM North America produced 4.6 million vehicles, excluding CAMI Automotive Inc., New United Motor Manufacturing, Inc. and HUMMER brand vehicle production, a decrease of approximately 8.3% from 2004 production levels. Our GM North America content per vehicle for 2005 was \$2,326, which was lower than \$2,546 in 2004. During 2005, our content per vehicle was reduced due to exiting select businesses and the migration of certain product programs from GM sales to sales to Tier I customers. GM sales for the year ended December 31, 2005 decreased by approximately \$2.6 billion, or approximately a 16.6% year-over-year decline.

As a percent of our net sales, our non-GM sales, including the impact of migration during the period of certain product programs from direct sales to GM to sales to Tier 1 customers, were approximately 52% of net sales for the year ended December 31, 2005. Comparatively, for the year ended December 31, 2004, our non-GM sales were approximately 46% of net sales.

During 2005, we were challenged by commodity cost increases, most notably steel, petroleum-based resin products and copper. We continue to proactively work with our suppliers and customers 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 2005. Steel supply has continued to be constrained and commodity cost pressures continued to intensify as our supply contracts expired during 2005. We incurred approximately \$348 million of higher commodity and troubled supplier costs in 2005 than in 2004, of which approximately \$307 million is due to higher commodity costs and approximately \$41 million is due to higher troubled supplier costs. 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 operations in future periods may be adversely affected. To date, due to existing 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 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 its 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 was generally consistent with that which we have been providing to GM in recent years. In November of 2005 GM agreed to temporarily forego such price reductions and had done so through the first quarter of 2006. In April of 2006 Delphi and GM were unable to agree on the terms by which GM would continue to forego such price reductions. Beginning, April 1, 2006, Delphi's net sales will reflect the previously agreed-to contractual price reductions.

Delphi's ability to effectively respond to these increasing challenges is impaired by its U.S. legacy liabilities and largely fixed labor costs. Specifically, in connection with Delphi's U.S. legacy liabilities and operational restrictions, the majority of Delphi's collective bargaining agreements provide for wages and benefits that are well above market, costly pension plans and retiree health care and other benefits, and burdensome operating restrictions, constraining Delphi's ability to compete effectively with its U.S. peers. In connection with Delphi's spin-off from GM effective January 1, 1999, Delphi was required to assume the terms and conditions of the collective bargaining agreements negotiated by its unions and GM, which resulted in inflexible and uncompetitive costs and liabilities. Consequently, Delphi believes that the average rates at which it currently compensates its hourly workers, including employee and retiree benefits, is nearly three times the average hourly labor rates paid by its U.S. peer companies. Delphi's U.S. hourly pension and OPEB exposed Delphi to approximately \$10.7 billion in unfunded liabilities at December 31, 2005, of which approximately \$2.3 billion was attributable to unfunded pension obligations and \$8.4 billion was attributable to OPEB obligations. Prior to the Chapter 11 Filings, Delphi projected that cash outflows

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for hourly pension contributions and OPEB payments through 2007 would approximate \$1.9 billion. Through the chapter 11 process, Delphi is permitted to defer a significant portion of these contributions until it emerges from chapter 11. As such, the projected future cash outflows for hourly pension contributions and OPEB payments through 2007 may be significantly less than \$1.9 billion. If these obligations are not addressed as part of the chapter 11 process, cash outflows for pension and OPEB would continue to increase as Delphi's U.S. workforce continues to age and the ratio of retirees to active employees increases.

Due to declining business conditions and lower GM North America production volumes, an increasing proportion of Delphi's U.S. hourly workforce is, and is expected to continue to be (absent modification of our collective bargaining agreements), a fixed cost which is independent of volume and revenue. Furthermore, as a result of GM's lower production volumes, the opportunities for our employees to flowback to GM have been limited and may continue to be limited. Under the terms of Delphi's collective bargaining agreements with its U.S. unions, Delphi is generally not permitted to permanently lay off idled workers, and as of December 31, 2005, approximately 2,700, or 8% of our U.S. hourly workforce were idled and were receiving nearly full pay and benefits, although performing no work. Delphi accrues for costs associated with postemployment benefits provided to inactive employees throughout the duration of their employment. We use future production estimates combined with workforce geographic and demographic data to develop projections of time frames and related expense for postemployment benefits. For purposes of accounting for postemployment benefits, inactive employees represent those employees who have been other than temporarily idled. Delphi considers all idled employees in excess of approximately 10% of the total workforce at a facility to be other than temporarily idled.

Coupled with restrictions on Delphi's ability to exit non-strategic, non-profitable operations, the magnitude of the cost of carrying idled, non-productive workers in the event of plant closings or wind-downs effectively prevents Delphi from addressing under-performing product portfolio businesses and non-profitable manufacturing operations. Historically, under the terms of the spin-off from GM, this situation was somewhat mitigated because Delphi's UAW employees are permitted to return to GM's employ, known as flowback, under certain conditions. As a result of GM's lower production volumes, however, the opportunities for Delphi's employees to flowback to GM have been limited and may be further limited in the future, other than regarding the 5,000 flowbacks to GM under the Special Attrition Program. For further information, refer to Item 1. Business Chapter 11, Legacy Liabilities Key Stakeholders in this Annual Report. This situation places financial burdens on Delphi of a scope and magnitude that, unless addressed as part of a comprehensive restructuring through chapter 11, threatens Delphi's long-term viability.

Acquisitions and Divestitures

On June 30, 2005, Delphi reached final agreement to sell its global battery product line, with the exception of two U.S. operations, to Johnson Controls Inc. (JCI), for approximately \$203 million. The transaction, comprised of net assets totaling approximately \$171 million, including approximately \$8 million of cash, closed July 1, 2005. On September 29, 2005, a final purchase price adjustment was agreed to by JCI and Delphi and as a result, JCI paid additional proceeds of approximately \$12 million to Delphi. In connection with the transaction, Delphi entered into a contract manufacturing supply arrangement, becoming a Tier 2 supplier to JCI, and began supplying batteries from its two U.S. plants to JCI for a transition period ending on or before November 30, 2007.

The battery business sale generated approximately \$463 million annually in global consolidated revenues. Delphi recognized a gain on the sale of the business of \$44 million in 2005. In addition, valuation adjustments of \$24 million were recorded, reducing the carrying value of the retained assets of the battery product line. Of the \$24 million, \$4 million was recorded in cost of sales, \$2 million was recorded in selling, general and administrative, and \$18 million was recorded in depreciation, amortization, and asset impairment charges.

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In conjunction with the sale of its battery business, Delphi entered into an agreement with its principal battery customer under which Delphi could receive up to \$30 million over the next three years if certain performance criteria are met. Approximately \$11 million was received in cash in 2005 related to this agreement; approximately \$7 million was recognized as a reduction of cost of sales and the remaining approximately \$4 million was recorded as deferred income.

The 2005 sale agreement with JCI contemplated a future possible transfer of operating assets of one of the two remaining U.S. plants supplying batteries to JCI under a contract manufacturing supply agreement. The receipt of the \$215 million cash purchase price was not contingent upon completion of the future possible transfer. On May 26, 2006, Delphi and JCI executed an agreement providing for the (a) sale to JCI of certain assets of Delphi's battery manufacturing facility in New Brunswick, New Jersey (the New Brunswick Facility) free and clear of liens, claims, and encumbrances in exchange for JCI's payment to Delphi of \$1 plus the value of certain inventory estimated at approximately \$2 million, (b) the continuation and transition of supply of battery products to JCI from Delphi's battery manufacturing facility in Fitzgerald, Georgia pursuant to the manufacturing supply agreement entered into in connection with the initial sale in 2005 and (c) implementation of an attrition plan with respect to the hourly employees of the New Brunswick Facility (collectively, the Transaction). On the same date, Delphi also entered into an agreement with the IUE-CWA and its Local 416 in connection with the attrition plan contemplated by the Transaction. Upon consummation of the Transaction, JCI has agreed to pay Delphi approximately \$13 million to reimburse Delphi for a significant portion of the amounts to be spent under the attrition plan with the IUE-CWA and Local 416 of the IUE-CWA. In addition, pursuant to a separate 2005 prepetition agreement entered into between Delphi and GM, which was executed in connection with the sale of Delphi's global battery business, GM has committed to provide funding in furtherance of this matter. On June 19, 2006 the Court approved the Transaction, which is expected to close in the third quarter of 2006.

Results of Operations

Subsequent to the issuance of Delphi's consolidated financial statements for the years ended December 31, 2004, management determined that its previously issued financial statements for those periods required restatement to correct the accounting for income taxes and to correct the classification of components of stockholders (deficit) equity. Income tax expense and net income for 2004 provided below have been restated from the original reported amounts to reflect the correction. Refer to Note 2, Restatement, of the consolidated financial statements in this Annual Report for further information.

2005 versus 2004

Net Sales. Net sales by product sector and in total for the years ended December 31, 2005 and 2004 were as follows:

Product Sector	Year Ended December 31,	
	2005	2004(a)
	(in millions)	
Dynamics, Propulsion, Thermal & Interior	\$ 12,569	\$ 13,567
Electrical, Electronics & Safety	13,448	13,980
Automotive Holdings Group	2,502	3,023
Other(b)	(1,572)	(1,948)
Net sales	\$ 26,947	\$ 28,622

(a) The 2004 data has been reclassified to conform to the realignment of our business sectors by moving three additional manufacturing operations into the Company's AHG effective January 1, 2005, to accelerate efforts to bring these sites back to profitability or resolve issues at these operations through other actions.

(b) Other includes activity not allocated to the product sectors and eliminations of inter-sector transactions.

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Consolidated net sales for 2005 were \$26.9 billion compared to \$28.6 billion for 2004. Our non-GM sales increased by \$0.9 billion, including approximately \$148 million resulting from favorable currency exchange rates. Excluding the effects of favorable currency exchange rates, our non-GM sales increased approximately \$0.7 billion or 6%. 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; Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Operating Income in this Annual Report. This non-GM sales increase was due to new business from diversifying our global customer base, and to a lesser extent the migration during the period of certain product programs from sales to GM to sales to Tier I customers, partially offset by price decreases. As a percent of our net sales for 2005, our non-GM sales were 52%. However, more than offsetting the gains in non-GM net sales was a \$2.6 billion decrease in GM sales. The GM sales decrease was principally due to volume decreases as a result of lower GM North America production, and to a lesser extent, price decreases and decisions to exit certain businesses. The benefit of \$76 million of favorable currency exchange rates was negligible to the overall decrease in GM sales. Net sales includes \$35 million received from GM to reimburse Delphi for price reductions. Refer to Note 1, Significant Accounting Policies Revenue Recognition of the consolidated financial statements in this Annual Report. Our net sales were also reduced by continued price pressures that resulted in price reductions of approximately \$465 million or 1.6% for 2005, compared to approximately \$560 million or 2.0% for 2004.

Gross Margin. Our gross margin fell to 4.6% for 2005 compared to gross margin of 9.2% for 2004. The 2005 gross margin compared to 2004 declined in part because of lower production volumes and slower U.S. hourly workforce attrition in addition to an increased wage and benefit costs of approximately 1.9% of sales, reductions in selling prices of approximately 1.6% of sales, and commodity cost increases of approximately 1.1% of sales. Gross margin for 2005 was also negatively impacted by \$103 million of accrued charges related to the contractual costs of other than temporarily idled employees and \$346 million of contractual payments related to temporarily idled employees. Gross margin for 2004 was negatively impacted by \$192 million of costs related to employee and product line liabilities. Additionally, gross margin in 2005 and 2004 was negatively impacted by \$154 million and \$86 million, respectively of costs associated with employee attrition programs. The 2004 gross margin was also negatively impacted by \$37 million of product line asset impairment charges. These cost increases were partially offset by a gain on the sale of the global battery product line and savings resulting from our restructuring activities and ongoing cost reduction efforts.

Selling, General and Administrative. Selling, general and administrative (SG&A) expenses were relatively flat at \$1.6 billion, or 6.1% of total net sales for 2005, consistent with \$1.6 billion of SG&A expenses in 2004.

Depreciation, Amortization, and Asset Impairment Charges. Depreciation, amortization and asset impairment charges was \$1.4 billion for 2005, compared to \$1.5 billion for 2004. Asset impairment charges of \$239 million include \$233 million related to long-lived assets held for use and \$6 million related to intangible assets in 2005, compared to \$326 million of asset impairment charges related to long-lived assets held for use in 2004. Excluding impairment charges, the depreciation and amortization expenses were relatively flat year-over-year.

Goodwill Impairment Charges. Goodwill impairment charges were \$390 million for 2005, compared to \$46 million for 2004.

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Operating Results. Our operating loss was \$2.2 billion for 2005 compared to \$482 million in 2004. Operating results by product sector and in total for the years ended December 31, 2005 and 2004 were as follows:

Product Sector	Year Ended December 31,	
	2005	2004
	(in millions)	
Dynamics, Propulsion, Thermal & Interior	\$ (1,282)	\$ (111)
Electrical, Electronics & Safety	371	868
Automotive Holdings Group	(1,198)	(1,137)
Other(a)	(62)	(102)
Total operating (loss) income	\$ (2,171)(b)	\$ (482)(c)

- (a) Other includes activity not allocated to the product sectors including the Company's medical systems operations and eliminations of inter-sector transactions.
- (b) Includes charges recorded in 2005 related to asset impairments, contractual costs of other than temporarily idled employees, and costs associated with employee attrition programs of \$886 million with \$595 million for Dynamics, Propulsion, Thermal & Interior, \$127 million for Electrical, Electronics & Safety, and \$164 million for Automotive Holdings Group.
- (c) Includes charges recorded in 2004 of \$132 million for Dynamics, Propulsion, Thermal & Interior, \$91 million for Electrical, Electronics & Safety, \$457 million for Automotive Holdings Group and \$7 million for Other. The 2005 operating loss includes \$103 million of accrued charges related to the contractual payments of other than temporarily idled employees; \$239 million of asset impairment charges related to long-lived assets held for use and intangible assets; \$390 million of asset impairment charges related to goodwill; and \$154 million of costs associated with employee attrition programs. The 2004 operating loss includes \$111 million of costs related to employee and product line liabilities; \$81 million of postemployment obligations; \$363 million of asset impairment charges; \$46 million of goodwill impairment; and \$86 million of costs associated with employee attrition programs. In addition, our 2005 operating loss compared to our 2004 operating loss was negatively impacted by the following factors: lower production volumes and slower U.S. hourly workforce attrition in addition to increased wage and benefit costs of approximately 1.9% of sales; reductions in selling prices of approximately 1.6% of sales; commodity price increases of approximately 1.1% of sales; and to a lesser extent, non-recurring costs associated with the internal accounting investigation and costs for third party advisors related to the reorganization prior to the Chapter 11 Filings. The 2005 and 2004 operating losses were also negatively impacted by \$346 million and \$260 million, respectively, of contractual payments related to temporarily idled employees. Cost increases in 2005 were partially offset by a gain on the sale of the global battery product line and savings resulting from our restructuring activities and ongoing cost reduction efforts.

Interest Expense. We recorded interest expense for 2005 of \$318 million as compared to interest expense of \$232 million for 2004. The increase in interest expense for 2005 was generally attributable to higher levels of debt as well as an increase in our overall financing costs in the second half of 2005. Approximately \$38 million of contractual interest expense related to outstanding debt, including debt subject to compromise, was not recognized in the income statement in accordance with the provisions of SOP 90-7.

Other Income and Expense. We recorded other income for 2005 of \$50 million as compared to other expense of \$8 million for 2004. Other income in 2005 includes a gain on the sale of our investment in Akebono Brake Industry Company, which was accounted for as an available-for-sale marketable security. This sale resulted in the recognition of a realized gain of \$18 million in other income and the reversal of the investment's unrealized gain from other comprehensive income. In addition, interest income increased in 2005 associated with the additional cash equivalents on hand, particularly in the third quarter.

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Reorganization Items. We recorded reorganization expense for 2005 of \$3 million. On October 8, 2005, the Company and certain of its U.S. subsidiaries filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code. From October 8, 2005 through the end of the year Delphi incurred \$28 million of professional fees directly related to the reorganization. These costs were offset by interest income of \$11 million from accumulated cash from the reorganization, \$8 million of a gain on settlement of prepetition liabilities, and \$6 million of other reorganization income.

Taxes. We recorded income tax benefit for the year ended December 31, 2005 of \$55 million as compared to an income tax expense of \$4.1 billion for the year ended December 31, 2004. During 2004 we recorded a valuation allowance of \$4.7 billion against all of our net U.S. deferred tax assets as of December 31, 2004. See 2004 versus 2003 Taxes for more details on the valuation allowance. In addition, our 2004 income tax expense included \$177 million of benefits recognized upon the completion of income tax audits for prior periods, including periods prior to the Separation (discussed more fully in 2004 versus 2003 Taxes).

Equity Income. We recorded equity income for 2005 of \$71 million as compared to equity income of \$86 million for 2004. The decrease in equity income for 2005 was attributable to a decrease in earnings across the majority of our joint ventures.

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:

Product Sector	Year Ended December 31,	
	2004(a)	2003(a)
	(in millions)	
Dynamics, Propulsion, Thermal & Interior	\$ 13,567	\$ 13,546
Electrical, Electronics & Safety	13,980	13,028
Automotive Holdings Group	3,023	3,520
Other	(1,948)	(2,017)
Net sales	\$ 28,622	\$ 28,077

(a) The 2004 and 2003 data above has been reclassified to conform to the 2005 sector realignment.

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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; Refer to Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations Operating Income in this Annual Report. 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 9.2% for 2004 compared to gross margin of 10.0% for 2003. Excluding the increase of \$16 million between restructuring charges in 2003 and 2004 and employee and product line charges noted below, 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.

