DELPHI CORP
Form 10-K
March 03, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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, 2008

OR

o

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______.

Commission file number: 1-14787
DELPHI CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**38-3430473**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5725 Delphi Drive, Troy, Michigan	**48098**
(Address of principal executive offices)	(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 o No þ.

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 o No þ.

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 þ No o.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

As of June 30, 2008, 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 $40 million. The closing price of the Common Stock on June 30, 2008 as reported on Pink Sheets, LLC, a quotation service for over the counter securities, was $0.07 per share. As of June 30, 2008, the number of shares outstanding of the registrant s Common Stock was 564,635,299 shares.

The number of shares outstanding of the registrant s Common Stock, $0.01 par value per share as of January 31, 2009, was 564,637,307.

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 1. BUSINESS

As further described below, Delphi Corporation (referred to as Delphi, the Company, we, or our) and certain of its United States (U.S.) subsidiaries filed voluntary petitions for reorganization relief under chapter 11 of the U.S. Bankruptcy Code (Bankruptcy Code) in the U.S. 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, continue their business operations without supervision from the Court and are not subject to the requirements of the Bankruptcy Code.

Overview. Delphi is a leading global supplier of mobile electronics and transportation systems, including powertrain, safety, thermal, controls and security systems, electrical/electronic architecture, and in-car entertainment technologies, engineered to meet and exceed the rigorous standards of the automotive industry. Delphi was incorporated in 1998 in contemplation of its separation from General Motors Corporation (GM) in 1999 (the Separation). 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.

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 major regions of the world. We operate our business along the following reporting operating segments that are grouped on the basis of similar product, market and operating factors:

Electronics and Safety, which includes audio, entertainment and communications, safety systems, body controls and security systems, displays, mechatronics and power electronics, as well as advanced development of software and silicon.

Powertrain Systems, which includes extensive systems integration expertise in gasoline, diesel and fuel handling and full end-to-end systems including fuel injection, combustion, electronics controls, exhaust handling, and test and validation capabilities.

Electrical/Electronic Architecture, which includes complete electrical architecture and component products.

Thermal Systems, which includes Heating, Ventilating and Air Conditioning (HVAC) systems, components for multiple transportation and other adjacent markets, and powertrain cooling and related technologies.

Automotive Holdings Group, which includes non-core product lines and plant sites that do not fit Delphi s future strategic framework.

Corporate and Other, which includes the Product and Service Solutions business, which is comprised of independent aftermarket, diesel aftermarket, original equipment service, consumer electronics and medical systems, in addition to the expenses of corporate administration, other expenses and income of a non-operating or strategic nature, and the elimination of inter-segment transactions.

We also have non-core steering and halfshaft product lines and interiors and closures product lines that are reported in discontinued operations for accounting purposes. Previously, the steering and halfshaft product line was a separate operating segment and the interiors and closures product line was part of our Automotive Holdings Group segment. Refer to Note 5. Discontinued Operations to the consolidated financial statements for more information.

Chapter 11 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 reorganization cases are being jointly administered under the caption In re Delphi Corporation, et al., Case No. 05-44481 (RDD). 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 of the Bankruptcy Code 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.

Delphi s non-U.S. subsidiaries were not included in the Chapter 11 Filings, continue their business operations without supervision from the Court and are not subject to the requirements of the Bankruptcy Code. Nevertheless, we have been and will continue to seek to optimize our global manufacturing footprint to lower our overall cost structure. Refer to Note 2. Transformation Plan and Chapter 11 Bankruptcy to the consolidated financial statements for more information.

First Day and Other Operational Orders. At the commencement of the chapter 11 cases, the Court entered a number of orders intended to generally stabilize the Debtors operations and allow the Debtors to operate substantially in the ordinary course of business. These orders covered, among other things, human capital obligations, supplier relations, customer relations, business operations (including payment of certain prepetition payables to certain shippers, warehousemen and contractors), cash management, and retention of certain professional service providers.

Statutory 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, to represent holders of Delphi s common stock in the chapter 11 cases (the Equity Committee). On July 23, 2008, the Creditors Committee and Wilmington Trust Company (WTC), as Indenture Trustee and a member of the Creditors Committee, filed separate complaints in the Court seeking revocation of the Court order entered on January 25, 2008 confirming Delphi s plan of reorganization. The Creditors Committee had earlier advised Delphi that it intended to file the complaint to preserve its interests with regard to a 180-day statutory period that would have otherwise expired on July 23, 2008. The Creditors Committee and WTC also advised Delphi that they do not intend to prosecute such complaints pending developments on (i) the continuation of stakeholder discussions concerning potential modifications to the previously confirmed plan of reorganization, which would permit Delphi to emerge from chapter 11 as soon as practicable, and (ii) Delphi s litigation against an affiliate of lead investor Appaloosa Management L.P. and the other investors who were party to the Equity Purchase and Commitment Agreement dated as of August 3, 2007, as amended.

Debtor-in-Possession Financing and GM Liquidity Support On October 28, 2005, the Court entered an order granting Delphi s request for $2.0 billion in senior secured debtor-in-possession (DIP) financing 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 were used to fund postpetition operating expenses, including supplier obligations and employee wages, salaries and benefits. On January 5, 2007, Delphi refinanced its prepetition and postpetition credit facilities by entering into a Revolving Credit, Term Loan, and Guaranty Agreement (the Refinanced DIP Credit Facility) to borrow up to approximately $4.5 billion from a syndicate of lenders. During the second quarter of 2008, Delphi received Court approval and the required commitments from its lenders to amend and extend its Refinanced DIP Credit Facility (the Amended and Restated

DIP Credit Facility), which amendments and extension became effective in May 2008. As a result of the amendment and restatement, the aggregate size of the facility was reduced from $4.5 billion to $4.35 billion,

consisting of a $1.1 billion first priority revolving credit facility (Tranche A or the Revolving Facility), a $500 million first priority term loan (the Tranche B Term Loan) and a $2.75 billion second priority term loan (the Tranche C Term Loan). On December 12, 2008, pursuant to the authority granted by the Court on December 3, 2008, Delphi entered into an accommodation agreement (the Accommodation Agreement) with its lenders whereby such lenders agreed to, among other things, allow Delphi to continue using the proceeds of the Amended and Restated DIP Credit Facility and to forbear from the exercise of certain default-related remedies, in each case until June 30, 2009 (or May 5, 2009 if Delphi does not achieve certain milestones in its reorganization cases), but subject to the continued satisfaction by Delphi of a number of covenants and conditions.

Delphi also has the ability to draw down amounts pursuant to an agreement with GM whereby GM agreed to advance payments to be made by GM to Delphi following the effectiveness of the GM settlement and restructuring agreements (the GM Advance Agreement), which agreement was later extended and amended during the second half of 2008 to provide up to $300 million in advances through June 30, 2009. In addition, GM has agreed to accelerate payment of certain payables to Delphi, which could result in an additional $300 million of liquidity to Delphi to be provided through May of 2009 (the Partial Temporary Accelerated Payments Agreement).

On January 30, 2009, Delphi reached agreement with its lenders to amend (the Amendment) the Accommodation Agreement. In support of Delphi s efforts to develop a modified reorganization plan adapted to the current global economic environment, the lenders agreed to modify certain financial covenants and pay-down requirements contained in the Accommodation Agreement. In addition, GM agreed to immediately accelerate payment of $50 million in payables to Delphi under the Partial Temporary Accelerated Payments Agreement and to, no later than February 27, 2009, either accelerate payment of an additional $50 million in payables under such agreement or increase from $300 million to $350 million the amount which it is committed to advance under the GM Advance Agreement. The Amendment and GM s agreement to accelerate payments were effective January 30, 2009; however, both agreements were subject to satisfaction of certain post-closing conditions, including Court approval and in the case of the Amendment, the payment of fees to the consenting lenders. The Company filed motions with the Court seeking approval of these agreements and authority to pay the applicable fees. Just prior to the hearing on such motions, the lenders and Delphi agreed to a further supplemental amendment to the Accommodation Agreement (the Supplemental Amendment), to further extend certain milestone dates, and on February 24, 2009 the Court approved the Amendment, the Supplemental Amendment and the amendment to the Partial Temporary Accelerated Payments Agreement. Accordingly, absent changes to the GM Advance Agreement, Delphi believes it has access to sufficient liquidity to fund its operations and remain in compliance with the covenants in the Amended and Restated DIP Credit Facility and Accommodation Agreement into April 2009. In addition, Delphi projects it will have sufficient additional liquidity support to manage its U.S. operations into May 2009 as it continues discussions with its stakeholders on proposed modifications to the Plan, subject to satisfaction of certain specified milestones in its reorganization cases and the conditions necessary to consummate the agreement reached with GM on March 3, 2009 described below whereby GM would increase the amounts available under the GM Advance Agreement to a total of $450 million.

On February 27, 2009, as provided for under the January 30, 2009 amendment to the Partial Temporary Accelerated Payments Agreement, GM opted to commit to increase from $300 million to $350 million the amounts available under the GM Advance Agreement, subject to (i) the President s Designee in accordance with the provisions of GM s federal loans not having notified GM prior to March 24, 2009 that the increase is not permitted, and (ii) Court approval of the increase prior to March 25, 2009. Additionally, on March 3, 2009 GM committed to further increase from $350 million to $450 million the amounts available under the GM Advance Agreement, subject to (i) the President s Designee in accordance with the provisions of GM s federal loans not having notified GM prior to March 24, 2009 that the increase is not permitted, (ii) Court approval of the further increase prior to March 25, 2009, (iii) approval by GM s board of directors, (iv) execution of a definitive transaction agreement relating to the sale of Delphi s Steering Business to GM prior to March 24, 2009, and (v) Court approval of the Steering Business Option Exercise Agreement between Delphi and GM prior to March 25, 2009. The Option Exercise Agreement contains a

procedure for completing the

definitive transaction agreement relating to the sale of the Steering Business to GM which, among other things, takes into account the terms of the Amended MRA and certain modifications set forth in the Option Exercise Agreement. Based on the terms of the Option Exercise Agreement and the Amended MRA, the terms upon which the Steering Business will be sold to GM have been substantially agreed by GM and Delphi. The Option Exercise Agreement is subject to conditions described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Discontinued Operations: Steering and Halfshaft Business. In addition, the Amendment and Supplemental Amendment to the Accommodation Agreement will allow Delphi to access additional liquidity through the periodic release of amounts currently in a cash collateral basket of up to $117 million, provided (i) that all of the above conditions necessary to increase amounts available under the GM Advance Agreement to $450 million are satisfied, (ii) Delphi remains in compliance with all mandatory prepayment provisions and other covenants in the Accommodation Agreement, including the borrowing base calculation after giving effect to such release, and (iii) Delphi has achieved the remaining specified milestones in its reorganization cases, including the filing of a plan of reorganization or modifications to the Plan meeting the conditions specified in the Accommodation Agreement by April 2. Delphi believes receipt of GM s commitment is a significant step toward Delphi being able to secure such additional liquidity. However liquidity remains constrained and we must continue implementing and executing our cash savings initiatives to preserve liquidity in this very difficult economic environment.

Notwithstanding the Accommodation Agreement, Delphi is in default of the terms of its Amended and Restated DIP Credit Facility and as a result, Delphi is no longer able to make additional draws under the facility after December 12, 2008. For further details on Delphi s sources and uses of liquidity and for a more detailed description of the terms of the Accommodation Agreement, as amended by the Amendment and Supplemental Amendment, including the covenants and conditions to the lenders continued forbearance from exercising remedies through the accommodation period, the milestones Delphi must achieve in its chapter 11 cases to avoid an early termination of the accommodation period, the remaining conditions which must be satisfied to receive additional liquidity support under the Accommodation Agreement, and the terms and conditions in the GM Advance Agreement and Partial Temporary Accelerated Payments Agreement, refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

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 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.

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 a debtor to cure all prior defaults under such executory contract and to provide adequate assurance of future performance. Additional liabilities subject to compromise and resolution in the chapter 11 cases have been asserted as a result of damage claims created by the Debtors rejection of executory contracts. For additional information, refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, Plan of Reorganization and Transformation Plan in this Annual Report.

Treatment of Prepetition Claims; Proofs of Claim. 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 prepetition 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 respect of such defaults. On April 12, 2006, the Court entered an order establishing July 31, 2006 as the bar date. The bar date was the date by which claims against the Debtors arising prior to the Debtors Chapter 11 Filings were required to be filed if the claimants wish to receive any distribution in the chapter 11 cases. On April 20, 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. The rights of and ultimate payments by the Debtors under prepetition obligations are set forth in the modified Plan, as referenced below. For additional information, refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Plan of Reorganization and Transformation Plan in this Annual Report and Note 14. Liabilities Subject to Compromise to the consolidated financial statements in this Annual Report.

Plan of Reorganization and Transformation Plan. On September 6, 2007 Delphi filed its proposed plan of reorganization (the Plan) and related disclosure statement (the Disclosure Statement) with the Court. The Plan and Disclosure Statement outline Delphi s transformation centering around five core areas, including agreements reached with each of Delphi s principal U.S. labor unions and GM, a plan to streamline our product portfolio and make the necessary manufacturing alignment with our new focus, transform our cost structure and resolve our pension funding situation. On February 4, 2008, the Confirmation Order entered by the Court on January 25, 2008 with respect to Delphi s Plan and Disclosure Statement became final. Under the terms and subject to the conditions of the Equity Purchase and Commitment Agreement between Delphi and certain affiliates of lead investor Appaloosa Management L.P. (Appaloosa), Harbinger Capital Partners Master Fund I, Ltd. (Harbinger), Pardus Capital Management, L.P. (Pardus) and Merrill Lynch, Pierce, Fenner & Smith, Incorporated (Merrill), UBS Securities LLC (UBS), and Goldman Sachs & Co. (Goldman) (collectively the Investors), dated as of August 3, 2007, as amended (and together with all schedules and exhibits thereto, the EPCA), the Investors committed to purchase $800 million of convertible preferred stock and approximately $175 million of common stock in the reorganized Company. Additionally, subject to satisfaction of other terms and conditions, the Investors committed to purchase any unsubscribed shares of common stock in connection with an approximately $1.6 billion rights offering that was made available to unsecured creditors. On April 4, 2008, Delphi announced that although it had met the conditions required to substantially consummate its Plan, including obtaining $6.1 billion of exit financing, the Investors refused to participate in a closing that was commenced but not completed on that date. Several hours prior to the scheduled closing on April 4, 2008, Appaloosa delivered to Delphi a letter, stating that such letter constitutes a notice of immediate termination of the EPCA. Appaloosa s April 4 letter alleged that Delphi had breached certain provisions of the EPCA and that Appaloosa is entitled to terminate the EPCA. At the time Appaloosa delivered its letter, other than the Investors, all the required parties for a successful closing and emergence from chapter 11, including representatives of Delphi s exit financing lenders, GM, and the Creditors Committee and Equity Committee in Delphi s chapter 11 cases were present, were prepared to move forward, and all actions necessary to consummate the plan of reorganization were taken other than the concurrent closing and funding of the EPCA. Delphi believes that Appaloosa wrongfully terminated the EPCA and disputes the allegations that Delphi breached the EPCA or failed to satisfy any condition to the Investors obligations thereunder as asserted by Appaloosa in its April 4 letter. Delphi s Board of Directors formed a special litigation committee and engaged independent legal counsel to consider and pursue any and all available equitable and legal remedies, and as further described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations - Plan of Reorganization and Transformation Plan, on May 16, 2008, Delphi filed complaints against the Investors in the Court to seek specific performance by the Investors of their obligations under the EPCA as well as compensatory and punitive damages.

Throughout the second and third quarters of 2008, Delphi engaged in discussions with its stakeholders, including GM and representatives of both statutory committees, to develop modifications to the Plan that would allow Delphi to emerge from chapter 11. On October 3, 2008, Delphi filed proposed modifications to the Plan and related

modifications to the Disclosure Statement with the Court which contained an updated business plan associated with a mid-point total enterprise business valuation of $7.2 billion, and contemplated

that Delphi would need to raise approximately $3.75 billion of emergence capital through a combination of term debt and rights to purchase equity. However since the filing of the proposed modifications, substantial uncertainty and a significant decline in capacity in the credit markets, the global economic downturn generally and the current economic climate in the automotive industry, have adversely impacted Delphi s ability to develop a revised recapitalization plan and successfully consummate a confirmed plan of reorganization. Delphi continues to be engaged in comprehensive discussions with all of its stakeholders that have a continuing economic interest in its chapter 11 cases to formulate further plan modifications. In connection with those discussions, Delphi has been making further revisions to its business plan consistent with the extremely low volume production environment in the global automotive industry and depressed global capital and equity markets. Although no formal valuation of the revised business plan has been completed, it is anticipated that the total business enterprise value associated with the revised plan will be substantially below the valuation range contained in the modifications filed in October 2008 and may be equivalent to, or even less than, the amount of Delphi s postpetition obligations, including its borrowings under its debtor-in-possession financing facility. These factors also continue to delay Delphi s emergence from chapter 11 and its ability to refinance its Amended and Restated DIP Credit Facility. To address the likelihood of continued low U.S. automotive production volumes, Delphi continues to implement a number of cash conservation measures, including temporary lay-offs and salaried benefit cuts for both active employees and retirees, delay of capital and other expenditures, permanent salaried work-force reductions, and other cost saving measures to ensure adequate liquidity for operations until volumes recover or until the Company is able to complete further restructuring efforts in response to changes in the global automotive industry. The combination of these actions, together with the above noted Amendment and Supplemental Amendment to the Accommodation Agreement, and GM s commitment to increase amounts available under the GM Advance Agreement, assuming all required governmental approvals are received, all other conditions with respect to such commitment are satisfied prior to March 25, 2009, and Delphi is able to meet certain specified milestones in its reorganization cases, is expected to provide the Company with sufficient short-term U.S. liquidity to support its working capital requirements and operations into May 2009. In addition, the Amendment and Supplemental Amendment to the Accommodation Agreement will allow Delphi to access additional liquidity through the periodic release of amounts currently in a cash collateral basket of up to $117 million, provided (i) that all of the above conditions necessary to increase amounts available under the GM Advance Agreement to $450 million are satisfied, (ii) Delphi remains in compliance with all mandatory prepayment provisions and other covenants in the Accommodation Agreement, including the borrowing base calculation after giving effect to such release, and (iii) Delphi has achieved the remaining specified milestones in its reorganization cases, including the filing of a plan of reorganization or modifications to the Plan meeting the conditions specified in the Accommodation Agreement by April 2. However liquidity remains constrained and we must continue implementing and executing our cash savings initiatives to preserve liquidity in this very difficult economic environment. Delphi continues to be engaged in comprehensive discussions with GM related to GM s role in a modified plan of reorganization, including potential modifications to the Master Restructuring Agreement, as amended (the MRA) as part of the April 2 milestone for Delphi s filing of modifications to its previously confirmed plan of reorganization, as contemplated by the Supplemental Amendment. Delphi and GM are discussing pulling forward elements of GM s previously agreed support for Delphi into one payment at emergence in combination with the transfer to GM of certain of Delphi s U.S. manufacturing sites dedicated principally to supplying product to GM. This potential arrangement or modifications to existing agreements are designed to facilitate Delphi s emergence from chapter 11, notwithstanding the current state of the global economy, the automotive market and the capital markets. Discussions among the parties are ongoing. Refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Plan of Reorganization and Transformation Plan in this Annual Report for more information.

Delphi will not emerge from bankruptcy as a going concern unless and until Delphi is able to obtain confirmation of necessary modifications to the Plan that recognize the existing market conditions. Moreover, the continued forbearance by Delphi s lenders under the DIP financing and the effectiveness of any modified plan of reorganization is subject to a number of conditions, including the entry of certain orders by the Court

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and the obtaining of necessary emergence capital. There can be no assurances that such emergence capital will be obtained (or, if obtained, the terms thereof) or such other conditions will be satisfied.

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. In addition, Delphi cannot assure that potential adverse publicity associated with the Chapter 11 Filings and the resulting uncertainty regarding its future prospects will not materially hinder its ongoing business activities and its ability to operate, fund and execute its business plan by impairing relations with existing and potential customers; negatively impacting its ability to attract, retain and compensate key executives and to retain employees generally; limiting its ability to obtain trade credit; and impairing present and future relationships with vendors and service providers. Accordingly, 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. If certain requirements of the Bankruptcy Code are met, a plan of reorganization can be confirmed notwithstanding its rejection by a company 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. 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.

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 the requirements of federal bankruptcy law. While such financial information accurately reflects information 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).

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. Although overall long-term growth of vehicle sales and production is expected in the VM market, the industry is currently experiencing significant declines in volume. Demand for automotive parts in the VM market is generally a function of the number of new vehicles produced, which is primarily driven by macro-economic factors such as credit availability, interest rates, fuel prices, consumer confidence, employment and other trends. Although VM demand is tied to planned vehicle production, the automotive parts industry also has the opportunity to grow through increasing product content per vehicle, further penetrating business with existing customers and by gaining new customers and markets. Companies with a global presence and advanced technology, engineering, manufacturing and customer support capabilities are best positioned to take advantage of these opportunities.

We believe that continuously increasing demands of society have created the emergence of three mega-trends that will serve as the basis for the next wave of market-driven technology advancement. Delphi s challenge is to continue developing leading edge technology focused on addressing these mega-trends, apply 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 align with these mega-trends where we believe we can provide differentiation to our automotive, aftermarket, and adjacent markets customers. For more information on our core product portfolio refer to Item 1. Business Products and Competition in this Annual Report.

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Safe. The first mega-trend Safe, represents technologies aimed not just at protecting vehicle occupants when a crash occurs, but those that actually proactively mitigate the risk of a crash occurring. VMs continue to focus on improving occupant and pedestrian safety 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 advanced occupant protection systems, lane departure warning systems and collision avoidance technologies.

Green. The second mega-trend Green, represents technologies designed to help reduce emissions, increase fuel economy and minimize the environmental impact of vehicles. 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. Green is a key mega-trend today because of the convergence of several issues: global warming, higher oil prices, increased concern about oil dependence, and recent and pending legislation in the U.S. and overseas regarding fuel economy and carbon dioxide emissions.

Connected. The third mega-trend Connected, represents technologies designed to seamlessly integrate the highly complex electronic world in which automotive consumers live, into the cars that they drive, so that time in a vehicle is more productive and enjoyable. The technology content of vehicles continues to increase as consumers demand greater safety, personalization, 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.

These mega-trends are expected to create growth and opportunity for VMs and their suppliers that can meet these consumer demands. In response to these mega-trends, which are largely driven by consumer demand for greater vehicle performance, functionality and affordable convenience options that take advantage 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, VMs are expanding the electronic and technological content of vehicles. 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.

Additionally, Delphi believes that several key operational trends have reshaped 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 non-U.S. suppliers coupled with lower volumes of domestic VMs is driving further consolidation in the domestic supplier 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.

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. In developing countries, demand is increasing 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.

Pricing Pressures. The cost-cutting initiatives adopted by VMs 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 anticipate continued pricing pressure as VMs pursue restructuring and cost cutting initiatives.

Global Capability, Industry Consolidation and Restructuring. 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 various 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 industry consolidation as suppliers work to establish capabilities within the major regions, as they follow their customers. 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. Additionally, the VM market, particularly in North America and Europe, is experiencing significant financial challenges due to unprecedented decreases in volume and high fixed cost structures. The VMs continue to implement actions to reduce capacity and cost structures while investing in new technologies and global vehicle platforms, but have experienced delays. In response, automotive parts suppliers are also attempting to reduce capacity and reduce costs and are investing in new technologies. However, recent significant declines in VM production volume combined with high material and labor costs has adversely impacted the financial condition of several automotive parts suppliers resulting in accelerated industry consolidation and the need of many domestic suppliers, including Delphi, to restructure operations and refocus product design and development to compete more effectively. Constraints in the credit markets have made access to additional liquidity to fund restructuring difficult and costly. These conditions are expected to continue into the foreseeable future, which may result in continued industry consolidation and additional restructurings in the automotive parts industry. Companies in the automotive parts industry must work to maintain liquidity, reduce capacity and costs and focus on diversifying the customer base.

Research, Development and Intellectual Property

Delphi maintains technical engineering centers in major regions 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, 2008 and 2007, we employed approximately 16,500 and 18,500, respectively, engineers, scientists and technicians around the world, including 12,000 and 16,000, respectively, at our technical centers and customer centers, with over one-third focused on electronic and high technology products, including software algorithm development. We believe that our engineering and technical expertise, together with our emphasis on continuing research and development, allow 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. However, in light of increasing need to reduce costs and more efficiently rationalize capital spending, Delphi is more critically evaluating the profit potential of new and existing customer programs and the extent to which any proposed investment is necessary to maintain or improve the Company s operating margins and has reduced the level of engineers, scientists and technicians around the world in line with the overall reductions to the salaried workforce. Total expenditures for research and development activities (including engineering) were approximately $1.9 billion, $2.0 billion, and $2.0 billion for the years ended December 31, 2008, 2007, and 2006, 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 which is needed to support ongoing operations and the significant reorganization activity planned. We expect expenditures for research and development activities to be approximately $1.5 billion in 2009.

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.

Materials

The principal raw materials we use to manufacture our products include aluminum, copper, resins, and steel. 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.

For the past three years, we were challenged by commodity cost increases, most notably copper, aluminum, petroleum-based resin products, steel and steel scrap, and fuel charges. We are continually seeking to manage these and other material related 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, hedging of certain commodities and other means. In the case of copper, which primarily affects the Electrical/Electronic Architecture segment, contract escalation clauses have enabled us to pass on some of the price increases to our customers and thereby partially offset the impact of increased commodity costs on operating income for the related products. However, 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. We anticipate that an increase in the number of financially volatile key suppliers is likely to continue into the future. We will continue and increase our efforts to pass market-driven commodity cost increases to our customers in an effort to mitigate all or some of the adverse earnings impacts incurred on quoted customer programs. At the end of the third quarter and throughout the fourth quarter of 2008, and into early 2009, the market price of certain commodities, including copper and oil prices, declined significantly and may foreshadow lower cost petroleum-based resin products and lower fuel charges in the future; however prices remain extremely volatile, complicating hedging strategies and other efforts to plan and manage such costs. Our overall 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 in order to recover the actual commodity costs we are incurring.

Employees-Union Representation

As of December 31, 2008, we employed approximately 146,600 people (18,900 in the U.S., and 127,700 outside of the U.S.): approximately 32,700 salaried employees and approximately 113,900 hourly employees. On a comparable basis, as of December 31, 2007, we employed approximately 169,500 people (28,400 in the U.S., and 141,100 outside of the U.S.): approximately 36,100 salaried employees and approximately 133,400 hourly employees. Our unionized employees are represented worldwide by approximately 50 unions, including the International Union, United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW), the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers-Communication Workers of America (IUE-CWA), the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union and its Local Union 87L (together, the USW), and Confederacion De Trabajadores Mexicanos (CTM). As of December 31, 2008 and 2007, approximately 8,800 and 14,200 hourly employees were represented by the UAW, approximately 1,300 and 2,000 by the IUE-CWA and approximately 300 and 500 by the USW and other unions, respectively.