In the fourth quarter of 2004, Delphi recorded employee and product line charges primarily related to the recoverability of certain of Delphi's U.S. legacy plant and employee cost structure. Included in the charges are \$130 million in cost of goods sold, including product line asset impairment charges of \$37 million, \$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 \$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 UAW hourly employees were permitted to flowback to GM.

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As required under U.S. GAAP, 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 for employees who are idled prior to separation and \$99 million for employee and product line charges) were recorded during 2004, and \$561 million was recorded in 2003. 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 cash outflows for the first quarter of 2003 were \$24 million, with \$17 million for employee costs and \$7 million for other exit costs.

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 postemployment 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 postemployment 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.

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, Amortization, and Asset Impairment Charges. Depreciation, amortization, and asset impairment charges was \$1.5 billion for 2004, compared to \$1.1 billion for 2003; the increase primarily reflects \$326 million of asset impairment charges, compared to \$58 million of impairment charges related to product line impairments in 2003. Excluding asset impairments, the increase reflects the impact of currency exchange rates as well as the depreciation of assets newly placed in service. 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

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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.

Goodwill Impairment Charges. Goodwill impairment charges were \$46 million for 2004; there were no goodwill impairment charges in 2003.

Operating Results. Our operating loss was \$482 million for 2004 compared to operating income of \$89 million in 2003. Operating results by product sector and in total for the years ended December 31, 2004 and 2003 are included in the table below. The 2003 data has been reclassified to conform to the 2004 sector realignment.

Product Sector	Year Ended December 31,	
	2004	2003
	(in millions)	
Dynamics, Propulsion, Thermal & Interior	\$ (111)	\$ 399
Electrical, Electronics & Safety	868	857
Automotive Holdings Group	(1,137)	(994)
Other	(102)	(173)
Total operating (loss) income	\$ (482)(a)	\$ 89(b)

(a) Includes charges recorded in 2004 of \$687 million with \$132 million for Dynamics, Propulsion, Thermal & Interior, \$91 million for Electrical, Electronics & Safety, \$457 million for Automotive Holdings Group and \$7 million for Other.

(b) Includes charges recorded in 2003 of \$561 million with \$86 million for Dynamics, Propulsion, Thermal & Interior, \$114 million for Electrical, Electronics & Safety, \$319 million for Automotive Holdings Group and \$42 million for Other.

The 2004 operating loss includes charges of \$123 million in cost of sales, \$326 million in depreciation, amortization, and asset impairment charges, \$192 million of employee and product line charges in cost of sales and \$46 million in goodwill impairment charges. The operating income for 2003 includes charges of \$107 million in cost of sales, \$58 million in depreciation, amortization, and asset impairment charges and \$396 million of employee and product line charges in cost of sales. In addition, 2004 operating loss compared to 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.

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 December 31, 2004. 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

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(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 the Separation, 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.

Liquidity and Capital Resources***Overview of Capital Structure***

As more fully described below, as of and since September 30, 2005 (our consolidated leverage ratio testing period), we were not in compliance with certain covenants under our prepetition credit facilities. As previously discussed, on October 8 and 14, 2005, Delphi and certain of its U.S. subsidiaries filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code, which triggered defaults on substantially all other debt obligations of the Debtors. However, under section 362 of the Bankruptcy Code, the filing of a bankruptcy petition automatically stays most actions against a debtor, including most actions to collect prepetition indebtedness or to exercise control over the property of the debtor's estate. Absent an order of the Court, substantially all prepetition liabilities are subject to settlement under a plan of reorganization.

At hearings held in October 2005, the Court approved certain of the Debtors' first day motions, including interim approval to use up to \$950 million of Delphi's \$2 billion senior secured DIP financing, and approval of an adequate protection package for Delphi's outstanding \$2.5 billion prepetition secured indebtedness under the prepetition credit facilities.

On October 14, 2005, Delphi entered into a Revolving Credit, Term Loan and Guaranty Agreement (the "DIP Credit Facility"), as amended by the First Amendment to the DIP Credit Facility, dated October 27, 2005, as further amended and restated by the Amended and Restated Revolving Credit, Term Loan and Guaranty Agreement, dated November 21, 2005 and as further amended by the First Amendment to Amended and Restated Credit Agreement and Amended and Restated Security and Pledge Agreement dated as of February 3, 2006, the Second Amendment to Amended and Restated Credit Agreement dated as of April 13, 2006, the Third Amendment to Amended and Restated Credit Agreement dated May 26, 2006, and the Fourth Amendment to Amended and Restated Credit Agreement dated June 19, 2006 (the "Amended DIP Credit Facility"), to borrow up to \$2.0 billion from a syndicate of lenders arranged by J.P. Morgan Securities Inc. and Citigroup Global Markets, Inc., for which JPMorgan Chase Bank, N.A. is the administrative agent (the "Administrative Agent") and Citicorp USA, Inc., is syndication agent (together with the Administrative Agent, the "Agents"). The Amended DIP Credit Facility consists of a \$1.75 billion revolving facility and a \$250 million term loan facility (collectively, the "Amended DIP Loans"). The Amended DIP Credit Facility carries an interest rate at the option of Delphi of either (i) the Administrative Agent's Alternate Base Rate (as defined in the Amended DIP Credit Facility) plus 1.75% or (ii) 2.75% above the Eurodollar base rate, which is the London Interbank Borrowing Rate ("LIBOR"). The LIBOR interest rate period can be set at a one, three or six-month period as selected by Delphi in accordance with the terms of the Amended DIP Credit

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Facility. Accordingly, the interest rate will fluctuate based on the movement of the Alternate Base Rate or LIBOR through the term of the Amended DIP Loans. The Amended DIP Credit Facility will expire on the earlier of October 8, 2007 or the date of the substantial consummation of a reorganization plan that is confirmed pursuant to an order of the Court. Borrowings under the Amended DIP Credit Facility are prepayable at Delphi's option without premium or penalty.

The Amended DIP Credit Facility provides 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 to the extent that, in its reasonable business judgment, adverse tax consequences would result from the pledge of a greater percentage) and further provides that amounts borrowed under the Amended DIP Credit Facility will be guaranteed by substantially all of Delphi's affiliated Debtors, each as debtor and debtor-in-possession. The amount outstanding at any one time is limited by a borrowing base computation as described in the Amended DIP Credit Facility. The borrowing base computation exceeded the Amended DIP Credit Facility availability at December 31, 2005. Borrowing base standards may be fixed and revised from time to time by the Administrative Agent in its reasonable discretion. The Amended DIP Credit Facility includes affirmative, negative and financial covenants that impose restrictions on Delphi's financial and business operations, including Delphi's ability to, among other things, incur or secure other debt, make investments, sell assets and pay dividends or repurchase stock. Additionally, the Amended DIP Credit Facility includes negative covenants that prohibit the payment of dividends by the Company. So long as the Facility Availability Amount (as defined in the Amended DIP Credit Facility) is equal or greater than \$500 million, compliance with the restrictions on investments, mergers and disposition of assets do not apply (except in respect of investments in, and dispositions to, direct or indirect domestic subsidiaries of Delphi that are not guarantors to the Amended DIP Credit Facility).

The covenants require Delphi to, among other things, (i) maintain a monthly cumulative minimum Global EBITDAR for each period beginning on January 1, 2006 and ending on the last day of each fiscal month through November 30, 2006, as described in the Amended DIP Credit Facility, and (ii) maintain a rolling 12-month cumulative Global EBITDAR for Delphi and its direct and indirect subsidiaries, on a consolidated basis, beginning on December 31, 2006 and ending on October 31, 2007 at the levels set forth in the Amended DIP Credit Facility. The Amended DIP Credit Facility contains certain defaults and events of default customary for debtor-in-possession financings of this type. Upon the occurrence and during the continuance of any default in payment of principal, interest or other amounts due under the Amended DIP Credit Facility, interest on all outstanding amounts is payable on demand at 2% above the then applicable rate.

On October 28, 2005, the Court granted the Debtors' motion for approval of the DIP financing order. The DIP financing order granted final approval of the DIP Credit Facility, as amended at the time, final approval of an adequate protection package for the prepetition credit facilities (as described below) and the Debtors' access to \$2 billion in DIP financing subject to the terms and conditions set forth in the DIP financing documents, as amended. The adequate protection package for the prepetition credit facilities includes, among other things: (i) an agreement by Delphi to pay accrued interest on the loans under the prepetition credit facilities on a monthly basis, (ii) the right of Delphi to pay this interest based on LIBOR, although any lender may require that interest on its loans be based on the alternative base rate if such lender waives all claims for interest at the default rate and any prepayment penalties that may arise under the prepetition credit facilities and (iii) an agreement by Delphi to replace approximately \$90 million of letters of credit outstanding under the prepetition credit facilities with letters of credit to be issued under the Amended DIP Credit Facility. Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources, Prepetition Credit Facilities in this Annual Report for additional information on these prepetition credit facilities. The proceeds of the DIP financing together with cash generated from daily operations and cash on hand will be used to fund post-petition operating expenses, including supplier obligations and employee wages, salaries and benefits.

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On November 21, 2005, the \$250 million term loan was funded and the Company elected to pay interest at LIBOR plus 2.75% for a six month period. As of December 31, 2005, there were no amounts outstanding under the DIP revolving facility. However, the Company had approximately \$7 million in letters of credit outstanding against the DIP revolving facility. The foregoing description of the Amended DIP Credit Facility is a general description only and is qualified in its entirety by reference to the Amended DIP Credit Facility, a copy of which was previously filed with the SEC.

The Chapter 11 Filings also triggered early termination events under both our U.S. and European accounts receivables securitization programs. The U.S. securitization program was terminated as a result of the initial chapter 11 filing on October 8, 2005. No amounts were outstanding under the U.S. securitization program when it was terminated. On October 28, 2005, Delphi and the institutions sponsoring the European program entered into a preliminary agreement which was then finalized on November 18, 2005 permitting continued use of the European program despite the occurrence of early termination events but with revised financial covenants and pricing. The early termination events included Delphi's failure to satisfy the consolidated leverage ratio at September 30, 2005 and defaults related to its voluntary filing for reorganization relief under chapter 11 of the Bankruptcy Code. The program has an availability of 145 million (\$171 million at December 31, 2005 currency exchange rates) and £10 million (\$17 million at December 31, 2005 currency exchange rates) until expiration on March 31, 2006. On February 20, 2006, the European program was amended, extending the expiration date to December 31, 2006 with substantially the same terms and conditions. As of December 31, 2005, outstanding borrowings under this program were approximately \$149 million.

Additionally, although neither Delphi Trust I nor Delphi Trust II (collectively, the Trusts, and each a wholly-owned subsidiary of Delphi who has issued trust preferred securities and whose sole assets consist of junior subordinated notes issued by Delphi), sought relief under chapter 11 of the United States Bankruptcy Code, the Trusts may be dissolved in accordance with the provisions of their respective trust declarations, which in each case provide that Delphi's filing of chapter 11 constitutes an early termination event. The property trustee of each trust is in the process of liquidating each Trust's assets in accordance with the terms of the applicable trust declarations and it is expected that the holders of the trust preferred securities will receive in exchange for their securities a pro rata share of the Trusts' respective junior subordinated notes issued by Delphi.

As of December 31, 2005, substantially all of our unsecured prepetition long-term debt was in default and is subject to compromise. Of our \$5.9 billion of outstanding debt at December 31, 2005, \$2.5 billion was included in liabilities subject to compromise, including approximately \$2.0 billion of senior unsecured debt with maturities ranging from 2006 to 2029, approximately \$0.4 billion of junior subordinated notes due to Delphi Trust I and II due 2033, and \$0.1 billion of other debt. As of December 31, 2005, we had approximately \$3.1 billion of short-term and other debt not subject to compromise, including \$1.5 billion drawn down from our Revolving Credit Facility, \$1.0 billion of term loan secured debt due 2011, \$0.4 billion related to accounts receivable factoring and \$0.1 billion related to European securitization, and \$0.3 billion of long-term debt not subject to compromise, primarily the DIP term loan.

Our cash flows from operations during a 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 have varying needs for short-term working capital financing as a result of the nature of our business. We financed our working capital through a mix of committed facilities, including revolving credit facilities and receivables securitization programs, and uncommitted facilities, including bank lines and factoring lines.

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Historically, we have used the cash we generate from operating activities before considering amounts contributed to pensions, to strengthen our balance sheet by reducing legacy liabilities such as pensions, restructuring our operations, generating growth and paying dividends. Our net cash provided by operating activities was \$154 million for the year ended December 31, 2005 as compared to \$1.5 billion for the year ended December 31, 2004. Absent a comprehensive restructuring to address our existing U.S. legacy liabilities and our resulting high cost structure in the U.S. in a manner which allows us to flex our manufacturing operations and to scale our workforce to current economic conditions, we expect that our operating activities will use, not generate, cash. Prior to the Chapter 11 Filings we faced ERISA pension funding minimums of \$1.2 billion in 2006. Based upon current overall macroeconomic conditions, we also likely faced additional ERISA minimums in 2007. Accordingly, as part of the chapter 11 process we are seeking to not only transform our operations but also to emerge with a sustainable capital structure for our transformed business.

Prepetition Indebtedness

The following should be read in conjunction with Note 13, Debt of the consolidated financial statements in this Annual Report.

Bonds and Trust Preferred Securities. Delphi had approximately \$2.0 billion of unsecured debt at December 31, 2005. Pursuant to the requirements of SOP 90-7, as of the Chapter 11 Filings, deferred financing fees related to prepetition debt are no longer being amortized and have been included as an adjustment to the net carrying value of the related prepetition debt at December 31, 2005. The net carrying value of our unsecured debt includes \$500 million of securities bearing interest at 6.55% that matured on June 15, 2006, \$498 million of securities bearing interest at 6.50% and maturing on May 1, 2009, \$493 million of securities bearing interest at 6.50% and maturing on August 15, 2013 and \$493 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% 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 were listed on the New York Stock Exchange under the symbol DPHprA and are now trading on the Pink Sheets, a quotation source for over-the-counter securities. (Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Credit Ratings, Stock Listing in this Annual Report). 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 8¹/₄% 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.

Our filing for chapter 11 was an event of default under each Trust's respective trust declarations, and as described in the Overview of Capital Structure above, was an early termination event. The property trustee of each Trust is in the process of liquidating each Trust's assets and it is expected that the holders of the trust preferred securities will receive in exchange for their securities a pro rata share of the Trusts' respective junior subordinated notes issued by Delphi.

Prepetition 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, 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 and a 364-day revolving credit line in the amount of \$1.5 billion.

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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*). The *Revolving Credit Facility* will expire June 18, 2009 and the *Term Loan* will expire June 14, 2011. Upon the effectiveness of the new *Facilities*, Delphi terminated its 364-day revolving credit facility in the amount of \$1.5 billion.

As a result of the foregoing refinancing, Delphi replaced its previous \$3.0 billion revolving credit facilities 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 revolving credit facility, nor had these revolving credit facilities been previously borrowed upon. On August 3, 2005, we drew down \$1.5 billion from our *Revolving Credit Facility*. As of December 31, 2005, \$1.6 billion was utilized under the *Revolving Credit Facility*, including approximately \$80 million in letters of credit outstanding against the *Facilities*.

The *Term Loan* had a 1% per annum amortization for the first 5 years and 9 months. Therefore, in the third quarter of 2005, we made the first installment payment on the *Term Loan*. In addition, we made mandatory payments applying the sale proceeds of certain asset sales. As of December 31, 2005, approximately \$1.0 billion was outstanding under the *Term Loan*.

The amended *Facilities* contains financial covenants based on consolidated leverage ratios (the *Leverage Ratio Covenant*), which are tested at each quarter-end. We were not in compliance with the *Leverage Ratio Covenant* as of and since September 30, 2005. However, under section 362 of the Bankruptcy Code, the filing of a bankruptcy petition automatically stays most actions against a debtor, including most actions to collect prepetition indebtedness or to exercise control over the property of the debtor's estate. Absent an order of the Court, substantially all prepetition liabilities are subject to settlement under a plan of reorganization.

The amended *Facilities* also contain provisions providing for an event of default in the event that we default on payments due for indebtedness, the outstanding principal amount of which exceeds \$50 million. Our filing for chapter 11 was an event of default. At hearings held in October 2005, the Court approved certain of the Debtors' first day motions, including approval of an adequate protection package for Delphi's outstanding \$2.5 billion prepetition secured indebtedness under the prepetition credit facilities. The adequate protection package includes, among other things: (i) an agreement by Delphi to pay accrued interest on the loans under the prepetition *Facilities* on a monthly basis, (ii) the right of Delphi to pay this interest at a rate equal to LIBOR plus 6.50% per annum on the *Term Loan* and 5.00% on the *Revolving Credit Facility*, although any lender may require that interest on its loans be based at a rate equal to the alternative base rate plus 5.50% per annum on the *Term Loan* and 4.00% on the *Revolving Credit Facility* if such lender waives all claims for interest at the default rate and any prepayment penalties that may arise under the prepetition *Facilities* and (iii) an agreement by Delphi to replace approximately \$90 million of letters of credit outstanding under the prepetition *Facilities* with letters of credit to be issued under the *DIP Credit Facility*.

Other Financing

We also maintain various accounts receivable factoring facilities in Europe that are accounted for as short-term debt. These uncommitted factoring facilities are available through various financial institutions. As of December 31, 2005, we had \$365 million outstanding under these accounts receivable factoring facilities.

Prior to the end of 2005, certain subsidiaries sold receivables on a non-recourse basis in the normal course of their operations. As of December 31, 2004, certain European subsidiaries sold accounts receivable totaling \$354 million. Prior to the end of 2005, changes in the level of receivables sold from year to year are included in the change in accounts receivable within cash flow from operations. As of December 31, 2005, we no longer maintain factoring programs that are recorded as a sale of receivables.

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In 2005, we exercised our options to purchase certain of the Company's leased property. As a result, in the second quarter of 2005 we completed the purchase of our Troy, Michigan headquarters property and two manufacturing facilities in Alabama for approximately \$103 million, including approximately \$2 million of fees and other costs. Additionally, in the third quarter of 2005 we completed the purchase of a facility in Vienna, Ohio for approximately \$28 million. As of December 31, 2005, these properties were included in our net property balance on the consolidated balance sheet. Prior to the purchase, these leases were accounted for as operating leases.

As of December 31, 2005, we had \$136 million of other debt, primarily consisting of overseas bank facilities, and \$78 million of other debt classified as Liabilities Subject to Compromise.

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	2006	2007 & 2008	2009 & 2010	Thereafter
(in millions)					
Debt and capital lease obligations	\$ 3,390	\$ 3,117	\$ 256	\$ 6	\$ 11
Operating lease obligations	456	122	173	89	72
Contractual commitments for capital expenditures	353	349	3	1	
Other contractual purchase commitments, including information technology	1,277	361	496	243	177
Total(1)	\$ 5,476	\$ 3,949	\$ 928	\$ 339	\$ 260

- (1) The amounts above exclude (a) our minimum funding requirements as set forth by ERISA, which are \$2.4 billion over the next two years. Our minimum funding requirements after 2005 are dependent on several factors. We also have payments due under our other OPEB plans. These plans are not required to be funded in advance, but are pay as you go. For further information refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, U.S. Pension Plans and Other Postretirement Benefits in this Annual Report and (b) estimated interest costs of \$365 million, \$23 million, \$1 million, \$1 million and \$1 million, respectively, for 2006, 2007, 2008, 2009, and 2010. There are no material estimated interest costs after 2010. Estimated interest costs include interest related to Delphi's prepetition term loan and revolving credit facilities after December 31, 2006, which are currently in default and have been included in the current portion of long-term debt. Delphi expects to refinance these arrangements in conjunction with our reorganization process. Consistent with accounting classification of the Company's prepetition term loan and revolving credit facilities as the current portion of long-term debt, the estimated interest costs includes payment of interest on these two facilities only through the end of 2006.

The Chapter 11 Filings triggered defaults on substantially all debt obligations of the Debtors. However, the stay of proceedings provisions of section 362 of the Bankruptcy Code apply to actions to collect prepetition indebtedness or to exercise control over the property of the debtor's estate in respect of such defaults. Absent an order of the Court, substantially all prepetition liabilities are subject to settlement under a plan of reorganization. Therefore, all liabilities, including debt, classified as subject to compromise have been excluded from the above table. Refer to Note 12,

Liabilities Subject to Compromise and Note 13, Debt of the consolidated financial statements in this Annual Report for a further explanation of such classification.

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Under Section 362 of the Bankruptcy Code, actions to collect most of our prepetition liabilities, including payments owing to vendors in respect of goods furnished and service provided prior to the Petition Date, are automatically stayed. Shortly after the Petition Date, the Debtors began notifying all known actual or potential creditors of the Debtors for the purpose of identifying all prepetition claims against the Debtors. In addition, the Company may reject prepetition executory contracts and unexpired leases with respect to the Company's operations, with the approval of the Court. Any damages resulting from rejection of executory contracts and unexpired leases are treated as general unsecured claims and will be classified as liabilities subject to compromise. As a result, the Company anticipates its lease obligations, contractual commitments for capital expenditures, and other contractual purchase commitments as currently detailed in the above table may change significantly in the future.

Credit Ratings, Stock Listing

Delphi was rated by Standard & Poor's, Moody's, and Fitch Ratings. Primarily as a result of our filing for protection under chapter 11 of the Bankruptcy Code, as of December 31, 2005, Standard & Poor's, Moody's, and Fitch Ratings had withdrawn their ratings of Delphi's senior unsecured debt, preferred stock, and senior secured debt. Standard & Poor's, Moody's, and Fitch Ratings assigned point-in-time ratings of BBB-/B1/BB-, respectively, to the DIP Credit Facility.

On October 11, 2005, the NYSE announced suspension of trading of Delphi's common stock (DPH), 6 1/2% Notes due May 1, 2009 (DPH 09), and its 7 1/8% debentures due May 1, 2029 (DPH 29), as well as the 8.25% Cumulative Trust Preferred Securities of Delphi Trust I (DPH PR A). This action followed the NYSE's announcement on October 10, 2005, that it was reviewing Delphi's continued listing status in light of Delphi's announcements involving the filing of voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code. The NYSE subsequently determined to suspend trading based on the trading price for the common stock, which closed at \$0.33 on October 10, 2005 and completed delisting proceedings on November 11, 2005. Delphi's common stock (OTC: DPHIQ) and preferred shares (OTC: DPHAQ) are being traded as of the date of filing this Annual Report on Form 10-K with the SEC on the Pink Sheets and are no longer subject to the regulations and controls imposed by the NYSE. Pink Sheets is a centralized quotation service that collects and publishes market maker quotes for over the counter (OTC) securities in real-time. Delphi's listing status on the Pink Sheets is dependent on market makers willingness to provide the service of accepting trades to buyers and sellers of the stock. Unlike securities traded on a stock exchange, such as the NYSE, issuers of securities traded on the Pink Sheets do not have to meet any specific quantitative and qualitative listing and maintenance standards. As of the date of filing this Annual Report on Form 10-K with the SEC, Delphi's 6 1/2% Notes due May 1, 2009 (DPHIQ.GB) and 7 1/8% debentures due May 1, 2029 (DPHIQ.GC) are also trading over the counter via the Trade Reporting and Compliance Engine (TRACE), a NASD-developed reporting vehicle for OTC secondary market transactions in eligible fixed income securities that provides debt transaction prices.

Capital Expenditures

Supplier selection in the auto industry is generally finalized several years prior to the start of production of the vehicle. Therefore, current capital expenditures are based on customer commitments entered into previously, generally several years ago when the customer contract was awarded. As of December 31, 2005, Delphi had approximately \$353 million in outstanding cancelable and noncancelable

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capital commitments. We expect capital expenditures to be approximately \$0.9 billion in 2006. Capital expenditures by product sector and geographic region for the periods presented were:

	Year Ended December 31,		
	2005	2004	2003
	(in millions)		
Dynamics, Propulsion, Thermal & Interior	\$ 505	\$ 455	\$ 601
Electrical, Electronics & Safety	498	403	408
Automotive Holdings Group	58	70	50
Other	122	39	29
Total capital expenditures	\$ 1,183	\$ 967	\$ 1,088
North America	\$ 696(1)	\$ 553	\$ 739
Europe, Middle East & Africa	356	277	264
Asia-Pacific	108	115	56
South America	23	22	29
Total capital expenditures	\$ 1,183	\$ 967	\$ 1,088

- (1) Includes \$129 million for purchase of facilities previously leased. Prior to the purchase, these leases were accounted for as operating leases.

Cash Flows

Operating Activities. Net cash provided by operating activities totaled \$154 million for the year ended December 31, 2005, compared to \$1.5 billion in 2004 and \$0.9 billion in 2003. Changes in the levels of factoring improved cash flow from operating activities for 2005 by approximately \$83 million compared to decreases of \$12 million for 2004 and \$145 million in 2003. Cash flow from operating activities was reduced for all periods by contributions to our U.S. pension plans of \$625 million, \$600 million, and \$1.0 billion for the years ended December 31, 2005, 2004 and 2003, respectively. Cash used in operations was negatively impacted as a result of the Chapter 11 Filings as certain suppliers demanded shorter supplier payment terms or prepayments, principally in the U.S. Excluding the foregoing, the decrease in cash provided by operating activities is primarily due to lower revenue levels and compressed margins.

Investing Activities. Cash flows used in investing activities totaled \$0.8 billion for the year ended December 31, 2005, compared to \$0.8 billion and \$1.1 billion for the years ended December 31, 2004 and 2003, respectively. The principal use of cash in 2005, 2004 and 2003 reflected capital expenditures related to ongoing operations and, in 2005, approximately \$129 million for the purchase of certain previously leased properties. Cash flows from investing activities in 2005 also include \$245 million of proceeds from divestitures of product lines and joint ventures. 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. Other cash flows from investing activities principally consist of collections of notes receivable and proceeds from the sale of marketable securities.

Financing Activities. Net cash provided by financing activities was \$2.0 billion for the year ended December 31, 2005, compared to net cash used in financing activities of \$0.7 billion in 2004 and net cash provided by financing activities of \$4 million in 2003. Net cash provided by financing activities during 2005 primarily reflected borrowings

under the Facilities offset by repayment of U.S. securitization borrowings. Net cash used in financing activities during 2004 reflected a \$500 million repayment of the 6.125% senior notes due May 1, 2004. Net cash provided by financing activities for 2003 includes \$894 million of net proceeds from the debt and trust preferred issuances. In addition, during 2003 we repaid approximately \$707 million of short-term debt. All periods also reflect the payments of dividends.

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Dividends. The Delphi Board of Directors declared dividends on Delphi common stock of \$0.03 per share on March 23, 2005 and \$0.015 per share on June 22, 2005, which was paid on May 2, 2005 and August 2, 2005, respectively. On September 8, 2005, the Board of Directors announced the elimination of Delphi's quarterly dividend of \$0.015 per share on Delphi common stock for the remainder of 2005. In addition, the DIP Credit Facility includes a negative covenant which prohibits the payment of dividends by the Company.

Stock Repurchase Program. The Board of Directors had 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 2005, 2004 and 2003 pursuant to this plan.

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, 2005, the projected benefit obligation (PBO) of the U.S. defined benefit pension plans exceeded the market value of the plan assets by \$4.1 billion, compared to \$4.3 billion at December 31, 2004; the change is explained as follows:

	Underfunded Status (PBO basis)
	(in billions)
December 31, 2004	\$ (4.3)
Pension contributions	0.6
2005 asset returns 13%	1.1
Impact of discount rate decrease by 25 basis points to 5.50%	(0.4)
Interest and service cost	(1.0)
Other	(0.1)
December 31, 2005	\$ (4.1)

During 2005, Delphi contributed \$0.6 billion to its pension plans, which satisfied our minimum funding requirement as determined by employee benefit and tax laws. Although Delphi's 2006 minimum funding requirement is approximately \$1.2 billion, under current legislation and plan design, Delphi is in chapter 11 and our 2006 contributions will be limited to approximately \$0.2 billion, representing the normal service cost. While contributions subsequent to 2006 are dependent on asset returns and a number of other factors, after we make contributions of approximately \$0.2 billion in 2006, we would be required by employee benefit and tax laws to make contributions of approximately \$2.2 billion in 2007 and approximately \$0.6 billion in 2008, assuming no changes to the pension plan design, no major restructuring programs, no funding waivers and emergence from bankruptcy in 2007. These contribution estimates assume that new legislation extending the current rate relief, which expired on April 15, 2006, is enacted. If the legislation is not passed, Delphi's 2008 minimum funding requirements, under employee benefit and tax laws, could increase by up to \$0.9 billion. Finally, proposed legislation before the House and Senate would alter the required contributions outlined above. Our estimate is that in the short term, required contributions may be reduced. In the long term, overall contributions could be increased.

Delphi's U.S. pension plans generally provide covered U.S. hourly employees with pension benefits of negotiated, flat dollar amounts for each year of credited service earned by an individual employee. Formulas providing for such stated amounts are contained in the prevailing labor contract. Consistent with SFAS No. 87 Employers Accounting for Pensions, the 2005 pre-tax pension expense and December 31, 2005 PBO do not comprehend any future benefit increases beyond the amounts stated in the currently prevailing contract that expires in September 2007. The current cycle for negotiating new labor contracts is every four years. There has been no past practice of maintaining a

predictable level of benefit increases or decreases from one contract to the next. However, the following data illustrate the sensitivity of pension expense and PBO to hypothetical assumed changes in future basic benefits. An annual 1% increase in the

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basic benefit and supplements of the U.S. Hourly Employees Pension Plan would result in a \$47 million increase in 2006 pre-tax pension expense and a \$0.2 billion increase in the December 31, 2005 PBO. These sensitivities assume no changes to the pension plan design and no major restructuring programs.

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 Curves, with expected cash benefit payments. Since high quality bonds in sufficient quantity and with appropriate maturities are not available for all years when cash benefit payments are expected to be made, 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 5.75% for 2004 to 5.5% for 2005. This 25 basis point decline in the discount rate increased the underfunded status of our U.S. pension plans by approximately \$0.4 billion. The other postretirement discount rate determined on that basis decreased from 6.00% for 2004 to 5.50% for 2005. This 50 basis point decline in the discount rate increased the underfunded status of our U.S. postretirement plans by approximately \$0.8 billion.

For 2005 expense, Delphi assumed a U.S. long-term asset rate of return of 9%. For 2006 expense, we will utilize an 8.75% long-term asset rate of return assumption. In developing these expected long-term rate of return assumptions, 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 consistent with our long-term rate of return assumption. The 8.75% long-term asset return assumption for 2006 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, 2005, our actual asset allocation was consistent with our asset allocation assumption.

As permitted under SFAS No. 87, 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, 2005, we had cumulative asset gains of approximately \$0.2 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 2005 resulted in an accumulated unrecognized actuarial loss of \$3.8 billion at December 31, 2005, to which is added an approximately \$0.2 billion deferred market value of asset adjustment that is not considered when determining 2006 pension expense. In accordance with SFAS No. 87, \$1.4 billion is excluded from determination of 2006 expense, as it falls within our corridor (10% of the higher of projected benefit obligation or fair market value of assets). The remaining actuarial loss of \$2.6 billion at December 31, 2005 is amortized over the remaining service life of our pension plan participants. Our expense related to amortization of actuarial losses in 2006 will be approximately \$18 million higher than in 2005.

Delphi's U.S. pension expense was \$582 million and \$549 million for 2005 and 2004, respectively. As required by U.S. GAAP, our pension expense for 2006 is determined at the end of 2005. Our 2006 pension expense will be approximately \$574 million, excluding any special termination charges and assuming no

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change to the pension plan design and no major restructuring programs. 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	

The above sensitivities reflect the effect of changing one assumption at a time. It should be noted that economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not necessarily linear. The above sensitivities also assume no changes to the pension plan design and no major restructuring programs.

U.S. GAAP also requires us to record a charge to stockholders' equity when certain conditions are met. As of December 31, 2005, our after-tax charge to stockholders' equity was \$2.4 billion, which is lower than last year's charge to stockholders' equity of \$2.5 billion primarily due to the higher than expected return on assets.

In addition, we maintain postretirement plans other than pensions that are not funded. At December 31, 2005 and 2004, the amounts reflected in our consolidated balance sheet for postretirement obligations were \$6.4 billion and \$6.7 billion, respectively. From December 31, 2004 to December 31, 2005, the postretirement liabilities were materially unchanged at \$9.6 billion. 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 postretirement plan participants.

These plans do not have minimum funding requirements, but rather are pay as you go. As we currently have 0.43 participating retirees for each participating active employee, the cash costs that we incur are lower than the expenses recognized. During the 2005 postretirement plan year, we incurred approximately \$235 million of net cash costs including approximately \$54 million of payments to GM for certain of our former employees that flowed back to GM and had actuarially been determined to retire. This flowback payment was partially offset by the receipt of \$5 million from GM for former GM employees who had transferred to Delphi and had actuarially been determined to retire.

Delphi's consolidated balance sheet reflects a payable due to GM for a cash settlement for postretirement obligations associated with employees that transferred from Delphi to GM. In prior periods, this amount was included in the postretirement liability carried on Delphi's consolidated balance sheet. Delphi's December 31, 2005 consolidated balance sheet includes approximately \$1 billion in liabilities subject to compromise, which is included in postretirement liabilities in prior periods. Refer to Note 12, Liabilities Subject to Compromise of the consolidated financial statements in this Annual Report. Additionally, an \$83 million receivable for the cash settlement amount due from GM for postretirement obligations associated with employees transferring from GM to Delphi has been reclassified to other long-term assets.

Cash settlement between Delphi and GM with respect to this payable and receivable is scheduled to occur at the time the employees are actuarially determined to retire. In accordance with our Separation agreement with GM, we will be paying an average of \$100 million per year (flowbacks) over the next five years to GM, and will be receiving an average of \$9 million per year from GM associated with employees who have transferred to Delphi. In addition to this, we are also required to make a final net settlement payment of approximately \$0.4 billion in 2014.

The declining interest rate environment and changes in the health care trend and base claims assumptions through 2005 resulted in an accumulated actuarial loss of \$4.0 billion at the 2005 measurement date. Of this amount, \$1.2 billion of losses were generated in 2005 with approximately \$0.8 billion caused by the 50 basis point decline in the discount rate with the remainder primarily caused by changes in the health care base claims and trend assumptions. Of the accumulated loss, \$1.0 billion is excluded from determination of 2006 expense as it falls within our corridor (10% of accumulated postretirement benefit

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obligation) in accordance with SFAS No. 106. The remaining actuarial loss of \$3.0 billion is amortized over the remaining service life of our postretirement plan participants. Our expense related to amortization of actuarial losses in 2006 will be approximately \$105 million higher than in 2005.

Delphi's U.S. postretirement expense was \$875 million and \$792 million in 2005 and 2004, respectively. As required by U.S. GAAP, our postretirement expense for 2006 is determined at the 2005 measurement date. Our 2006 postretirement expense will be approximately \$911 million, excluding any special termination charges. However, for purposes of analysis, the following table highlights the sensitivity of our postretirement obligations and expense to changes in assumptions:

Change in Assumption	Impact on Postretirement Expense	Impact on Postretirement Liability
25 bp decrease in discount rate	+\$25 to 35 Million	+\$0.3 Billion
25 bp increase in discount rate	-\$25 to 35 Million	-\$0.3 Billion

For analytical purposes only, the following table presents the impact that changes in our health care trend rate would have on our postretirement liability and postretirement service and interest cost (in millions):

% Change	Impact on Service & Interest Cost	Impact on Postretirement Liability
+1%	\$121	\$ 1,306
-1%	\$(91)	\$(1,143)

The above sensitivities reflect the effect of changing one assumption at a time. It should be noted that economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not necessarily linear. The above sensitivities also assume no changes to the postretirement plan design and no major restructuring programs.