In 2006, the Court entered orders authorizing Delphi to enter into an attrition program and supplemental attrition program with GM and the UAW (the UAW Attrition Programs), which offered, among other things, certain eligible Delphi U.S. hourly employees represented by the UAW normal and early voluntary retirements and incentives. Also

in 2006, Delphi, GM, and the IUE-CWA reached agreement on the terms of a special attrition program which mirrored in all material respects the UAW Attrition Programs (the IUE-CWA Special

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Attrition Program). For more detail regarding the UAW Attrition Programs and the IUE-CWA Special Attrition Program, refer to Note 16. U.S. Employee Workforce Transition Programs to the consolidated financial statements. WTC, as indenture trustee to the Debtors senior notes and debentures, filed a notice of appeal from the Court s order approving the UAW Special Attrition Program. On July 17, 2006, WTC filed a notice of appeal from the order approving the UAW Supplemental Agreement and the IUE-CWA Special Attrition Program. The appeals have been placed in suspense and resolution is not expected to have a material impact on Delphi s financial condition or results of operations.

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 commenced in May 2006 and continued into June, and thereafter was adjourned on several occasions. In June, July and August 2007, Delphi signed agreements with its principal U.S. labor unions which settled the Debtors motion under sections 1113 and 1114 of the Bankruptcy Code. Among other things, as approved and confirmed by the Court, this series of settlement agreements or memoranda of understanding among Delphi, its unions, and GM modify, extend or terminate provisions of the existing collective bargaining agreements among Delphi and its unions, covering a four-year term with each union. The U.S. labor settlement agreements include workforce transition programs which provide eligible employees with transformation plan options. Refer to Note 16. U.S. Employee Workforce Transition Programs to the consolidated financial statements for more information. On September 26, 2008, Delphi received the consent of its labor unions to implement certain aspects of the comprehensive settlement agreements with GM as discussed further in Arrangements Between Delphi and GM below.

Products and Competition

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, application of lean principles, operational flexibility, customer service and overall management. In addition, our customers generally require that we demonstrate improved efficiencies, through cost reductions and/or price improvement, on a year-over-year basis.

Delphi s critical success factors for original equipment manufacturers include:

- developing products and technologies that are aligned with VMs and aftermarket customers needs and expectations for value; and

- managing our overall cost structure so that we preserve operational flexibility, offer products at competitive prices and continue to invest in new technologies and product development, including managing our global manufacturing footprint to ensure proper placement and workforce levels aligned with business needs, offering competitive wages and benefits, maximizing efficiencies in manufacturing processes, and reducing overall material costs.

Core Product Portfolio. Delphi focused its product portfolio on those core technologies for which we believe we have significant competitive and technological advantages. Delphi will concentrate the organization around the following core strategic product lines:

- Controls & Security (Body Controllers & Security Systems, Mechatronics 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 Systems and Safety Electronics)

Thermal (Climate Control & Powertrain Cooling)

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Delphi s organizational structure and management reporting support the management of these core product lines. Our current product offerings are organized in the following five operating segments: Electronics and Safety, Powertrain Systems, Electrical/Electronic Architecture, Thermal Systems, as well as the Automotive Holdings Group. Our operating segment product offerings and principal competitors as of December 31, 2008 are described below. Refer to Note 22. Segment Reporting to the consolidated financial statements and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report for additional financial information regarding each operating sector. In addition to these five operating segments, we have product sales in the automotive aftermarket, including diesel and original equipment service, consumer electronics and the medical device industry which are reported in the Corporate and Other segment and we have steering and halfshaft product sales and interiors and closures product sales which are reported in discontinued operations.

Below is a summary of financial information related to each of our segments followed by a description of our segment product offerings and principal competitors.

	Electronics and Safety	Powertrain Systems	Electrical/ Electronic Architecture	Thermal Systems	Automotive Holdings Group	Corporate and Other	Total
				(in millions)			
2008:							
Net sales	$ 4,048	$ 4,470	$ 5,649	$ 2,121	$ 1,348	$ 424	$ 18,060
Operating (loss) income	$ (654)	$ (130)	$ (361)	$ 18	$ (68)	$ (286)	$ (1,481)
OIBDAR	$ (70)	$ 120	$ 96	$ 39	$ 44	$ 40	$ 269
2007:							
Net sales	$ 5,035	$ 5,663	$ 5,968	$ 2,412	$ 2,946	$ 259	$ 22,283
Operating income (loss)	$ 63	$ (276)	$ (36)	$ (29)	$ (393)	$ (1,274)	$ (1,945)
OIBDAR	$ 439	$ 125	$ 329	$ 84	$ 73	$ (319)	$ 731
2006:							
Net sales	$ 5,093	$ 5,565	$ 5,365	$ 2,607	$ 3,638	$ 469	$ 22,737
Operating income (loss)	$ 188	$ (128)	$ (110)	$ (170)	$ (488)	$ (3,834)	$ (4,542)
OIBDAR	$ 489	$ 234	$ 154	$ (6)	$ (121)	$ (864)	$ (114)

Corporate and Other, which includes the Product and Service Solutions business which is comprised of independent aftermarket, diesel aftermarket, original equipment service, consumer electronics and medical systems, in addition to the expenses of corporate administration, other expenses and income of a non-operating or strategic nature, and the elimination of inter-segment transactions.

Management believes segment operating income before depreciation, amortization, transformation and rationalization charges and discontinued operations (OIBDAR) is a meaningful measure of performance and it is used by management and our Board of Directors to analyze Company and stand-alone segment operating performance. Segment OIBDAR should not be used as a substitute for results prepared in accordance with U.S. GAAP and should not be considered as an alternative to operating income, which is the most directly comparable financial measure to OIBDAR that is in accordance with U.S. GAAP. Segment OIBDAR, as determined and measured by Delphi, should also not be compared to similarly titled measures reported by other companies. Refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations by Segment in this Annual Report for further details, including a reconciliation to U.S. GAAP operating income (loss).

Continuing Operations

Electronics and Safety. This segment offers a wide range of electronic and safety equipment in the areas of controls, security, entertainment, communications, safety systems and power electronics.

Controls and security products primarily consist of body computers, security systems, displays and mechatronics (interior switches, integrated center panel, gear shift sensors).

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Entertainment and communications business primarily consists of advanced reception systems, digital receivers, satellite audio receivers, navigation systems, rear-seat entertainment, and wireless connectivity.

Safety systems primarily consist of airbags, occupant detection systems, collision warning systems, advanced cruise control technologies, safety electronics, seat belts, and steering wheels.

Power electronics primarily consist of power modules, inverters and converters and battery packs.

Principal competitors in the Electronics and Safety segment include Continental AG, Denso Corporation, Valeo Inc., Bosch Group, Autoliv Inc. and TRW Automotive.

Powertrain Systems. This segment offers high quality products for complete engine management systems (EMS) to help optimize performance, emissions and fuel economy.

The gasoline EMS portfolio features fuel injection and air/fuel control, valve train, ignition, sensors and actuators, transmission control products, and powertrain electronic control modules with software, algorithms and calibration.

The diesel EMS product line offers high quality common rail system technologies.

Supply integrated fuel handling systems for gasoline, diesel, flexfuel and biofuel configurations.

Innovative evaporative emissions systems that are recognized as industry-leading technologies.

Principal competitors in the Powertrain Systems segment include Bosch Group, Denso Corporation, Magneti Marelli Powertrain USA, Inc. and Continental AG.

Electrical/Electronic Architecture. This segment offers complete Electrical/Electronic Architectures for our customer-specific needs that help reduce production cost, weight and mass, and improve reliability and ease of assembly.

High quality connectors are engineered primarily for use in the automotive and related markets, but also have applications in the aerospace and military and telematics sectors.

Electrical centers provide centralized electrical power and signal distribution and all of the associated circuit protection and switching devices, thereby optimizing the overall vehicle electrical system.

Distribution systems are integrated into one optimized vehicle electrical system utilizing smaller cable and gauge sizes and ultra-thin wall insulation.

Principal competitors in the Electrical/Electronic Architecture segment include Yazaki Corporation, Sumitomo, Lear Corporation, Molex Inc. and Tyco International.

Thermal Systems. This segment offers energy efficient thermal system and component solutions for the automotive market and continues to develop applications for the non-automotive market. Delphi s Automotive Thermal Products are designed to meet customers needs for powertrain thermal management and cabin thermal comfort (climate control).

Main powertrain cooling products include condenser, radiator and fan module assemblies and components, which includes radiators, condensers and charge air cooling heat exchangers.

Climate control portfolio includes HVAC modules, with evaporator and heater core components, compressors and controls.

Principal competitors in the thermal automotive segment include Behr GmbH & Co. KG, Denso Corporation, Valeo Inc. and Visteon Corporation.

Automotive Holdings Group. This segment is comprised of select plant sites and non-core product lines that we will seek to sell or wind-down.

Products manufactured include: suspension components and brake components.

Discontinued Operations

Steering Business. The halfshaft and steering system products are reported in discontinued operations.

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Halfshaft products include products for a wide range of torque capacities to improve steering feel and enhance handling characteristics.

Steering system products include steering columns, intermediate shafts, rack & pinion gears, integral gears, power steering pumps, power steering hoses, and electric power steering.

Principal competitors in halfshaft products include GKN Driveline and NTN Corporation. Principal competitors in steering systems include JTEKT Corporation, ZF Friedrichshafen AG, TRW Automotive, NSK Corporation, ThyssenKrupp Presta, and Mando Corporation.

Interiors and Closures Business. Delphi closed on the sale of the cockpit and interiors and integrated closures products during the first quarter of 2008, refer to Note 5. Discontinued Operations to the consolidated financial statements for additional information. The results of the interiors and closures business are reported in discontinued operations through the date of the sale. The interiors and closures business offered interiors and closure system products that addressed customers styling, quality and performance requirements.

Customers

We primarily sell our products and services to the major global VMs in every region. We also sell our products to the worldwide aftermarket for replacement parts, including the aftermarket operations of our VM customers and to other distributors and retailers (Independent Aftermarket). GM sales include GM and its consolidated subsidiaries. Sales to GM s non-consolidated subsidiaries (such as Shanghai GM) and sales to other Tier 1 suppliers that sell directly to GM are classified as sales to other customers. As a percentage of sales from continuing operations, our sales to customers other than GM were 69% in 2008. While we expect our non-GM business to continue to increase, we anticipate that GM will remain our largest customer for a period of time due to forward commitments to supply relationships and our historic relationship with GM. Our sales to GM continue to decline, principally due to declining GM production, GM s diversification of its supply base, ongoing changes in our vehicle content and the product mix supplied, the impact of customer driven price reductions, and the elimination of non-core businesses. While we intend to continue to focus on retaining and winning GM s business in each of our core strategic product lines, we cannot provide assurance that we will succeed in doing so. Additionally, our revenues may be affected by changes in GM s business or market share and that impact will likely vary by region. GM has reported a variety of challenges it is facing, including severe liquidity issues, its relationships with its unions, large shareholders and bondholders and its cost and pricing structures. As discussed in more detail in Item 1A. Risk Factors, GM has received $13.4 billion in government loans to supplement its liquidity to support the minimum amount necessary to operate its business.

The following table shows our total net sales for continuing operations for each of the last three years:

	Total Net Sales Year Ended December 31,					
	2008		2007		2006	
Customer	$	%	$	%	$	%
	(dollars in millions)					
GM-North America	$ 3,752	21%	$ 6,351	28%	$ 7,443	33%
GM-International	1,522	9%	1,560	7%	1,351	6%
GM-Service Parts Organization	251	1%	390	2%	550	2%
Total GM	5,525	31%	8,301	37%	9,344	41%

Other customers	12,535	69%	13,982	63%	13,393	59%
Total net sales	$ 18,060	100%	$ 22,283	100%	$ 22,737	100%

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 Tier 1 suppliers who ultimately sell to GM. Sales to Ford Motor Company and the Volkswagen Group were approximately 6% and 5% of total sales in 2008, respectively.

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Sales Backlog

We receive VM purchase orders for specific components supplied for particular vehicles. These supply relationships typically extend over the life of the related vehicle, and do not require the customer to purchase a minimum quantity. Customers can impose competitive pricing provisions on those purchase orders each year, potentially reducing our profit margins or increasing the risk of our losing future sales under those purchase orders. Additionally, our largest customer, GM, reserves a right to terminate for convenience on certain of our long-term supply contracts (see Arrangements Between Delphi and GM, VM Supply Arrangements below). Termination for convenience means GM can terminate the contract at any time for any reason. We manufacture and ship based on customer release schedules, normally provided on a weekly basis, which can vary due to cyclical automobile production or dealer inventory levels.

Although customer programs typically extend to future periods, and although there is an expectation that we will supply certain levels of VM production over such periods, we believe that outstanding purchase orders and product line arrangements do not constitute firm orders. Firm orders are limited to specific and authorized customer purchase order releases placed with our manufacturing and distribution centers for actual production and order fulfillment. Firm orders are typically fulfilled as promptly as possible after receipt from the conversion of available raw materials and work-in-process inventory for VM orders and from current on-hand finished goods inventory for aftermarket orders. The dollar amount of such purchase order releases on hand and not processed at any point in time is not believed to be significant based upon the timeframe involved. Accordingly, even though we have purchase orders covering multiple model years, they do not require the customer to purchase a minimum quantity. Accordingly, we have experienced a significant decline in VM purchase orders due to unprecedented decreases in volume at the VMs which has adversely impacted Delphi s revenues and short-term liquidity.

The composition of our purchase orders and arrangements as measured by terms and conditions has remained largely consistent.

Delphi s Global Operations

Information concerning principal geographic areas for continuing operations is set forth below. Net sales data reflects the manufacturing location for the years ended December 31. Net property data is as of December 31.

	Year Ended December 31,										
	2008				2007				2006		
	Net Sales				Net Sales				Net Sales		
	GM	Other Customers	Total	Net Property	GM	Other Customers	Total	Net Property	GM	Other Customers	Total
	(dollars in millions)										
ca	$ 4,026	$ 3,645	$ 7,671	$ 1,425	$ 6,782	$ 4,975	$ 11,757	$ 1,906	$ 8,040	$ 5,881	$ 13,921
lle a	885	6,346	7,231	1,412	1,002	6,396	7,398	1,476	879	5,463	6,342
	104	1,917	2,021	429	76	2,105	2,181	341	71	1,700	1,771
ca	510	627	1,137	131	441	506	947	140	354	349	703
	$ 5,525	$ 12,535	$ 18,060	$ 3,397	$ 8,301	$ 13,982	$ 22,283	$ 3,863	$ 9,344	$ 13,393	$ 22,737

Variability in Delphi s Business

Substantially all of our business is 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 has a material effect on our business.

We have substantial operations in major regions 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. In addition, automotive production is traditionally reduced in the months of July, August and September due to the launch of parts production for new vehicle models. Accordingly, our results reflect this seasonality. However, given the reduced production volumes in the current economic and credit markets, the seasonality of our sales may be modified or become more pronounced.

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 2006 and 2007, Delphi spent approximately $10 million in 2008 to install pollution control equipment on coal-fired boilers at its Saginaw, Michigan Steering Division facility to meet U.S. and State of Michigan air emission regulations. 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 remediation costs and liabilities will not be material.

Delphi is also subject to complex laws governing the protection of the environment and requiring investigation and remediation of environmental contamination. Delphi is in various stages of investigation and remediation at its manufacturing sites where contamination has been discovered. Additionally, Delphi received notices that it is a potentially responsible party (PRP) in proceedings at various sites, including the Tremont City Landfill Site (the 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 U.S. Environmental Protection Agency (EPA) to perform a Remedial Investigation and Feasibility Study (the Feasibility Study) concerning a portion of the Site. The Remedial Investigation and Alternatives Array Document were finalized in 2007. The Feasibility Study was approved (with modifications) by the EPA on November 25, 2008. On December 11, 2008, Delphi and the other PRPs filed a Notice of Objection and Invocation of Dispute Resolution with the EPA. Delphi and the other PRPs believe that the modifications to the Feasibility Study required by the EPA are not supported by the site assessment information developed to date, and would have the effect of unjustifiably increasing the likelihood of the EPA ultimately selecting excavation as the remedial approach for the Site. The dispute resolution process is pending. In the interim, Delphi and the other PRPs and the EPA are evaluating an additional remedial alternative for inclusion in the Feasibility Study. The additional remedy would involve installation of numerous wells at the Site for removal of liquid wastes. A Record of Decision is expected to be issued in 2009. Although Delphi believes that capping and future monitoring alone would be an appropriate and protective remedy, a different cleanup approach ultimately may be required for the Site. Because the manner of remediation is yet to be determined, it is possible that the resolution of this matter may require Delphi to make material future expenditures for remediation, possibly over an extended period of time and possibly in excess of existing reserves. As of December 31, 2008, Delphi has recorded its best estimate of its share of the remediation based on the removal of liquids remedy. However, if that remedy is not accepted, Delphi s expenditures for remediation could increase by $11 million to $15 million in excess of its existing reserves. Delphi will continue to reassess any potential remediation costs and, as appropriate, its environmental reserve as the investigation proceeds.

Delphi received a Notice of Intent to File Civil Administrative Complaint (Notice) from the EPA on May 30, 2008 regarding a June 2007 chlorine gas cylinder leak that occurred at the Saginaw, Michigan Delphi Steering facility. The

Notice alleges that Delphi failed to properly notify agency officials about the leak or the

presence of chlorine gas at the site, and describes the EPA s intent to seek approximately $0.1 million in civil penalties relating to the incident. Although Delphi disagrees with certain of the agency s assertions, Delphi resolved the matter in February 2009 through signing a Consent Agreement and Final Order that commits Delphi to pay a civil penalty of $66,887.

As of December 31, 2008 and 2007, our reserve for environmental investigation and remediation was approximately $106 million (of which $9 million was recorded in accrued liabilities and $97 million was recorded in other long-term liabilities) and $112 million (recorded in other long-term liabilities), respectively. As of December 31, 2008 and 2007, $95 million and $101 million, respectively, of the reserve related to sites within the U.S. The amounts recorded take into account the fact that GM retained the environmental liability for certain inactive sites as part of the Separation. Delphi completed a number of environmental investigations during 2006 in conjunction with our transformation plan, which contemplated significant restructuring activity, including the sale or closure of numerous facilities. As part of developing and evaluating various restructuring alternatives, environmental assessments that included identification of areas of interest, soil and groundwater testing, risk assessment and identification of remediation issues were performed at nearly all major U.S. facilities. These assessments identified previously unknown conditions and led to new information that allowed us to further update our reasonable estimate of required remediation for previously identified conditions requiring an adjustment to our environmental reserve of approximately $70 million in 2006. The recorded reserves relate to 35 facilities and are comprised of investigation, remediation and operation and maintenance of the remedy, including postremediation monitoring costs. Addressing contamination at various sites, including facilities designated as non-core and slated for closure or sale, is required by the Resource Conservation & Recovery Act and various other federal, state or local laws and regulations and represent management s best estimate of the cost to complete such actions. Management believes that its December 31, 2008 accruals will be adequate to cover the estimated liability for its exposure with respect to such matters and that these costs will be incurred over the next 20 years. However, as we continue the ongoing assessment with respect to such facilities, additional and perhaps material environmental remediation costs may require recognition, as previously unknown conditions may be identified. We cannot ensure that environmental requirements will not change or become more stringent over time or that our eventual environmental remediation costs and liabilities will not exceed the amount of our current reserves. In the event that such liabilities were to significantly exceed the amounts recorded, Delphi s results of operations could be materially affected.

Delphi estimates environmental remediation liabilities based on the most probable method of remediation, current laws and regulations and existing technology. Estimates are made on an undiscounted basis and exclude the effects of inflation. If there is a range of equally probable remediation methods or outcomes, Delphi accrues at the lower end of the range. At December 31, 2008, the difference between the recorded liabilities and the reasonably possible maximum estimate for these liabilities was approximately $82 million.

Other

As mentioned above, Delphi continues to pursue its transformation plan, which contemplates significant restructuring activity, including the sale, closure or demolition of numerous facilities. As such, Delphi continues to conduct additional assessments as the Company evaluates whether to permanently close or demolish one or more facilities as part of its restructuring activity. These assessments could result in Delphi being required to incur additional and possibly material costs or demolition obligations in the future. In 2007, Delphi commissioned building demolition assessments for certain sites that may ultimately be demolished or sold in the next few years. These assessments provided detailed estimates of quantities of asbestos at these particular sites and detailed cost estimates for remediation of that asbestos, which resulted in a $14 million revision to the existing estimates increasing the related asset retirement obligations.

Arrangements Between Delphi and GM

The Separation of Delphi from GM was effective January 1, 1999, at which time 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,

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environmental matters, intellectual property, product liability claims, warranty, employee matters, and general litigation claims. We agreed to indemnify GM against substantially all losses, claims, damages, liabilities or activities arising out of or in connection with our business post-Separation. The UAW settlement agreement extended, until March 31, 2008, our obligation to indemnify GM if certain GM-UAW benefit guarantees are triggered. In addition, we agreed to keep GM informed of any proposal to close a plant, eliminate a product line or divest of a division, and in good faith reasonably consider GM s concerns. 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.

During 2007, Delphi and GM entered into comprehensive settlement agreements consisting of the Global Settlement Agreement, as amended (the GSA) and the Master Restructuring Agreement, as amended (the MRA). The GSA and the MRA, as amended through January 25, 2008, comprised part of the Plan and were approved in the order confirming the Plan on January 25, 2008. The GSA and the MRA amended through January 25, 2008 provided that such agreements were not effective until and unless Delphi emerges from chapter 11. However, as part of Delphi s overall negotiations with its stakeholders to further modify the Plan and emerge from chapter 11 as soon as practicable, Delphi and GM agreed to further amend the GSA and MRA and Delphi filed further amendments to the GSA and MRA (the Amended MRA) with the Court on September 12, 2008 and subsequently entered into an additional amendment to the GSA as of September 25, 2008 (as so amended, the Amended GSA). On September 26, 2008, Delphi received the consent of its labor unions to implement certain aspects of the agreements as described in more detail below. The Court approved the Amended GSA and Amended MRA on September 26, 2008 and the Amended GSA and Amended MRA became effective on September 29, 2008. These amended agreements include provisions related to the transfer of certain assets and liabilities of the Hourly Plan to the GM Hourly-Rate Employees Pension Plan pursuant to section 414(l) of the Internal Revenue Code (the 414(l) Net Liability Transfer). The 414(l) Net Liability Transfer is to occur in two separate steps. The first step occurred on September 29, 2008 and the second step of the 414(l) Net Liability Transfer will occur upon the effectiveness of an amended plan of reorganization under certain conditions as described further in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Plan of Reorganization and Transformation Plan. Additionally, under the terms of the Amended GSA and union labor agreements, during 2008 GM assumed $6.8 billion of traditional hourly other postretirement benefit liabilities related to plan participants with prior GM service. The effectiveness of these agreements resulted in a material reduction in Delphi s liabilities and future expenses related to U.S. hourly workforce benefit programs. For more information regarding these matters, refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Plan of Reorganization and Transformation Plan, GM in this Annual Report.

Product Portfolio. 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 support (and consent, where required) to assign GM contracts. Our ability to obtain or require 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 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Plan of Reorganization and Transformation Plan, GM 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

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termination for convenience. Termination for convenience means GM can terminate the contract at any time for any reason. Although GM reserves a right to terminate for convenience under its standard terms and conditions, GM s standard long-term contracts limit GM s termination for convenience rights and its rights to re-source for non-competitiveness. Our supply contracts with GM are generally either annual purchase orders, under which GM retains a right to terminate for convenience, or long-term contracts. GM s current standard long-term contract provides that GM will not exercise its right to terminate for convenience except in the case of cancellation or modification of the related vehicle program, provided that GM may re-source for non-competitive pricing, technology, design or quality at any time during the contract period, subject to the requirement of notice and an 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 many other North American 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. The terms and pricing of other value-added services, such as special packaging and shipping agreements and other aftermarket products, are negotiated separately and captured in the supply contracts.

On March 31, 2006, the Debtors filed a motion with the Court seeking authority to reject certain customer contracts with GM under section 365 of the Bankruptcy Code. The initial GM contract rejection motion covered approximately half of the North American annual purchase volume revenue from GM. The hearing on the motion was scheduled to commence on September 28, 2006, but was adjourned on several occasions with periodic chambers conferences being conducted in the interim to provide the Court with updates regarding the status of negotiations to consensually resolve the motion. 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. The issues that gave rise to the GM contract rejection motion were resolved under the terms of the Amended GSA and the Amended MRA. Pursuant to the Amended GSA, Delphi filed a stipulated order withdrawing the GM contract rejection motion, which was entered by the Court on January 7, 2008.

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 USW-represented employees guarantees covering benefits to be provided to certain former U.S. hourly employees who became our employees and we entered into an agreement with GM that required us to indemnify GM if GM was called to perform under the GM-UAW guarantee. During the second quarter of 2007, Delphi signed an agreement with the UAW, and during the third quarter of 2007, Delphi signed agreements with the remainder of its principal U.S. labor unions, which were ratified by the respective unions and approved by the Court in the third quarter of 2007. Among other things, this series of settlement agreements or memoranda of understanding among Delphi, its unions, and GM modify, extend or terminate provisions of the existing collective bargaining agreements among Delphi and its unions and cover issues such as site plans, workforce transition and legacy pension and other postretirement benefits obligations as well as other comprehensive transformational issues. Portions of these agreements became effective in 2007, and the remaining portions were tied to the effectiveness of the GSA and the MRA, and substantial consummation of the Plan as confirmed by the Court. The Amended GSA and the Amended MRA became effective on September 29, 2008.

Flowback Rights. Upon our separation from GM, certain of our hourly UAW-represented employees in the U.S. were provided with opportunities to transfer to GM as appropriate job openings became available at GM. GM employees in the U.S. had similar opportunities to transfer to Delphi. The original agreements provided that, when an employee

transferred, the employee would be eligible for pension benefits which in total reflect the transferring employee s combined years of credited service. The parties did not transfer pension assets or liabilities in order to accomplish this. Rather, pension responsibility between Delphi and GM

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was allocated on a pro-rata basis based upon the employee s credited service at each company (although service at Delphi included service with GM prior to the Separation). The transferring employee also was eligible for OPEB from the receiving company. The sending company would make a cash settlement for OPEB obligations the receiving company assumed (also calculated on a pro-rata basis) based on the year the employee was actuarially determined to retire. However, no cash settlements occurred between GM and Delphi following Delphi s filing for bankruptcy.

The ability of GM employees to flow to Delphi was eliminated under the UAW settlement agreement. Additionally, pursuant to the Amended GSA, Delphi transferred certain assets and liabilities of its Delphi Hourly-Rate Employees Pension Plan to the GM Hourly-Rate Employees Pension Plan, as set forth in certain union settlement agreements and implementation agreements, relating to the Delphi hourly employees who flowed back to GM prior to the Amended GSA s effective date. As a result, GM will provide all of the pension benefits to the transferred employees and Delphi has no further pension obligations to them. GM will also be responsible for OPEB obligations to such employees without any future cash settlement from Delphi. For more information regarding these matters, refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Plan of Reorganization and Transformation Plan, Labor in this Annual report.

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ITEM 1A. RISK FACTORS

Set forth below 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 the Statement Regarding 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 Their Assets.

The failure to obtain confirmation of and consummate a modified plan of reorganization means that we will continue to face substantial risks related to the filings by us and certain of our U.S. subsidiaries of voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code. The risks that the Company continues to face related to 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 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 chapter 11 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 we seek to implement negotiated changes to our existing collective bargaining agreements with our U.S. labor unions and certain retiree benefits. Although we have reached agreements with each of our U.S. labor unions to settle our previously-filed motions under sections 1113 and 1114 of the Bankruptcy Code and to extend, with certain modifications, our collective bargaining agreements, our failure to consummate the Plan (as modified) and the transactions contemplated thereby may leave us with no choice but to reinitiate a process to reject our collective bargaining agreements. Such rejection of our labor contracts could lead those unions to authorize a strike or other form of significant work disruption.

We may have difficulty selling or exiting non-core businesses in a timely manner due to union or customer concerns. Failure to timely exit the non-core businesses may have a negative impact on future earnings and

cash flows.

There can be no assurance as to our ability to maintain sufficient financing sources to fund our reorganization plan and continue operating our business. For further details on Delphi s sources and uses of liquidity and for a more detailed description of the terms of the Accommodation Agreement, as amended, including the covenants and conditions to the lenders continued forbearance from exercising remedies through the remainder of the accommodation period, the milestones Delphi must achieve in

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its chapter 11 cases to avoid an early termination of the accommodation period, the conditions which must be satisfied to receive additional support through the term of the accommodation periods, and the terms and conditions in the GM Advance Agreement, refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in this Annual Report.

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. Pursuant to an order entered by the Court on April 30, 2008, the Debtors exclusivity period under the Bankruptcy Code for filing a plan of reorganization was extended until 30 days after substantial consummation of the Plan (as modified) or any modified plan and the Debtors exclusivity period for soliciting acceptance of the Plan (as modified) was extended until 90 days after substantial consummation of the Plan (as modified) or any modified plan. On July 23, 2008, Delphi s Creditors Committee and WTC, as Indenture Trustee and a member of the UCC, filed separate complaints in the Court seeking revocation of the Court order entered on January 25, 2008 confirming Delphi s Plan. The Creditors Committee had earlier advised Delphi that it intended to file the complaint to preserve its interests with regard to a 180-day statutory period that would have otherwise expired on July 23, 2008. The Creditors Committee and WTC also advised Delphi that they do not intend to schedule a hearing on the complaints pending developments on (i) the continuation of stakeholder discussions concerning potential modifications to the Plan, which would permit Delphi to emerge from chapter 11 as soon as practicable, and (ii) Delphi s litigation against an affiliate of lead investor, Appaloosa, and the other Investors. Notwithstanding the foregoing, pursuant to an order entered by the Court on December 17, 2008, the Debtors exclusive period for filing a plan of reorganization, solely as to the Creditors Committee and the Equity Committee is extended through and including March 31, 2009 and the Debtors exclusive period for soliciting acceptance of a plan of reorganization, solely as to the Creditors Committee and the Equity Committee is extended through and including May 31, 2009.

Although we have been successful to date in implementing various aspects of our transformation plan, including achieving settlement agreements with our U.S. labor unions and GM, making substantial progress in divesting many of our non-core businesses, and transferring certain legacy pension and other postretirement benefit obligations, the failure to confirm and consummate a modified plan of reorganization means that we and the other Debtors will continue to operate as debtors-in-possession in chapter 11, until an amended plan of reorganization is confirmed or other dispositive action is taken. Throughout the second and third quarters of 2008, Delphi engaged in discussions with its stakeholders, including GM and representatives of both statutory committees, to develop modifications to the Plan that would allow Delphi to emerge from chapter 11. On October 3, 2008, Delphi filed proposed modifications to the Plan and related modifications to the Disclosure Statement with the Court, which contained an updated business plan associated with a mid-point total enterprise business valuation of $7.2 billion, and contemplated that Delphi would need to raise approximately $3.75 billion of emergence capital through a combination of term debt and rights to purchase equity. However since the filing of the proposed modifications, substantial uncertainty and a significant decline in capacity in the credit markets, the global economic downturn generally and the current economic climate in the automotive industry, have adversely impacted Delphi s ability to develop a revised recapitalization plan and successfully consummate a confirmed plan of reorganization. Delphi continues to be engaged in comprehensive discussions with all of its stakeholders that have a continuing economic interest in its reorganization cases to formulate further plan modifications. In connection with those discussions, Delphi has been making further revisions to its business plan consistent with the extremely low volume production environment in the global automotive industry and depressed global capital and equity markets. Although no formal valuation of the revised business plan has been completed, it is anticipated that the total business enterprise value associated with the revised plan will be substantially below the valuation range contained in the modifications filed in October 2008 and may be equivalent to, or even less than, the amount of Delphi s postpetition obligations, including its borrowings under its debtor-in-possession financing facility. In addition,

in the event a modified plan of reorganization is not confirmed, approvals obtained in connection with the previous confirmation of the Plan, may become null and void, including:

Court approval and approval by the U.S. District Court for the Eastern District of Michigan of the settlement agreements reached with plaintiffs in the securities and Employee Retirement Income Security Act (ERISA) Multidistrict Litigation; and

The Court s entry of orders, authorizing the assumption and rejection of unexpired leases and executory contracts by Delphi.

Even assuming a successful emergence from chapter 11, there can be no assurance as to the overall long-term viability of our operational reorganization, including our ability to generate sufficient cash to support our operating needs, fulfill our transformation objectives and fund continued investment in technology and product development without incurring substantial indebtedness that will hinder our ability to compete, adapt to market changes and grow our business in the future. In addition, our ability to raise long-term financing will in part depend on the fair market valuation of our business at emergence and the amount of leverage already inherent in our balance sheet. The application of fresh start accounting principles in accordance with U.S. GAAP upon eventual emergence from bankruptcy may result in valuations of long-lived and intangible assets that are less than the carrying value of those assets as currently reflected in the financial statements, which may further hinder our ability to raise financing at or subsequent to emergence from chapter 11.

In addition, the uncertainty regarding the eventual outcome of our transformation plan, 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, implementation of the modified Plan or an alternative plan of reorganization, 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. Our independent registered public accounting firm has included a going-concern explanatory paragraph in its report on our consolidated financial statements.

Under the absolute priority rules established by the Bankruptcy Code, unless creditors agree otherwise, prepetition liabilities and postpetition liabilities accrued during the pendency of the chapter 11 cases must be satisfied in full before shareholders may be entitled to receive any distribution or retain any property under a plan of reorganization. No assurance can be given as to what values, if any, will be ascribed to each of these constituencies or what types or amounts of distributions, if any, they would receive upon consummation of a confirmed plan of reorganization in the chapter 11 cases. Our common stock may ultimately be determined to have no value, and claims relating to prepetition liabilities may receive 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.

We Anticipate the Need for Significant Borrowings Even After Emergence From Chapter 11 as We Complete Our Transformation Plan. The Significant Contraction of Credit Availability as a Result of the Current Difficult and Turbulent Capital Markets May Adversely Impact Our Ability to Obtain Exit Financing as Contemplated by a Modified Plan.

We anticipate that we will need significant exit financing to fund our operations post-emergence. As previously discussed, as a result of the credit market crisis and challenging economic environment there can be no assurances in the current capital market environment that we will be able to raise the full amount we believe is necessary to fund our working capital requirements and operations, or that such amounts will be available at the rates assumed in our business plan. Failure to obtain necessary exit financing may further delay our transformation and emergence from chapter 11, leaving us increasingly vulnerable to any further deterioration in economic conditions. In addition, failure

to obtain agreement of our stakeholders, including the lenders under our Amended and Restated DIP Credit Facility, to further Plan modifications prior to April 2, 2009, means that (i) we will not be able to access supplemental liquidity under the Amendment and Supplemental Amendment to the Accommodation Agreement such that we can provide no assurances as to our ability to fund our working capital requirements and operations beyond May 2009 and (ii) the forbearance period under the Accommodation Agreement will be shortened from June 30, 2009 until May 5, 2009, after which the lenders under our Amended and Restated DIP Credit Facility will be entitled to exercise remedies

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for default including requiring an immediate repayment of amounts outstanding and in the absence of such repayment, taking actions with respect to the collateral pledged to secure obligations under such facility. 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 a description of the pledged collateral under the Amended and Restated DIP Credit Facility.

Our Ability to Utilize Our Net Operating Loss Carryforwards and Other Tax Attributes Will Be Limited.

We have significant net operating loss carryforwards (NOLs) and other U.S. federal income tax attributes. Section 382 of the Internal Revenue Code of 1986, as amended, limits a corporation s ability to utilize NOLs and other tax attributes following a Section 382 ownership change. We expect that we will undergo a Section 382 ownership change upon the implementation of the modified Plan and, consequently, our ability to utilize our NOLs and other tax attributes will be limited. In this regard, it should be noted that we have previously recorded a full valuation allowance against our U.S. deferred tax assets with respect to these tax attributes. Certain special rules applicable to ownership changes that occur in bankruptcy may be available, however, to limit the consequences of such an ownership change. If we were to undergo a Section 382 ownership change prior to or after implementation of the modified Plan, our NOLs and other tax attributes may be limited to a greater extent or in some cases eliminated. While we believe that we have not undergone any Section 382 ownership change to date, we cannot give you any assurance that we will not undergo a Section 382 ownership change prior to or after implementation of the modified Plan.

Access to Continued Financing and Liquidity Support

Our Amended and Restated DIP Credit Facility is In Default and We No Longer Have Access to Our Revolving Credit Facility. We Have Entered Into an Accommodation Agreement With the Lenders Under Our Amended and Restated DIP Credit Facility, and an Amendment and Extension Until June 30, 2009 of the GM Advance Agreement, and A Partial Temporary Accelerated Payments Agreement Pursuant to which GM Will Accelerate Payment of Certain Payables to Delphi. However, Each Agreement Contains Significant Financial Covenants, Operating Restrictions and Cross-Default Provisions Conditions, which if Not Complied With Will Result in Among Other Things, Borrowings Under Our Amended and Restated DIP Credit Facility Becoming Due, and Advances Pursuant to the GM Advance Agreement Becoming Unavailable. Moreover, Absent Procurement of Alternative Financing, Our Liquidity Would Be Severely Restricted Resulting in A Material Adverse Impact on Our Business, Financial Condition and Operating Results, Which May Force Us to Sell or Close Down All or A Significant Portion of Our Operations, Particularly in North America and Further Delay or Prevent Our Emergence from Chapter 11. Additionally, Further Disruption in the Capital Markets May Adversely Affect Our Ability to Secure Alternative Financing.

We have made substantial progress in our overall transformation plan, including transformation of our labor force, streamlining our product portfolio and making the manufacturing and cost structure improvements to address these changes in the global automotive industry; however our transformation plan is not complete and it did not anticipate the full severity of the current global recession. Until such time as we are able to successfully reorganize our capital structure and operations, fully implement our transformation plan and emerge from chapter 11, we expect that our operations will continue to use cash and we will have limited flexibility to further restructure our global operations to adapt to a prolonged downturn.

The credit market crisis continues to delay our emergence from chapter 11, making us particularly vulnerable to changes in the overall economic climate. Furthermore, in light of the current economic climate in the global automotive industry, we anticipate continued operating challenges due to lower North American production volumes, slowing economic growth and the continuing global recession, related pricing pressures stemming from increasingly competitive markets, and continued commodity price volatility, which may place further pressures on our liquidity

despite the progress of our transformation. As a result, we expect that we will require advances from time to time under the GM Advance Agreement and GM s agreement to accelerate payment of certain payables under the Partial Temporary Accelerated Payments Agreement as described below to maintain sufficient liquidity to fund our operations and that absent procurement of exit financing we will

not be able to repay the amounts extended under our Amended and Restated DIP Credit Facility and still have sufficient cash to fund our operations.

In order to partially address our liquidity needs following the maturity of our Amended and Restated DIP Credit Facility on December 31, 2008 (the DIP Maturity Date), as previously reported, we entered an accommodation agreement (the Accommodation Agreement) allowing Delphi to retain the proceeds of its existing debtor-in-possession (DIP) financing agreement (the Amended and Restated DIP Credit Facility) consisting of a $1.1 billion first priority revolving credit facility (Tranche A or the Revolving Facility), a $500 million first priority term loan (the Tranche B Term Loan) and a $2.75 billion second priority term loan (the Tranche C Term Loan), which would have otherwise matured on December 31, 2008.

Under the Accommodation Agreement, Delphi may continue using the proceeds of the Amended and Restated DIP Credit Facility and the lenders have agreed, among other things, to forbear from the exercise of certain default-related remedies, in each case until June 30, 2009 (or May 5, 2009 if Delphi does not achieve certain milestones in its reorganization cases), but subject to the continued satisfaction by Delphi of a number of covenants and conditions.

The covenants in the Accommodation Agreement and the Amended and Restated DIP Credit Facility include but are not limited to a requirement that we maintain a rolling 12-month cumulative global earnings before interest, taxes, depreciation, amortization, reorganization and restructuring costs (Global EBITDAR), for us and our direct and indirect subsidiaries, on a consolidated basis, at specified levels. Both the Accommodation Agreement and the Amended and Restated DIP Credit Facility contains certain defaults and events of default customary for debtor-in-possession financings of this type, including any failure to comply with the Global EBITDAR covenant. The occurrence of any event of default under the Accommodation Agreement or further defaults under the Amended and Restated DIP Credit Facility would permit the lenders to cause the amounts outstanding to become immediately due and payable. In addition, upon the occurrence and during the continuance of any further default in payment of principal, interest or other amounts due under our Amended and Restated DIP Credit Facility, interest on all outstanding amounts is payable on demand at 2% above the then applicable rate. As of December 31, 2008, we were in compliance with the Global EBITDAR covenant and the other covenants in the facility. Given the increasingly difficult global credit markets, which are particularly impacting vehicle manufacturers, we expect that continued covenant compliance during the early part of 2009 will be subject to challenges and in fact as discussed below, we sought and received an amendment of certain of the covenants, including the Global EBITDAR covenant in the Accommodation Agreement in January 2009. The Amendment (as modified by the Supplemental Amendment) was necessitated by the significant production volume decreases and significantly lower forecasted volumes through the first quarter of 2009. Reduced volume projections were expected to result in a significant decline in rolling 12-month cumulative Global EBITDAR at the end of January 2009, which without the Amendment might have put Delphi s ability to comply with the Global EBITDAR covenants at risk. In addition, this deterioration has reduced the amount of outstanding receivables, which absent the Amendment (as modified by the Supplemental Amendment), could have required Delphi to repay significant additional amounts currently outstanding under the Revolving Facility in the months of January and February 2009, which would have further reduced liquidity in its North American operations.

Although we have been able to maintain compliance with the terms of the Accommodation Agreement, we have done so with support from GM and expect that continued compliance will in part be reliant on further support payments to be made pursuant to the terms of the Amended MRA, which became effective in September 2008, and GM s willingness to continue to provide liquidity support in accordance with the GM Advance Agreement and Partial Temporary Accelerated Payments Agreement, as described below. There can be no assurance that we will remain in compliance during 2009, particularly if further deterioration in our earnings or increases in our operating costs occurs, or that we will be successful in obtaining additional amendments or waivers from our lenders.

Concurrently with entering into the Accommodation Agreement, we entered into an amendment and extension of the GM Advance Agreement whereby GM agreed to provide up to $300 million in advances through June 30, 2009, and a Partial Temporary Accelerated Payments Agreement whereby GM agreed to accelerate the payment of certain payables to Delphi, which could result in an additional $300 million of

liquidity to Delphi to be provided through May of 2009. GM s obligations under these agreements also are subject to a number of conditions and covenants, including the absence of any default under the Accommodation Agreement. Failure to maintain availability under the GM Advance Agreement, or to receive accelerated payments of certain payables from GM under the Partial Temporary Accelerated Payments Agreement or to procure alternative financing may not only severely restrict our liquidity, but also trigger an event of default under the Accommodation Agreement.

On January 30, 2009, Delphi reached agreement with its lenders to amend (the Amendment) the Accommodation Agreement. In support of Delphi s efforts to develop a modified reorganization plan adapted to the current global economic environment, the lenders agreed to modify certain financial covenants and pay-down requirements contained in the Accommodation Agreement. In addition, GM agreed to immediately accelerate payment of $50 million in payables to Delphi under the Partial Temporary Accelerated Payments Agreement and to, no later than February 27, 2009, either accelerate payment of an additional $50 million in payables under such agreement or increase from $300 million to $350 million the amount which it is committed to advance under the GM Advance Agreement. The Amendment and GM s agreement to accelerate payments were effective January 30, 2009; however, both agreements were subject to satisfaction of certain post-closing conditions, including Court approval and in the case of the Amendment, the payment of fees to the consenting lenders. The Company filed motions with the Court seeking approval of these agreements and authority to pay the applicable fees. Just prior to the hearing on such motions, the lenders and Delphi agreed to a further supplemental amendment to the Accommodation Agreement (the Supplemental Amendment), to further extend certain milestone dates, and on February 24, 2009 the Court approved the Amendment, the Supplemental Amendment and the amendment to the Partial Temporary Accelerated Payments Agreement. Accordingly, absent changes to the GM Advance Agreement, Delphi believes it has access to sufficient liquidity to fund its operations and remain in compliance with the covenants in the Amended and Restated DIP Credit Facility and Accommodation Agreement into April 2009. In addition, Delphi projects it will have sufficient additional liquidity support to manage its U.S. operations into May 2009 as it continues discussions with its stakeholders on proposed modifications to the Plan, subject to satisfaction of certain specified milestones in its reorganization cases and the conditions necessary to consummate the agreement reached with GM on March 3, 2009 described below whereby GM would increase the amounts available under the GM Advance Agreement to a total of $450 million.

On February 27, 2009, as provided for under the January 30, 2009 amendment to the Partial Temporary Accelerated Payments Agreement, GM opted to commit to increase from $300 million to $350 million the amounts available under the GM Advance Agreement, subject to (i) the President s Designee in accordance with the provisions of GM s federal loans not having notified GM prior to March 24, 2009 that the increase is not permitted, and (ii) Court approval of the increase prior to March 25, 2009. Additionally, on March 3, 2009 GM committed to further increase from $350 million to $450 million the amounts available under the GM Advance Agreement, subject to (i) the President s Designee in accordance with the provisions of GM s federal loans not having notified GM prior to March 24, 2009 that the increase is not permitted, (ii) Court approval of the further increase prior to March 25, 2009, (iii) approval by GM s board of directors, (iv) execution of a definitive transaction agreement relating to the sale of Delphi s Steering Business to GM prior to March 24, 2009, and (v) Court approval of the Steering Business Option Exercise Agreement between Delphi and GM prior to March 25, 2009. The Option Exercise Agreement contains a procedure for completing the definitive transaction agreement relating to the sale of the Steering Business to GM which, among other things, takes into account the terms of the Amended MRA and certain modifications set forth in the Option Exercise Agreement. Based on the terms of the Option Exercise Agreement and the Amended MRA, the terms upon which the Steering Business will be sold to GM have been substantially agreed by GM and Delphi. The Option Exercise Agreement is subject to conditions described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Discontinued Operations: Steering and Halfshaft Business. In addition, the Amendment and Supplemental Amendment to the Accommodation Agreement will allow Delphi to access additional liquidity through the periodic release of amounts currently in a cash collateral basket of up to $117 million, provided (i) that all of the above conditions necessary to increase amounts available under the GM Advance Agreement to $450 million are satisfied, (ii) Delphi remains in compliance with all mandatory prepayment provisions

and other covenants in the Accommodation Agreement,

including the borrowing base calculation after giving effect to such release, and (iii) Delphi has achieved the remaining specified milestones in its reorganization cases, including the filing of a plan of reorganization or modifications to the Plan meeting the conditions specified in the Accommodation Agreement by April 2. Delphi believes receipt of GM s commitment is a significant step toward Delphi being able to secure such additional liquidity.

For further details on Delphi s sources and uses of liquidity and for a more detailed description of the terms of the Accommodation Agreement, as amended by the Amendment and Supplemental Amendment, including the covenants and conditions to the lenders continued forbearance from exercising remedies through the accommodation period, the milestones Delphi must achieve in its chapter 11 cases to avoid an early termination of the accommodation period, the remaining conditions which must be satisfied to receive additional liquidity support under the Accommodation Agreement, and the terms and conditions in the GM Advance Agreement and Partial Temporary Accelerated Payments Agreement, refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in this Annual Report.

Notwithstanding the Accommodation Agreement, Delphi is in default of the terms of its Amended and Restated DIP Credit Facility and as a result, Delphi is no longer able to make additional draws under the facility after December 12, 2008, (the effective date of the Accommodation Agreement). However, under the Accommodation Agreement, Delphi is required to continue to comply with the provisions of the Amended and Restated DIP Credit Facility (as amended and modified by the Accommodation Agreement, as amended). Additionally the ability of Delphi to access supplemental liquidity remains subject to a number of conditions, including GM not being notified by the President s Designee in accordance with the provisions of the federal loans GM has received that such increase is not permitted and receiving Court approval to increase amounts available under the GM Advance Agreement. Moreover, with respect to the increase of the amounts available under the GM Advance Agreement from $350 million to $450 million, the GM board of directors must also approve such increase, Delphi and GM must execute a definitive transaction agreement relating to the sale of Delphi s Steering Business, and the Court must approve the Steering Business Option Exercise Agreement in order for it to become effective. Therefore, there can be no assurance as to whether Delphi will be able to access the additional liquidity provided for under the Amendment as necessary to provide sufficient liquidity into May 2009. In addition, there can be no assurance that the outside termination date of the Accommodation Agreement will not be shortened from June 30, 2009 to May 5, 2009 because there can be no assurance that the Company will be able to obtain binding commitments for debt and equity financing sufficient to emerge from chapter 11 pursuant to a plan of reorganization satisfying the conditions set forth in the Accommodation Agreement by the deadlines specified therein or obtain necessary waivers. Delphi s ability to develop a revised recapitalization plan and consummate a confirmed plan of reorganization has been adversely affected by the substantial uncertainty and a significant decline in capacity in the credit markets, the global economic downturn generally and the current economic climate global automotive industry. In addition, there can be no assurances that the cash conservation measures Delphi implements now or in the future will not delay or limit its ability to achieve its long range business objectives or participate in future growth opportunities when economic conditions improve. Furthermore, should further cost saving measures or other significant actions, including sales of assets and wind-down of operations become necessary, whether because constraints in the global credit market continue or worsen, the global recession deepens, the current economic climate in the global automotive industry does not improve over the course of 2009 or otherwise, Delphi s inability to conserve liquidity or obtain alternative financing would likely have a detrimental impact on the Company s financial condition and operations.

Although Our Operations Outside of North America Have Historically Been Cash Flow Positive and Self-Financing, Current Constraints in the Global Credit Markets and the Onset of A Global Recession Resulting in Significant Cuts in Production by VMs Worldwide Placed Significant Pressure on Our Liquidity Abroad and Required the Implementation of Cash Savings Measures to Maintain Sufficient Liquidity in the Lower Volume Environment. There Can Be No Assurances That in the Face of Further or Prolonged Deterioration in the Economic Environment Our Operations Outside North America Will Continue to Be Self-Financing and That We Will Be Able to Maintain Sufficient Liquidity Without Significant Restructuring Actions.

We finance the working capital needs of our operations outside of North America primarily through the use of uncommitted factoring facilities that are accounted for as short-term debt, and in Europe, the use of an accounts receivable securitization program. Recent constraints in the global credit market made it more difficult to factor our receivables, particularly those from European operations of domestic VMs, and resulted in reduced excess liquidity. Additionally, because of limited ability over the short-term to contract our operations in response to the anticipated volume declines, significant declines in production, absent the implementation of cash conservations measures could result in further erosion of available liquidity. To address such declines, we have implemented and continue to implement a number of cash conservation measures globally, including temporary lay-offs and salaried benefit cuts for both active employees and retirees, delay of capital and other expenditures, permanent salaried workforce reductions, requests to customers for accelerated payment of certain receivables and other cost saving measures to insure adequate liquidity for operations until volumes recover or until we are able to complete further restructuring efforts in response to changes in the global vehicle markets. We have also sought and received support from certain foreign governments, including the accelerated payment of tax credits and amounts owed by such governments to Delphi and the deferral of amounts owed or to be owed by Delphi to such governments. Although we believe the implementation of these measures will provide sufficient liquidity for our operations outside of North America while we continue to seek to emerge from bankruptcy and still maintain our global operations, we cannot assure that further action will not be required or that we will be able to obtain more permanent sources of financing should constraints in the global credit market continue or increase, the global recession deepen or the current economic climate in the global automotive industry not improve over the course of 2009. The inability to conserve liquidity or obtain alternative financing may have a detrimental impact on our financial condition and operations. Additionally, there can be no assurances that the cash conservation measures we implement now or in the future will not delay or limit our ability to achieve our long-range business objectives or participate in future growth opportunities when economic conditions improve. There can also be no assurances that significant actions we may take to avoid further liquidity issues in North America, such as a liquidation of the Debtors assets or the sale or wind down of one or more operations, will not have a disruptive effect on customer and supplier relations outside of North America and that such disruptions will not lead to other material adverse effects on the operations and financial condition of our businesses outside of North America.

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. Dramatically lower global automotive sales have resulted in substantially all of our VM customers significantly lowering vehicle production schedules, which is expected to have a direct impact on our cash flow during the first quarter of 2009. In addition, automotive sales and production can be affected by labor relations issues, regulatory requirements, trade agreements and other factors. Further economic decline that results in a reduction in automotive sales and production by our customers will 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.

Any Changes in Consumer Credit Availability, or Cost of Borrowing Could Adversely Affect our Business

Declines in the availability of consumer credit and increases in consumer borrowing costs, whether due to difficulties in the subprime mortgage market, declining home values, increased default rates or otherwise, have negatively impacted global automotive sales and continuation or worsening of these difficulties may lead to lower production volumes beyond the reductions we have anticipated in our planning and budgeting process. Further significant declines in automotive sales and production by our customers will have a material adverse affect on our business, results of operations, and financial condition.

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 on GM s Support, as Provided in the Amended MRA and Advance Agreement, to Continue Executing Our Transformation Plan. Accordingly, Our Revenues and Profitability Will Be Adversely Impacted if GM s Business or Market Share Declines, and Our Ability to Successfully Complete Our Transformation Plan Will Be Delayed or Impaired if GM Is Unable to Continue Providing Support on the Terms Agreed to.