Shareholder Lawsuits

The Company, along with Delphi Trust I, Delphi Trust II, current and former directors of the Company, certain current and former officers and employees of the Company or its subsidiaries, and others are named as defendants in several lawsuits that were filed beginning in March 2005 following the Company's announced intention to restate certain of its financial statements.

On December 12, 2005, the Judicial Panel on Multidistrict Litigation entered an order transferring each of the related federal actions to the United States District Court for the Eastern District of Michigan for coordinated or consolidated pretrial proceedings (the "Multidistrict Litigation").

The lawsuits transferred fall into three categories. One group of putative class action lawsuits, which are purportedly brought on behalf of participants in certain of the Company's and its subsidiaries' defined contribution employee benefit pension plans that invested in Delphi common stock, is brought under the Employee Retirement Income Security Act of 1974, as amended (the "ERISA Actions"). Plaintiffs in the ERISA Actions allege, among other things, that the plans suffered losses as a result of alleged breaches of fiduciary duties under ERISA. On October 21, 2005, the ERISA Actions were consolidated before one judge in the United States District Court for the Eastern District of Michigan. The ERISA Actions were subsequently transferred to the Multidistrict Litigation. On March 3, 2006, plaintiffs filed a consolidated class action complaint (the "Amended ERISA Action") with a putative class period of May 28, 1999 to November 1, 2005. The Company, which was previously named as a defendant in the ERISA Actions, was not named as a defendant in the Amended ERISA Action. The plaintiffs are not currently asserting claims against or seeking relief from the Company in the Amended ERISA Action due to the Company's bankruptcy filing, but have stated that they plan to proceed with claims against the Company in the ongoing bankruptcy cases, and will seek to name the Company as a defendant in the Amended ERISA Action if the bankruptcy stay is modified or

lifted to permit such action. The defendants have filed a motion to dismiss the Amended ERISA Action.

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A second group of putative class action lawsuits variously alleges, among other things, that the Company and certain of its current and former directors and officers and others made materially false and misleading statements in violation of federal securities laws. On September 23, 2005, these securities actions were consolidated before one judge in the United States District Court for the Southern District of New York. On September 30, 2005, the Court-appointed lead plaintiffs filed a consolidated class action complaint (the Amended Securities Action) on behalf of a putative class consisting of all persons and entities who purchased or otherwise acquired publicly-traded securities of the Company, including securities issued by Delphi Trust I and Delphi Trust II, during a putative class period of March 7, 2000 through March 3, 2005. The Amended Securities Action names several new defendants, including Delphi Trust II, certain former directors, and underwriters and other third parties, and includes securities claims regarding additional offerings of Delphi securities. The securities actions consolidated in the Southern District of New York (and a related securities action filed in the United States District Court for the Southern District of Florida concerning Delphi Trust I) were subsequently transferred to the Eastern District of Michigan as part of the Multidistrict Litigation. The action is stayed against the Company pursuant to the Bankruptcy Code, but is continuing against the other defendants.

The third group of lawsuits is comprised of shareholder derivative actions against certain current and former directors and officers of the Company (Shareholder Derivative Actions). In October 2005, following the filing by the Company of its petition for reorganization relief under chapter 11 of the U.S. Bankruptcy Code, three of the four shareholder derivative actions were closed administratively without prejudice. (Two of the three lawsuits that were closed were pending in the Circuit Court of Oakland County, Michigan, and the other was pending in the United States District Court for the Eastern District of Michigan.) The plaintiff in the remaining shareholder derivative action has agreed to adjourn defendants' time to respond without date. The two federal derivative actions were transferred to the Multidistrict Litigation.

In addition, the Company received a demand from a shareholder that the Company consider bringing a derivative action against certain current and former directors and officers. The Shareholder Derivative Actions and the shareholder demand are premised on allegations that certain current and former directors and officers of the Company made materially false and misleading statements in violation of federal securities laws and/or of their fiduciary duties. The Company has appointed a committee of the Board of Directors to consider the shareholder demand. That committee of the Board of Directors is still investigating the matter.

Due to the preliminary nature of these lawsuits, the Company is not able to predict with certainty the outcome of this litigation or the Company's potential exposure related thereto. In addition, because any recovery on allowed prepetition claims is subject to a confirmed plan of reorganization, the ultimate distribution with respect to allowed claims is not presently ascertainable. While Delphi maintains directors and officers insurance subject to a \$10 million deductible, and has recorded a reserve in the amount of the deductible, the Company cannot assure the extent of coverage or that the impact of any loss not covered by insurance or applicable reserves would not be material.

Under section 362 of the U.S. Bankruptcy Code, the filing of a bankruptcy petition automatically stays most actions against a debtor, including most actions to collect prepetition indebtedness or to exercise control over the property of the debtor's estate. Absent an order of the Court, substantially all prepetition liabilities of the debtor are subject to settlement under a plan of reorganization.

Table of Contents**Regulatory Actions and Other Matters**

As previously disclosed, Delphi is the subject of an ongoing investigation by the SEC and the Department of Justice involving Delphi's accounting for and the adequacy of disclosures for a number of transactions dating from Delphi's spin-off from GM. Delphi is fully cooperating with the government's investigations. The Company entered into an agreement with the SEC to suspend the running of the applicable statute of limitations until April 6, 2006 and subsequently agreed to extend the suspension until August 31, 2006. The government's investigations were not suspended as a result of Delphi's filing for chapter 11. 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, results of operations and cash flows.

The Company also believes that the Enforcement Division of the SEC has taken a more proactive role, what the SEC refers to as a risk based approach, by seeking information from issuers in an effort to assess issuers' 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 postemployment benefit plans is an example of this practice. Delphi continues to cooperate fully with the SEC's informal inquiry in this matter.

Environmental Matters

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. For a discussion of matters relating to compliance with laws for the protection of the environment, refer to Item 1. Business - Environmental Compliance in this Annual Report. We have an environmental management structure designed to facilitate and support our compliance with these requirements globally. Although it is our intent to comply with all such requirements and regulations, we cannot provide assurance that we are at all times in compliance. We have made and will continue to make capital and other expenditures to comply with environmental requirements, although such expenditures were not material during the past three years. Environmental requirements are complex, change frequently and have tended to become more stringent over time. Accordingly, we cannot assure that environmental requirements will not change or become more stringent over time or that our eventual environmental cleanup costs and liabilities will not be material.

Delphi 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 site, which is expected to be completed during 2006. Based on findings to date, we believe that a reasonably possible outcome of the investigative study is capping and future monitoring of this site, which would substantially limit future remediation costs. We have included an estimate of our share of the potential costs plus the cost to complete the investigation in our 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 we make material future expenditures for remediation, possibly over an extended period of time and possibly in excess of our existing reserves. We will continue to re-assess any potential remediation costs and, as appropriate, our overall environmental reserves as the investigation proceeds.

It is expected that Delphi's restructuring activities will include the sale and/or closure of numerous facilities around the world. In the course of this process, environmental investigations will be performed that may identify previously unknown environmental conditions, triggering additional and possibly material environmental remediation costs.

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Inflation generally affects Delphi by increasing the cost of labor, equipment and raw materials. We believe that, because rates of inflation in countries where we have significant operations have been moderate during the periods presented, inflation has not had a significant impact on our results of operations, other than increased commodity costs as disclosed in the Executive Summary in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Recently Issued Accounting Pronouncements**Inventory Costs**

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, *Inventory Costs, an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4*. SFAS No. 151 amends ARB No. 43, Chapter 4 and seeks to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted materials by requiring those items to be recognized as current period charges. Additionally, SFAS No. 151 requires that fixed production overheads be allocated to conversion costs based on the normal capacity of the production facilities. SFAS No. 151 is effective prospectively for inventory costs incurred in fiscal years beginning after June 15, 2005. The Company will adopt SFAS No. 151 on January 1, 2006, and does not expect the adoption of SFAS No. 151 to have a material effect on our financial statements.

Nonmonetary Exchanges

In December 2004, the FASB issued SFAS No. 153, *Exchanges on Nonmonetary Assets an amendment of Accounting Principles Board (APB) Opinion No. 29*. SFAS No. 153 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. SFAS No. 153 also eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges of nonmonetary assets that do not have commercial substance. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Delphi will adopt SFAS No. 153 beginning January 1, 2006, and does not expect the adoption to have a material effect on our financial statements.

Share Based Payments

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), *Share-Based Payments* (SFAS No. 123(R)) that will require compensation costs related to share-based payment transactions to be recognized in the financial statements. Compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued, and will be recognized over the periods that an employee provides service in exchange for the award. In addition, liability awards will be remeasured each reporting period. SFAS No. 123(R) replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) was initially effective for interim or annual periods beginning after June 15, 2005. In April 2005, the SEC delayed the effective date by requiring implementation beginning in the next fiscal year beginning after June 15, 2005. Delphi will adopt SFAS No. 123(R) as of January 1, 2006 using the modified prospective method. In 2006, we expect the impact of SFAS No. 123(R) to increase the compensation expense recognized in our consolidated financial statements by approximately \$9 million.

Accounting for Conditional Asset Retirement Obligations

In March 2005, the FASB issued FASB Interpretation No. 47 (FIN No. 47), *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143*. FIN No. 47 seeks to clarify the requirement to record liabilities stemming from a legal obligation to perform asset retirement activities on long-lived assets when that retirement is conditioned on a future event. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. On December 31, 2005, we adopted FIN No. 47 and identified conditional retirement obligations primarily

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related to asbestos abatement at certain of our sites. To a lesser extent, we also have conditional retirement obligations at certain sites related to the removal of storage tanks and polychlorinated biphenyl (PCB) disposal costs. We recorded assets of \$2 million with offsetting accumulated depreciation of \$2 million, and an asset retirement obligation liability of \$17 million. We also recorded a cumulative effect charge against earnings of \$17 million, after-tax, in 2005. Refer to Note 1, Significant Accounting Policies, of the consolidated financial statements in this Annual Report for additional information.

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* . SFAS No. 154 replaces APB Opinion No. 20, *Accounting Changes* and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and requires the direct effects of accounting principle changes to be retrospectively applied. The existing guidance with respect to accounting estimate changes and corrections of errors is carried forward in SFAS 154. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will adopt SFAS No. 154 beginning January 1, 2006, and does not expect the adoption of SFAS No. 154 to have a material effect on our financial statements.

Other-Than-Temporary Impairments

In November 2005, the FASB issued FASB Staff Position (FSP) Nos. 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, which addresses the determination of when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The guidance in the FSPs amend SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, and is effective for reporting periods beginning after December 15, 2005. We do not expect the adoption to have a material effect on our financial statements.

Significant Accounting Policies and Critical Accounting Estimates

Our significant accounting policies are more fully described in Note 1, Significant Accounting Policies, to our consolidated financial statements. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, our evaluation of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate.

We consider an accounting estimate to be critical if:

It requires us to make assumptions about matters that were uncertain at the time we were making the estimate, and

Changes in the estimate or different estimates that we could have selected would have had a material impact on our financial condition or results of operations.

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The table below presents information about the nature and rationale for Delphi's critical accounting estimates:

Balance Sheet Caption	Critical Estimate Item	Nature of Estimates Required	Assumptions/Approaches Used	Key Factors
Accrued liabilities and other long-term liabilities	Warranty obligations	Estimating warranty requires us to forecast the resolution of existing claims and expected future claims on products sold.	We base our estimate on historical trends of units sold and payment amounts, combined with our current understanding of the status of existing claims and discussions with our customers.	VM sourcing VM policy decisions regarding warranty claims VMs seeking to hold suppliers responsible for product warranties
Accrued liabilities and other long-term liabilities	Postemployment benefits for inactive employees	Estimates of future costs associated with inactive employees throughout the duration of their employment.	We use our future production estimates combined with workforce geographic and demographic data to develop projections of time frames and related expense for postemployment benefits. For purposes of accounting for postemployment benefits, inactive employees represent those employees who have been other than temporarily idled. We consider all idled employees in excess of approximately 10% of the total workforce at a facility to be other than temporarily idled.	Employee decisions Customer decisions Discussions with unions

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Balance Sheet Caption	Critical Estimate Item	Nature of Estimates Required	Assumptions/Approaches Used	Key Factors
Pension and other postretirement benefits	Pension and other postretirement benefits	In calculating our obligation and expense, we are required to select certain actuarial assumptions, as more fully described above in Liquidity and Capital Resources, U.S. Pension Plans and Other Postretirement Benefits. These assumptions include discount rate, expected long-term rate of return on plan assets and rates of increase in compensation and healthcare costs.	Our assumptions are determined based on current market conditions, historical information and consultation with and input from our actuaries and asset managers.	Discount rates Asset return assumptions Actuarial assumptions (such as retirement age and mortality) Health care inflation rates Refer to Liquidity and Capital Resources U.S. Pension Plans and Other Postretirement Benefits above for additional details
Property, plant and equipment, goodwill and other long-term assets	Valuation of long-lived assets and investments	We are required to review the recoverability of certain of our assets based on projections of anticipated future cash flows, including future profitability assessments of various manufacturing sites.	We estimate cash flows using internal budgets based on recent sales data, independent automotive production volume estimates and customer commitments and consultation with and input from external valuation experts.	Future production estimates Customer preferences and decisions Product Pricing Manufacturing and material cost estimates

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Balance Sheet Caption	Critical Estimate Item	Nature of Estimates Required	Assumptions/Approaches Used	Key Factors
Deferred income taxes	Recoverability of deferred tax assets	We are required to estimate whether recoverability of our deferred tax assets is more likely than not based on forecasts of taxable earnings in the related tax jurisdiction.	We use historical and projected future operating results, based upon approved business plans, including a review of the eligible carryforward period, tax planning opportunities and other relevant considerations.	Tax law changes Variances in future projected profitability, including by taxing entity
Liabilities subject to compromise	Amount of prepetition liabilities that are subject to compromise	In accordance with SOP 90-7, we are required to segregate and disclose all prepetition liabilities that are subject to compromise. Liabilities subject to compromise should be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts.	Unsecured liabilities of the Debtors, other than those specifically approved for payment by the Court, have been classified as liabilities subject to compromise. The amounts of such liabilities as of the Chapter 11 Filings were estimated based upon September 30, 2005 balances adjusted in some cases for pro-rated activity from October 1, 2005 to the chapter 11 filing dates. Liabilities subject to compromise are adjusted for changes in estimates and settlements of prepetition obligations.	Court actions Further developments with respect to disputed claims Determinations of the secured status of certain claims The values of any collateral securing such claims

In addition, there are other items within our financial statements that require estimation, but are not as critical as those discussed above. These include the allowance for doubtful accounts receivable and reserves for excess and obsolete inventory. Although not significant in recent years, changes in estimates used in these and other items could have a significant effect on our consolidated financial statements.

Table of Contents**Forward-Looking Statements**

This Annual Report on Form 10-K, including the exhibits being filed as part of this report, as well as other statements made by Delphi may contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, that reflect, when made, the Company's current views with respect to current events and financial performance. Such forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties and factors relating to the Company's operations and business environment which may cause the actual results of the Company to be materially different from any future results, express or implied, by such forward-looking statements. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to, the following: the ability of the Company to continue as a going concern; the ability of the Company to operate pursuant to the terms of the debtor-in-possession facility; the Company's ability to obtain Court approval with respect to motions in the chapter 11 cases prosecuted by it from time to time; the ability of the Company to develop, prosecute, confirm and consummate one or more plans of reorganization with respect to the chapter 11 cases; risks associated with third parties seeking and obtaining Court approval to terminate or shorten the exclusivity period for the Company to propose and confirm one or more plans of reorganization, for the appointment of a chapter 11 trustee or to convert the cases to chapter 7 cases; the ability of the Company to obtain and maintain normal terms with vendors and service providers; the Company's ability to maintain contracts that are critical to its operations; the potential adverse impact of the chapter 11 cases on the Company's liquidity or results of operations; the ability of the Company to fund and execute its business plan (including the transformation plan described in Item 1. Business Potential Divestitures, Consolidations and Wind-Downs) and to do so in a timely manner; the ability of the Company to attract, motivate and/or retain key executives and associates; the ability of the Company to avoid or continue to operate during a strike, or partial work stoppage or slow down by any of its unionized employees and the ability of the Company to attract and retain customers. Delphi disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events and/or otherwise.

Similarly, these and other factors, including the terms of any reorganization plan ultimately confirmed, can affect the value of the Company's various prepetition liabilities, common stock and/or other equity securities. Additionally, no assurance can be given as to what values, if any, will be ascribed in the bankruptcy cases to each of these constituencies. A plan of reorganization could result in holders of Delphi's common stock receiving no distribution on account of their interest and cancellation of their interests. As described in the Company's public statements in response to the request submitted to the U.S. Trustee for the appointment of a statutory equity committee, holders of Delphi's common stock and other equity interests (such as options) should assume that they will not receive value as part of a plan of reorganization. In addition, under certain conditions specified in the Bankruptcy Code, a plan of reorganization may be confirmed notwithstanding its rejection by an impaired class of creditors or equity holders and notwithstanding the fact that equity holders do not receive or retain property on account of their equity interests under the plan. In light of the foregoing and as stated in its October 8, 2005 press release announcing the filing of its chapter 11 reorganization cases, the Company considers the value of the common stock to be highly speculative and cautions equity holders that the stock may ultimately be determined to have no value. Accordingly, the Company urges that appropriate caution be exercised with respect to existing and future investments in Delphi's common stock or other equity interests or any claims relating to prepetition liabilities.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risks from changes in currency exchange rates and certain commodity prices. In order to manage these risks, we operate a centralized risk management program that consists of entering into a variety of derivative contracts with the intent of mitigating our risk to fluctuations in currency exchange rates and commodity prices.