GM is our largest customer and accounted for 31% of our total net sales from continuing operations in 2008, and a portion of our non-GM sales are to Tier 1 suppliers who ultimately sell our products to GM. 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 severe liquidity issues, its relationships with its unions, large shareholders and bondholders and its cost and pricing structures. To date, GM has received $13.4 billion in government loans. GM had stated that without such government funding under one or more current or future programs or some other form of supplemental liquidity, GM s estimated liquidity during the first two quarters of 2009 would fall significantly short of the minimum amount necessary to operate its business, even if GM successfully implemented all of its planned operating actions substantially within its control, unless economic and automotive industry conditions significantly improve, it received substantial proceeds from asset sales, took more aggressive working capital initiatives, gained access to capital markets and other private sources of funding, receives government funding under one or more current or future programs, or some combination of the foregoing. The continued availability of government loans is expressly conditioned on GM showing progress in implementing a comprehensive restructuring plan, requiring agreement with each of its stakeholders, including its labor unions, dealers, suppliers (of which we are one of the largest) and the U.S. federal government, that will ensure GM s long-term financial viability. An erosion in liquidity

which results in GM not being willing or able to timely pay amounts owed to its suppliers will have a disproportionate impact on us due to the extent of our business with GM, whether such failure is in connection with a filing for reorganization relief or otherwise, and will have a material adverse

impact on our liquidity. Furthermore, if GM is unable to engage in a business relationship with us on a basis that involves improved terms for us, as set forth in the Amended MRA, our sales, cost structure, profitability, and liquidity will be adversely affected. In addition, as part of the April 2 milestone for Delphi s filing of modifications to its previously confirmed plan of reorganization, as contemplated by the Supplemental Amendment, Delphi and GM are discussing potential modifications to the Amended MRA, including pulling forward elements of GM s previously agreed support for Delphi into one payment at emergence in combination with the transfer to GM of certain of Delphi s U.S. manufacturing sites dedicated principally to supplying product to GM. Any agreed to amendment or other modifications to our agreements with GM, which we believe necessary to implement a final restructuring plan, will likely require that GM obtain the input and consent of the U.S. federal government in accordance with the terms of the $13.4 billion in government loans GM has received to supplement its own liquidity needs. For these reasons, we cannot provide any assurance as to the amount of our future business with GM or the extent to which they will continue to be able to provide us supplemental liquidity support. 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. However, our other domestic customers are facing similar pressures and challenges as those that GM is facing. Therefore, there can be no assurance that we will be successful in expanding our existing customer base.

We Have Invested Substantial Resources in Markets Where We Expect Growth and We May Be Unable to Timely Alter Our Strategies Should Such Expectations Not Be Realized.

Our future growth is dependent on us making the right investments at the right time to support product development and manufacturing capacity in areas where we can support our customer base. We have identified the Asia Pacific region, China and India in particular, as key markets and ones likely to experience substantial growth, and accordingly have made substantial investments, both directly and through participation in various partnerships and joint ventures, including numerous manufacturing operations, technical centers and other infrastructure to support anticipated growth in the region. If we are unable to deepen existing and develop additional customer relationships in this region, we may not only fail to realize expected rates of return on our existing investments, but we may incur losses on such investments and be unable to timely redeploy the invested capital to take advantage of other markets, potentially resulting in lost market share to our competitors.

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 result in increased downward pressure on pricing. Our customer supply agreements generally require step-downs in component pricing over the period of production, typically two to three percent per year. 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. It is possible that pricing pressures beyond our expectations could intensify as VMs pursue restructuring and cost cutting initiatives. 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.

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 non-U.S. 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 the 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 we purchase 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 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 we procure 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, South America, and Asia Pacific). In recent periods there have been significant increases in the global prices of copper, aluminum, petroleum-based resin products, steel and steel scrap, and fuel charges, which have had and may continue to have an unfavorable impact on our business, results of operations, or financial condition. Although recently commodity prices have decreased, continuing volatility or a return of high prices, along with any fluctuation in the availability of these commodities may continue to have adverse effects on our business, results of operations, or financial condition throughout fiscal 2008. We will continue efforts to pass some of the supply and raw material cost increases onto our customers, although competitive and market pressures have limited our ability to do that, particularly with domestic VMs, and may prevent us from doing so in the future. In addition, in some cases there is a lapse of time before we are able to pass price increases through to the customer. 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 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. We also face an inherent business risk of exposure to commodity price risks, and have historically offset

a portion of our exposure, particularly to changes in the price of various non-ferrous metals used in our manufacturing operations, through commodity swaps and option contracts. We expect to be continually challenged as demand for our principal raw materials will be significantly

impacted by demand in emerging markets, particularly in China and India. Price reductions are often required pursuant to contracts or to remain competitive with our peers and are sometimes necessary to win additional business. We cannot provide assurance that fluctuations in 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.

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.

To compete effectively 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 and Absent Significant Improvement, if a Modified Plan of Reorganization is Not Consummated We May Be Unable to Generate Sufficient Excess Cash Flow to Meet Increased U.S. Pension Funding Obligations Upon Emergence.

We may have difficulty in generating cost savings and operational improvements in the future, in adapting our cost structure, adequately to adjust for significant changes in vehicle production rates, and in offsetting price reductions and increases in raw material or labor costs. Modifications made to our collective bargaining agreements together with the comprehensive settlement agreements negotiated with GM improve our cost structure and our ability to adjust for changes in economic conditions at our legacy sites, but we must continue our transformation plan to realign our footprint and emerge from chapter 11 for these arrangements to be fully effective. Our labor costs may include increased funding requirements for pensions or healthcare costs (some of which have been deferred during the chapter 11 cases). 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.

We have satisfied a significant portion of our U.S. pension funding obligations at September 30, 2008, including those which had been previously deferred during the chapter 11 cases, through the transfer certain assets and liabilities of the Hourly Plan to the GM Hourly-Rate Employees Pension Plan pursuant to section 414(l) of the Internal Revenue Code (the 414(l) Net Liability Transfer) in accordance with the provisions of the comprehensive settlement agreements, the Amended MRA and Amended GSA. The 414(l) Net Liability Transfer is to occur in two separate steps. The first step occurred on September 29, 2008 and the second step of the 414(l) Net Liability Transfer will occur upon the effectiveness of an amended plan of reorganization under certain conditions as described further in

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Plan of Reorganization and Transformation Plan. The second step of the 414(l) Net Liability Transfer would allow us to satisfy substantially all of the pension

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funding obligations to our hourly employees, however that second transfer is conditioned on our emergence from chapter 11 under a modified plan of reorganization that meets the terms of the Amended GSA. If the conditions to the second step of the 414(l) Net Liability Transfer are not satisfied, and the second step does not take place, we do not believe we will be able to fund those U.S. pension obligations.

In addition, we may be unable to satisfy our U.S. pension funding obligations for those plans covering our remaining hourly employees, salaried employees or certain subsidiary employees. Due to the impact of the global economic recession, including reduced global automotive production, capital markets volatility that has adversely affected our pension asset return expectations, a declining interest rate environment, or other reasons, our funding requirements have substantially increased since September 30, 2008. Should we be unable to obtain funding from some other source to resolve these pension funding obligations, either Delphi or the Pension Benefit Guaranty Corporation (the PBGC) may initiate plan terminations. The PBGC would seek termination, if in its view, the risk of loss with respect to the plans may increase unreasonably if the plans are not terminated. Refer to Note 17. Pension and Other Postretirement Benefit Obligations to the consolidated financial statements for further information.

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 2008, we recorded substantial goodwill impairment losses and during 2007 and 2006, we recorded substantial long-lived asset impairment losses. In light of the continued volume reductions we have experienced, we may incur similar losses and charges in the future, and those losses and charges may be significant.

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

Our business is labor intensive and utilizes a large number of unionized employees with contracts that run through September and October 2011 for our two largest U.S. unions. Approximately 97% of our U.S. hourly workforce is represented by our two largest principal unions, the UAW and the IUE-CWA. 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. Although we have reached agreements with each of our U.S. labor unions to settle our previously-filed motions under sections 1113 and 1114 of the Bankruptcy Code and to extend, with certain modifications, our collective bargaining agreements, our failure to consummate the modified Plan and the transactions contemplated thereby may leave us with no choice but to reinitiate a process to reject our collective bargaining agreements. Such rejection of our labor contracts could lead such unions to authorize a strike or other form of significant work disruption.

Labor Related Disruptions at Our Customers or Other Suppliers May Adversely Affect Our Operations.

During the three months ended March 31, 2008, production in GM North America decreased due to work stoppages at American Axle, a Tier-1 supplier to GM based in Detroit, Michigan. On February 25, 2008 certain UAW-represented hourly employees of American Axle ceased production at certain of its manufacturing plants in North America. The work stoppages forced GM to slow down or suspend production at certain of their manufacturing plants, which also slowed production of other Tier 1 suppliers, including Delphi during the first quarter of 2008.

We May Lose or Fail to Attract and Retain Key Salaried Employees and Management Personnel.

An important aspect of our competitiveness is our ability to attract and retain key salaried employees and management personnel. Our ability to do so is influenced by a variety of factors, including the compensation we award, and could be adversely affected by our recent financial performance.

Our Substantial Global Operations Mean We are Exposed to Foreign Currency Fluctuations Which 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 cannot provide assurance that fluctuations in currency exposures 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.

We Face Risks Associated With Doing Business in non-U.S. Jurisdictions.

We have manufacturing and distribution facilities in many foreign countries, including countries in Asia Pacific, Eastern and Western Europe and South America. International operations are subject to certain risks inherent in doing business abroad, including:

- Exposure to local economic conditions;
- Expropriation and nationalization;
- Withholding and other taxes on remittances and other payments by subsidiaries;
- Investment restrictions or requirements; and
- Export and import restrictions.

Increasing our manufacturing footprint in Asian markets and our business relationships with Asian automotive manufacturers are important elements of our strategy. In addition, our strategy includes expanding our European market share and expanding our manufacturing footprint in lower-cost regions. As a result, our exposure to the risks described above may be greater in the future. The likelihood of such occurrences and their potential impact on us vary from country to country and are unpredictable.

Legal and Accounting Matters

We May Incur Material Losses and Costs as a Result of Warranty Claims and Product Liability and Intellectual Property Infringement Actions That May Be Brought Against Us.

We face an inherent business risk of exposure to warranty claims and product liability 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. 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. Refer to Note 13. Warranty Obligations to the consolidated financial statements.

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 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.

Incurrence of Significant Legal Costs May Adversely Affect Our Profitability.

On October 30, 2006, the SEC commenced and simultaneously settled with Delphi a lawsuit alleging violations of federal securities laws, which concluded the SEC s investigation of Delphi. Under the agreement approved by the SEC, Delphi agreed, without admitting or denying any wrongdoing, to be enjoined from future violations of the securities laws. Although the SEC did not impose civil monetary penalties against Delphi, we are subject to related private litigation involving the federal securities laws, the Employee Retirement Income Security Act (ERISA), and shareholder derivative actions. In August 2007, representatives of Delphi, Delphi s insurance carriers, certain current and former directors and officers of Delphi, and certain other defendants involved in the proceedings were able to reach an agreement with the Lead Plaintiffs, as described in the sections below, which was approved by the Court on January 25, 2008. The settlement is contingent upon the effective date of the Plan occurring as well as the payment of the $15 million amount to be provided by a third party, and if, for any reason, these contingencies are not met, the settlement will be null and void, and the actions could result in significant legal costs going forward unless we are able to negotiate an amendment to the settlement. Refer to Note 18. Commitments and Contingencies, Shareholder Lawsuits to the consolidated financial statements.

We May Identify the Need for Additional Environmental Remediation or Demolition Obligations Relating to Transformation Activities.

Delphi is undertaking substantial transformation activities including the sale, closure, and/or demolition of numerous facilities around the world. In the course of this process, environmental investigations and assessments will continue to be performed and we may identify previously unknown environmental conditions or further delineate known conditions that may require remediation or additional costs related to demolition or decommissioning. These findings could trigger additional and possibly material environmental remediation costs above existing reserves and for demolition and decommissioning costs.

Internal Controls

Failure to 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 internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected

on a timely basis. A material weakness results in a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis. Previously we have had a

number of material weaknesses that, although now remediated, required us to perform extensive additional work to obtain reasonable assurance regarding the reliability of our financial statements.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved SEC staff comments to report.

ITEM 2. PROPERTIES

Delphi owns its world headquarters in Troy, Michigan. Delphi also maintains regional headquarters in Sao Paulo, Brazil; Shanghai, China; and Bascharage, Luxembourg. Excluding Delphi s joint ventures and other investments, as of December 31, 2008, Delphi maintained approximately 311 sites in 34 countries throughout the world, including manufacturing facilities, technical centers, customer centers and sales offices. Delphi s business segments share many of the manufacturing facilities throughout the world. As of December 31, 2008, of the approximately 311 sites, 32 were owned and 37 were leased in the U.S. and Canada, 34 were owned and 19 were leased in Mexico, 33 were owned and 86 were leased in Europe/Middle East/Africa; 11 were owned and eight were leased in South America; and nine were owned and 42 were leased in Asia Pacific.

We continually 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 Cases

Refer to Item 1. Business in this Annual Report on Form 10-K for further information regarding the chapter 11 cases.

Shareholder Lawsuits

As previously disclosed, the Company, along with certain of its subsidiaries, current and former directors of the Company, and certain current and former officers and employees of the Company or its subsidiaries, and others were named as defendants in several lawsuits filed following the Company s announced intention to restate certain of its financial statements in 2005. Refer to Item 7. Management s Discussion & Analysis of Financial Condition and Results of Operations Shareholder Lawsuits in this Annual Report for further information.

Ordinary Business Litigation

Delphi is from time to time subject to various legal actions and claims incidental to its business, including those arising out of alleged defects, breach of contracts, product warranties, intellectual property matters, environmental matters, and employment-related matters.

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 modified Plan sets forth the treatment of claims against and interest in the Debtors. (Refer to Note 2. Transformation Plan and Chapter 11 Bankruptcy to the consolidated financial statements for details on the chapter 11 cases). Under the modified Plan, the automatic stay remains in effect until the effective date of the

modified Plan.

Environmental Matters and other Regulatory 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. As previously disclosed, with respect to environmental

matters, Delphi has received notices that it is a potentially responsible party (PRP) in proceedings at various sites, including the Tremont City Landfill. 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 on Form 10-K.

Warranty Matters

With respect to warranty matters, although Delphi cannot assure that the future costs of warranty claims by customers will not be material, Delphi believes its established reserves are adequate to cover potential warranty settlements. However, the final amounts required to resolve these matters could differ materially from the Company s recorded estimates. Additionally, in connection with the Separation, Delphi agreed to indemnify GM against substantially all losses, claims, damages, liabilities or activities arising out of or in connection with its business post-Separation for which it is determined Delphi has responsibility. Due to the nature of such indemnities, Delphi is not able to estimate the maximum amount thereof. For a discussion of warranty matters, refer to Note 18. Commitments and Contingencies to the consolidated financial statements.

Intellectual Property Matters

For a discussion of intellectual property matters, refer to Note 18. Commitments and Contingencies to the consolidated financial statements.

Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. After discussions with counsel, it is the opinion of Delphi that the outcome of such matters will not have a material adverse impact on the consolidated financial position, results of operations or cash flows of Delphi.

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

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

SUPPLEMENTARY ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age, current position and a description of the business experience of each of the executive officers of Delphi are listed below as of March 3, 2009. 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	67	Executive Chairman of the Board
Rodney O Neal	55	Chief Executive Officer & President
John D. Sheehan	48	Vice President & Chief Financial Officer
Mark R. Weber	60	Executive Vice President, Global Business Services
James A. Bertrand	51	Vice President & President, Delphi Automotive Holdings Group & President, Delphi Thermal Systems
Francisco A. Ordonez	58	Vice President & President, Delphi Product & Service Solutions
Jeffrey J. Owens	54	Vice President & President, Delphi Electronics & Safety & President, Delphi Asia Pacific
Ronald M. Pirtle	54	Vice President & President, Delphi Powertrain Systems & President, Delphi Europe, Middle East & Africa
Robert J. Remenar	53	Vice President & President, Delphi Steering
David M. Sherbin	49	Vice President, General Counsel & Chief Compliance Officer
James A. Spencer	56	Vice President & President, Delphi Electrical/Electronic Architecture & President, Delphi Latin America

Mr. Miller was named executive chairman of Delphi Corporation in January 2007. Mr. Miller previously served as chairman and chief executive officer of Delphi Corporation from July 1, 2005. Prior to joining Delphi, Mr. Miller had been non-executive chairman of Federal-Mogul Corporation, a global automotive component supplier, from January 2004 until June 2005. Mr. Miller served in various positions with Federal-Mogul since 1993, including a previous term as non-executive chairman from January to October 2001, and three times in a transition role as chief executive officer 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. Mr. Miller serves on the Board of Directors of United Airlines Corporation and Symantec Corporation.

Mr. O Neal became president and chief executive officer of Delphi Corporation in January 2007. He was president and chief operating officer of Delphi Corporation from January 7, 2005. Prior to that position, Mr. O Neal served as president of Delphi s former Dynamics, Propulsion and Thermal sector from January 2003 and as executive vice president and president of Delphi s former Safety, Thermal and Electrical Architecture sector from 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. He is a member of the Executive Leadership Council. Mr. O Neal serves on the Board of Directors of Goodyear Tire & Rubber Company and Sprint Nextel Corporation.

Mr. Sheehan was named vice president and chief financial officer of Delphi Corporation effective October 3, 2008. Previously, Mr. Sheehan served as vice president and chief restructuring officer for Delphi Corporation effective October 2005, and prior to this position, he served as acting chief financial officer since March 2005. Mr. Sheehan also served as chief accounting officer and controller from July 1, 2002 through July, 2006. Previously, he was a partner at KPMG LLP since 1995. His experience at KPMG LLP included 20 years in a number of assignments in the United States, England, and Germany.

Mr. Weber was named executive vice president, Global Business Services of Delphi Corporation, effective July 2006. He served as executive vice president, Operations, Human Resource Management and Corporate

Affairs for Delphi since January 2000. In 1998, Mr. Weber was named a vice president of Delphi. He is the executive champion for Delphi s Harley-Davidson Customer Team.

Mr. Bertrand was named president of Delphi Thermal Systems effective May 2008, in addition to his serving as president of Delphi Automotive Holdings Group Division since January 2003. Previously, Mr. Bertrand served a dual role beginning in January 2003 as president of Delphi Automotive Holdings Group Division and president of Delphi s former Safety & Interior Systems Division, to which he was named president in January 2000. Mr. Bertrand has been a vice president of Delphi since 1998.

Mr. Ordonez was named vice president of Delphi Corporation and president of Delphi Product and Service Solutions effective March 2002. He served as finance manager for GM España from 1981 to 1984 and as finance director. He joined Delphi in 1988 and has held a number of finance and business planning positions including director of finance for Delphi Safety & Interior Systems. He was named general manager of Product and Service Solutions in October 1999. Mr. Ordonez serves on the Board of Directors of Motor Equipment Manufacturers Association (MEMA).

Mr. Owens was named vice president of Delphi Corporation and president of Delphi Electronics and Safety Division effective September 2001. He also serves as president for Delphi Asia Pacific. Previously, Mr. Owens served as general director of Business Line Management, effective October 2000. Mr. Owens serves on the Engineering Advisory Board of Directors of Purdue University and the Central Indiana Corporate Partnership Board.

Mr. Pirtle was named president of Delphi Powertrain Systems and president for Delphi Europe, Middle East & Africa effective May 1, 2008. Previously, he served as president of Delphi Thermal Systems Division effective July 2006 and as president of the former Delphi Thermal & Interior Division, effective January 2004. Prior to that, he had been president of the former Delphi Harrison Thermal Systems Division from November 1998. He has been a vice president of Delphi since 1998.

Mr. Remenar was named vice president of Delphi Corporation and president of Delphi Steering Division, effective April 2002. Prior to that position, he had been the executive director of business lines for Delphi s former Energy & Chassis Division since January 2000. Mr. Remenar serves on the Dean s Business Advisory Council of Central Michigan University and President s Advisory Council of Walsh College.

Mr. Sherbin was named vice president and general counsel for Delphi Corporation effective October 2005. He was appointed chief compliance officer in January 2006. Previously, Mr. Sherbin was vice president, general counsel and secretary for Pulte Homes, Inc., a national homebuilder, from January 2005 through September 2005. Prior to joining Pulte Homes, Inc., he was senior vice president, general counsel and secretary for Federal-Mogul Corporation, a global automotive component supplier, from April 2003 through December 2004 and vice president, deputy general counsel and secretary from March 2001 through March 2003.

Mr. Spencer was named vice president of Delphi Corporation and president of Delphi Electrical/Electronic Architecture Division, formerly Packard Electric Systems Division, effective November 2000. He also serves as president for Delphi Latin America effective July 2006.

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. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters in this Annual Report on Form 10-K.

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PART II

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

On October 11, 2005, the New York Stock Exchange (NYSE) announced suspension of trading of Delphi Corporation s (referred to as Delphi, the Company, we, or our) common stock (DPH), 61/2% Notes due May 1, 20 (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) is 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 is no longer subject to the regulations and controls imposed by the NYSE. Delphi s preferred shares (OTC: DPHAQ) ceased trading on the Pink Sheets November 14, 2006 on the same day the property trustee of each Trust liquidated each Trust s assets in accordance with the terms of the applicable trust declarations. 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 Computershare Limited. On December 31, 2008 and January 31, 2009, there were 274,398 and 274,287 holders of record, respectively, of our common stock.

On September 8, 2005, the Board of Directors announced the elimination of Delphi s quarterly dividend on Delphi common stock. In addition, the Refinanced DIP Credit Facility and the Amended DIP Credit Facility include a negative covenant, which prohibit the payment of dividends by the Company. The Company does not expect to pay dividends prior to emergence.

The following table sets forth the high and low sales price per share of our common stock, as reported by OTC. Refer to Note 21. Share-Based Compensation to the consolidated financial statements for additional information regarding equity compensation plans.

	Price Range of Common Stock	
Year Ended December 31, 2008	**High**	**Low**
4th Quarter	$ 0.08	$ 0.02
3rd Quarter	$ 0.11	$ 0.04

2nd Quarter	$ 0.14	$ 0.04
1st Quarter	$ 0.22	$ 0.04

Year Ended December 31, 2007	Price Range of Common Stock High	Low
4th Quarter	$ 0.49	$ 0.10
3rd Quarter	$ 2.59	$ 0.44
2nd Quarter	$ 3.12	$ 1.46
1st Quarter	$ 3.86	$ 2.25

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 2008 and the Company did not have a share repurchase program during 2008.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data reflects the results of operations and balance sheet data for the years ended 2004 to 2008. Prior period amounts have been restated for discontinued operations. 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.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in millions, except per share amounts)				
Statement of Operations Data:					
Net sales	$ 18,060	$ 22,283	$ 22,737	$ 23,394	$ 24,731
Income (loss) from continuing operations (1) (2) (3) (4)	$ 3,056	$ (2,308)	$ (5,141)	$ (2,130)	$ (4,886)
Net income (loss) (1) (2) (3) (4)	$ 3,037	$ (3,065)	$ (5,464)	$ (2,357)	$ (4,818)
Basic and diluted income (loss) per share					
Continuing operations	$ 5.41	$ (4.11)	$ (9.16)	$ (3.80)	$ (8.71)
Discontinued operations	(0.03)	(1.34)	(0.58)	(0.38)	0.12
Cumulative effect of accounting change			0.01	(0.03)	
Basic and diluted income (loss) per share (1) (2) (3) (4)	$ 5.38	$ (5.45)	$ (9.73)	$ (4.21)	$ (8.59)
Cash dividends declared per share	$	$	$	$ 0.045	$ 0.280
Ratio of earnings to fixed charges (5)	7.1	N/A	N/A	N/A	N/A

	As of December 31,				
	2008	2007	2006	2005	2004
	(in millions)				
Balance Sheet Data:					

Total assets	$ 10,306	$ 13,667	$ 15,392	$ 17,023	$ 16,559
Total debt	$ 4,229	$ 3,554	$ 3,342	$ 3,389	$ 2,976
Liabilities subject to compromise (6)	$ 14,583	$ 16,197	$ 17,416	$ 15,074	$
Stockholders deficit	$ (14,425)	$ (13,472)	$ (12,055)	$ (6,245)	$ (3,625)

(1) Includes non-recurring gains related to the GM settlements of $5.7 billion during 2008, as described in Note 2. Transformation Plan and Chapter 11 Bankruptcy to the consolidated financial statements.

(2) Includes pre-tax impairment charges related to long-lived assets held for use of $37 million, $98 million, $172 million, $172 million and $324 million in 2008, 2007, 2006, 2005 and 2004, respectively. Includes

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pre-tax impairment charges related to goodwill of $325 million, $390 million and $30 million in 2008, 2005 and 2004, respectively.

(3) In 2008, 2007 and 2006 Delphi incurred a pre-tax charge of $78 million, $212 million and $2,706 million, respectively, related to the U.S. employee workforce transition programs, as described in Note 16. U.S. Employee Workforce Transition Programs to the consolidated financial statements.

(4) 2007 net loss includes a continuing operations tax benefit of $703 million related to gains in other comprehensive income. 2004 net loss includes $4,644 million 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 the consolidated financial statements.

(5) The ratio of earnings to fixed charges for the year ended December 31, 2008 was 7.1. Fixed charges exceeded earnings by $2,765 million, $5,031 million, $2,218 million and $830 million for the years ended December 31, 2007, 2006, 2005 and 2004, respectively, resulting in a ratio of less than one.

(6) 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. The decrease in liabilities subject to compromise as of December 31, 2008 is due to the reductions of pension obligations, postretirement obligations and the GM claim for the U.S. employee workforce transition programs resulting from the effectiveness of the GM settlement agreements during 2008. The decrease in Liabilities Subject to Compromise as of December 31, 2007 is primarily due to the reclassification of warranty and environmental claims to accrued liabilities and other long-term liabilities as well as a portion of debt to current and long-term debt during 2007. Refer to Note 2. Transformation Plan and Chapter 11 Bankruptcy, Note 12. Liabilities and Note 14. Liabilities Subject to Compromise to the consolidated financial statements.

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

The following management s discussion and analysis of financial condition and results of operations (MD&A) is intended to help you understand the business operations and financial condition of Delphi Corporation (referred to as Delphi, the Company, we, or our).

Executive Summary of Business

Delphi is a global supplier of vehicle electronics, transportation components, integrated systems and modules and other electronic technology. We operate in extremely competitive markets. Our customers select us based upon numerous factors, including technology, quality, delivery 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 or lose in 2008 will generally not impact our financial results until 2010 or beyond.

In light of the increasingly challenging economics in the United States (U.S.) automotive industry in recent years, we determined that it was necessary to address and resolve our U.S. legacy liabilities, product portfolio, operational issues and profitability requirements so as to be able to transform our business to meet such challenges. As a result, we intensified our efforts during 2005 to engage our labor unions, as well as General Motors Corporation (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 we needed to pursue other alternatives to preserve value for our stakeholders.