A discussion of our accounting policies for derivative instruments is included in Note 1, Significant Accounting Policies, to our consolidated financial statements and further disclosure is provided in Note 20,

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Fair Value of Financial Instruments, Derivatives and Hedging Activities, to those consolidated financial statements. We maintain risk management control systems to monitor exchange and commodity risks and related hedge positions. Positions are monitored using a variety of analytical techniques including market value and sensitivity analysis. The following analyses are based on sensitivity tests, which assume instantaneous, parallel shifts in currency exchange rates and commodity prices. For options and instruments with non-linear returns, appropriate models are utilized to determine the impact of shifts in rates and prices.

We have currency exposures related to buying, selling and financing in currencies other than the local currencies in which we operate. Historically we have reduced our exposure through financial instruments (hedges) that provide offsets or limits to our exposures, which are opposite to the underlying transactions. We also face an inherent business risk of exposure to commodity prices risks, and have historically offset our exposure, particularly to changes in the price of various non-ferrous metals used in our manufacturing operations, through commodity swaps and option contracts. Post-petition, we continue to manage our exposures to changes in currency rates and commodity prices using these derivative instruments. However, due to the substantial uncertainty perceived by institutions and dealers who normally act as counterparties to such instruments as to whether or not Delphi would seek protection under chapter 11 of the Bankruptcy Code, during a substantial portion of the third quarter and a portion of the fourth quarter of 2005 we were not able to enter into hedging instruments. As a result we anticipate that in 2006 our exposure to changes, both favorable and unfavorable, in currency rates and the price of non-ferrous metals and certain other commodities will be increased.

Currency Exchange Rate Risk

We have currency exposures related to buying, selling and financing in currencies other than the local currencies in which we operate. These exposures may impact future earnings and/or operating cash flows. In some instances, we choose to reduce our exposures through financial instruments (hedges) that provide offsets or limits to our exposures, which are opposite to the underlying transactions. Currently our most significant currency exposures relate to the Euro, British pound, Polish zloty, Chinese yuan (renminbi), Brazilian real, Hungarian forint, and Turkish new lira. As of December 31, 2005 and 2004, the net fair value asset of all financial instruments (hedges and underlying transactions) with exposure to currency risk was approximately \$87 million and \$309 million, respectively. The potential loss in fair value for such financial instruments from a hypothetical 10% adverse change in quoted currency exchange rates would be less than \$1 million at December 31, 2005 and approximately \$48 million at December 31, 2004. The potential gain in fair value for such financial instruments from a hypothetical 10% favorable change in quoted currency exchange rates would be less than \$1 million at December 31, 2005 and approximately \$65 million at December 31, 2004. The impact of a 10% change in rates on fair value differs from a 10% change in the net fair value asset due to the existence of hedges. The model assumes a parallel shift in currency exchange rates; however, currency exchange rates rarely move in the same direction. The assumption that currency exchange rates change in a parallel fashion may overstate the impact of changing currency exchange rates on assets and liabilities denominated in currencies other than the U.S. dollar.

Commodity Price Risk

Commodity swaps and option contracts are executed to offset our exposure to the potential change in prices mainly for various non-ferrous metals used in the manufacturing of automotive components. The net fair value of our contracts was an asset of approximately \$2 million at December 31, 2005 and approximately \$14 million at December 31, 2004. If the price of the commodities that are being hedged by our commodity swaps and options contracts changed adversely by 10%, the December 31, 2005 fair value of our commodity swaps and options contracts would decrease by \$11 million to a liability of \$9 million, and the December 31, 2004 fair value asset would decrease \$15 million to a liability of \$1 million. If the price of the commodities that are being protected by our commodity swaps and options contracts changed favorably by 10%, the December 31, 2005 fair value of our commodity swaps and options contracts would increase by \$11 million and the December 31, 2004 fair value would increase by \$15 million. The changes in the net fair value

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liability differ from 10% of those balances due to the relative differences between the underlying commodity prices and the prices in place in our commodity swaps and options contracts. These amounts exclude the offsetting impact of the price risk inherent in the physical purchase of the underlying commodities.

Interest Rate Risk

Our exposure to market risk associated with changes in interest rates relates primarily to our debt obligations. We currently have approximately \$2.5 billion of fixed rate debt, junior subordinated notes underlying our trust preferred securities and other debt which are subject to compromise. The interest rate underlying one of our trusts preferred securities is an adjustable rate with an initial five-year fixed rate through November 15, 2008. We also maintain a revolving credit agreement and term loan which carries an interest rate at the option of Delphi of either (i) the Administrative Agent's Alternate Base Rate (as defined in the Amended DIP Credit Facility) plus 1.75% or (ii) 2.75% above the Eurodollar base rate, which is the LIBOR rate. In addition, our prepetition credit facilities carry an interest rate of 4.00% above the Alternate Base Rate (as defined in the prepetition credit agreement) on the prepetition revolving credit and 5.50% above the Alternate Base Rate on the prepetition term loan based on 100% acceptance of the adequate protection package. Accordingly, the interest rate on the Amended DIP Loans and prepetition facilities will fluctuate based on the movement of the Alternate Base Rate or LIBOR through the term of the facilities.

In 2004, we issued commercial paper in the U.S., Europe, and Asia. However, throughout 2005 we did not have access to the commercial paper market and do not expect to in the future. Our outstanding commercial paper balance was \$0.3 billion at December 31, 2004 and we did not have outstanding commercial paper at December 31, 2005. The maturities on the commercial paper had been short-term with the majority maturing within one month. Additionally, in 2004 we factored accounts receivable in the U.S., Europe, and Asia. As of December 31, 2005 and currently, we factor accounts receivable in Europe and Asia. Factoring program fees are based on an interest rate component.

The table below indicates interest rate sensitivity to floating rate debt based on amounts outstanding as of December 31, 2005.

Change in Rate	Prepetition Term Loan	Prepetition Revolver	DIP Term Loan	Other(1)
	(in millions)			
25 bps decrease in rate	\$ (2.5)	\$ (3.8)	\$ (0.6)	\$ (1.5)
25 bps increase in rate	\$ 2.5	\$ 3.8	\$ 0.6	\$ 1.5

(1) Includes European Securitization Program, Accounts Receivable Factoring and other overseas bank debt.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for Delphi Corporation (Delphi or the Company). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the framework described in *Internal Control - Integrated Framework*, issued by the Commission of Sponsoring Organizations of the Treadway Commission.

A material weakness is a control deficiency, or combination of control deficiencies, that result in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected. Due to the existence of material weaknesses, Management's assessment concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2005. The following material weaknesses were in existence as of December 31, 2005:

We did not maintain a control environment that fully emphasized the establishment of or adherence to appropriate internal control for certain aspects of the Company's operations. Principal contributing factors included (i) an insufficient number of or inappropriate depth of experience in the application of U.S. GAAP for its accounting and finance personnel, (ii) the inadequate establishment and maintenance of an effective anti-fraud program, (iii) inadequate documentation of authorization to make changes to payroll data and (iv) inadequate controls over records of employee and retiree demographic information used in determining retirement benefits liabilities.

We did not perform a formalized, company-wide risk assessment to evaluate the implications of relevant risks on financial reporting.

We failed to design and implement controls over the contract administration process to provide reasonable assurance that significant contracts are adequately analyzed to determine the accounting implications, or to capture, analyze, and record the accounting impact of amendments to existing contracts.

Our controls over account reconciliations did not operate effectively. Specifically, controls over the preparation, review and monitoring of account reconciliations of balance sheet accounts to ensure that account balances were accurate and supported with appropriate underlying calculations and documentation in a timely manner.

Our controls over journal entries did not operate effectively. Specifically, controls surrounding the preparation, independent review, and authorization of journal entries to ensure that entries were accurate and supported by appropriate underlying documentation.

Our controls over inventory accounting did not operate effectively. Specifically, controls to determine that (i) consignment inventories (including buy/sell relationships) and pay-on consumption inventories were reconciled on a timely basis; (ii) adjustments to inventory costs or quantities related to annual physical inventories, cycle counts, and negative inventory are made in the appropriate period; (iii) the receipt of raw materials, finished goods returned by customers and finished goods received from production are recorded in the appropriate period; and (iv) the calculation of excess and obsolete inventory reserves are performed accurately and adjustments recorded on a timely basis.

Our controls over fixed asset accounting did not operate effectively. Specifically, controls over (i) the proper classification and approval of capitalized maintenance; (ii) the proper and timely transfer of

construction-work-in-progress tooling to the fixed assets ledger; (iii) the proper amortization of tooling assets pursuant to corporate guidelines; and (iv) the proper approval and timely recording of disposals and transfers related to fixed assets and special tools.

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Our controls over income tax accounting and disclosure did not operate effectively. Specifically, controls over the preparation and review of supporting calculations, analyses and disclosures related to Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* that provide reasonable assurance that the account balances and disclosures were accurate and supported by appropriate underlying documentation.

Our controls over temporary cash disbursements process accounting did not operate effectively. Specifically, controls over a temporary cash disbursements process implemented following the Company's chapter 11 filing related to (i) unintended over-payments, and (ii) the timely accounting of those payments.

Because of the existence of these material weaknesses as of December 31, 2005, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2005, based on the criteria in the *Internal Control Integrated Framework*.

Management's assessment of the effectiveness of Delphi Corporation's internal control over financial reporting as of December 31, 2005, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report (which expressed an unqualified opinion on management's assessment and an adverse opinion on the effectiveness of Delphi Corporation's internal control over financial reporting as of December 31, 2005). Additionally, Deloitte & Touche LLP expressed an unqualified opinion on the Company's 2005 consolidated financial statements; however, that report includes emphasis paragraphs with respect to the restatement of the Company's 2004 financial statements, the Company's filing for reorganization under chapter 11 of the United States Bankruptcy Code, and the substantial doubt about the Company's ability to continue as a going concern. This report appears under Item 8. Financial Statements and Supplementary Data Report of Independent Registered Public Accounting Firm.

Table of Contents**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Delphi Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting in Item 8, that Delphi Corporation and subsidiaries (the Company) did not maintain effective internal control over financial reporting as of December 31, 2005, because of the effect of the material weaknesses identified in management's assessment based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's assessment resulting from deficiency in the design or operation of the respective controls:

The Company did not maintain a control environment that fully emphasized the establishment of effective internal control over financial reporting. This was evidenced by: (i) an insufficient number of personnel or personnel with an inappropriate depth of experience in the application of generally accepted accounting principles in the United States of America (U.S. GAAP) in the Company's accounting and finance functions, (ii) the lack of a specific anti-fraud program, (iii) insufficient documentation of the authorizations required to make changes to payroll data and (iv) inadequate records of employee and retiree demographic information used in determining retirement benefits liabilities. This weakness has a pervasive effect on internal control over financial reporting and results

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in a more than remote likelihood that material errors could occur and not be detected. This weakness also contributed to the other material weaknesses described below.

The Company did not perform an adequate entity-wide risk assessment to evaluate the implications of relevant risks on its internal control over financial reporting. Due to the significance of performing a comprehensive entity-wide risk assessment on the Company's ability to design effective internal control over financial reporting, this represents a design deficiency and constitutes a material weakness.

The Company failed to design and implement controls over the contract administration process to provide reasonable assurance that each significant contract is adequately analyzed to determine the accounting implications, or to capture, analyze, and record the impact of amendments to existing contracts. Due to the (i) the significance of the contract administration process, (ii) the potential pervasive effect on the financial statement account balances, and (iii) the absence of other mitigating controls; there is a more than remote likelihood that a material misstatement of the interim and annual financial statements would not have been prevented or detected.

The Company's controls over account reconciliations did not operate effectively. Specifically, controls over the preparation and review of account reconciliations of balance sheet accounts that provide reasonable assurance that the account balances were accurate and supported with appropriate underlying calculations and documentation in a timely manner, did not operate effectively. In the aggregate these deficiencies result in a more than remote likelihood that a material misstatement of the interim or annual financial statements would not be prevented or detected.

The Company's controls over journal entries did not operate effectively. Specifically, controls over the preparation, independent review, and authorization of journal entries that provide reasonable assurance that the entries were accurate and supported by appropriate underlying documentation, did not operate effectively. In the aggregate these deficiencies result in a more than remote likelihood that a material misstatement of the interim or annual financial statements would not be prevented or detected.

The Company's controls over inventory accounting did not operate effectively. Specifically, controls to determine that (i) consignment inventories (including buy/sell relationships) and pay-on consumption inventories were reconciled on a timely basis; (ii) adjustments to inventory costs or quantities related to annual physical inventories, cycle counts, and negative inventory are made in the appropriate period; (iii) the receipt of raw materials, finished goods returned by customers and finished goods received from production are recorded in the appropriate period; and (iv) the calculation of excess and obsolete inventory reserves are performed accurately and adjustments recorded on a timely basis, did not operate effectively. In the aggregate these deficiencies result in a more than remote likelihood that a material misstatement of the interim or annual financial statements would not be prevented or detected.

The Company's controls over fixed asset accounting did not operate effectively. Specifically, controls over (i) the proper classification and approval of capitalized maintenance costs; (ii) the proper and timely transfer of construction-work-in-progress tooling to the fixed assets ledger; (iii) the proper amortization of tooling assets pursuant to corporate guidelines; and (iv) the proper approval and timely recording of disposals and transfers related to fixed assets and special tools, did not operate effectively. In the aggregate these deficiencies result in a more than remote likelihood that a material misstatement of the interim or annual financial statements would not be prevented or detected.

The Company's controls over income tax accounting and disclosure did not operate effectively. Specifically, controls over the preparation and review of supporting calculations, analyses and disclosures related to Statement of Financial Accounting Standards No. 109 Accounting for Income Taxes that provide reasonable assurance that

the account balances and disclosures were accurate and supported by appropriate underlying documentation, did not operate effectively. In the

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aggregate these deficiencies result in a more than remote likelihood that a material misstatement of the interim or annual financial statements would not be prevented or detected.

The Company's controls over a cash disbursements process accounting did not operate effectively. Specifically, controls over a cash disbursements process implemented following the Company's chapter 11 filing related to (i) unintended over-payments, and (ii) the timely accounting of those payments, did not operate effectively. In the aggregate these deficiencies result in a more than remote likelihood that a material misstatement of the interim or annual financial statements would not be prevented or detected.

The material weaknesses described above resulted in material audit adjustments that were necessary in order to present the 2005 financial statements in accordance with generally accepted accounting principles. These audit adjustments had a pervasive effect on the consolidated financial statements and the related footnote disclosures. These material weaknesses result in a more than remote likelihood that a material misstatement of the interim or annual financial statements would not be prevented or detected.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2005, of the Company and this report does not affect our report on such financial statements and financial statement schedule.

In our opinion, management's assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2005, of the Company and our report dated July 11, 2006 expressed an unqualified opinion on those financial statements and financial statement schedule and includes explanatory paragraphs regarding (1) the effects on the financial statements of the bankruptcy proceedings and (2) the uncertainty related to the Company's ability to continue as a going concern.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Detroit, Michigan
July 11, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Delphi Corporation:

We have audited the accompanying consolidated balance sheets of Delphi Corporation (Debtor-in-Possession) and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the financial statements, certain accompanying consolidated financial statements have been restated.

As discussed in Notes 3 and 12, the Company has filed for reorganization under chapter 11 of the United States Bankruptcy Code. The accompanying financial statements do not purport to reflect or provide for the consequences of the bankruptcy proceedings. In particular, such financial statements do not purport to show (a) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (b) as to prepetition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (c) as to stockholder accounts, the effect of any changes that may be made in the capitalization of the Company; or (d) as to operations, the effect of any changes that may be made in its business.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company's ability to comply with the terms and conditions of the debtor-in-possession financing agreement; to obtain confirmation of a plan of reorganization under chapter 11 of the United States Bankruptcy Code; to reduce wage and benefit costs and liabilities through the bankruptcy process; to return to profitability; to generate sufficient cash flow from operations and; to obtain financing sources to meet the Company's future obligations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 11, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of the effect of material weaknesses.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Detroit, Michigan
July 11, 2006

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2005	2004	2003
	(As Restated See Note 2)		
	(in millions, except per share amounts)		
Net sales:			
General Motors and affiliates	\$ 12,860	\$ 15,417	\$ 17,029
Other customers	14,087	13,205	11,048
Total net sales	26,947	28,622	28,077
Operating expenses:			
Cost of sales, excluding items listed below	25,701	25,989	25,272
Selling, general and administrative	1,644	1,599	1,596
Depreciation, amortization, and asset impairment charges (Note 9)	1,383	1,470	1,120
Goodwill impairment charges (Note 10)	390	46	
Total operating expenses	29,118	29,104	27,988
Operating (loss) income	(2,171)	(482)	89
Interest expense (Contractual interest expense for 2005 was \$356 million) (Note 13)	(318)	(232)	(211)
Other income (expense), net (Note 17)	50	(8)	6
Loss before reorganization items, income taxes, minority interest, equity income and cumulative effect of accounting change	(2,439)	(722)	(116)
Reorganization items	(3)		
Loss before income taxes, minority interest, equity income and cumulative effect of accounting change	(2,442)	(722)	(116)
Income tax (expense) benefit	55	(4,143)	69
Loss before minority interest, equity income and cumulative effect of accounting change	(2,387)	(4,865)	(47)
Minority interest, net of tax	(24)	(39)	(45)
Equity income	71	86	82
Loss before cumulative effect of accounting change	(2,340)	(4,818)	(10)
Cumulative effect of accounting change, net of tax (Note 1)	(17)		
Net loss	\$ (2,357)	\$ (4,818)	\$ (10)

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Basic and diluted loss per share

Before cumulative effect of accounting change	\$ (4.18)	\$ (8.59)	\$ (0.02)
Cumulative effect of accounting change	(0.03)		
Basic and diluted loss per share	\$ (4.21)	\$ (8.59)	\$ (0.02)
Dividends declared per share	\$ 0.045	\$ 0.280	\$ 0.280

See notes to consolidated financial statements.