Accordingly, to transform and preserve the value of the Company, which requires resolution of existing legacy liabilities and the resulting high cost of U.S. operations, 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 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) in the Court. The Court is jointly administering these cases as In re Delphi Corporation, et al., Case No. 05-44481 (RDD). We 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 Chapter 11 Filings, continue their business operations without supervision from the Court and are not subject to the requirements of the Bankruptcy Code.

On February 4, 2008, the Confirmation Order entered by the Court on January 25, 2008 with respect to Delphi s amended plan of reorganization (the Plan) and related amended disclosure statement (the Disclosure Statement) became final, but Delphi was unable to consummate the Plan because certain investors under the Plan refused to participate in the closing, which was commenced but not completed on April 4, 2008. The Plan and Disclosure Statement outlined Delphi s transformation centering around five core areas detailed below and were based upon a series of global settlements and compromises, including agreements reached with each of Delphi s principal U.S. labor unions and GM.

Throughout the second and third quarters of 2008, Delphi engaged in discussions with its stakeholders, including GM and representatives of both statutory committees, to develop modifications to the Plan that would allow Delphi to

emerge from chapter 11. On October 3, 2008, Delphi filed proposed modifications to the Plan and related modifications to the Disclosure Statement with the Court which contained an updated business plan associated with a mid-point total enterprise business valuation of $7.2 billion, and contemplated that Delphi would need to raise approximately $3.75 billion of emergence capital through a combination of term debt and rights to purchase equity. However since the filing of the proposed modifications, substantial

uncertainty and a significant decline in capacity in the credit markets, the global economic downturn generally and the current economic climate in the automotive industry, have adversely impacted Delphi s ability to develop a revised recapitalization plan and successfully consummate a confirmed plan of reorganization. Delphi continues to be engaged in comprehensive discussions with all of its stakeholders that have a continuing economic interest in its reorganization cases to formulate further plan modifications. In connection with those discussions, Delphi has been making further revisions to its business plan consistent with the extremely low volume production environment in the global automotive industry and depressed global capital and equity markets. Although no formal valuation of the revised business plan has been completed, it is anticipated that the total business enterprise value associated with the revised plan will be substantially below the valuation range contained in the modifications filed in October 2008 and may be equivalent to, or even less than, the amount of Delphi s postpetition obligations, including its borrowings under its debtor-in-possession (DIP) financing facility. These factors also continue to delay Delphi s emergence from chapter 11 and its ability to refinance its existing DIP credit facility. Accordingly, Delphi continues to face considerable challenges adapting to the current economic environment and mitigating the impact of these challenges on its financial performance. See Overview of Performance During 2008 in this Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Delphi will not emerge from bankruptcy as a going concern unless and until Delphi is able to obtain confirmation of necessary modifications to the Plan that recognize the existing market conditions. Moreover, the continued forbearance by Delphi s lenders under the DIP financing and the effectiveness of any modified plan of reorganization is subject to a number of conditions, including the entry of certain orders by the Court and the obtaining of necessary emergence capital. There can be no assurances that such emergence capital will be obtained (or, if obtained, the terms thereof) or such other conditions will be satisfied. Refer to Item 1A. Risk Factors in this Annual Report on Form 10-K. Until Delphi is able to successfully consummate a confirmed plan of reorganization, Delphi and certain of its U.S. subsidiaries will continue as debtors-in-possession in chapter 11, until a modified plan of reorganization is approved and consummated or other dispositive action is taken.

While in chapter 11, Delphi has been supplementing cash from operations and funding its transformation plan in North America with borrowings under its debtor-in-possession first priority revolving credit facility (the Amended and Restated DIP Credit Facility), which facility matured on December 31, 2008. Prior to the expiration of the term of the Amended and Restated DIP Credit Facility, Delphi entered into the Accommodation Agreement allowing Delphi to retain the proceeds of the Amended and Restated DIP Credit Facility, consisting of a $1.1 billion first priority revolving credit facility (Tranche A or the Revolving Facility), a $500 million first priority term loan (the Tranche B Term Loan) and a $2.75 billion second priority term loan (the Tranche C Term Loan) until the earlier of June 30, 2009 (or May 5, 2009 if Delphi does not achieve certain milestones in its reorganization cases), provided Delphi continues to remain in compliance with all applicable covenants under the Accommodation Agreement and the Amended and Restated DIP Credit Facility (other than the failure to repay the loans under the facility on the maturity date or comply with certain other repayment provisions).

Delphi also has the ability to draw down amounts pursuant to an agreement with GM whereby GM agreed to advance payments to be made by GM to Delphi following the effectiveness of the GM settlement and restructuring agreements (the GM Advance Agreement), which agreement was later extended and amended during the second half of 2008 to provide up to $300 million in advances through June 30, 2009. In addition, GM has agreed to accelerate payment of certain payables to Delphi, which could result in an additional $300 million of liquidity to Delphi to be provided through May of 2009 (the Partial Temporary Accelerated Payments Agreement).

On January 30, 2009, Delphi reached agreement with its lenders to amend (the Amendment) the Accommodation Agreement. In support of Delphi s efforts to develop a modified reorganization plan adapted to the current global economic environment, the lenders agreed to modify certain financial covenants and pay-down requirements contained in the Accommodation Agreement. In addition, GM agreed to immediately accelerate payment of

$50 million in payables to Delphi under the Partial Temporary Accelerated Payments Agreement and to, no later than February 27, 2009, either accelerate payment of an additional $50 million in

payables under such agreement or increase from $300 million to $350 million the amount which it is committed to advance under the GM Advance Agreement. The Amendment and GM s agreement to accelerate payments were effective January 30, 2009; however, both agreements were subject to satisfaction of certain post-closing conditions, including Court approval and in the case of the Amendment, the payment of fees to the consenting lenders. The Company filed motions with the Court seeking approval of these agreements and authority to pay the applicable fees. Just prior to the hearing on such motions, the lenders and Delphi agreed to a further supplemental amendment to the Accommodation Agreement (the Supplemental Amendment), to further extend certain milestone dates, and on February 24, 2009 the Court approved the Amendment, the Supplemental Amendment and the amendment to the Partial Temporary Accelerated Payments Agreement. Accordingly, absent changes to the GM Advance Agreement, Delphi believes it has access to sufficient liquidity to fund its operations and remain in compliance with the covenants in the Amended and Restated DIP Credit Facility and Accommodation Agreement into April 2009. In addition, Delphi projects it will have sufficient additional liquidity support to manage its U.S. operations into May 2009 as it continues discussions with its stakeholders on proposed modifications to the Plan, subject to satisfaction of certain specified milestones in its reorganization cases and the conditions necessary to consummate the agreement reached with GM on March 3, 2009 described below whereby GM would increase the amounts available under the GM Advance Agreement to a total of $450 million.

On February 27, 2009, as provided for under the January 30, 2009 amendment to the Partial Temporary Accelerated Payments Agreement, GM opted to commit to increase from $300 million to $350 million the amounts available under the GM Advance Agreement, subject to (i) the President s Designee in accordance with the provisions of GM s federal loans not having notified GM prior to March 24, 2009 that the increase is not permitted, and (ii) Court approval of the increase prior to March 25, 2009. Additionally, on March 3, 2009 GM committed to further increase from $350 million to $450 million the amounts available under the GM Advance Agreement, subject to (i) the President s Designee in accordance with the provisions of GM s federal loans not having notified GM prior to March 24, 2009 that the increase is not permitted, (ii) Court approval of the further increase prior to March 25, 2009, (iii) approval by GM s board of directors, (iv) execution of a definitive transaction agreement relating to the sale of Delphi s Steering Business to GM prior to March 24, 2009, and (v) Court approval of the Steering Business Option Exercise Agreement between Delphi and GM prior to March 25, 2009. The Option Exercise Agreement contains a procedure for completing the definitive transaction agreement relating to the sale of the Steering Business to GM which, among other things, takes into account the terms of the Amended MRA and certain modifications set forth in the Option Exercise Agreement. Based on the terms of the Option Exercise Agreement and the Amended MRA, the terms upon which the Steering Business will be sold to GM have been substantially agreed by GM and Delphi. The Option Exercise Agreement is subject to conditions described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Discontinued Operations: Steering and Halfshaft Business. In addition, the Amendment and Supplemental Amendment to the Accommodation Agreement will allow Delphi to access additional liquidity through the periodic release of amounts currently in a cash collateral basket of up to $117 million, provided (i) that all of the above conditions necessary to increase amounts available under the GM Advance Agreement to $450 million are satisfied, (ii) Delphi remains in compliance with all mandatory prepayment provisions and other covenants in the Accommodation Agreement, including the borrowing base calculation after giving effect to such release, and (iii) Delphi has achieved the remaining specified milestones in its reorganization cases, including the filing of a plan of reorganization or modifications to the Plan meeting the conditions specified in the Accommodation Agreement by April 2. Delphi believes receipt of GM s commitment is a significant step toward Delphi being able to secure such additional liquidity.

Notwithstanding the Accommodation Agreement and Amendment, Delphi is in default of the terms of its Amended and Restated DIP Credit Facility and as a result, Delphi is no longer able to make additional draws under the facility after December 12, 2008, (the effective date of the Accommodation Agreement). For further details on Delphi s sources and uses of liquidity and for a more detailed description of the terms of the Accommodation Agreement, as amended by the Amendment, including the covenants and conditions to the lenders continued forbearance from

exercising remedies through the accommodation period, the milestones Delphi must achieve in its chapter 11 cases to avoid an early termination of the accommodation period, the

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conditions which must be satisfied to receive additional liquidity support through the term of the accommodation period, and the terms and conditions in the GM Advance Agreement and Partial Temporary Accelerated Payments Agreement, see Liquidity and Capital Resources in this Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Plan of Reorganization and Transformation Plan

Elements of Transformation Plan

On March 31, 2006, we announced our transformation plan centered around five key elements, each of which is also addressed in our Plan and related Disclosure Statement. The progress on each element is discussed below.

GM Conclude negotiations with GM to finalize financial support for certain of Delphi s legacy and labor costs and to ascertain GM s business commitment to Delphi going forward.

Delphi and GM have entered into comprehensive settlement agreements consisting of the Global Settlement Agreement, as amended (the GSA) and the Master Restructuring Agreement, as amended (the MRA). The GSA and the MRA, as amended through January 25, 2008, comprised part of the Plan and were approved in the order confirming the Plan on January 25, 2008. The GSA and the MRA provided that such agreements were not effective until and unless Delphi emerges from chapter 11. However, as part of Delphi s overall negotiations with its stakeholders to further modify the Plan and emerge from chapter 11 as soon as practicable, Delphi agreed with GM and filed further amendments to the GSA and MRA (the Amended MRA) with the Court on September 12, 2008 and subsequently entered into an additional amendment to the GSA as of September 25, 2008 (as so amended, the Amended GSA). On September 26, 2008, Delphi received the consent of its labor unions to implement certain aspects of the agreements as described in more detail below. The Court approved the Amended GSA and Amended MRA on September 26, 2008 and the Amended GSA and Amended MRA became effective on September 29, 2008. These amended agreements include provisions related to the transfer of certain legacy pension and other postretirement benefit obligations and became effective independent of and in advance of substantial consummation of a modified plan of reorganization. The effectiveness of these agreements resulted in a material reduction in Delphi s liabilities and future expenses related to U.S. hourly workforce benefit programs.

Global Settlement Agreement The Amended GSA resolves outstanding issues between Delphi and GM, including: litigation commenced in March 2006 by Delphi to reject certain supply agreements with GM; all potential claims and disputes with GM arising out of the separation of Delphi from GM in 1999, including certain post-separation claims and disputes; the proofs of claim filed by GM against Delphi in Delphi s chapter 11 cases; the treatment of GM s claims under a Delphi plan of reorganization; and various other legacy U.S. hourly workforce benefit issues. Except for the second step of the transfer of a substantial portion of the assets and liabilities under the Delphi Hourly-Rate Employees Pension Plan (the Hourly Plan) as specifically noted below, the obligations under the Amended GSA are not conditioned on the effectiveness of an amended plan of reorganization.

The Amended GSA addresses commitments by Delphi and GM regarding other U.S. hourly workforce postretirement health care benefits and employer-paid postretirement basic life insurance benefits (OPEB), pension obligations, and other GM contributions with respect to labor matters and releases. In 2008, Delphi recorded a net reorganization gain of $5.3 billion in connection with the effectiveness of the Amended GSA. In addition, under the Amended GSA, Delphi received net cash from GM totaling $760 million in 2008, principally related to reimbursement of hourly OPEB benefit payments since January 1, 2007 and amounts paid by Delphi under special attrition programs.

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The following table provides each component of the net reorganization gain recorded for the elements of the Amended GSA that were implemented during 2008 and which are described in more detail below. The table also reflects the net cash received in 2008 attributable to each of the elements of the Amended GSA:

	Reorganization Gain (Loss) Upon Effectiveness	Cash Received from GM Upon Effectiveness	Pre-Tax Earnings Benefit from GM Post Effectiveness	Cash Received from GM Post Effectiveness
	(in millions)			
Hourly Pension Plan Settlement:				
Hourly Plan First Pension Transfer to GM	$ 2,083	$	$	$
Recognition of Hourly Plan related OCI amounts	(494)			
Hourly OPEB Settlement:				
GM assumption of OPEB obligation	6,821			
Recognition of OPEB related OCI amounts	266			
Allowed Claims and Other:				
Allowed GM administrative claim	(1,628)			
Allowed GM general unsecured claim	(2,500)			
Allowed IUE-CWA and USW claims	(129)			
OPEB reimbursement from GM	353	350	60	51
Special attrition programs (Note 16)	491	230		68
Other, net	69	61		
Total, net	$ 5,332	$ 641	$ 60	$ 119

Hourly Pension Plan Settlement First Pension Transfer to GM On September 26, 2008, Delphi received the consent of its labor unions and approval from the Court to transfer certain assets and liabilities of the Hourly Plan to the GM Hourly-Rate Employees Pension Plan pursuant to section 414(l) of the Internal Revenue Code (the 414(l) Net Liability Transfer). Pursuant to the Amended GSA, the 414(l) Net Liability Transfer is to occur in two separate steps and is sufficient to avoid an Hourly Plan accumulated funding deficiency for the plan year ended September 30, 2008. The first step occurred on September 29, 2008 and Delphi transferred liabilities of approximately $2.6 billion and assets of approximately $486 million from the Hourly Plan to the GM Hourly-Rate Employees Pension Plan, representing 30% and 10% of the projected benefit obligation and plan assets, respectively, as of September 29, 2008 (the First Pension Transfer). The $486 million transferred represented 90% of the initially estimated $540 million of assets to be transferred under the First Pension Transfer. The remaining assets will be transferred by March 29, 2009 upon finalization of the related valuations. The transfer was accounted for as a settlement under Statement of Financial Accounting Standards No. 88, *Employer s Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefit* (SFAS 88), and the obligations of the Hourly Plan were remeasured prior to the transfer occurring. Refer to Note 17. Pension and Other Postretirement Benefits to the consolidated financial statements for further information. Delphi recognized $494 million of previously unrecognized actuarial losses recorded in other comprehensive income (OCI), which represents the pro rata portion of the projected benefit

obligation transferred to GM relative to the total projected benefit obligation of the Hourly Plan.

Hourly Pension Plan Settlement Second Pension Transfer to GM The second step of the 414(l) Net Liability Transfer (the Second Pension Transfer), will occur upon the effectiveness of an amended plan of reorganization that (i) provides for the treatment of GM s claims and releases as set forth in the Amended GSA, including the delivery of preferred stock to satisfy GM s allowed administrative claim as described below, and (ii) contains interpretive provisions required by the Amended GSA regarding conflicts between such a plan and the Amended GSA. Due to the effectiveness of the Second Pension Transfer being contingent upon Delphi s emergence from chapter 11, it does not meet the criteria for settlement accounting as of December 31, 2008. Delphi will continue to account for the remaining pension liability under Statement of

Financial Accounting Standards No. 87, *Employer s Accounting for Pensions,* until such time that it is settled, which is currently anticipated to be upon emergence from chapter 11.

Hourly Plan Freeze and Triggering of Benefit Guarantees As provided for under certain union settlement agreements and implementation agreements, Delphi froze its Hourly Plan for future benefit accruals as of November 30, 2008. In addition, as a result of the triggering of the benefit guarantees, certain eligible hourly employees will receive up to seven years of credited service under the pension and OPEB plans sponsored by GM.

Hourly OPEB Settlement and OPEB Reimbursement from GM On September 23, 2008, Delphi received approval from the Court and on September 26, 2008 received the consent of its labor unions to cease providing traditional U.S. hourly OPEB. In addition, upon effectiveness of the Amended GSA, GM assumed financial responsibility for all Delphi traditional hourly OPEB liabilities from and after January 1, 2007. GM assumed approximately $6.8 billion of postretirement benefit liabilities for certain of the Company s active and retired hourly employees, which was included in the reorganization gain. The assumption of the traditional hourly OPEB liability by GM and GM s agreement to reimburse postretirement benefit expenses through the transfer date constitute a settlement under Statement of Financial Accounting Standards No. 106, *Employer s Accounting for Postretirement Benefits Other Than Pensions.* Delphi recognized $266 million of previously unrecognized actuarial gains recorded in OCI in connection with the settlement. Additionally, on September 30, 2008, GM reimbursed Delphi approximately $350 million for previous OPEB payments made to the hourly workforce from and after January 1, 2007. During the fourth quarter of 2008, GM funded an additional $51 million of OPEB payments made to the hourly workforce and an additional $9 million is recorded as a receivable from GM as of December 31, 2008. Refer to Note 17. Pensions and Other Postretirement Benefits to the consolidated financial statements for further information.

Allowed GM Administrative and General Unsecured Claims In connection with the 414(l) Net Liability Transfer, GM will receive an allowed administrative claim in the amount of up to $2.1 billion, to be provided in two steps. Upon completion of the First Pension Transfer on September 29, 2008, GM received a claim equivalent to 77.5% of the net unfunded liabilities transferred, or $1.6 billion. Upon completion of the Second Pension Transfer, which will occur upon the effectiveness of an amended plan of reorganization that satisfies the requirements of the Amended GSA, GM will receive the balance of the $2.1 billion claim. Of the $2.1 billion administrative claim, $1.6 billion was recognized and included in the reorganization gain in 2008 and $427 million will be granted and recognized by Delphi when the remaining assets and liabilities allocable to certain participants of the Hourly Plan included in the 414(l) Net Liability Transfer are transferred to the GM Hourly-Rate Employees Pension Plan. The amount of the claim to be granted upon completion of the Second Pension Transfer is not dependent upon the amount of the assets and liabilities at the time of the transfer.

Upon Delphi s emergence from bankruptcy, the plan of reorganization may, subject to certain conditions, satisfy GM s administrative claim through the issuance of non-voting convertible preferred stock on the terms described in the Amended GSA, provided that (i) the Amended GSA is consummated and substantially all of Delphi s core businesses are revested in reorganized Delphi, (ii) Delphi s exit financing does not exceed $3.0 billion (plus a revolving credit facility), (iii) no equity securities are issued that are senior to or pari passu with GM s preferred stock, (iv) the plan of reorganization provides for the GM releases as described in the Amended GSA, and (v) the plan of reorganization contains interpretive provisions required by the Amended GSA regarding conflicts between such a plan and the Amended GSA.

Under the terms of the Amended GSA, if all conditions for the receipt by GM of the preferred stock described above are satisfied, holders of general unsubordinated unsecured claims, other than holders of claims arising from Delphi s trust preferred securities, will receive pro rata distributions of common stock in reorganized Delphi to the extent necessary to permit such holders to receive 20% of their allowed general unsubordinated unsecured claims, which distributions are dependent upon an agreed valuation formulation set forth in the Amended GSA, and the distribution

of non-voting convertible preferred stock to GM will be reduced by a corresponding amount. In the event that total enterprise value set forth in the plan of reorganization or disclosure statement (as subsequently modified hereafter) exceeds $7.13 billion, Delphi and

GM have agreed to work in good faith with the official committee of unsecured creditors to establish a reasonable allocation of the value in excess of $7.13 billion in light of the actual economic value of a reorganized Delphi.

Under the terms of the Amended GSA, if any of the conditions to GM s acceptance of preferred stock in satisfaction of its administrative claim is not satisfied or waived by GM, holders of general unsubordinated unsecured claims, other than holders of claims arising from Delphi s trust preferred securities, will receive 50% of all distributions that would otherwise be made to GM on account of its administrative claim up to the amount necessary for such holders to receive an aggregate distribution of up to $300 million, exclusive of any value received as a result of such holders participation in any rights offering.

With respect to GM s claims in the Company s chapter 11 cases, under the terms of the Amended GSA, GM has agreed to a general unsecured claim of $2.5 billion, and to subordinate its recovery on such claim until other general unsecured creditors have achieved a recovery of 20% of the allowed amount of their claims (other than holders of claims arising from Delphi s trust preferred securities). If Delphi s other general unsecured creditors have received a distribution of 20% of the allowed amount of their claims, if there is any remaining value to be distributed, GM would receive a distribution on its general unsecured claim until it has received a 20% distribution on such claim amount. Once GM has received a 20% distribution on its general unsecured claim, and if there is any remaining value to be distributed, any additional distributions would be shared ratably between GM and Delphi s other general unsecured creditors.

On October 3, 2008, Delphi filed proposed modifications to the Plan and related modifications to the Disclosure Statement with the Court, which contained an updated business plan associated with a mid-point total enterprise business valuation of $7.2 billion, and contemplated that Delphi would need to raise approximately $3.75 billion of emergence capital through a combination of term debt and rights to purchase equity. However since the filing of the proposed modifications, substantial uncertainty and a significant decline in capacity in the credit markets, the global economic downturn generally and the current economic climate in the automotive industry, have adversely impacted Delphi s ability to develop a revised recapitalization plan and successfully consummate a confirmed plan of reorganization. Delphi continues to be engaged in comprehensive discussions with all of its stakeholders that have a continuing economic interest in its reorganization cases to formulate further plan modifications. In connection with those discussions, Delphi has been making further revisions to its business plan consistent with the extremely low volume production environment in the global automotive industry and depressed global capital and equity markets. Although no formal valuation of the revised business plan has been completed, it is anticipated that the total business enterprise value associated with the revised plan will be substantially below the valuation range contained in the modifications filed in October 2008 and may be equivalent to, or even less than, the amount of Delphi s postpetition obligations, including its borrowings under its debtor-in-possession financing facility. Accordingly, we believe it is likely that (i) we will not be able to satisfy all the conditions for the receipt by GM of the preferred stock or that the economic value of reorganized Delphi will exceed $7.13 billion, (ii) that 50% of GM s administrative claim will be subordinated to the claims of general unsecured creditors as described above and (iii) that GM will receive the full allowed amount of its general unsecured claim. As part of the April 2 milestone for Delphi s filing of modifications to its previously confirmed plan of reorganization, as contemplated by the Supplemental Amendment, Delphi and GM are discussing potential modifications to the Amended MRA, including pulling forward elements of GM s previously agreed support for Delphi, such as the production cash burn breakeven and labor subsidy payments referred to below, into one payment at emergence in combination with the transfer to GM of certain of Delphi s U.S. manufacturing sites dedicated principally to supplying product to GM. This potential arrangement or modifications to existing agreements are designed to facilitate Delphi s emergence from chapter 11, notwithstanding the current state of the global economy, the automotive market and the capital markets.

GM and certain related parties and Delphi and certain related parties have exchanged broad, global releases, effective as of the effective date of the Amended GSA (which releases do not apply to certain surviving claims as set forth in

the Amended GSA). In addition to providing a release to GM, the Company agreed to withdraw and has withdrawn with prejudice the sealed complaint (the GM Complaint) filed against GM in the Court on October 5, 2007.

Allowed IUE-CWA and USW Claims General unsecured claims in the amounts of $126 million and $3 million were granted to the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers-Communication Workers of America (IUE-CWA) and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union and its Local Union 87L (the USW), respectively, under the respective labor settlement agreements.

Special Attrition Programs The reorganization gain included $491 million of reimbursement related to the 2006 and 2007 special attrition programs because these programs were directly related to the chapter 11 cases. On September 30, 2008, GM reimbursed Delphi $230 million related to the funding of various 2007 U.S. hourly workforce special attrition programs, consistent with the provisions of the U.S. labor union settlement agreements. Additionally, previously recognized GM general unsecured claims of $333 million primarily related to the 2006 U.S. hourly workforce attrition programs previously reimbursed by GM have been superseded by the overall $2.5 billion allowed general unsecured claim granted to GM, as discussed above. During the fourth quarter of 2008, GM reimbursed Delphi $68 million related to the funding of the UAW buydown arrangements under the 2007 U.S. hourly workforce special attrition programs. Refer to Note 16. U.S. Employee Workforce Transition Programs to the consolidated financial statements for more information.

Other, Net Other, net of $69 million includes a $51 million reimbursement from GM related to the U.S. labor settlement agreement with the IUE-CWA, dated August 5, 2007, of which $25 million is reimbursement of costs and expenses incurred by Delphi in connection with the execution and performance of the IUE-CWA labor agreement and $26 million is reimbursement to Delphi for a portion of the allowed claim under the IUE-CWA labor agreement.

Master Restructuring Agreement The Amended MRA is intended to govern certain aspects of Delphi and GM s commercial relationship since filing for chapter 11 and following Delphi s emergence from chapter 11. The Amended MRA addresses the scope of GM s existing and future business awards to Delphi and related pricing and sourcing arrangements, GM commitments with respect to reimbursement of specified ongoing U.S. hourly workforce labor costs, the disposition of certain Delphi facilities, and the treatment of existing commercial agreements between Delphi and GM. The obligations under the Amended MRA generally are not conditioned on the effectiveness of a modified plan of reorganization. Upon effectiveness of the Amended MRA in 2008, Delphi received net cash from GM totaling $559 million and recognized related pre-tax earnings of $355 million, of which $254 million was recorded in GM settlement in operating expenses and $101 million was recorded in discontinued operations. GM s obligations under the Amended MRA are not subject to termination until December 31, 2015 (provided that certain obligations of GM with respect to legacy International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (the UAW) employees would survive any such termination). As part of the April 2 milestone for Delphi s filing of modifications to its previously confirmed plan of reorganization, as contemplated by the Supplemental Amendment, Delphi and GM are discussing potential modifications to the Amended MRA, including pulling forward elements of GM s previously agreed support for Delphi, such as the production cash burn breakeven and labor subsidy payments referred to below, into one payment at emergence in combination with the transfer to GM of certain of Delphi s U.S. manufacturing sites dedicated principally to supplying product to GM. This potential arrangement or modifications to existing agreements are designed to facilitate Delphi s emergence from chapter 11, notwithstanding the current state of the global economy, the automotive market and the capital markets.