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**DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)
CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2005	2004
	(As Restated See Note 2)	
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,221	\$ 950
Restricted cash	36	14
Accounts receivable, net:		
General Motors and affiliates	1,920	2,182
Other	2,975	1,484
Retained interest in receivables, net		726
Inventories, net:		
Productive material, work-in-process and supplies	1,350	1,413
Finished goods	524	545
Deferred income taxes (Note 8)	51	48
Prepaid expenses and other	477	354
Total current assets	9,554	7,716
Long-term assets:		
Property, net (Note 9)	5,108	5,946
Deferred income taxes (Note 8)	59	72
Goodwill (Note 10)	363	798
Other intangible assets, net	54	80
Pension intangible assets (Note 15)	891	1,044
Other	994	903
Total assets	\$ 17,023	\$ 16,559
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Notes payable, current portion of long-term debt, and debt in default (Note 13)	\$ 3,117	\$ 507
Accounts payable	2,494	3,504
Accrued liabilities (Note 11)	1,192	2,691
Total current liabilities	6,803	6,702
Long-term liabilities:		
Long-term debt (Note 13)	273	2,061
Junior subordinated notes due to Delphi Trust I and II (Note 14)		412
Pension benefits (Note 15)	310	3,561
Postretirement benefits other than pensions (Note 15)		6,297
Other	651	953

Total long-term liabilities	1,234	13,284
Liabilities subject to compromise (Note 12)	15,074	
Total liabilities	23,111	19,986
Commitments and contingencies (Note 16)		
Minority interest	157	198
Stockholders' deficit:		
Common stock, \$0.01 par value, 1,350 million shares authorized, 565 million shares issued in 2005 and 2004	6	6
Additional paid-in capital	2,744	2,730
Accumulated deficit	(6,429)	(4,047)
Minimum pension liability	(2,395)	(2,507)
Accumulated other comprehensive (loss) income, excluding minimum pension liability	(119)	254
Treasury stock, at cost (3.2 million and 3.8 million shares in 2005 and 2004, respectively)	(52)	(61)
Total stockholders' deficit	(6,245)	(3,625)
Total liabilities and stockholders' deficit	\$ 17,023	\$ 16,559

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2005	2004	2003
	(As Restated See Note 2)		
	(in millions)		
Cash flows from operating activities:			
Net loss	\$ (2,357)	\$ (4,818)	\$ (10)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation, amortization, and asset impairment charges	1,383	1,470	1,120
Goodwill impairment charges	390	46	
Deferred income taxes	(142)	4,315	(171)
Employee and product line charges		192	396
Pension and other postretirement benefit expenses	1,543	1,408	1,226
Equity income	(71)	(86)	(82)
Reorganization items	3		
Changes in operating assets and liabilities:			
Accounts receivable and retained interests in receivables, net	127	83	(452)
Inventories, net	25	(142)	87
Prepaid expenses and other	232	(158)	(197)
Accounts payable	(163)	367	165
Employee and product line obligations	(64)	(296)	(156)
Accrued and other long-term liabilities	169	(148)	5
Pension contributions and benefit payments	(691)	(672)	(1,033)
Other postretirement benefit payments	(186)	(173)	(120)
Receipts (payments) for reorganization items, net	6		
Other	(50)	137	92
Net cash provided by operating activities	154	1,525	870
Cash flows from investing activities:			
Capital expenditures	(1,183)	(967)	(1,088)
Proceeds from sale of property	71	53	42
Cost of acquisitions, net of cash acquired		(61)	(39)
Proceeds from divestitures of product lines and joint ventures, net of cash given	245		
Other	73	157	25
Net cash used in investing activities	(794)	(818)	(1,060)
Cash flows from financing activities:			
Repayment of debt securities		(500)	
Proceeds from term loan facility, net	983		
Repayments of borrowings under term loan facility	(12)		

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Proceeds from revolving credit facility, net	1,484		
Proceeds from debtor-in-possession facility, net	218		
Proceeds advanced under cash overdraft	29		
Net proceeds from issuance of debt securities			492
Net proceeds from junior subordinated notes due to Delphi Trust I and II			402
Net repayments of borrowings under other debt	(630)	(7)	(707)
Dividend payments	(64)	(157)	(157)
Issuance of treasury stock		2	1
Other	(56)	(23)	(27)
Net cash provided by (used in) financing activities	1,952	(685)	4
Effect of exchange rate fluctuations on cash and cash equivalents	(41)	49	51
Increase (decrease) in cash and cash equivalents	1,271	71	(135)
Cash and cash equivalents at beginning of year	950	879	1,014
Cash and cash equivalents at end of year	\$ 2,221	\$ 950	\$ 879

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

	Common Stock		Retained Earnings		Minimum Pension Liability	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity (Deficit)
	Shares	Amount	Additional Paid-In Capital	(Accumulated Deficit)		Other		
(in millions)								
Balance at December 31, 2002 (As previously reported)	565	\$ 6	\$ 2,636	\$ 1,164	\$ (1,975)	\$ (488)	\$ (111)	\$ 1,232
Restatement adjustments (See Note 2)			69	(69)				
Balance at December 31, 2002 (As restated, see Note 2)	565	\$ 6	\$ 2,705	\$ 1,095	\$ (1,975)	\$ (488)	\$ (111)	\$ 1,232
Net loss				(10)				(10)
Currency translation adjustments and other, net of tax						307		307
Net change in unrecognized gain on derivative instruments, net of tax						45		45
Minimum pension liability adjustment, net of tax					(31)			(31)
Total comprehensive income								311
Shares issued for employee benefit plans, net			24				36	60
Dividends				(157)				(157)

Balance at December 31, 2003 (As restated, see Note 2)	565	6	2,729	928	(2,006)	(136)	(75)	1,446
Net loss (As restated, see Note 2)				(4,818)				(4,818)
Currency translation adjustments and other, net of tax (As restated, see Note 2)						339		339
Net change in unrecognized gain on derivative instruments, net of tax (As restated, see Note 2)						51		51
Minimum pension liability adjustment, net of tax (As restated, see Note 2)					(501)			(501)
Total comprehensive loss								(4,929)
Shares issued for employee benefit plans, net			1				14	15
Dividends				(157)				(157)
Balance at December 31, 2004 (As restated, see Note 2)	565	6	2,730	(4,047)	(2,507)	254	(61)	(3,625)
Net loss				(2,357)				(2,357)
Currency translation adjustments and other, net of tax						(299)		(299)
Net change in unrecognized gain on derivative instruments, net of tax						(74)		(74)
Minimum pension liability adjustment, net of tax					112			112
Total comprehensive loss								(2,618)
Shares issued for employee benefit			14				9	23

plans, net									
Dividends				(25)					(25)
Balance at									
December 31, 2005	565	\$ 6	\$ 2,744	\$ (6,429)	\$ (2,395)(a)	\$ (119)(b)	\$ (52)	\$	(6,245)

(a) Accumulated Other Comprehensive Loss Minimum Pension Liability is net of a \$1.1 billion tax effect.

(b) Accumulated Other Comprehensive Loss Other includes a loss of \$131 million within currency translation adjustments and other offset by a gain of \$12 million within net change in unrecognized gain on derivative instruments.

See notes to consolidated financial statements.

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**DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations Delphi Corporation (Delphi or the Company) is a supplier of vehicle electronics, transportation components, integrated systems and modules, and other electronic technology. Delphi's most significant customer is General Motors Corporation (GM) and North America and Europe are its most significant markets, but Delphi is continuing to diversify its customer base and geographic markets.

Consolidation The consolidated financial statements include the accounts of Delphi and domestic and foreign subsidiaries in which Delphi holds a controlling financial or management controlling interest and variable interest entities of which Delphi has determined that it is the primary beneficiary. Delphi's share of the earnings or losses of non-controlled affiliates, over which Delphi exercises significant influence (generally a 20% to 50% ownership interest), is included in the consolidated operating results using the equity method of accounting. All significant intercompany transactions and balances between consolidated Delphi businesses have been eliminated.

Bankruptcy Filing On October 8, 2005, Delphi and certain of its United States (U.S.) subsidiaries (the Initial Filers) filed voluntary petitions for reorganization relief under chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code), in the United States Bankruptcy Court for the Southern District of New York (the Court), and on October 14, 2005, three additional U.S. subsidiaries of Delphi (together with the Initial Filers, collectively, the Debtors) filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code (collectively the Debtors October 8, 2005 and October 14, 2005 filings are referred to herein as the Chapter 11 Filings). The Debtors will continue to operate their businesses as debtors-in-possession under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Court. Delphi's non-U.S. subsidiaries were not included in the filings and will continue their business operations without supervision from the U.S. Courts and will not be subject to the requirements of the Bankruptcy Code. (Refer to Note 3, Chapter 11 Bankruptcy and Going Concern)

American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7), which is applicable to companies in chapter 11, generally does not change the manner in which financial statements are prepared. However, it does require that the financial statements for periods subsequent to the filing of the chapter 11 petition distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses, realized gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the business must be reported separately as reorganization items in the statements of operations beginning in the quarter ended December 31, 2005. The balance sheet must distinguish prepetition liabilities subject to compromise from both those prepetition liabilities that are not subject to compromise and from post-petition liabilities. Liabilities that may be affected by a plan of reorganization must be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. In addition, reorganization items must be disclosed separately in the statement of cash flows. Delphi adopted SOP 90-7 effective on October 8, 2005 and has segregated those items as outlined above for all reporting periods subsequent to such date.

Use of Estimates The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) requires Delphi management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be based upon amounts that differ from those estimates.

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Revenue Recognition Delphi's revenue recognition policy is in accordance with U.S. GAAP, which requires the recognition of sales when there is evidence of a sales agreement, the delivery of goods has occurred, the sales price is fixed or determinable and the collectibility of revenue is reasonably assured. Delphi generally records sales upon shipment of product to customers and transfer of title under standard commercial terms. From time to time, Delphi may enter into pricing agreements with its customers that provide for price reductions that are conditional upon achieving certain joint cost saving targets. In December 2004, Delphi entered into such an agreement with GM whereby Delphi 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 its cooperation with certain sourcing and cost reduction initiatives of mutual benefit to the two companies and to source certain business to Delphi. In the fourth quarter of 2005, GM reimbursed Delphi for \$35 million of the price reductions, which occurred earlier in 2005 for which GM did not meet its corresponding commitment to Delphi. This payment was received prior to December 31, 2005 and was recognized as revenue upon receipt.

Sales incentives and allowances are recognized as a reduction to revenue at the time of the related sale. In addition, from time to time Delphi makes payments to customers in conjunction with ongoing and future business. Delphi recognizes these payments to customers as a reduction to revenue at the time Delphi commits to make these payments.

Shipping and handling fees billed to customers are included in net sales, while costs of shipping and handling are included in cost of sales.

Research and Development Delphi incurs costs in connection with research and development programs that are expected to contribute to future earnings. Such costs are charged against income as incurred. Research and development expenses (including engineering) were \$2.2 billion, \$2.1 billion, and \$2.0 billion for the years ended December 31, 2005, 2004, and 2003, respectively.

Cash and Cash Equivalents Cash and cash equivalents are defined as short-term, highly liquid investments with original maturities of 90 days or less.

Restricted Cash Delphi has restricted cash balances that represent balances on deposit at financial institutions that have issued letters of credit in favor of Delphi.

Marketable Securities Delphi generally holds marketable securities with maturities of 90 days or less, which are classified as cash and cash equivalents for financial statement purposes. Delphi also has securities that are held for a period longer than 90 days. Debt securities are classified as held-to-maturity, and accordingly are recorded at cost in Delphi's consolidated financial statements. Equity securities are classified as available-for-sale and are recorded in the consolidated financial statements at market value with changes in market value included in other comprehensive income. At December 31, 2005 and 2004, Delphi had available-for-sale securities with a cost basis of \$5 million and \$22 million, respectively, and a carrying value of \$10 million and \$38 million, respectively. In the event that the Company's debt or equity securities experience an other than temporary impairment in value, such impairment is recognized as a loss in the Statement of Operations.

In November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Nos. 115-1 and 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, which addresses the determination of when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The guidance in the FSP amends Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, and APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, and is effective for reporting periods beginning after December 15, 2005. Delphi does not expect the adoption to have a material effect on its financial statements.

Accounts Receivable In addition to the asset securitization programs discussed in Note 7, Asset Securitizations, from time to time Delphi enters into agreements to sell its accounts receivable. As of

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December 31, 2005, since the agreements allow Delphi to maintain effective control over the receivable, these various accounts receivable factoring facilities were accounted for as short-term debt. In previous years, these transactions were accounted for as a reduction in accounts receivable as the agreements transferred effective control over the receivables to the buyers. The allowance for doubtful accounts, which is established based upon analysis of trade receivables and their contractual due date, was \$129 million and \$91 million as of December 31, 2005 and 2004, respectively.

Retained Interest In Receivables Under Delphi's U.S. revolving accounts receivable securitization program, the Company sold a portion of its U.S. and Canadian trade receivables to Delphi Receivables LLC ("DR"), a wholly-owned consolidated special purpose entity. DR would then sell, on a non-recourse basis (subject to certain limited exceptions), an undivided interest in the receivables to asset-backed, multi-seller commercial paper conduits (the "Conduits"). When DR sold an undivided interest to the Conduits, DR retained the remaining undivided interest. The value of the retained interest, which could include eligible undivided interests that Delphi elected not to sell, is shown separately on the Company's consolidated balance sheet and therefore is not included in accounts receivable. The allowance for doubtful accounts applicable to the retained interest is allocated to DR from Delphi's allowance reserve based on the percentage of receivables sold to DR. Delphi assessed the recoverability of the retained interest on a quarterly basis and adjusted to the carrying value as necessary.

Inventories Inventories are stated at the lower of cost, determined on a first-in, first-out basis ("FIFO"), or market, including direct material costs and direct and indirect manufacturing costs. Generator core inventories have historically been valued primarily at the core acquisition cost. In the third quarter of 2005, given the changing market for remanufactured generators and general competitive conditions for generator products, the Company reduced the carrying value of generator core inventories by \$24 million.

From time to time, Delphi may receive payments from suppliers. Delphi recognizes these payments from suppliers as a reduction of the cost of the material acquired during the period to which the payments relate.

Property Property, plant and equipment, including internally-developed internal use software, is recorded at cost. Major improvements that materially extend the useful life of property are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is provided based on the estimated useful lives of groups of property generally using an accelerated method, which accumulates depreciation of approximately two-thirds of the depreciable cost during the first half of the estimated useful lives, or using straight-line methods. Leasehold improvements are amortized over the period of the lease or the life of the property, whichever is shorter, with the amortization applied directly to the asset account.

Special Tools Special tools balances represent tools, dies, jigs and other items used in the manufacture of customer components. These amounts, which are included within property in the consolidated balance sheet, include Delphi-owned tools and unreimbursed costs incurred on customer-owned special tools. Delphi-owned special tools balances are amortized over the special tool's expected life or the life of the related vehicle program, whichever is shorter. Costs incurred related to customer-owned special tools that are not subject to reimbursement are capitalized and amortized over a three year period. Engineering, testing and other costs incurred in the design and development of production parts are expensed as incurred, unless the costs are reimbursable, as specified in a customer contract.

Valuation of Long-Lived Assets Delphi periodically evaluates the carrying value of long-lived assets held for use including intangible assets, when events or circumstances warrant such a review. The carrying value of a long-lived asset held for use is considered impaired when the anticipated separately identifiable undiscounted cash flows from the asset are less than the carrying value of the asset. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved or from appraisals performed by valuation experts. Impairment losses on long-lived assets held for sale are determined in a similar manner, except that fair values are reduced for the cost to dispose of the assets.

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Intangible Assets Delphi has intangible assets, other than goodwill, of approximately \$54 million and \$80 million as of December 31, 2005 and 2004, respectively. In general, these intangible assets are being amortized over their useful lives, normally 3-17 years. During 2005, Delphi evaluated for impairment certain intangible assets that had been recorded in conjunction with previous acquisitions. Based on the current fair value of these intangible assets, Delphi management concluded that an impairment of \$6 million (\$2 million within the Electrical, Electronics, & Safety Sector and \$4 million within the Dynamics, Propulsion, Thermal & Interior sector) related to intangible assets is required in 2005.

Goodwill In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, Delphi reviews the recoverability of goodwill at least annually and any time business conditions indicate a potential change in recoverability.

Environmental Liabilities Delphi recognizes environmental cleanup liabilities when a loss is probable and can be reasonably estimated. Such liabilities generally are not subject to insurance coverage. The cost of each environmental cleanup is estimated by engineering, financial, and legal specialists within Delphi based on current law. Considering the estimated cost of investigation and remediation required and the likelihood that, where applicable, other potentially responsible parties (PRPs) will be able to fulfill their commitments at the sites where Delphi may be jointly and severally liable. For closed or closing plants owned by Delphi and properties being sold, an estimated liability is typically recognized at the time the closure decision is made or sale is recorded and is based on an environmental assessment of the plant property. The process of estimating environmental cleanup liabilities is complex and dependent primarily on the nature and extent of historical information and physical data relating to a contaminated site, the complexity of the site, the uncertainty as to what remediation and technology will be required, and the outcome of discussions with regulatory agencies and other PRPs at multi-party sites. In future periods, new laws or regulations, advances in cleanup technologies and additional information about the ultimate cleanup remediation methodology to be used could significantly change Delphi's estimates.

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 U.S. GAAP. As of December 31, 2005, our reserve for such environmental investigation and cleanup was approximately \$51 million, including approximately \$3 million included in liabilities subject to compromise, 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. Moreover, facility sales and/or closures relating to the restructuring process could trigger additional and perhaps material environmental remediation costs, as previously unknown conditions may be identified.

Warranty Delphi recognizes expected warranty costs for products sold principally at the time of sale of the product based on Delphi management estimates of the amount that will eventually be required to settle such obligations. These accruals are based on factors such as past experience, production changes, industry developments and various other considerations. Delphi's estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims.

Asset Retirement Obligations On January 1, 2003, Delphi adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*, which requires the fair value of an asset retirement obligation to be recognized in the period in which it is incurred. On December 31, 2005, Delphi adopted FASB Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS No. 143*. FIN No. 47 clarifies that the term conditional asset retirement obligation as used in SFAS No. 143, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event. FIN No. 47 also clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if fair value can be reasonably estimated. The accounting for FIN No. 47 uses the same methodology as SFAS No. 143. When a new liability is recorded, an entity will capitalize the costs of the liability by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon

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settlement of the liability, an entity settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

As a result of adopting FIN No. 47 on December 31, 2005, Delphi identified conditional retirement obligations primarily related to asbestos abatement at certain of its sites. To a lesser extent, Delphi also has conditional retirement obligations at certain sites related to the removal of storage tanks and polychlorinated biphenyl (PCB) disposal costs. Delphi recorded assets of \$2 million with offsetting accumulated depreciation of \$2 million, and an asset retirement obligation liability of \$17 million. Delphi also recorded a cumulative effect charge against earnings of \$17 million, after-tax.

If Delphi had applied FIN No. 47 to prior periods, Delphi would have recorded asset retirement obligations and charges against earnings as of and for the years ended December 31, 2004 and 2003, respectively, as follows:

	December 31,	
	2004	2003
	(in millions)	
Asset retirement obligations	\$ 16	\$ 15

	Year Ended December 31,	
	2004	2003
	(in millions)	
Charges against earnings	\$ 2	\$ 1

A reconciliation of the asset retirement obligations for 2005 is as follows:

	(in millions)
Asset retirement obligations at January 1, 2005	\$
Accretion	
Liabilities incurred (primarily adoption of FIN 47)	17
Liabilities settled	
Asset retirement obligations at December 31, 2005	\$ 17

The impact on loss per common share (both basic and diluted) in each of 2004 and 2005 would have been less than \$0.01 per share.

Postemployment Benefits Delphi's postemployment benefits primarily relate to extended-disability benefit program in the U.S. and supplemental unemployment compensation benefits. Extended-disability benefits are accrued on a service-driven basis and supplemental unemployment compensation benefits are accrued on an event-driven basis. Accruals for postemployment benefits represent the future cash expenditures expected during the period between the idling of affected employees and the time when such employees are redeployed, retire or otherwise terminate their employment. Discounting of the future extended-disability expenditures is based on the nature of the

obligation and the timing of the expected benefit payments. At December 31, 2005 and 2004, the short-term extended-disability liability balance of \$27 million and \$28 million, respectively, was included in accrued liabilities in the accompanying consolidated balance sheets. The long-term extended-disability liability balance included in other long-term liabilities in the accompanying consolidated balance sheets at December 31, 2005 and 2004 was \$226 million and \$240 million, respectively, calculated with a discount rate of 5.50% and 5.75%, respectively.

Employee Termination Benefits Delphi's employee termination benefits are mainly pursuant to union or other contractual agreements. Voluntary termination benefits are accrued when an employee accepts the related offer. One-time involuntary termination benefits are accrued when Delphi management commits to a termination plan and the benefit arrangement is communicated to affected employees. Liabilities recorded as of December 31, 2005 and 2004 were not significant.

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Worker s Compensation Benefits Delphi s worker s compensation benefits are accrued primarily on an event-driven basis and are subject to the existing worker s compensation laws that can vary by state. Accruals for worker s compensation benefits represent the future cash expenditures expected during the period between the idling of affected employees and the time when such employees are eligible for retirement or otherwise terminate their employment. Discounting of the future worker s compensation expenditures is based on the same discount rate as is used to measure Delphi s pension liability, in that the period of time covered by the future cash flows is similar. The discount rate for December 31, 2005 and 2004 was 5.50% and 5.75%, respectively. At December 31, 2005 and 2004, the short-term worker s compensation liability balance included in accrued liabilities in the accompanying consolidated balance sheets was \$86 million and \$75 million, respectively. The long-term worker s compensation liability balance included in other long-term liabilities in the accompanying consolidated balance sheets at December 31, 2005 and 2004 was \$224 million and \$152 million, respectively.

Foreign Currency Translation Assets and liabilities of foreign subsidiaries are translated to U.S. dollars at end-of-period currency exchange rates. The consolidated Statements of Operations of foreign subsidiaries are translated to U.S. dollars at average-period currency exchange rates. The effect of translation for foreign subsidiaries is generally reported in other comprehensive income. The effect of remeasurement of assets and liabilities of foreign subsidiaries that use the U.S. dollar as their functional currency is primarily included in cost of goods sold. Also included in cost of goods sold are gains and losses arising from transactions denominated in a currency other than the functional currency of a particular entity. Net transaction gains and losses, as described above, increased cost of sales by \$53 million, \$51 million, and \$68 million in 2005, 2004, and 2003, respectively.

Stock-Based Compensation Delphi s stock-based compensation programs include stock options, restricted stock units, and stock appreciation rights (SARs). As allowed under SFAS No. 123, Accounting for Stock-Based Compensation, Delphi accounts for stock-based compensation using the intrinsic value method in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, Delphi has followed the nominal vesting period approach for awards issued with retirement eligible provisions, and will continue to follow this approach for existing awards and new awards issued prior to the adoption of SFAS No. 123 revised (R) in January 2006. Following the adoption of SFAS No. 123(R), Delphi will recognize compensation cost for newly issued equity or liability instruments based on the grant-date fair value, with expense recognized over the periods that an employee provides service in exchange for the award. In 2006, Delphi expects the impact of SFAS No. 123(R) to increase the compensation expense recognized in its consolidated financial statements by approximately \$9 million, related to the remaining compensation costs for existing grants.

Stock options granted during 2004 and 2003 were exercisable at prices equal to the fair market value of Delphi common stock on the dates the options were granted; accordingly, no compensation expense has been recognized for the stock options granted. Compensation expense for restricted stock units is recognized over the vesting period. Compensation expense for SARs is recognized when the current stock price is greater than the SARs exercise price.

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If Delphi accounted for all stock-based compensation using the fair value recognition provisions of SFAS No. 123 and related amendments, its net income (loss) and basic and diluted earnings (loss) per share would have been as follows:

	Year Ended December 31,		
	2005	2004	2003
	(in millions, except per share amounts)		
Net (loss) income, as reported	\$ (2,357)	\$ (4,818)(a)	\$ (10)
Add: Stock-based compensation expense recognized, net of related tax effects	24	11	8
Less: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(37)	(23)	(25)
Pro forma net (loss) income	\$ (2,370)	\$ (4,830)	\$ (27)
(Loss) earnings per share:			
Basic and diluted as reported	\$ (4.21)	\$ (8.59)(a)	\$ (0.02)
Basic and diluted pro forma	\$ (4.23)	\$ (8.61)	\$ (0.05)

(a) Includes the impact of adjustments to previously reported income tax expense as described in Note 2, Restatement.

There were no stock options granted in 2005. The weighted average fair value of stock options granted was \$3.02 and \$2.27 during 2004 and 2003, respectively. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2004	2003
Expected volatility	37.4%	38.6%
Risk-free interest rate	4.1%	2.7%
Expected life (years)	5.0	5.0
Dividend yield	2.8%	3.5%

Derivative Financial Instruments SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, which requires that all derivative instruments be reported on the balance sheet at fair value with changes in fair value reported currently through earnings unless the transactions qualify and are designated as normal purchases or sales or meet special hedge accounting criteria.

Delphi manages its exposure to fluctuations in currency exchange rates, interest rates and certain commodity prices by entering into a variety of forward contracts, options and swaps with various counterparties. Such financial exposures are managed in accordance with Delphi's policies and procedures. Delphi does not enter into derivative transactions for speculative or trading purposes.

As part of the hedging program approval process, Delphi identifies the specific financial risk which the derivative transaction will minimize, the appropriate hedging instrument to be used to reduce the risk and the correlation

between the financial risk and the hedging instrument. Purchase orders, letters of intent, capital planning forecasts and historical data are used as the basis for determining the anticipated values of the transactions to be hedged. Delphi does not enter into derivative transactions that do not have a correlation with the underlying financial risk. The hedge positions entered into by Delphi, as well as the correlation between the transaction risks and the hedging instruments, are reviewed on an ongoing basis.

Foreign exchange forward and option contracts are accounted for as hedges of firm or forecasted foreign currency commitments to the extent they are designated and assessed as effective. All other foreign exchange contracts are marked to market on a current basis. Commodity swaps and options are accounted for as hedges of firm or anticipated commodity purchase contracts to the extent they are designated and

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assessed effective. All other commodity derivative contracts that are not designated as hedges are either marked to market on a current basis or are exempted from mark to market accounting as normal purchases. At December 31, 2005 and 2004, Delphi's exposure to movements in interest rates was not significant, and Delphi had no amounts outstanding under derivative instruments to manage interest rate risk or minimize interest expense.

Common Stock and Preferred Stock Delphi currently has one class of common stock outstanding. There are 1,350 million shares of common stock authorized, of which 561,781,590 were outstanding (565,025,907 shares issued less 3,244,317 shares held as treasury stock) at December 31, 2005 and 561,210,311 were outstanding (565,025,907 shares issued less 3,815,596 shares held as treasury stock) at December 31, 2004. Holders of Delphi common stock are entitled to one vote per share with respect to each matter presented to its shareholders on which the holders of common stock are entitled to vote. Delphi paid dividends of \$0.115 per share in 2005, of which \$0.07 was declared in 2004 but was paid in 2005, and \$0.28 per share in 2004 and 2003. There are no cumulative voting rights. Delphi's Board of Directors is also empowered to cause to be issued, in one or more series, preferred stock. The specific terms including the designation of shares, number of shares and dividend features of the preferred stock would be determined at issuance. As of December 31, 2005, Delphi has not issued any preferred stock.

Loss Per Share Basic and diluted loss per share amounts were computed using weighted average shares outstanding for each respective period. As Delphi incurred losses in each of 2005, 2004, and 2003, the effect of potentially dilutive securities has been excluded from the calculation of loss per share as inclusion would have had an anti-dilutive effect. Actual weighted average shares outstanding used in calculating basic and diluted loss per share were 560,045 thousand shares, 560,905 thousand shares, and 560,114 thousand shares in 2005, 2004, and 2003, respectively. Securities excluded from the computation of diluted loss per share because inclusion would have had an anti-dilutive effect were 84,808 thousand shares, 91,115 thousand shares and 87,069 thousand shares in 2005, 2004, and 2003, respectively.

Retention Payments During the first quarter of 2005, a retention program for U.S. salaried employees and executives as well as international executives was implemented (the Q1 2005 Retention Program). Under the terms of the program, U.S. salaried employees, other than executives, received retention payments totaling approximately \$13 million in the first quarter of 2005 and executives other than those executive officers subject to the reporting obligations of Section 16 of the Securities Exchange Act of 1934 (the reporting officers) received payments totaling approximately \$5 million in the third quarter of 2005 that related to the first of three installment payments under the plan. The cost associated with the retention program payments attributable to all U.S. salaried employees, including executives other than the reporting officers, was being recognized over the related service period. However, based upon a change in Delphi management's intention with respect to enforcing the retention agreements for U.S. employees, including executives other than the reporting officers, the remaining unamortized balance for these employees was expensed in the fourth quarter of 2005. On February 17, 2006, as part of the Courts' approval of portions of the Key Employee Compensation Program (KECP), the Company cancelled the outstanding installments due to executives other than the reporting officers.

Additionally, under the Q1 2005 Retention Program, the reporting officers were to receive payment of an award in four equal installments over a two-year period. The first installment was paid in the third quarter of 2005 totaling approximately \$0.6 million. Also on February 17, 2006, as part of the Courts' approval of portions of the KECP, the company cancelled the outstanding installments of the reporting officers' retention awards.

Contractual Interest Expense Contractual interest expense represents amounts due under the contractual terms of outstanding debt, including debt subject to compromise for which interest expense is not recognized in the income statement in accordance with the provisions of SOP 90-7.

Table of Contents***Recently Issued Accounting Pronouncements*****Inventory Costs**

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, *Inventory Costs, an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4* . SFAS No. 151 amends ARB No. 43, Chapter 4 and seeks to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted materials by requiring those items to be recognized as current period charges. Additionally, SFAS No. 151 requires that fixed production overheads be allocated to conversion costs based on the normal capacity of the production facilities. SFAS No. 151 is effective prospectively for inventory costs incurred in fiscal years beginning after June 15, 2005. The Company will adopt SFAS No. 151 on January 1, 2006, and does not expect the adoption of SFAS No. 151 to have a material effect on its financial statements.

Nonmonetary Exchanges

In December 2004, the FASB issued SFAS No. 153, *Exchanges on Nonmonetary Assets an amendment of Accounting Principles Board (APB) Opinion No. 29* . SFAS No. 153 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. SFAS No. 153 also eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges of nonmonetary assets that do not have commercial substance. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Delphi will adopt SFAS No. 153 beginning January 1, 2006, and does not expect the adoption to have a material effect on its financial statements.

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* . SFAS No. 154 replaces APB Opinion No. 20, *Accounting Changes* and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and requires the direct effects of accounting principle changes to be retrospectively applied. The existing guidance with respect to accounting estimate changes and corrections of errors is carried forward in SFAS 154. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will adopt SFAS No. 154 beginning January 1, 2006, and does not expect the adoption of SFAS No. 154 to have a material effect on its financial statements.

Other-Than-Temporary Impairments

In November 2005, the FASB issued FASB Staff Position (FSP) Nos. 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, which addresses the determination of when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The guidance in the FSP s amend SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, and is effective for reporting periods beginning after December 15, 2005. The Company does not expect the adoption to have a material effect on its financial statements.

2. RESTATEMENT

Subsequent to the issuance of Delphi s consolidated financial statements for the years ended December 31, 2004, Delphi management determined that its previously issued financial statements for 2004 required restatement to correct the accounting for income taxes. In 2005, to begin to address a significant deficiency identified during Delphi s 2004 assessment of internal control over financial reporting, Delphi implemented a new process to accumulate and record deferred tax assets and liabilities at its

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non-U.S. locations. As a result of this implementation, Delphi determined that net deferred taxes included in the consolidated balance sheet as of January 1, 2005 was misstated by \$39 million requiring a correction by increasing 2004 income tax expense. In addition, other adjustments were identified and corrected related to the calculation of the 2004 income tax provision amounting to an additional \$26 million of income tax expense.

In addition, as previously disclosed in Amendment No. 1 dated May 1, 2006 to Delphi's Annual Report on Form 10-K for the year ended December 31, 2004, the Company decreased by \$69 million previously reported net income for the period ending December 31, 2000 which resulted in a corresponding increase in additional paid-in capital and reduction in retained earnings of \$69 million, but in no change in total stockholders' (deficit) equity in each subsequent period.

Corrections have also been made in previously issued financial statements to include employee and product line charges in cost of sales within the Consolidated Statements of Operations, to separately identify goodwill impairment charges within the Consolidated Statements of Operations, to classify certain pension liabilities as minimum pension liability within other comprehensive income on the Consolidated Balance Sheets, to separately identify restricted cash in the Consolidated Balance Sheets, to separately identify the non-cash pension and other postemployment benefit expense, and to separately identify global pension contributions and other post employment benefit payments within the operating section of the Consolidated Statements of Cash Flows.

The following is a summary of the impact of the restatement on the originally issued consolidated statement of operations, consolidated balance sheet and consolidated statement of cash flows included in this filing.

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31, 2004	
	As Previously Reported	As Restated
	(in millions, except per share amounts)	
Cost of sales, excluding items listed below	\$ 25,797	\$ 25,989
Depreciation, amortization, and asset impairment charges	\$ 1,516	\$ 1,470
Goodwill impairment charges	\$	\$ 46
Employee and product line charges	\$ 192	\$
Income tax (expense) benefit	\$ (4,078)	\$ (4,143)
Net Loss	\$ (4,753)	\$ (4,818)
Basic and diluted loss per share	\$ (8.47)	\$ (8.59)

Table of Contents**CONSOLIDATED BALANCE SHEET****December 31, 2004**

	As Previously Reported	As Restated
(in millions)		
Cash and cash equivalents	\$ 964	\$ 950
Restricted cash	\$	\$ 14
Accounts receivable, net other	\$ 1,476	\$ 1,484
Deferred income taxes current assets	\$ 39	\$ 48
Deferred income taxes noncurrent assets	\$ 130	\$ 72
Other noncurrent assets	\$ 896	\$ 903
Accrued liabilities	\$ 2,694	\$ 2,691
Pension benefits	\$ 3,523	\$ 3,561
Other long-term liabilities	\$ 936	\$ 953
Additional paid-in capital	\$ 2,661	\$ 2,730
Accumulated deficit	\$ (3,913)	\$ (4,047)
Minimum pension liability	\$ (2,469)	\$ (2,507)
Accumulated other comprehensive income, excluding minimum pension liability	\$ 237	\$ 254

CONSOLIDATED STATEMENT OF CASH FLOWS**Year Ended
December 31, 2004**

	As Previously Reported	As Restated
(in millions)		
Net loss	\$ (4,753)	\$ (4,818)
Depreciation, amortization, and asset impairment charges	\$ 1,516	\$ 1,470
Goodwill impairment charges	\$	\$ 46
Deferred income taxes	\$ 4,259	\$ 4,315
Pension and other postretirement benefit expenses	\$	\$ 1,408
Accounts receivable and retained interests in receivables, net	\$ 91	\$ 83
Prepaid expenses and other	\$ (151)	\$ (158)
Accrued and other long-term liabilities	\$ 408	\$ (148)
Pension contributions and benefit payments	\$	\$ (672)
Other postretirement benefit payments	\$	\$ (173)
Other cash flows from operating activities	\$ 120	\$ 137
Cash and cash equivalents at the beginning of year	\$ 893	\$ 879
Cash and cash equivalents at end of year	\$ 964	\$ 950

3. CHAPTER 11 BANKRUPTCY AND GOING CONCERN

On October 8, 2005, Delphi and certain of its U.S. subsidiaries filed voluntary petitions in the United States Bankruptcy Court for the Southern District of New York for reorganization relief under chapter 11 of the Bankruptcy Code, and on October 14, 2005, three additional U.S. subsidiaries of Delphi filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code. The reorganization cases are being jointly administered under the caption *In re Delphi Corporation, et al.*, Case No. 05-44481 (RDD). The Debtors will continue to operate their businesses as a debtors-in-possession under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Court. Delphi's non-U.S. subsidiaries were not included in the filings and will

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continue their business operations without supervision from the U.S. courts and will not be subject to the requirements of the Bankruptcy Code.