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The following table shows each component of the pre-tax earnings recorded upon effectiveness of the Amended MRA in 2008 and the cash received in 2008:

	GM Settlement Gain in Pre-Tax Earnings Upon Effectiveness	Cash Received from GM Upon Effectiveness	Pre-Tax Earnings Benefit Post Effectiveness	Cash Received from GM Post Effectiveness
	(in millions)			
Reimbursement of hourly labor costs	$ 272	$ 273	$ 25	$ 2
Production cash burn breakeven reimbursement	81	74	70	28
Working capital backstop Steering Business		210		
Other	2	2		
Total, net	$ 355	$ 559	$ 95	$ 30
Continuing operations	*$ 254*		*$ 75*	
Discontinued operations	*$ 101*		*$ 20*	

Existing and Future Business Awards and Related Matters The Amended MRA (1) addresses the scope of existing business awards, related pricing agreements, and extensions of certain existing supply agreements, including GM s ability to move production to alternative suppliers, and reorganized Delphi s rights to bid and qualify for new business awards; (2) eliminates the requirement to implement price-downs with respect to certain businesses since Delphi filed for chapter 11 and restricts GM s ability to re-source products manufactured at core U.S. operations through at least December 31, 2011 and Mexican operations through December 31, 2010; (3) contains a commitment by GM to provide Delphi with an annual Keep Site Facilitation Fee of $110 million in 2009 and 2010 which is not contingent on Delphi s emergence from chapter 11, payable in quarterly installments during these periods, which, consistent with Delphi s policy, will be recognized in earnings over future production periods; and (4) contains commitments by GM concerning the sale of certain of Delphi s non-core businesses and additional commitments by GM if certain of Delphi s businesses and facilities are not sold or wound down by specified future dates.

Reimbursement of Hourly Labor Costs GM has agreed to reimburse the Company for hourly workforce labor costs in excess of $26 per hour, excluding certain costs, including hourly pension and OPEB contributions provided under the supplemental wage agreement, at specified UAW manufacturing facilities retained by Delphi. On September 30, 2008, Delphi received payment from GM of $273 million for retroactive labor costs from October 1, 2006 through September 30, 2008. Of the total received, $239 million was included in GM settlement as a reduction of operating expenses and $33 million was included in discontinued operations as it related to the Steering Business and the Interiors and Closures Business. The economic substance of this provision of the Amended MRA is to lower Delphi s labor costs at specified UAW-represented manufacturing facilities to $26 per hour, excluding certain costs, in order to maintain competitive operations in the U.S. Consistent with the economic substance of this provision, Delphi recorded the labor subsidy amounts received as a reduction of cost of sales. Future labor subsidy amounts will be recognized in the period receivable from GM, and will be treated as a reduction to cost of sales or discontinued operations, as appropriate. During the fourth quarter of 2008, Delphi refunded $5 million of the payment to GM based on agreed upon revisions to the estimates paid for retroactive labor costs and received an additional $7 million reimbursement of

labor costs from GM and an additional $22 million is recorded as a receivable from GM as of December 31, 2008, for a total reduction to cost of sales of $25 million in the fourth quarter of 2008.

Production Cash Burn Breakeven Reimbursement Delphi has agreed to continue manufacturing at certain non-core sites to meet GM s production requirements and GM is providing operating cash flow breakeven support, or production cash burn breakeven (PCBB) from January 1, 2008 through site-specified time periods to compensate Delphi for keeping these sites in production. Additionally, GM has agreed to reimburse capital spending in excess of $500,000 at the PCBB sites from January 1, 2008 through site-specified time periods. GM reimbursed Delphi $74 million on September 30, 2008 for the retroactive portion of the PCBB payments through August 2008. Upon effectiveness of the Amended MRA, Delphi recognized

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$81 million for the retroactive portion of the PCBB amounts received or receivable through September 2008, of which $15 million was included in GM settlement as a reduction of operating expenses and $66 million was included in discontinued operations. Future PCBB reimbursement, including capital spending, received from GM will be recognized contemporaneously as incurred, and will be treated as a reduction to cost of sales, fixed assets or discontinued operations, as appropriate. During the fourth quarter of 2008, Delphi received $28 million PCBB reimbursement from GM and an additional $42 million is recorded as a receivable as of December 31, 2008, of which $50 million was recorded as a reduction to cost of sales and $20 million was recorded in discontinued operations.

Working Capital Backstop Steering Business GM agreed to provide payments to Delphi for the Steering Business if the sales value is less than defined estimated working capital amounts of the businesses. In addition, GM agreed to provide payments to Delphi related to the Steering Business if it is not sold prior to the effectiveness of the MRA. GM provided a $210 million advance on working capital recovery to Delphi related to the Steering Business on September 30, 2008. This payment is recorded as a deferred liability as of December 31, 2008. GM also agreed that ownership of the Steering Business will transfer to GM if it is not sold to a third party by December 31, 2010. In the event of a sale to a third party, Delphi will reimburse GM for the amount of the advance, and GM will pay Delphi an amount equal to the lesser of (a) $210 million and (b) two thirds of the amount, if any, by which the net working capital associated with the business exceeds the sales proceeds. In the event the Steering Business is not sold to a third party and is purchased by GM, the $210 million advance will be retained by Delphi to the extent it meets the working capital criteria as defined in the Amended MRA at the time of the transfer. However, on March 3, 2009, Delphi and GM reached an agreement subject to GM receiving U.S. Treasury and GM board of directors approval and Delphi receiving Court approval, under which GM will exercise its option to purchase the Steering Business as contemplated under the Amended MRA to allow a wholly-owned subsidiary of GM to purchase the Steering Business. The Steering Business is reported as discontinued operations, refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Discontinued Operations for further information.

Reimbursement of Hourly Workers Compensation and Other Benefits GM will reimburse Delphi for all current and future workers compensation, disability, supplemental unemployment benefits, and severance obligations paid by Delphi after January 1, 2009 in relation to all current and former UAW-represented hourly active, inactive, and retired employees. Consistent with the substance of the provision, Delphi will recognize future anticipated reimbursements from GM contemporaneously with Delphi s incurrence of related cash payments in future periods. There is no financial impact related to this matter in 2008.

Accelerated GM North American Payment Terms The Amended MRA accelerates GM s North American payment terms through 2011 upon (a) the effectiveness of an agreement giving GM certain access rights to four of the Company s U.S plants in the event that the reorganized Company experiences extreme financial distress that would prevent Delphi from delivering parts at some point in the future and (b) the consummation of a modified chapter 11 plan of reorganization pursuant to which Delphi emerges with substantially all of its core businesses. There is no financial impact for this matter in 2008. The accelerated payments are expected to result in an increase in cash and a reduction in accounts receivable and will have no impact on the statement of operations.

Pensions Devise a workable solution to the current pension funding situation, whether by deferring contributions to the pension trusts or otherwise.

Since entering chapter 11, Delphi has limited its contributions to the Hourly Plan, the Delphi Retirement Program for Salaried Employees (the Salaried Plan), the ASEC Manufacturing Retirement Program, the Delphi Mechatronics Retirement Program, the PHI Bargaining Retirement Plan and the PHI Non-Bargaining Retirement Plan (together, the Pension Plans) to amounts necessary to fund benefits accrued on account of postpetition service.

Pursuant to the pertinent terms of certain pension funding waivers secured from the Internal Revenue Service (IRS) in 2006 and 2007, Delphi provided to the Pension Benefit Guaranty Corporation (PBGC) letters of credit in favor of the Hourly and Salaried Plans in the amount of $122.5 million to support funding obligations under the Hourly Plan and $50 million to support funding obligations under the Salaried Plan. Due

to the expiration of the waivers, the PBGC drew against the $172.5 million of letters of credit in favor of the Hourly and Salaried Plans on May 16, 2008. The cash proceeds from the letters of credit were deposited into the Hourly and Salaried Plans and initially recognized as Delphi funding contributions to the respective plans for the plan year ended September 30, 2008. However, on January 16, 2009, Delphi filed amended Forms 5500 (Annual Return Report of Employee Benefit Plan) with the IRS that applied all contributions made to the Hourly and Salaried Plans in 2008, including the proceeds from the letters of credit, back to the plan year ended September 30, 2007. This contribution carry back, together with the 414(l) Net Liability Transfer discussed below, had the effect that no contributions were due under the Hourly Plan for the plan year ended September 30, 2008. Approximately $56 million remains due as a minimum funding contribution under the Salaried Plan for the plan year ended September 30, 2008, and approximately $13 million remains due as minimum funding contribution under the Delphi Mechatronics Retirement Program, the PHI Bargaining Retirement Plan and the PHI Non-Bargaining Retirement Plan. As permitted under the Employee Retirement Income Security Act (ERISA) and the U.S. Internal Revenue Code (the Code), Delphi elected to defer the contribution necessary to satisfy this remaining obligation until no later than the due date for minimum contributions, which is June 15, 2009 for the Salaried Plan and September 15, 2009 for the subsidiary plans. On December 15, 2008, Delphi applied to the IRS for a waiver of the obligation to make the minimum funding contribution to the Salaried Plan by June 15, 2009, and permission to instead pay the amount due in installments over the next five years. That application remains pending.

In addition to the funding strategy discussed above and the changes to the Hourly Plan discussed in the Labor section, Delphi froze the Salaried Plan, the ASEC Manufacturing Retirement Program, the Delphi Mechatronics Retirement Program and the PHI Non-Bargaining Retirement Plan effective as of September 30, 2008. Delphi reached agreement with its labor unions which allowed Delphi to freeze the accrual of traditional benefits under the Hourly Plan effective as of November 30, 2008. Certain collectively bargained hourly employees remain covered by the Hourly Plan s Individual Retirement Plan formula (a cash balance benefit providing an annual pay credit accrual of 5.4% of base wages). Refer to Note 17. Pension and Other Postretirement Benefits to the consolidated financial statements for more information.

As discussed above in the GM section, on September 26, 2008, Delphi received the consent of its labor unions and approval from the Court to transfer certain assets and liabilities of the Hourly Plan to the GM Hourly-Rate Employees Pension Plan. The 414(l) Net Liability Transfer is to occur in two separate steps. The First Pension Transfer occurred on September 29, 2008. The Second Pension Transfer will transfer substantially all of the remaining assets and liabilities of the Hourly Plan upon Delphi s emergence from chapter 11 if the terms of the Amended GSA are met.

As reflected above, Delphi has not made certain minimum required contributions to the Pension Plans and as a result, the IRS has asserted against Delphi excise taxes in the approximate amounts of $17 million and $18 million for plan years ended September 30, 2005 and September 30, 2007, respectively, and may assert additional excise taxes up to an additional $122 million and $226 million for plan years ended September 30, 2006 and September 30, 2007, respectively. If these asserted assessments are not paid, the IRS could increase the assessments that relate to the Salaried Plan to 100% of any Salaried Plan contributions considered by the IRS to be due and unpaid. However, because the 414(l) Net Liability Transfer to the GM hourly plan avoided an accumulated funding deficiency in the Delphi Hourly Plan for the plan year ended September 30, 2008, exposure to the 100% excise tax related to the Delphi Hourly Plan has been eliminated. Assuming Delphi is assessed excise taxes for all plan years through 2007, the total exposure to date could approximate $383 million, plus interest and penalties which could be substantial. In addition, if the IRS does not agree to waive the minimum required funding contribution under the Salaried Plan for the plan year ended September 30, 2008, the IRS may assess an additional excise tax of approximately $6 million if Delphi does not remit $56 million to the Salaried Plan by June 15, 2009. Additional excise taxes could be assessed with respect to the subsidiary plans if the minimum required contributions to those plans for the plan year ended December 31, 2008, are not remitted by September 15, 2009. To the extent not promptly paid by Delphi, any such excise tax assessments might be increased to 100% of any Salaried Plan and subsidiary plan contributions considered by the IRS to be due

and unpaid.

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Although the IRS has asserted certain of the excise tax assessments described above and might seek to assess additional excise taxes, plus interest and penalties, related to the Pension Plans, Delphi believes that under the Bankruptcy Code, the Company is not obligated to make contributions for pension benefits while in chapter 11 and that, as a result, the Company would not be liable for any such assessments. Accordingly, management has concluded that an unfavorable outcome is not currently probable and, as of December 31, 2008, no amounts have been recorded for any potential excise tax assessment.

Upon emergence from chapter 11, the Company intends to meet the minimum funding standards under section 412 of the Code applicable to the Pension Plans. If completed, the second step of the 414(l) Net Liability Transfer will allow us to satisfy substantially all of the pension funding obligations to our hourly employees, however that second transfer is conditioned on our emergence from chapter 11 under a modified plan of reorganization that meets the terms of the Amended GSA. If the conditions to the second step of the 414(l) Net Liability Transfer are not satisfied, and the second step does not take place, we do not believe we will be able to fund those U.S. pension obligations. In addition, we still maintain responsibility for and need to meet U.S. pension funding obligations for those plans covering our remaining hourly employees, salaried employees and certain subsidiary employees. We may be unable to satisfy our U.S. pension funding obligations for those plans covering our remaining hourly employees, salaried employees or certain subsidiary employees. Due to the impact of the global economic recession, including reduced global automotive production, capital markets volatility that has adversely affected our pension asset return expectations, a declining interest rate environment, or other reasons, our funding requirements have substantially increased since September 30, 2008. Should we be unable to obtain funding from some other source to resolve these pension funding obligations, either Delphi or the Pension Benefit Guaranty Corporation (the PBGC) may initiate plan terminations. The PBGC would seek termination, if in its view, the risk of loss with respect to the plans may increase unreasonably if the plans are not terminated. The amount of pension contributions due upon emergence from chapter 11 will be dependent upon various factors including, among other things, the date of emergence, and the funded status of the Pension Plans at the date of emergence. Refer to Note 17. Pension and Other Postretirement Benefits to the consolidated financial statements for further information.

Labor Modify our labor agreements to create a more competitive arena in which to conduct business.

During the second quarter of 2007, Delphi signed an agreement with the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), and during the third quarter of 2007, Delphi signed agreements with the remainder of its principal U.S. labor unions, which were ratified by the respective unions and approved by the Court in the third quarter of 2007. Among other things, as approved and confirmed by the Court, this series of settlement agreements or memoranda of understanding among Delphi, its unions, and GM settled the Debtors motion under sections 1113 and 1114 of the Bankruptcy Code seeking authority to reject their U.S. labor agreements and to modify retiree benefits (the 1113/1114 Motion). As applicable, these agreements also, among other things, modify, extend or terminate provisions of the existing collective bargaining agreements among Delphi and its unions and cover issues such as site plans, workforce transition and legacy pension and other postretirement benefits obligations as well as other comprehensive transformational issues. Portions of these agreements became effective in 2007, and the remaining portions were tied to the effectiveness of the GSA and the MRA, and substantial consummation of the Plan as confirmed by the Court. However, as noted above, Delphi filed amendments to the GSA and the MRA in the Court on September 12, 2008, and subsequently entered into an additional amendment to the GSA as of September 25, 2008. The Court approved such amendments on September 26, 2008. The Amended GSA and the Amended MRA became effective on September 29, 2008.

Among other things, these agreements generally provided certain members of the union labor workforce options to either retire, accept a voluntary severance package or accept lump sum payments in return for lower future hourly wages. Refer to Note 16. U.S. Employee Workforce Transition Programs to the consolidated financial statements for more information.

On September 4, 2007, the Court confirmed that the 1113/1114 Motion was withdrawn without prejudice, subject to the Court s prior settlement approval orders pertaining to each of Delphi s U.S. labor unions, as it relates to all parties and the intervening respondents, by entry of an Order Withdrawing Without Prejudice

Debtors Motion For Order Under 11 U.S.C. § 1113(c) Authorizing Rejection Of Collective Bargaining Agreements And Authorizing Modification Of Retiree Welfare Benefits Under 11 U.S.C. § 1114(g).

Portfolio Streamline Delphi s product portfolio to capitalize on world-class technology and market strengths and make the necessary manufacturing alignment with its new focus.

In March 2006, Delphi identified non-core product lines and manufacturing sites that do not fit into Delphi s future strategic framework, including brake and chassis systems, catalysts, cockpits and instrument panels, door modules and latches, ride dynamics, steering, halfshafts, wheel bearings and power products. In connection with the Company s continuous evaluation of its product portfolio, in 2008, Delphi determined that the global exhaust business no longer fit within Delphi s future product portfolio. With the exception of the catalyst and global exhaust product lines, included in the Powertrain Systems segment, and the steering and halfshaft product lines and interiors and closures product lines included in discontinued operations, these non-core product lines are included in the Company s Automotive Holdings Group segment, refer to Note 22. Segment Reporting to the consolidated financial statements.

Delphi has continued sale and wind-down efforts with respect to non-core product lines and manufacturing sites. The sale and 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 and manufacturing sites. The disposition of any U.S. operation is also being accomplished in accordance with the requirements of the Bankruptcy Code and union 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.

During 2008, Delphi obtained Court approval of bidding procedures and sales agreements for the steering and halfshaft product line and the global exhaust business and closed on the sales of the interiors and closures product line, the North American brake components machining and assembly assets, the global bearings business, the U.S. suspensions business and the power products business. Refer to Note 5. Discontinued Operations and Note 6. Acquisitions and Divestitures to the consolidated financial statements for more information.

Costs recorded during 2008 and 2007 related to the transformation plan for non-core product lines include impairments of long-lived, employee termination benefits and other exit costs and U.S. employee workforce transition program charges. Refer to Note 5. Discontinued Operations, Note 9. Property, Net, Note 10. Goodwill, Note 7. Employee Termination Benefits and Other Exit Costs and Note 16. U.S. Employee Workforce Transition Programs to the consolidated financial statements for more information.

	2008	2007	2006
		(in millions)	
Long-lived asset impairment charges	$ 37	$ 291	$ 215
Goodwill impairment charges	325		
Employee termination benefits and other exit costs	472	672	299
U.S. employee workforce transition program charges	82	244	2,955
Total	$ 916	$ 1,207	$ 3,469
Core product lines	*747*	*462*	*2,594*
Non-core product lines	*107*	*388*	*553*
Discontinued operations	*62*	*357*	*322*

Cost Structure Transform our salaried workforce and reduce general and administrative expenses to ensure that the organizational and cost structure is competitive and aligned with our product portfolio and manufacturing footprint.

Delphi is continuing to implement restructuring initiatives in furtherance of the transformation of its salaried workforce to reduce selling, general and administrative expenses to support its realigned portfolio. These initiatives include financial services, information technology and certain sales administration

outsourcing activities, reduction of its global salaried workforce by taking advantage of attrition and using salaried separation plans, and realignment of certain salaried benefit programs to bring them in line with business needs. However, additional investment is required to fully implement these initiatives and Delphi does not expect to fully realize substantial savings until 2009 and beyond. Additionally, due to the continuing challenging economic environment, further restructuring initiatives may need to be implemented. However, to improve short-term cash flow until the consummation of a confirmed plan of reorganization, certain restructuring initiatives are being delayed until the second half of 2009. In addition, Delphi continues to implement a number of cash conservation measures, including the suspension of 2009 pay increases and annual incentive payments in the U.S. for eligible executives and non-executive salaried employees, the intended cessation of health care and life insurance benefits in retirement to salaried employees and retirees, a decrease in salaried severance payments and the elimination of salaried flex payments in 2009. Delphi continues to reduce other structural costs to further align itself with the current and projected volume outlook.

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. Additional liabilities subject to compromise and resolution in the chapter 11 cases have been asserted as a result of damage claims created by the Debtors rejection of executory contracts.

Thousands of 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 associated with supplier concerns, and systematically address the large number of contracts expiring throughout the post-petition periods, 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.

Equity Purchase and Commitment Agreement

Under the terms and subject to the conditions of the Equity Purchase and Commitment Agreement between Delphi and certain affiliates of lead investor Appaloosa Management L.P. (Appaloosa), Harbinger Capital Partners Master Fund I, Ltd. (Harbinger), Pardus Capital Management, L.P. (Pardus) and Merrill Lynch, Pierce, Fenner & Smith, Incorporated (Merrill), UBS Securities LLC (UBS), and Goldman Sachs & Co. (Goldman) (collectively the Investors), dated as of August 3, 2007, as amended (and together with all schedules and exhibits thereto, the EPCA), the Investors committed to purchase $800 million of convertible preferred stock and approximately $175 million of common stock in the reorganized Company. Additionally, subject to satisfaction of other terms and conditions, the Investors committed to purchase any unsubscribed shares of common stock in connection with an approximately $1.6 billion rights offering that was made available to unsecured creditors. The rights offering commenced on March 11, 2008 and expired on March 31, 2008. In light of the Investors refusal to fund pursuant to the EPCA, as described below, in April 2008, the Company cancelled the rights offering and returned all funds submitted.

The Company would be required to pay the Investors $83 million plus certain transaction expenses if (a) the EPCA was terminated as a result of the Company s agreeing to pursue an alternative investment transaction with a third party or (b) either the Company s Board of Directors withdrew its recommendation of the transaction or the Company willfully breached the EPCA, and within the next 24 months thereafter, the Company then agreed to an alternative investment transaction.

On April 4, 2008, Delphi announced that although it had met the conditions required to substantially consummate its Plan, including obtaining $6.1 billion of exit financing, the Investors refused to participate in a closing that was commenced but not completed on that date. Several hours prior to the scheduled closing on April 4, 2008, Appaloosa delivered to Delphi a letter, stating that such letter constitutes a notice of immediate termination of the EPCA. Appaloosa s April 4 letter alleged that Delphi had breached certain provisions of the EPCA, that Appaloosa is entitled to terminate the EPCA and that the Investors are entitled to be paid the fee of $83 million plus certain expenses and other amounts. At the time Appaloosa delivered its letter, other than the Investors, all the required parties for a successful closing and emergence from chapter 11, including representatives of Delphi s exit financing lenders, GM, and the Unsecured Creditors and Equity Committees in Delphi s chapter 11 cases were present, were prepared to move forward, and all actions necessary to consummate the plan of reorganization were taken other than the concurrent closing and funding of the EPCA.

On April 5, 2008, Appaloosa delivered to Delphi a letter described as a supplement to the April 4 Termination Notice, stating this letter constitutes a notice of an additional ground for termination of the EPCA. The April 5 letter stated that the EPCA s failure to become effective on or before April 4, 2008 was grounds for its termination. On June 30, 2008, Merrill, Goldman, UBS and affiliates of Pardus and Harbinger delivered to Delphi letters of termination relating to the EPCA.

Delphi believes that Appaloosa wrongfully terminated the EPCA and disputes the allegations that Delphi breached the EPCA or failed to satisfy any condition to the Investors obligations thereunder as asserted by Appaloosa in its April 4 letter. Delphi s Board of Directors formed a special litigation committee and engaged independent legal counsel to consider and pursue any and all available equitable and legal remedies, and on May 16, 2008, Delphi filed complaints against the Investors in the Court to seek specific performance by the Investors of their obligations under the EPCA as well as compensatory and punitive damages. No amounts related to this matter have been recorded in Delphi s financial statements. The Investors filed motions to dismiss Delphi s complaints, and on July 28, 2008, the Court denied in part and granted in part the Investors motions. A trial on Delphi s complaint is currently scheduled to occur in May 2009.

During 2007, in exchange for the Investors commitment to purchase common stock and the unsubscribed shares in the rights offering, the Company paid an aggregate commitment fee of $39 million and certain transaction expenses and in exchange for the Investors commitment to purchase preferred stock the Company paid an aggregate commitment fee of $18 million. In addition, the Company paid an arrangement fee of $6 million to Appaloosa to compensate Appaloosa for arranging the transactions contemplated by the EPCA. The Company also paid certain out-of-pocket costs and expenses reasonably incurred by the Investors or their affiliates subject to certain terms, conditions and limitations set forth in the EPCA. Delphi had deferred the recognition of these amounts in other current assets as they were to be netted against the proceeds from the EPCA upon issuance of the new shares. However, as a result of the events relating to the termination of the EPCA as described above, Delphi recognized $79 million of expense related to these fees and other expenses during 2008.

The Plan of Reorganization

As noted above, due to the Investors failure to fund their commitments under the EPCA, Delphi has not yet consummated the Plan. Pursuant to an order entered by the Court on April 30, 2008, the Debtors exclusivity period under the Bankruptcy Code for filing a plan of reorganization was extended until 30 days after substantial consummation of the Plan (as modified) or any modified plan and the Debtors exclusivity period for soliciting acceptance of the Plan (as modified) was extended until 90 days after substantial consummation of the Plan (as modified) or any modified plan. On July 23, 2008, Delphi s Creditors Committee and the Wilmington Trust Company (WTC), as Indenture Trustee and a member of the UCC, filed separate complaints in the Court seeking revocation of the Court order entered on January 25, 2008 confirming Delphi s Plan. The Creditors Committee had earlier advised

Delphi that it intended to file the complaint to preserve its interests with regard to a 180-day statutory period that would have otherwise expired on July 23, 2008. The Creditors Committee and WTC also advised Delphi that they do not intend to schedule a hearing on the complaints pending developments on (i) the continuation of stakeholder discussions concerning potential modifications to the Plan, which would permit Delphi to emerge from chapter 11 as soon

as practicable, and (ii) Delphi s litigation against an affiliate of lead investor, Appaloosa, and the other Investors. Notwithstanding the foregoing, pursuant to an order entered by the Court on October 27, 2008, the Debtors exclusive period for filing a plan of reorganization, solely as to the Creditors Committee and the Equity Committee is extended through and including March 31, 2009 and the Debtors exclusive period for soliciting acceptance of a plan of reorganization, solely as to the Creditors Committee and the Equity Committee is extended through and including May 31, 2009.

Throughout the second and third quarters of 2008, Delphi engaged in discussions with its stakeholders, including GM and representatives of both statutory committees, to develop modifications to the Plan that would allow Delphi to emerge from chapter 11. On October 3, 2008, Delphi filed proposed modifications to the Plan and related modifications to the Disclosure Statement with the Court which contained an updated business plan associated with a mid-point total enterprise business valuation of $7.2 billion, and contemplated that Delphi would need to raise approximately $3.75 billion of emergence capital through a combination of term debt and rights to purchase equity. However, since the filing of the proposed modifications, substantial uncertainty and a significant decline in capacity in the credit markets, the global economic downturn generally and the current economic climate in the automotive industry have adversely impacted Delphi s ability to develop a revised recapitalization plan and successfully consummate a confirmed plan of reorganization. Delphi continues to be engaged in comprehensive discussions with all of its stakeholders that have a continuing economic interest in its reorganization cases to formulate further plan modifications. In connection with those discussions, Delphi has been making further revisions to its business plan consistent with the extremely low volume production environment in the global automotive industry and depressed global capital and equity markets. Although no formal valuation of the revised business plan has been completed, it is anticipated that the total business enterprise value associated with the revised plan will be substantially below the valuation range contained in the modifications filed in October 2008 and may be equivalent to, or even less than, the amount of Delphi s postpetition obligations, including its borrowings under its debtor-in-possession financing facility. These factors also continue to delay Delphi s emergence from chapter 11 and its ability to refinance its Amended and Restated DIP Credit Facility. To address the likelihood of continued low U.S. automotive production volumes, Delphi continues to implement a number of cash conservation measures, including temporary lay-offs and salaried benefit cuts for both active employees and retirees, delay of capital and other expenditures, permanent salaried work-force reductions and other cost saving measures to ensure adequate liquidity for operations until volumes recover or until the Company is able to complete further restructuring efforts in response to changes in vehicle markets. The combination of these actions, together with the above noted Amendment and Supplemental Amendment to the Accommodation Agreement, and GM s commitment to increase amounts available under the GM Advance Agreement, assuming all required governmental approvals are received, all other conditions with respect to such commitment are satisfied prior to March 25, 2009, and Delphi is able to meet certain specified milestones in its reorganization cases, is expected to provide the Company with sufficient short-term U.S. liquidity to support its working capital requirements and operations into May 2009 remains constrained and we must continue implementing and executing our cash savings initiatives to preserve liquidity in this very difficult. In addition, the Amendment and Supplemental Amendment to the Accommodation Agreement will allow Delphi to access additional liquidity through the periodic release of amounts currently in a cash collateral basket of up to $117 million, provided (i) that all of the above conditions necessary to increase amounts available under the GM Advance Agreement to $450 million are satisfied, (ii) Delphi remains in compliance with all mandatory prepayment provisions and other covenants in the Accommodation Agreement, including the borrowing base calculation after giving effect to such release, and (iii) Delphi has achieved the remaining specified milestones in its reorganization cases, including the filing of a plan of reorganization or modifications to the Plan meeting the conditions specified in the Accommodation Agreement by April 2. However liquidity remains constrained and we must continue implementing and executing our cash savings initiatives to preserve liquidity in this very difficult economic environment. Delphi continues to be engaged in comprehensive discussions with GM related to GM s role in a revised plan of reorganization, including potential modifications the Amended MRA as part of the April 2 milestone for Delphi s filing of modifications to its previously confirmed plan of reorganization, as contemplated by the Supplemental Amendment. Delphi and GM are discussing

pulling forward elements of GM s previously agreed support for

Delphi into one payment at emergence in combination with the transfer of certain of Delphi s U.S. sites to GM. This potential arrangement or modifications to existing agreements are designed to facilitate Delphi s emergence from chapter 11, notwithstanding the current state of the global economy, the automotive market and the capital markets. Refer to Elements of Transformation Plan above.

Delphi will not emerge from bankruptcy as a going concern unless and until Delphi is able to obtain confirmation of necessary modifications to the Plan that recognize the existing market conditions. Moreover, the continued forbearance by Delphi s lenders under the DIP financing and the effectiveness of any revised plan of reorganization is subject to a number of conditions, including the entry of certain orders by the Court and the obtaining of necessary emergence capital. There can be no assurances that such emergence capital will be obtained (or, if obtained, the terms thereof) or such other conditions will be satisfied. 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 on Form 10-K. In addition, Delphi cannot assure that potential adverse publicity associated with the Chapter 11 Filings and the resulting uncertainty regarding its future prospects will not materially hinder its ongoing business activities and its ability to operate, fund and execute its business plan by impairing relations with existing and potential customers; negatively impact its ability to attract, retain and compensate key executives and to retain employees generally; limit its ability to obtain trade credit; and impair current and future relationships with vendors and service providers. Accordingly, 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. If certain requirements of the Bankruptcy Code are met, a plan of reorganization can be confirmed notwithstanding its rejection by a company 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. 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.

The Amended GSA and the Amended MRA became effective during the third quarter of 2008. For costs and benefits and timing of recognition related to these agreements, refer to the detailed discussion under GM above. The cost related to the remaining components of the transformation plan will be recognized in the Company s consolidated financial statements as each other element of the Plan, including the remaining portions of the U.S. labor agreements, or as the terms of any future confirmed plan of reorganization, become effective. The confirmation and consummation of a plan of reorganization and the agreements incorporated therein will significantly impact Delphi s accounting for long-lived asset impairments and exit costs related to the sites planned for closure or consolidation, compensation costs for labor recognized over the term of the U.S. labor agreements, and the fair values assigned to assets and liabilities upon Delphi s emergence from chapter 11, among others. Such adjustments will have a material impact on Delphi s financial statements.

DASE Liquidation

Delphi s Chapter 11 Filings related solely to its U.S. operations. Nevertheless, Delphi has been seeking and will continue to seek to optimize its global manufacturing footprint to lower its overall cost structure by focusing on strategic product lines where it has significant competitive and technological advantages and selling or winding down non-core product lines. In particular, in February 2007, Delphi s indirect wholly-owned Spanish subsidiary, Delphi Automotive Systems España, S.L. (DASE), announced the planned closure of its sole operation at the Puerto Real site in Cadiz, Spain. The closure of this facility is consistent with Delphi s transformation plan previously announced in March 2006. The facility, which had approximately 1,600 employees, was the primary holding of DASE.

On March 20, 2007, DASE filed a petition for Concurso, or bankruptcy under Spanish law, exclusively for that legal entity, and in an order dated April 13, 2007, the Spanish court declared DASE to be in voluntary Concurso. As a result of the Spanish court declaring DASE to be in Concurso and the subsequent appointment of three DASE receivers by

the Spanish court, Delphi no longer possesses effective control over DASE and has de-consolidated the financial results of DASE effective April 2007. The total expense in 2007 associated with the exit of the Puerto Real site in Cadiz, Spain is approximately $268 million ($107 million in discontinued operations and $161 million in the Automotive Holdings segment).

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Overview of Performance During 2008

Several significant issues are continuing to impact Delphi s financial performance, including (a) a competitive global vehicle production environment for original equipment manufacturers resulting in the reduced number of motor vehicles that our customers produce annually and pricing pressures; (b) increasingly volatile commodity prices; (c) U.S. labor legacy liabilities and noncompetitive wage and benefit levels; and (d) restrictive collectively bargained labor agreement provisions which have historically inhibited Delphi s responsiveness to market conditions, including exiting non-strategic, non-profitable operations or flexing the size of our unionized workforce when volume decreases. Although the 2006 UAW and IUE-CWA U.S. employee workforce transition programs and the U.S. labor settlement agreements entered into in 2007, together with the effectiveness of the Amended GSA and the Amended MRA, have allowed us to begin reducing our legacy labor liabilities, transitioning our workforce to more competitive wage and benefit levels and exiting non-core product lines, such changes will occur over several years, and are partially dependent on GM being able to continue providing significant financial support in accordance with the provisions of the Amended GSA and Amended MRA. We are beginning to see the benefits of decreased labor costs as a result of the attrition plans included in the workforce transition programs. However, these benefits are more than offset by the reductions in vehicle production and we still have future costs to incur to complete our transformation plan, divest of non-core operations and realign our cost structure to match our more streamlined product portfolio.

Delphi continues to face considerable challenges due to global revenue decreases and related pricing pressures stemming from a substantial reduction in vehicle production in recent years. Specifically, our sales to GM, our largest customer, have declined since our separation from GM, principally due to declining GM North America (GMNA) production, the impact of customer-driven price reductions, and GM s diversification of its supply base and ongoing changes in our content per vehicle and the product mix purchased. During 2008, production in GMNA initially decreased due to work stoppages at American Axle, a Delphi customer which ultimately sells its products to GM as a sub-assembly of their final part (Tier 1), based in Detroit, Michigan (the work stoppages). The work stoppages forced GM to slow down production for approximately three months at certain of their manufacturing plants, which has also slowed production of other Tier 1 suppliers, including Delphi. In 2008, GM North America produced 3.3 million vehicles, excluding CAMI Automotive Inc., New United Motor Manufacturing, Inc. and HUMMER H2 brand vehicle production, a decrease of 19% from 2007 production levels. Production levels did not increase to fully recover volumes lost as a result of the work stoppages and we expect the continued trend toward passenger cars and away from light duty pick-up trucks and sport utility vehicles will prevent recovery of the volume lost as a result of the work stoppages. This has resulted in unfavorable revenue mix for Delphi as our content per vehicle is lower on cars than trucks.

Additionally, particularly in the fourth quarter, production volumes globally were significantly lower due to the economic and credit market impacts. Consequently, during 2008, Delphi s operational challenges intensified as a result of the continued downturn in general economic conditions, including reduced consumer spending and confidence, high oil prices and the credit market crisis, all of which have resulted in global vehicle manufacturers reducing production forecasts and taking other restructuring actions (which hereinafter we refer to as recent consumer trends and market conditions). While initially these negative trends primarily impacted the U.S. during the first part of 2008, all other regions (in addition to the U.S) have experienced market softening during the second half of 2008. This global slowdown is expected to continue at least through the first half of 2009, with a modest recovery beginning in the fourth quarter of 2009. With respect to key operating constituents, we continue to monitor the financial conditions of a variety of key customers and suppliers. Given the difficult market conditions projected for the first portion of 2009, we are also closely monitoring activities surrounding the federal support programs.

Through the end of the third quarter of 2008 we continued to be challenged by commodity cost increases, most notably copper, aluminum, petroleum-based resin products, steel and steel scrap, and fuel charges. We are continually seeking to manage these and other material related 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, hedging of certain commodities and other means. In the case of copper, which primarily affects the Electrical/Electronic Architecture segment, contract escalation clauses have enabled us to pass on some of the price increases to our customers and thereby partially offset the impact of increased commodity costs on operating income for the related products. However, 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 2008. We anticipate that an increase in the number of financially volatile key suppliers is likely to continue into the future. We will continue and increase our efforts to pass market-driven commodity cost increases to our customers in an effort to mitigate all or some of the adverse earnings impacts incurred on quoted customer programs. At the end of the third quarter and throughout the fourth quarter of 2008, and into early 2009, the market price of certain commodities, including copper and oil prices, declined significantly and may foreshadow lower cost petroleum-based resin products and lower fuel charges in the future; however prices remain extremely volatile, complicating hedging strategies and other efforts to plan and manage such costs. Except as noted below in Results of Operations, our overall 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 in order to recover the actual commodity costs we are incurring.

Overview of Net Sales and Net Income (Loss)

	Year Ended December 31,				
	2008		2007		Change
	(dollars in millions)				
Net sales:					
General Motors and affiliates	$ 5,525	31%	$ 8,301	37%	$ (2,776)
Other customers	12,535	69%	13,982	63%	(1,447)
Total net sales	$ 18,060		$ 22,283		$ (4,223)
Net income (loss)	$ 3,037		$ (3,065)		$ 6,102

Our non-GM sales from continuing operations in 2008 declined by 10%. Excluding the impact of favorable foreign currency exchange rates, non-GM sales decreased 13% during 2008, primarily due to the sale of Delphi s original equipment and aftermarket catalyst business (the Catalyst Business) in the third quarter of 2007 and the migration of our converter business to a non-consolidated venture during the fourth quarter of 2007. GMNA sales decreased by 41% due to a reduction of 19% in production by GMNA for 2008, which includes the impact of consumer trends and market conditions in 2008. GMNA sales also decreased due to the wind down and closure of certain plants and divestitures in our Automotive Holdings Group segment which were predominately GM related. GMNA sales represented approximately 22% of total net sales for 2008, as compared to approximately 30% of total net sales for 2007. As GM sales decreased due to reduced GMNA volumes, non-GM sales increased as a percentage of total net sales from continuing operations to 69% for 2008. In 2008, GM sales from continuing operations decreased 33% from 2007 and represented 31% of total net sales from continuing operations for 2008.

The increased net income reflects the reorganization gains related to the GM settlements of $5,687 million, including $5,332 million related to the Amended GSA and $355 million related to the Amended MRA, recorded during 2008. Excluding the impact of the GM settlement gains, net loss for 2008 would have been $2.7 billion, compared to a net loss of $3.1 billion in 2007. Net income in 2008 was also favorably impacted compared to 2007 by the following items:

$411 million of interest expense recorded in 2007 related to certain prepetition claims that were determined to be probable of becoming an allowed claim in accordance with the Plan;

$348 million of reduced warranty expenses, primarily due to the forgiveness by GM of $112 million in warranty amounts;

$343 million of litigation charges related to the settlement agreement reached with plaintiffs in the securities and ERISA class action cases recorded during 2007;

$254 million of decreased long-lived asset impairment charges, primarily included within loss from discontinued operations in 2007;

$200 million of lower employee termination benefits and other exit costs included in costs of sales, primarily related to the exit of the manufacturing facility in Cadiz, Spain during 2007, of which $115 million is included in cost of sales, $11 million is included in selling, general and administrative expenses, and $74 million is included in loss from discontinued operations;

$162 million of decreased U.S. employee workforce transition program charges, of which $134 million is included within income from continuing operations and $28 million is included within loss from discontinued operations;

$135 million in decreased selling, general and administrative expenses, primarily due to lower costs necessary to implement information technology systems to support finance, manufacturing and product development initiatives, as well as decreased expense related to incentive compensation plans for executives; and

$95 million of PCBB and labor subsidy reimbursement from GM during 2008, of which $75 million was included within cost of sales and $20 million is included within loss from discontinued operations.

Offsetting these improvements were goodwill impairment charges of $325 million, related to our Electrical/Electronic Architecture and Electronics and Safety segments, recorded in 2008. Additionally, in 2007, we recorded income tax benefit of $703 million related to $1.9 billion U.S. pre-tax other comprehensive income related to employee benefits.

Discontinued Operations

The Court approval of Delphi s plan to dispose of Interiors and Closures and the Steering Business triggered held for sale accounting in 2007.

Steering and Halfshaft Business

In the fourth quarter of 2007, Delphi executed a Purchase and Sale Agreement (the Purchase Agreement) with an affiliate of Platinum Equity, LLC, Steering Solutions Corporation (Platinum), for the sale of the Steering Business and a Transaction Facilitation Agreement with GM (the Transaction Agreement). In February 2008, the Court issued an order authorizing Delphi to dispose of its Steering Business. Pursuant to the terms of the Purchase Agreement, any party in compliance with its obligations under the Purchase Agreement may terminate the Purchase Agreement since the transaction did not close by August 31, 2008. Prior to entry into the agreements described below in March 2009, neither party had terminated the Purchase Agreement. Pursuant to the Amended MRA, GM has agreed that ownership of the Steering Business will transfer to GM if it is not sold to a third party by December 31, 2010. On March 3, 2009, however, Delphi and Platinum reached an agreement under which the Purchase Agreement would be terminated (the Termination Agreement) and Delphi and GM reached an agreement (the Option Exercise Agreement), subject to GM receiving U.S. Treasury and GM board of directors approval and Delphi receiving Court approval, under which GM will exercise its option to purchase the Steering Business as contemplated under the Amended MRA to allow a wholly-owned subsidiary of GM to purchase the Steering Business free and clear of all liens and encumbrances other than certain permitted encumbrances (the Steering Purchase). GM has agreed to guaranty the payment and performance of its wholly-owned subsidiary s obligations under the definitive transaction agreements to be entered into pursuant to the Option Exercise Agreement.

The Option Exercise Agreement contains a procedure for completing the definitive transaction agreement relating to the sale of the Steering Business to GM which, among other things, takes into account the terms of the Amended MRA and certain modifications set forth in the Option Exercise Agreement. Based on the terms of the Option Exercise Agreement and the Amended MRA, the terms upon which the Steering Business will be sold to GM have been substantially agreed to by GM and Delphi. In addition to certain other milestones, Delphi has agreed to use its reasonable best efforts to obtain Court approval of the Option Exercise Agreement

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on or before March 24, 2009, and Delphi and GM have agreed to use their reasonable best efforts to obtain Court approval of the Steering Purchase and assignment and assumption of contracts on or before April 23, 2009 and to close the Steering Purchase on or before April 30, 2009. The parties have agreed to file a motion seeking such required approvals of the Steering Purchase and the assignment and assumption of contracts with the Court.

Delphi and GM will enter into a transition services agreement on reasonable and customary terms pursuant to which Delphi will provide, among other things, general transition services with GM through mid-2011 and information technology transition services through December 2012. Other material terms of the Option Exercise Agreement include, but are not limited to, the following: (a) at the closing of the Steering Purchase, the parties will forego the working capital true-up set forth in the Amended MRA; (b) GM will not exercise certain of GM s rights under the Amended MRA; (c) GM will pay all cure costs, with respect to all prepetition contracts which it requests be assumed and assigned to it; (d) GM will assume all postpetition trade payables with respect to the contracts included within the definition of the Steering Business (provided that Delphi will pay all trade payables prior to the closing in the ordinary course of business); (e) in lieu of an additional labor reimbursement contemplated under the Amended MRA, at closing GM will assume certain of Delphi s labor and workers compensation obligations; and (f) GM will assume responsibility, and waive any obligations of Delphi relating to, warranty, recall, and products liability with respect to products manufactured for, or sold to, GM by the Steering Business, whether before or after the closing and Delphi will retain responsibility for such liability with respect to products sold to non-GM customers prior to closing. Pursuant to the Termination Agreement, Delphi and Platinum have agreed to return the deposit amount under the Purchase Agreement to Platinum.

The closing of the Steering Purchase is conditioned on GM paying to the administrative agent under Delphi s Amended and Restated DIP Facility, for the benefit of the lenders thereunder, a non-refundable amount equal to the reduction in available receivables, available inventory, and fixed asset component of the borrowing base caused directly by the consummation of such purchase. In the event Delphi and GM reach an agreement for the sale of any of Delphi s other businesses and manufacturing sites in the U.S. to GM, then, upon the closing of such sale, such payment would constitute partial prepayment of the consideration for the sale of such facilities. The above summary is qualified by reference to the terms and provisions of any final agreement filed with the Court.

On September 30, 2008, in conjunction with the effectiveness of the Amended MRA, Delphi received and recorded as a deferred liability a $210 million advance on working capital recovery from GM related to the Steering Business. In conjunction with the proceeds of this working capital advance from GM, as well as entering into the Termination Agreement and the Option Exercise Agreement for the Steering Purchase, Delphi has adjusted its estimate of assets held for sale to $210 million and continues to account for the business as a discontinued operation. During 2008, Delphi recorded a loss of $34 million, net of tax, due to the results of operations, adjustment of assets held for sale to fair value of the Steering Business as of December 31, 2008 and the effectiveness of the Amended MRA. In 2007, Delphi recognized a charge of $507 million related to the assets held for sale of the Steering Business, including $26 million of curtailment loss on pension benefits for impacted employees.

Prior to the assets of the Steering Business being classified as held for sale, Delphi recorded an impairment charge related to the Steering Business in 2007. Based on the ongoing sale and labor negotiations during March 2007, previous estimates of sale proceeds were reduced. Based on this development Delphi determined that an indicator of impairment was present for the U.S. long-lived assets of the Steering Business. Delphi tested the recoverability of the Steering Business U.S. long-lived assets by comparing the estimated undiscounted future cash flows from its use and anticipated disposition of those assets to their carrying value. Based on its recoverability assessment, Delphi determined that the carrying value of its Steering Business assets at its U.S. sites exceeded the undiscounted estimated future cash flows at those sites. Accordingly, Delphi determined the fair value of its held-for-use long-lived assets at those sites by applying various valuation techniques, including discounted cash flow analysis, replacement cost and orderly liquidation value. As a result of its fair value assessment, Delphi recognized asset impairment charges related

to the valuation of long-lived assets held-for-use for its Steering Business of $152 million in 2007.

Interiors and Closures Business

Delphi and certain of its affiliates closed on the sale of the Interiors and Closures Business to Inteva Products, LLC (Inteva), a wholly-owned subsidiary of the Renco Group, on February 29, 2008. Delphi received proceeds from the sale of approximately $98 million consisting of $63 million of cash (less $23 million of cash at an overseas entity that was included in the sale) and the remainder in notes at fair value. During the third quarter of 2008, Delphi and Inteva agreed on final working capital adjustments and Delphi received a payment of $2 million. During 2008, as a result of the operating results net of the loss on sale of the Interiors and Closures Business, Delphi recorded income of $15 million, net of tax. In 2007, Delphi recognized a charge of $88 million related to the assets held for sale of the Interiors and Closures Business, including $8 million of curtailment loss on pension benefits for impacted employees.

The Interiors and Closures Business, through the date of the sale, and the Steering Business are reported as discontinued operations in the consolidated statement of operations and statement of cash flows for 2008, 2007 and 2006. The assets and liabilities of the Steering Business are reported in assets and liabilities held for sale in the consolidated balance sheet as of December 31, 2008 and December 31, 2007. The assets and liabilities of the Interiors and Closures Business are reported in assets and liabilities held for sale in the consolidated balance sheet as of December 31, 2007. The results of prior periods have been restated to reflect this presentation.

Acquisitions and Divestitures

The results of operations, including the gain or loss on divestitures, associated with Delphi s acquisitions and divestitures described below were not significant to the consolidated financial statements in any period presented, and the divestitures did not meet the discontinued operations criteria.

Automotive Holdings Group Segment

Power Products Business Sale On May 27, 2008 and in accordance with the terms of an order authorizing the sale of certain assets for less than $10 million, Delphi served notice of its intention to sell its power products business (the Power Products Business) to Strattec Security Corporation, Witte-Velvert GmbH & Co. KG, Vehicle Access Systems Technology LLC, and certain of their affiliates (collectively, the Strattec Buyers) for approximately $8 million. On June 4, 2008, the Debtors filed a motion to assume and assign certain prepetition executory contracts related to the Power Products Business to the Strattec Buyers. On June 24, 2008, the Court entered an order authorizing the Debtors to assume and assign such contracts to the Strattec Buyers. The 2007 annual revenues for the Power Products Business were $59 million. Delphi recognized an initial loss of $3 million during the second quarter of 2008, included in cost of sales, related to the assets held for sale of the Power Products Business. On November 7, 2008, Delphi and the Strattec Buyers agreed to an amendment to the purchase and sale agreement, which among other things, reduced the consideration to be received by Delphi to approximately $5 million. The sale occurred on November 30, 2008 and resulted in an additional loss of approximately $2 million, which was recorded to cost of sales. Delphi received final consideration of approximately $7 million which includes final working capital adjustments.

U.S. Suspensions Asset Sale On March 7, 2008, the Debtors filed a motion to sell certain assets of Delphi s U.S. suspensions business including the machinery, equipment and inventory primarily used and located at its suspension manufacturing facility in Kettering, Ohio (the Kettering Assets), to Tenneco Automotive Operating Company Inc. (Tenneco) for approximately $19 million and other consideration. On March 20, 2008, the Court approved the bidding procedures for the Kettering Assets, but no further bids were submitted by the bid deadline. On April 30, 2008, the Court entered an order approving the sale of the Kettering Assets to Tenneco. The 2007 annual revenues for the Kettering Assets were $113 million. The sale occurred on May 30, 2008 and resulted in a gain of $8 million, which was recorded as a reduction to cost of sales. Additionally, Delphi received proceeds from this sale of approximately $18 million in 2008.

Bearings Business Product Sale On January 15, 2008, the Debtors filed a motion to sell Delphi s bearings business (the Bearings Business). On January 25, 2008, the Court approved the bidding procedures authorizing Delphi to commence an auction under section 363 of the Bankruptcy Code. On February 21, 2008,

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the Debtors announced that they had entered into a purchase agreement with Kyklos, Inc., a wholly owned subsidiary of Hephaestus Holdings, Inc. and an affiliate of KPS Special Situations Fund II, L.P. (Kyklos), which was the successful bidder at the auction held on February 19, and 20, 2008. The Court entered the order confirming the sale of the Bearings Business to Kyklos on March 19, 2008. The 2007 annual revenues for the Bearings Business were $280 million, which included $108 million of intra-segment sales. During 2008, Delphi recognized a charge of $30 million, included in cost of sales, related to the assets held for sale of the Bearings Business. The sale occurred on April 30, 2008, and Delphi received net proceeds from this sale of approximately $15 million.

Brake Hose Business Sale On September 28, 2007, Delphi closed on the sale of substantially all of the assets exclusively used in the brake hose product line produced at one of Delphi s manufacturing sites located in Dayton, Ohio (the Brake Hose Business). The sales price for the Brake Hose Business was $10 million and the sale resulted in a gain of $2 million, which was recorded as a reduction to cost of sales in 2007. The Brake Hose Business revenues were $33 million for the nine month period ended September 30, 2007.

North American Brake Product Asset Sale On September 17, 2007, Delphi and TRW Integrated Chassis Systems, LLC signed an Asset Purchase Agreement for the sale of certain assets for Delphi s North American brake components machining and assembly assets (North American Brake Components) primarily located at its Saginaw, Michigan; Spring Hill, Tennessee; Oshawa, Ontario, Canada; and Saltillo, Mexico facilities. The 2007 annual revenues for North American Brake Components were $568 million. The sale occurred in the first quarter of 2008 and resulted in a gain of $5 million, which was recorded as a reduction to cost of sales. Additionally, Delphi received proceeds from this sale of approximately $40 million.

Mexico Brake Plant Business On July 19, 2007, Delphi received approval from the Court to proceed with the sale of certain assets used in the brake and chassis modules product lines manufactured in a plant located in Saltillo, Mexico (the Mexico Brake Plant Business) for $15 million. The sale of the Mexico Brake Plant Business closed on October 1, 2007 and resulted in a gain of $4 million, which was recorded as a reduction to cost of sales in 2007.

Powertrain Systems Segment

Global Exhaust Business Sale On June 27, 2008, the Debtors announced their intention to sell Delphi s global exhaust business relating to the design and manufacture of the exhaust system front exhaust module including catalytic converters and exhaust manifolds (the Exhaust Business). On December 17, 2008 Delphi received approval from the Court for the sale of assets related to the Exhaust Business to Bienes Turgon S.A. de C.V. for $17 million (subject to adjustments). The Exhaust Business revenues for 2008 were approximately $317 million. The sale is expected to close during the first half of 2009 and Delphi recognized a charge of $14 million in cost of sales during the fourth quarter of 2008 related to the assets held for sale of the Exhaust Business. Although Delphi intends to divest its Exhaust Business, the Company intends to continue to provide full engine management systems, including air and fuel management, and combustion and valve-train technology.

Catalyst Product Line Sale On September 28, 2007, Delphi closed on the sale of its original equipment and aftermarket catalyst business (the Catalyst Business) to Umicore for approximately $67 million which included certain post-closing working capital adjustments. Delphi recorded the loss of $30 million on the sale of the Catalyst Business in cost of sales in the third quarter of 2007. The Catalyst Business revenues for the nine months ended September 30, 2007 were $249 million. During 2008, Delphi and Umicore agreed on final working capital adjustments and Delphi received a payment of $9 million, of which $6 million offset a receivable recognized during 2007 and $3 million was recorded as a reduction to cost of sales.

Battery Product Line Sale In 2005, Delphi sold its battery product line, with the exception of two U.S. operations, to Johnson Control, Inc. (JCI). In 2006, Delphi sold certain assets related to one of the remaining facilities to JCI, and in

2007, Delphi ceased production at the remaining U.S. battery manufacturing facility, and closed the facility. In 2006, Delphi received approximately $10 million as agreed upon in the 2005 agreement

between Delphi and GM, the principal battery customer, which was executed in connection with the sale of Delphi s battery business. In accordance with the 2005 agreement, upon completion of the transition of the supply of battery products to JCI, Delphi received a $6 million payment in 2007, which was recorded as a reduction to cost of sales.

Electronics and Safety Segment

Acquisition of Joint Venture In 2008, Delphi made an additional investment in a consolidated South American majority-owned subsidiary for approximately $35 million in cash and short term notes. As a result, the ownership interest is now 100 percent.