The Debtors are operating pursuant to chapter 11 under the Bankruptcy Code and continuation of the Company as a going concern is contingent upon, among other things, the Debtors' ability (i) to comply with the terms and conditions of the debtor-in-possession ("DIP") financing agreement described below; (ii) to obtain confirmation of a plan of reorganization under the Bankruptcy Code; (iii) to reduce wage and benefit costs and liabilities through the bankruptcy process; (iv) to return to profitability; (v) to generate sufficient cash flow from operations and; (vi) to obtain financing sources to meet the Company's future obligations. These matters create uncertainty relating to the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not reflect any adjustments relating to the recoverability of assets and classification of liabilities that might result from the outcome of these uncertainties. In addition, a plan of reorganization could materially change the amounts and classifications reported in the consolidated financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of confirmation of a plan of reorganization.

On March 31, 2006, the Debtors announced their transformation plan. As part of the transformation plan, Delphi identified non-core product lines and manufacturing sites that do not fit into Delphi's future strategic framework, which it is seeking to sell or wind-down. Any sale or wind-down process is being conducted in consultation with the Company's customers, unions and other stakeholders to carefully manage the transition of affected product lines. The disposition of any U.S. operations is also being accomplished in accordance with the requirements of the Bankruptcy Code and labor contracts as applicable. The Company also has begun consultations with the works councils in accordance with applicable laws regarding any sale or wind-down of affected manufacturing sites in Europe. Non-core product lines include brake and chassis systems, catalysts, cockpits and instrument panels, door modules and latches, ride dynamics, steering and wheel bearings. The Company continually evaluates its product portfolio and could retain or exit certain businesses depending on market forces or cost structure changes. The Company intends to sell or wind-down non-core product lines and manufacturing sites by January 1, 2008. Delphi has also begun discussions with certain governmental agencies whose policies could help improve the competitiveness of plants and product lines regardless of whether they are being retained or offered for sale.

Also, on March 31, 2006, the Debtors filed a motion with the Court under sections 1113 and 1114 of the Bankruptcy Code seeking authority to reject U.S. labor agreements and to modify retiree benefits. A hearing on the section 1113 and 1114 motion was held throughout May 2006, continued into June, and adjourned until August 11, 2006. Although the Debtors believe discussions with the Debtors' unions and GM are progressing constructively, the parties have not yet reached comprehensive agreements. While we believe that the filing of the 1113 and 1114 motion with the Court is necessary to protect the Debtors' interests, we are continuing discussions and remain focused on pursuing a consensual resolution with all of our unions and GM.

In addition to addressing our legacy liabilities and improving the competitiveness of our U.S. operations through negotiation with our unions and GM and by rationalizing our portfolio, we have identified other necessary elements of a comprehensive transformation plan, including reducing our selling, general and administrative costs, realigning our salaried benefit programs to size these costs with the rationalized portfolio and make them competitive with more cost-competitive companies and obtaining relief permitting us to amortize funding obligations to our defined benefit U.S. pension plans over a longer period of time than would otherwise be available once we emerge from chapter 11. We have identified cost saving opportunities with the planned portfolio and product rationalizations and we expect to reduce our global salaried workforce by as many as 8,500 employees using existing salaried separation pay programs. In addition, in order to retain our existing U.S. defined benefit pension plans for both hourly and salaried workers, we intend to freeze those plans and going forward adopt or modify existing defined contribution plans that will include flexibility for both direct Company contributions and Company matching employee

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contributions. At the same time, salaried health care plans will be restructured to implement increased employee cost sharing.

There can be no assurances, however, that we will be successful in achieving our objectives. Our ability to achieve our objectives is conditioned, in most instances, on the approval of the Court, and the support of our stakeholders, including GM, our labor unions, and our creditors.

Under section 362 of the Bankruptcy Code, actions to collect most of the Debtors' prepetition liabilities, including payments owing to vendors in respect of goods furnished and services provided prior to the Petition Date, are automatically stayed and other contractual obligations of the Debtors generally may not be enforced. Shortly after the Petition Date, the Debtors began notifying all known actual or potential creditors of the Debtors for the purpose of identifying all prepetition claims against the Debtors. The Chapter 11 Filings triggered defaults on substantially all debt obligations of the Debtors. The stay of proceedings provisions of section 362 of the Bankruptcy Code, however, also apply to actions to collect prepetition indebtedness or to exercise control over the property of the debtor's estate in respect of such defaults. The rights of and ultimate payments by the Debtors under prepetition obligations will be addressed in any plan of reorganization and may be substantially altered. This could result in unsecured claims being compromised at less, and possibly substantially less, than 100% of their face value. For additional information, refer to Note 12, Liabilities Subject to Compromise.

Section 365 of the Bankruptcy Code permits the Debtors to assume, assume and assign, or reject certain prepetition executory contracts subject to the approval of the Court and certain other conditions. Rejection constitutes a court-authorized breach of the contract in question and, subject to certain exceptions, relieves the Debtors of their future obligations under such contract but creates a deemed prepetition claim for damages caused by such breach or rejection. Parties whose contracts are rejected may file claims against the rejecting Debtor for damages. Generally, the assumption, or assumption and assignment, of an executory contract requires the Debtors to cure all prior defaults under such executory contract and to provide adequate assurance of future performance. In this regard, Delphi expects that additional liabilities subject to compromise and resolution in the chapter 11 cases may arise as a result of damage claims created by the Debtors' rejection of executory contracts. Conversely, Delphi would expect that the assumption of certain executory contracts may convert existing liabilities shown as subject to compromise to liabilities not subject to compromise. Due to the uncertain nature of many of the potential claims, Delphi is unable to project the magnitude of such claims with any degree of certainty at this time.

The financial statements of the Debtors are presented as follows:

Basis of Presentation

Condensed Combined Debtors-in-Possession Financial Statements The financial statements contained within this note represent the condensed combined financial statements for the Debtors only. Delphi's non-Debtor subsidiaries are treated as non-consolidated subsidiaries in these financial statements and as such their net loss is included as

Equity loss from non-Debtor subsidiaries, net of tax in the statement of operations and their net assets are included as Investments in non-Debtor subsidiaries in the balance sheet. Amounts presented in the statement of cash flows for the period from the Chapter 11 Filings to December 31, 2005 were estimated based upon estimated asset and liability balances as of the filing dates and actual balances as of December 31, 2005, as well as the aforementioned estimated results of operations for the period from the Chapter 11 Filings to December 31, 2005. The Debtors' financial statements contained herein have been prepared in accordance with the guidance in SOP 90-7.

Intercompany Transactions Intercompany transactions between Debtors have been eliminated in the financial statements contained herein. Intercompany transactions with the Debtors' non-Debtor subsidiaries have not been eliminated in the financial statements and are reflected as intercompany receivables, loans and payables.

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CONDENSED COMBINED DEBTORS-IN-POSSESSION STATEMENT OF OPERATIONS
(Non-filed entities, principally non-U.S. subsidiaries, excluded from consolidated Debtor group)

**October 8, 2005 to
December 31, 2005**

(in millions)

Net sales:		
General Motors and affiliates	\$	2,482
Other customers		1,717
Intercompany non-Debtor subsidiaries		131
Total net sales		4,330
Operating expenses:		
Cost of sales, excluding items listed below		4,238
Selling, general and administrative		259
Depreciation, amortization, and asset impairment charges		274
Goodwill impairment charges		140
Total operating expenses		4,911
Operating loss		(581)
Interest expense (contractual interest expense was \$118 million)		(80)
Other income (expense), net		8
Loss before reorganization items, income tax expense, equity income and cumulative effect of		
accounting change		(653)
Reorganization items		1
Income tax benefit		30
Equity income from non-consolidated subsidiaries, net of tax		24
Equity loss from non-Debtor subsidiaries, net of tax		(213)
Cumulative effect of accounting change, net of tax		(15)
Net loss	\$	(826)

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CONDENSED COMBINED DEBTORS-IN-POSSESSION BALANCE SHEET
(Non-filed entities, principally non-U.S. subsidiaries, excluded from consolidated Debtor group)

December 31, 2005

(in millions)

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,361
Accounts receivable, net:	
General Motors and affiliates	1,654
Other third parties	1,428
Non-Debtor subsidiaries	287
Notes receivable from non-Debtor subsidiaries	349
Inventories, net:	
Productive material, work-in-process and supplies	820
Finished goods	286
Prepaid expenses and other	354
Total current assets	6,539
Long-term assets:	
Property, net	2,743
Goodwill	139
Other intangible assets, net	42
Pension intangible assets	871
Investments in non-Debtor subsidiaries	3,131
Other	675
Total assets	\$ 14,140
LIABILITIES AND STOCKHOLDERS DEFICIT	
Current liabilities not subject to compromise:	
Notes payable and secured debt in default	\$ 2,519
Accounts payable	1,027
Accounts payable to non-Debtor subsidiaries	486
Accrued liabilities	410
Total current liabilities	4,442
Long-term liabilities not subject to compromise:	
Debtor-in-possession financing	250
Employee benefit plan obligations and other	550
Total long-term liabilities	800
Liabilities subject to compromise	15,143
Total liabilities	20,385
Stockholders deficit:	
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Common stock, \$0.01 par value, 1,350 million shares authorized, 565 million shares issued		
Additional paid-in capital		2,744
Accumulated deficit		(6,429)
Minimum pension liability, Debtors only		(2,304)
Accumulated other comprehensive loss, including minimum pension liability of non-Debtor subsidiaries		(210)
Treasury stock, at cost (3.2 million shares)		(52)
Total stockholders' deficit		(6,245)
Total liabilities and stockholders' deficit	\$	14,140

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CONDENSED COMBINED DEBTORS-IN-POSSESSION STATEMENT OF CASH FLOWS
(Non-filed entities, principally non-U.S. subsidiaries, excluded from consolidated Debtor group)

**October 8, 2005 to
December 31, 2005**

(in millions)

Cash flows from operating activities:		
Net loss	\$	(826)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization, and asset impairment charges		274
Goodwill impairment charges		140
Deferred income taxes		(16)
Pension and other postretirement benefit expenses		339
Equity income from unconsolidated subsidiaries, net of tax		(24)
Equity loss from non-Debtor subsidiaries, net of tax		213
Reorganization items		(1)
Changes in operating assets and liabilities:		
Accounts receivable, net		(651)
Inventories, net		(19)
Prepaid expenses and other		172
Accounts payable, accrued and other long-term liabilities		1,139
Pension contributions and benefit payments		(2)
Other postretirement benefit payments		(51)
Receipts (payments) for reorganization items, net		9
Other		(39)
Net cash provided by operating activities		657
Cash flows from investing activities:		
Capital expenditures		(90)
Proceeds from sale of property		1
Other		(33)
Net cash used in investing activities		(122)
Cash flows from financing activities:		
Proceeds from debtor-in-possession facility, net		218
Proceeds from prepetition secured revolving credit facility, net		1
Proceeds advanced under cash overdraft		29
Repayments of borrowings under other debt		(2)
Net cash provided by financing activities		246
Increase in cash and cash equivalents		781
Cash and cash equivalents at beginning of period		580
Cash and cash equivalents at end of period	\$	1,361

Table of Contents**4. REORGANIZATION ITEMS**

SOP 90-7 requires reorganization items such as revenues, expenses such as professional fees directly related to the process of reorganizing the Debtors under chapter 11, realized gains and losses, and provisions for losses resulting from the reorganization and restructuring of the business to be separately disclosed. The Debtors' reorganization items consist of the following:

	Year Ended December 31, 2005	
	(in millions)	
Professional fees directly related to reorganization	\$	28
Interest income		(11)
Gain on settlement of prepetition liabilities		(8)
Other		(6)
Total Reorganization Items	\$	3

In 2005, reorganization items resulted in approximately \$6 million of cash received entirely related to interest income. Professional fees directly related to the reorganization include fees associated with advisors to the Debtors, unsecured creditors and secured creditors.

5. EMPLOYEE AND PRODUCT LINE LIABILITY**2004 and 2003 Charges**

In the fourth quarter of 2004, Delphi recorded charges primarily related to the recoverability of certain of Delphi's U.S. legacy plant and employee cost structure. Included in these charges were postemployment obligations and other exit costs. The employee charges were principally necessitated by the substantial decline during the second half of 2004 in Delphi's U.S. profitability, especially at impaired sites, combined with the budget business plan outlook for such sites and product lines. The postemployment obligations include estimated costs for other than temporarily idled employees, primarily at U.S. sites being consolidated, throughout the duration of their contractual employment. In the third quarter of 2005, the accrued liabilities for postemployment obligations included in the employee and product line liability were transferred to the postemployment benefits liability included in accrued liabilities and other long-term liabilities in the accompanying consolidated balance sheet (Refer to Note 11, Accrued Liabilities).

During 2004, Delphi achieved the restructuring plans approved by its Board of Directors in the third quarter of 2003 to reduce its hourly and salaried workforce by approximately 9,675 employees. These plans entailed workforce reductions 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 may return (flowback) to GM. As required under U.S. GAAP, Delphi records the costs associated with the flowback to GM as the employees accept the offer to exit Delphi. In conjunction with such plans, Delphi recorded charges for employee costs of \$86 million in 2004, which is included in cost of sales. No charges were recorded in conjunction with these plans during 2005.

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The following is a summary of the activity in the employee and product line liability related to the above plans:

Employee and Product Line Liability	Employee Costs	Exit Costs	Total
(in millions)			
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 (b)
Usage during 2004	(302)	(1)	(303)(c)
Less: reversal of 2003 charges		(2)	(2)
Balance at December 31, 2004	\$ 124	\$ 16	\$ 140
Usage during 2005	(59)	(5)	(64)
Transfer to postemployment benefits	(61)		(61)(d)
Balance at December 31, 2005	\$ 4	\$ 11	\$ 15 (e)

- (a) The \$138 million of usage in 2003 includes \$6 million of non-cash special termination pension and postretirement benefits for the year ended December 31, 2003.
- (b) Amount includes \$81 million of contractual postemployment liabilities associated with other than temporarily idled employees recorded in the fourth quarter of 2004. In 2005, the remaining balance from these liabilities was transferred to accrued liabilities and other long-term liabilities in the accompanying consolidated balance sheet see note (e) below.
- (c) The \$303 million of usage in 2004 includes \$7 million of non-cash special termination pension and postretirement benefits for the year ended December 31, 2004.
- (d) \$61 million of contractual postemployment liabilities associated with other than temporarily idled employees transferred from employee and product line liability to the postemployment benefits liability included accrued liabilities and other long-term liabilities in the accompanying consolidated balance sheet (Refer to Note 11, Accrued Liabilities).
- (e) Included in liabilities subject to compromise in the accompanying consolidated balance sheet.
During 2005, 2004 and 2003, Delphi paid \$64 million, \$296 million and \$156 million, respectively, related to employee and product line restructuring plans announced in the third quarter of 2003 and in the fourth quarter of 2004, as shown on its consolidated statement of cash flows. The remainder of the \$15 million employee and product line liability balance shown in the table may be subject to compromise or other treatment under the Debtors plan of reorganization.

2002 Charges Paid in 2003

As previously disclosed, restructuring actions approved in the first quarter of 2002 were completed as planned in the first quarter of 2003. The total cash paid in 2003 was \$156 million, as shown on the Company's 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.

6. ACQUISITIONS AND DIVESTITURES

On June 30, 2005, Delphi reached final agreement to sell its global battery product line, with the exception of two U.S. operations, to Johnson Controls Inc. (JCI), for approximately \$203 million. The transaction, comprised of net assets totaling approximately \$171 million (\$150 million within the Dynamics, Propulsion, Thermal & Interior Sector and \$21 million within the Electrical, Electronics & Safety Sector), including approximately \$8 million of cash, closed July 1, 2005. On September 29, 2005, a

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final purchase price adjustment was agreed to by JCI and Delphi and as a result, JCI paid additional proceeds of approximately \$12 million to Delphi. In connection with the transaction, Delphi entered into a contract manufacturing supply arrangement, becoming a Tier 2 supplier to JCI, and began supplying batteries from its two U.S. plants to JCI for a transition period ending on or before November 30, 2007. The final agreement with JCI contemplates a future possible transfer of operating assets of one of the two U.S. plants supplying batteries under the contract manufacturing supply agreement. The receipt of the \$215 million cash purchase price was not contingent upon completion of the future possible transfer.

The business sold generated approximately \$463 million annually in global consolidated revenues. Delphi recognized a gain on the sale of the battery business of \$44 million (\$35 million within the Dynamics, Propulsion, Thermal & Interior Sector and \$9&n