Held-For-Sale Loss In 2008, Delphi made the decision to divest a certain manufacturing business in Germany. Based on an estimate of anticipated proceeds, Delphi recognized a charge of $13 million, included in cost of sales, related to the assets held for sale. The divestiture is expected to occur during 2009.

MobileAria Asset Sale In 2006, Delphi sold certain of its assets in MobileAria, a consolidated entity, which resulted in a gain of $7 million which has been recognized as a reduction of cost of sales in 2006.

Thermal Systems Segment

SDAAC Additional Investment In 2006, Delphi made an additional investment in Shanghai Delphi Automotive Air Conditioning Co. (SDAAC) for approximately $14 million, which increased its equity ownership interest in SDAAC from 34 percent to 50 percent. SDAAC s annual revenues for 2005 were approximately $133 million. In the third quarter of 2006 Delphi obtained a controlling management interest in SDAAC and began consolidating the entity. Prior to obtaining a controlling management interest, the entity was accounted for using the equity method.

SFAS 157 Fair Value Measurement of Derivative Instruments

Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements,* defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands the disclosure requirements regarding fair value measurements. The standard does not introduce new requirements mandating the use of fair value.

All derivative instruments are required to 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 hedge accounting criteria. Delphi s derivative exposures are with counterparties with long-term investment grade credit ratings. Delphi estimates the fair value of its derivative contracts using an income approach based on valuation techniques to convert future amounts to a single, discounted amount. Estimates of the fair value of foreign currency and commodity derivative instruments are determined using exchange traded prices and rates. Delphi also considers the risk of non-performance in the estimation of fair value, and includes an adjustment for non-performance risk in the measure of fair value of derivative instruments. The non-performance risk adjustment reflects the full credit default spread (CDS) applied to the net commodity and foreign currency exposures by counterparty. When Delphi is in a net derivative asset position, the counterparty CDS rates are applied to the net derivative asset position. When Delphi is in a net derivative liability position, CDS rates are applied to the net derivative liability position.

In certain instances where market data is not available, Delphi uses management judgment to develop assumptions that are used to determine fair value. This could include situations of market illiquidity for a particular currency or commodity or where observable market data may be limited. In those situations, Delphi generally surveys investment banks and/or brokers and utilizes the surveyed prices and rates in estimating fair value.

As of December 31, 2008, Delphi was in a net derivative liability position. As a result of Delphi s chapter 11 cases, CDS rates are currently not available for Delphi debt. As a result, Delphi obtained estimates of trading levels for its debt from investment banks as well as CDS rates for similarly situated entities to apply to its net derivative liability position for non-performance risk. The adjustment for non-performance risk reduced Delphi s net derivative liability position by $296 million to $168 million. The reduction to the net derivative liability resulted in an increase to pre-tax earnings of $9 million, recorded as a reduction to cost of

sales. The remaining adjustment amount of $287 million is reflected within equity as a component of OCI as it related to derivative financial instruments that qualify as hedges. There was no material adjustment for non-performance risk related to derivative assets as of December 31, 2008 as Delphi s net derivative asset position at December 31, 2008 related to exposures with counterparties with investment grade credit ratings. Refer to Note 24. Fair Value Measurements to the consolidated financial statements for more information.

Results of Operations

2008 versus 2007

The Company s sales and operating results for the years ended December 31, 2008 and 2007 were as follows:

	Year Ended December 31,							
		2008			2007			Favorable/ (Unfavorable)
	(in millions)							
Net sales:								
General Motors and affiliates	$	5,525	31%	$	8,301	37%	$	(2,776)
Other customers		12,535	69%		13,982	63%		(1,447)
Total net sales	$	18,060		$	22,283		$	(4,223)
Cost of sales		17,068			21,066			3,998
Gross margin	$	992	5.5%	$	1,217	5.5%	$	(225)
U.S. employee workforce transition program charges		78			212			134
GM settlement MRA		(254)						254
Depreciation and amortization		827			914			87
Long-lived asset impairment charges		37			98			61
Goodwill impairment charges		325						(325)
Selling, general and administrative		1,460			1,595			135
Securities and ERISA litigation charge					343			343
Operating loss	$	(1,481)		$	(1,945)		$	464
Interest expense		(437)			(769)			332
Loss on extinguishment of debt		(49)			(27)			(22)
Other income, net		69			110			(41)
Reorganization items:								
GM settlement GSA		5,332						5,332
Professional fees and other		(185)			(163)			(22)
Income (loss) from continuing operations before income taxes, minority interest and equity income	$	3,249		$	(2,794)		$	6,043
Income tax (expense) benefit		(166)			522			(688)
Minority interest, net of tax		(28)			(63)			35

Equity income, net of tax	1	27	(26)
Income (loss) from continuing operations	$ 3,056	$ (2,308)	$ 5,364
Loss from discontinued operations, net of tax	(19)	(757)	738
Cumulative effect of accounting change, net of tax			
Net income (loss)	$ 3,037	$ (3,065)	$ 6,102

Gross margin is defined as net sales less cost of sales (excluding U.S. employee workforce transition program charges, GM settlement, Depreciation and amortization, Long-lived asset impairment charges, and Goodwill impairment charges).

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Delphi typically experiences fluctuations in sales due to changes in customer production schedules, sales mix and the net of new and lost business (which we refer to collectively as volume), increased prices attributable to escalation clauses in our supply contracts for recovery of increased commodity costs (which we refer to as commodity pass-through), fluctuations in foreign currency exchange rates (which we refer to as FX), contractual reductions of the sales price to the customer (which we refer to as contractual price reductions) and design changes. Occasionally business transactions or non-recurring events may impact sales as well.

Delphi typically experiences fluctuations in operating income due to changes in volume, contractual price reductions (which typically range from 1% to 3% of sales), changes to costs for materials and commodities or manufacturing variances (which we refer to collectively as operational performance), and employee termination benefits and other exit costs.

Net Sales

Net Sales from continuing operations for the year ended December 31, 2008 versus December 31, 2007. Below is a summary of Delphi s sales for the year ended December 31, 2008 versus December 31, 2007.

	Year Ended December 31,					Variance Due To:				
	2008		2007		Favorable/ (Unfavorable)	Volume and Contractual Price Reductions	FX	Commodity Pass-Through	Other	Total
	(dollars in millions)					(dollars in millions)				
et sales:										
eneral Motors d affiliates	$ 5,525	31%	$ 8,301	37%	$ (2,776)	$ (2,918)	$ 108	$ 27	$ 7	$ (2,776
her customers	12,535	69%	13,982	63%	(1,447)	(1,919)	424	40	8	(1,44
tal net sales	$ 18,060		$ 22,283		$ (4,223)	$ (4,837)	$ 532	$ 67	$ 15	$ (4,22

Total sales in 2008 decreased 19% compared to 2007. GM sales in 2008 decreased 33% to 31% of total sales, primarily due to reductions in GMNA volume of 19% and contractual price reductions. The GMNA volume reductions included approximately $636 million due to the work stoppages. Decreases due to the impact of exiting non-core businesses of $1,159 million resulted due to certain plant closures and divestitures in our Automotive Holdings Group segment, and decreases of $45 million and $4 million were related to the migration of our converter business to a non-consolidated venture and the sale of the Catalyst Business in our Powertrain Systems segment during 2007, respectively. Primarily as a result of portfolio transformation related to non-core businesses and recent consumer trends and market conditions, during 2008 our GM North America content per vehicle was $1,149, 26% lower than the $1,562 content per vehicle for 2007.

Other customer sales in 2008 decreased by 10% and represented 69% of total sales. Excluding the favorable impacts of foreign currency exchange, other customer sales decreased by 13%, due primarily to decreased volume as a result of the impact of recent consumer trends and market conditions. Additionally $417 million of the decrease was related to the migration of our converter business to a non-consolidated venture during 2007, and $151 million was related to the sale of the Catalyst Business in the third quarter of 2007. Additional decreases of $350 million resulted due to

certain plant closures and divestitures in our Automotive Holdings Group segment. Other customer sales were also negatively impacted by contractual price reductions.

Operating Results

Below is a summary of the variances in Delphi s operating results in 2008 compared to 2007.

Gross Margin. Gross margin decreased to $1.0 billion in 2008 compared to $1.2 billion in 2007, and remained at 5.5% as a percentage of sales. Below is a summary of Delphi s gross margin for this period.

	Year Ended December 31,			Variance Due To:					
	2008	2007	Favorable/ (Unfavorable)	Volume	Contractual Price Reductions	Operational Performance	Employee Termination Benefits	Other	Total
	(dollars in millions)			(dollars in millions)					
Gross Margin	$ 992	$ 1,217	$ (225)	$ (1,534)	$ (393)	$ 876	$ 115	$ 711	$ (225)
Percentage of Sales	5.5%	5.5%							

The decrease in gross margin was largely driven by an approximate 19% decrease in GMNA volume, as noted in the table above, including the impact of certain plant closures and divestitures in our Automotive Holdings Group segment, and recent consumer trends and market conditions, which are anticipated to reduce customer production to levels preventing recovery of volumes lost as a result of the work stoppages. In addition to the decreased volume, gross margin was also negatively impacted by a $30 million charge related to the loss on sale of Delphi s global bearings business in the Automotive Holdings Group segment and a $14 million charge related to the loss on sale of Delphi s global exhaust business in the Powertrain Systems segment.

We were able to maintain the gross margin percentage year-over-year despite the drop in sales primarily due to improvements in operational performance and reductions in employee termination benefits and other exit costs, as noted in the table above, as well as the following items:

$346 million decrease in warranty costs, primarily due to the forgiveness of $107 million due under the warranty settlement agreement with GM during 2008 and a $93 million charge in the Powertrain Systems segment related to higher than normal warranty claims on engine electronic control units in 2007; a $28 million recovery from an affiliated supplier related to previously established warranty reserves in the Thermal Systems segment during 2008;

$234 million related to decreases in pension and other postretirement and postemployment benefits and workers compensation costs;

$51 million of decreased expenses related to incentive compensation plans for executives;

$50 million of PCBB and $25 million of labor subsidy reimbursements from GM during 2008; and

$33 million increase due to the impact of foreign currency exchange rate fluctuations and transactions.

U.S. Employee Workforce Transition Program Charges. Delphi recorded workforce transition program charges of approximately $78 million during 2008 for UAW-, IUE-CWA-, and USW-represented employees. These charges included $57 million of amortization expense related to buy-down payments for eligible traditional employees who did not elect an attrition or flowback option and continue to work for Delphi and $21 million to reflect costs under the workforce transition programs in excess of amounts previously estimated. During 2007, Delphi recorded workforce transition program charges of approximately $212 million for UAW-, IUE-CWA-, and USW-represented employees. These charges included $60 million for attrition programs for the eligible union-represented U.S. hourly employees, which is net of a decrease in previously recorded charges due to a change in estimate of $48 million. The 2007 workforce transition program charge also includes $20 million of amortization expense related to buy-down payments for eligible traditional employees who did not elect an attrition or flowback option and continue to work for Delphi. Additionally, Delphi recorded $132 million in net pension curtailment charges during 2007 as discussed further in

Note 16. U.S. Employee Workforce Transition Programs to the consolidated financial statements.

GM Settlement. Delphi filed amendments to the MRA in the Court on September 12, 2008, and subsequently entered into an additional amendment to the GSA as of September 25, 2008. The Court approved such amendments on September 26, 2008 and the Amended GSA and the Amended MRA became effective on September 29, 2008. Upon effectiveness of the Amended MRA, Delphi recorded a reduction to operating expenses of $254 million, as discussed further in Note 2. Transformation Plan and Chapter 11 Bankruptcy to the consolidated financial statements.

Depreciation and Amortization. Depreciation and amortization was $827 million in 2008 compared to $914 million for 2007. The year-over-year decrease of $87 million primarily reflects the impact of certain assets

that were impaired in 2006 and 2007, resulting in reduced 2008 depreciation and amortization expense, the effect of accelerated depreciation on assets nearing the end of their program life in 2007 and 2008 and approximately $14 million of unfavorable impacts of foreign currency exchange. Partially offsetting this decrease is an increase in overall capital spending in 2008 of $217 million, or approximately 37%, compared to 2007.

Long-Lived Asset Impairment Charges. Delphi evaluates the recoverability of certain long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived asset impairment charges related to the valuation of long-lived assets held for use were recorded in the amounts of approximately $37 million and $98 million during 2008 and 2007, respectively. The 2008 charges relate primarily to our Thermal Systems, Electronics and Safety and Automotive Holdings Group segments. The 2007 charges primarily relate to our Automotive Holdings Group segment. Refer to Note 9. Property, Net to the consolidated financial statements for more information.

Goodwill Impairment Charges. Goodwill impairment charges of $325 million were recorded in 2008, of which approximately $168 million related to our Electrical/Electronic Architecture segment and approximately $157 million related to our Electronics and Safety segment. The goodwill impairment charges were the result of a reduction in the estimated fair value of these segments due to consumer trends and market conditions experienced in 2008 that are expected to continue. Delphi evaluates the recoverability of goodwill at least annually and any time business conditions indicate a potential change in recoverability. There were no goodwill impairment charges for 2007. Refer to Note 10. Goodwill to the consolidated financial statements.

Selling, General and Administrative Expenses. Selling general and administrative (SG&A) expenses decreased by $135 million from $1,595 million in 2007 to $1,460 million in 2008. The decrease is primarily due to lower operating and restructuring costs to support information technology systems, reduced expenses related to incentive compensation plans of $66 million, and decreased SG&A expenses in other areas. Partially offsetting these savings was $32 million of unfavorable impacts of foreign currency exchange.

Securities & ERISA Litigation Charge. As previously disclosed, Delphi, along with certain of its subsidiaries and certain current and former officers and employees of the Company or its subsidiaries, and others were named as defendants in several lawsuits filed following the Company s announced intention to restate certain of its financial statements. As a result of the MDL Settlements, as of December 31, 2008 and 2007, Delphi has a liability of $351 million recorded for this matter. The expense incurred for this matter was $343 million during 2007. Refer to Note 18. Commitments and Contingencies, Shareholder Lawsuits to the consolidated financial statements.

Interest Expense. Interest expense for 2008 was $437 million compared to $769 million for 2007. Excluding $411 million of interest expense recorded in 2007 for certain prepetition claims that were determined to be probable of becoming an allowed claim in accordance with the Plan, interest expense increased $79 million due to higher debt levels in 2008. All contractual interest expense related to outstanding debt, including debt subject to compromise, was recognized in accordance with the provisions of American Institute of Certified Public Accountants Statement of Position 90-7 (SOP 90-7), *Financial Reporting by Entities in Reorganization under the Bankruptcy Code*, in 2008. At December 31, 2008, Delphi had accrued interest of $415 million in accrued liabilities in the accompanying balance sheet for prepetition claims. As discussed in Note 2. Transformation Plan and Chapter 11 Bankruptcy to the consolidated financial statements, on October 3, 2008, Delphi filed modifications to its confirmed plan of reorganization that, if approved by the Court, would eliminate postpetition interest on prepetition debt and allowed unsecured claims. Accordingly, Delphi anticipates that it will be relieved of this liability if and when the modifications are approved. All contractual interest expense related to outstanding debt, including debt subject to compromise, was recognized in 2007.

Loss on Extinguishment of Debt. Loss on extinguishment of debt in 2008 was $49 million. Concurrent with the execution of the Amended and Restated DIP Credit Facility, the Refinanced DIP Credit Facility was terminated. As a result of the changes in the debt structure and corresponding cash flows related to the refinancing, Delphi recognized $49 million of loss on extinguishments of debt in 2008 related to unamortized debt issuance costs related to the Amended and Restated DIP Credit Facility and the Refinanced DIP Credit Facility. Loss on extinguishment of debt for 2007 was $27 million. Concurrent with the execution of the

Refinanced DIP Credit Facility in January 2007, the Amended DIP Credit Facility and the Prepetition Facility were terminated. As a result of the changes in the debt structure and corresponding cash flows related to the refinancing, Delphi recognized $23 million of loss on extinguishments of debt in 2007 related to unamortized debt issuance costs related to the Amended DIP Credit Facility and Prepetition Facility.

Other Income and Expense. Other income for 2008 was $69 million as compared to other income of $110 million for 2007. In 2008, Delphi recognized a gain of approximately $32 million from the sale of an investment accounted for under the cost method. Offsetting this gain was $16 million of expense related to an allowance recorded against a note receivable. In 2007, Delphi recognized a gain of approximately $36 million related to cash received from GM pursuant to an intellectual property license agreement. The remainder of the decrease in 2008 was due to increased non-Debtor interest income associated with additional cash and cash equivalents on hand.

Reorganization Items. Bankruptcy-related reorganization items were a gain of $5.1 billion for 2008 and expenses of $163 million for 2007. As a result of the effectiveness of the GSA, Delphi recorded a net reorganization gain of $5.3 billion in 2008. Additionally, Delphi recorded interest income of $7 million and $11 million from accumulated cash from the reorganization during 2008 and 2007, respectively. Delphi incurred professional fees, primarily legal, directly related to the reorganization of $107 million and $169 million during 2008 and 2007, respectively. During 2008, as a result of the events surrounding the termination of the EPCA, Delphi recorded expense of $79 million related to previously capitalized fees paid to the Investors and their affiliates. Professional fees in 2008 also include arrangement and other fees paid to various lenders in connection with the bankruptcy exit financing that was commenced but not completed in April of 2008. Professional fees in 2007 include $2 million of gains on the settlement of prepetition liabilities during 2007.

Income Taxes. Delphi recorded income tax expense of $166 million for 2008 and recorded an income tax benefit of $522 million for 2007. Delphi s tax rate in both years is affected by the tax rates in foreign jurisdictions, the relative amount of income we earn in such jurisdictions and the relative amount of losses for which no tax benefit would be recognized due to a valuation allowance. In 2007, the tax benefit of $522 million is primarily comprised of a foreign tax expense of $186 million and a U.S. tax benefit of $703 million, as discussed below. During 2008, taxes were recorded at amounts approximating the annual effective tax rate applied to earnings of certain non-U.S. operations.

Although Delphi recorded a net reorganization gain of $5.3 billion for 2008, which created approximately $1.2 billion of taxable income, it did not generate any U.S. tax expense due to the impact of a related change to the U.S. deferred tax assets for which a full valuation allowance is recorded. Additionally, the annual effective tax rate in 2007 was impacted by tax benefit of $703 million related to $1.9 billion U.S. pre-tax other comprehensive income related to employee benefits. Delphi continues to maintain a full valuation allowance for its deferred tax assets in the U.S. and certain foreign jurisdictions as it is more likely than not that the benefits will not be recognized.

Minority Interest. Minority interest was $28 million and $63 million for 2008 and 2007, respectively. Minority interest reflects the results of ongoing operations within Delphi s consolidated investments.

Equity Income. Equity income was $1 million and $27 million for 2008 and 2007, respectively. Equity income reflects Delphi s interest in the results of ongoing operations of entities accounted for as equity-method investments. The decrease in equity income during 2008 was primarily due to the sale of two ventures included in our Thermal Systems segment during February 2008, as well as the declined operating results of Korea Delphi Automotive Systems Company, of which Delphi owns 50%. Equity income for 2008 also includes other-than-temporary impairments of Delphi s equity-method investments of $19 million.

Loss from Discontinued Operations. Loss from discontinued operations was $19 million for 2008, compared to $757 million for 2007. The loss from discontinued operations for 2008 was primarily the result of an unfavorable

adjustment of $50 million for estimated proceeds to be received for the assets-held-for sale of the Steering Business primarily as a result of the continued uncertainty regarding the finalization of negotiations related to the sale. Offsetting these losses were the favorable impacts of the effectiveness of the Amended MRA of $101 million, a decrease of employee termination benefits and other exit costs of

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$74 million, and a warranty recovery of $17 million. Additionally, during 2008, Delphi recorded a favorable adjustment of $17 million to the overall loss on the sale of the Interiors and Closures Business due to the results of operations and changes in working capital through the sale closing date of February 29, 2008.

Included in loss from discontinued operations for 2007 were charges of $595 million related to assets held for sale for the Steering and Interiors and Closures Businesses, which include the impact of curtailment loss on pension benefits for impacted employees. Additionally, loss from discontinued operations included long-lived asset impairment charges of $193 million, workforce transition program charges of $32 million and employee termination benefits and other exit costs of $132 million, primarily due to $107 million associated with the exit of the Puerto Real site in Cadiz, Spain (see Note 2. Transformation Plan and Chapter 11 Bankruptcy to the consolidated financial statements).

Results of Operations by Segment

Delphi s operating structure consists of its core business within four segments that support its previously identified strategic product lines, as well as the Automotive Holdings Group, consisting of business operations to be sold or wound down and Corporate and Other. An overview of Delphi s six reporting segments, which are grouped on the basis of similar product, market and operating factors, follows:

Electronics and Safety, which includes audio, entertainment and communications, safety systems, body controls and security systems, displays, mechatronics and power electronics, as well as advanced development of software and silicon.

Powertrain Systems, which includes extensive systems integration expertise in gasoline, diesel and fuel handling and full end-to-end systems including fuel injection, combustion, electronics controls, exhaust handling, and test and validation capabilities.

Electrical/Electronic Architecture, which includes complete electrical architecture and component products.

Thermal Systems, which includes Heating, Ventilating and Air Conditioning (HVAC) systems, components for multiple transportation and other adjacent markets, and powertrain cooling and related technologies.

Automotive Holdings Group, which includes various non-core product lines and plant sites that do not fit Delphi s future strategic framework.

The Corporate and Other category includes the expenses of corporate administration, other expenses and income of a non-operating or strategic nature, elimination of inter-segment transactions and charges related to U.S. employee workforce transition programs. Additionally, Corporate and Other includes the Product and Service Solutions business, which is comprised of independent aftermarket, diesel aftermarket, original equipment service, consumer electronics and medical systems.

Our management relies on segment operating income before depreciation, amortization, rationalization and transformation charges and discontinued operations (OIBDAR) as a key performance measure. OIBDAR is defined as operating income before depreciation and amortization, including long-lived asset and goodwill impairment charges, transformation and rationalization charges related to plant consolidations, plant wind-downs and discontinued operations.

Delphi s management believes that OIBDAR is a meaningful measure of performance and it is used by management and our Board of Directors to analyze Company and stand-alone segment operating performance. Management also uses OIBDAR for planning and forecasting purposes. Segment OIBDAR should not be considered a substitute for

results prepared in accordance with U.S. GAAP and should not be considered an alternative to operating income, which is the most directly comparable financial measure to OIBDAR that is in accordance with U.S. GAAP. Segment OIBDAR, as determined and measured by Delphi, should also not be compared to similarly titled measures reported by other companies.

The calculation of OIBDAR, as derived from operating income, is as follows for the years ended December 31, 2008 and 2007:

	Electronics and Safety	Powertrain Systems	Electrical/ Electronic Architecture	Thermal Systems	Automotive Holdings Group	Corporate and Other	Total
				(in millions)			
2008:							
Operating (loss) income	$ (654)	$ (130)	$ (361)	$ 18	$ (68)	$ (286)	$ (1,481)
Depreciation and amortization	235	248	187	71	32	54	827
Long-lived asset impairment charges	15		2	10	10		37
Goodwill impairment charges	157		168				325
Transformation and rationalization charges:							
U.S. employee workforce transition program charges						78	78
GM settlement MRA	(42)	(94)	(15)	(88)	(62)	47	(254)
Employee termination benefits and other exit costs	147	63	78	24	88	14	414
Loss on divestitures	13	14			34		61
Other transformation and rationalization costs	59	19	37	4		128	247
Discontinued operations					10	5	15
OIBDAR	$ (70)	$ 120	$ 96	$ 39	$ 44	$ 40	$ 269

Other transformation and rationalization costs for the year ended December 31, 2008 primarily includes approximately $140 million of costs necessary to implement information technology systems to support finance, manufacturing and product development initiatives; and approximately $60 million of costs related to Delphi s engineering and manufacturing footprint rotation, certain plant consolidations and closures, and startup costs related to the consolidation of many staff administrative functions into a global business service group.

	Electronics and Safety	Powertrain Systems	Electrical/ Electronic Architecture	Thermal Systems	Automotive Holdings Group	Corporate and Other	Total
				(in millions)			
2007:							
Operating income (loss)	$ 63	$ (276)	$ (36)	$ (29)	$ (393)	$ (1,274)	$ (1,945)
Depreciation and amortization	267	266	175	61	63	82	914
Long-lived asset impairment charges	1	13	6		78		98

Transformation and rationalization charges:							
U.S. employee workforce transition program charges						212	212
Securities & ERISA litigation charge						343	343
Employee termination benefits and other exit costs	36	55	132	48	239	30	540
Loss on divestitures		30					30
Other transformation and rationalization costs	72	37	52	4	5	77	247
Discontinued operations					81	211	292
OIBDAR	$ 439	$ 125	$ 329	$ 84	$ 73	$ (319)	$ 731

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Other transformation and rationalization costs for the year ended December 31, 2007 includes approximately $110 million of costs incurred for the deployment of the Company s enterprise software solution, including the implementation of a perpetual inventory system, as well as costs necessary to implement information technology systems to support finance, manufacturing and product development initiatives; approximately $60 million of costs related to Delphi s engineering and manufacturing footprint rotation, certain plant consolidations and closures, and startup costs related to the consolidation of many staff administrative functions into a global business service group, and $32 million related to employee benefit plan settlements in Mexico.

Sales and gross margin for the years ended December 31, 2008 and 2007 by segment are as follows:

	Electronics and Safety	Powertrain Systems	Electrical/ Electronic Architecture	Thermal Systems	Automotive Holdings Group	Corporate and Other	Total
	(dollars in millions)						
2008 Total Net Sales	$ 4,048	$ 4,470	$ 5,649	$ 2,121	$ 1,348	$ 424	$ 18,060
2007 Total Net Sales	5,035	5,663	5,968	2,412	2,946	259	22,283
(Decrease) Increase	$ (987)	$ (1,193)	$ (319)	$ (291)	$ (1,598)	$ 165	$ (4,223)
2008 Gross Margin	$ 51	$ 330	$ 390	$ 147	$ (2)	$ 76	$ 992
2007 Gross Margin	634	333	584	173	(44)	(463)	1,217
(Decrease) Increase	$ (583)	$ (3)	$ (194)	$ (26)	$ 42	$ 539	$ (225)
2008 Gross margin percentage	1.3%	7.4%	6.9%	6.9%	(0.1)%		5.5%
2007 Gross margin percentage	12.6%	5.9%	9.8%	7.2%	(1.5)%		5.5%

GM Sales by Segment

	Years Ended December 31,			Variance Due To:				
	2008	2007	Favorable/ (Unfavorable)	Volume and Contractual Price Reductions	Commodity Pass-through	Foreign Exchange	Other	Total
	(in millions)				(in millions)			
Electronics and Safety	$ 1,165	$ 1,606	$ (441)	$ (460)	$	$ 20	$ (1)	$ (441)
Powertrain Systems	1,075	1,563	(488)	(524)	16	20		(488)
Electrical/Electronic Architecture	1,440	1,750	(310)	(346)	6	30		(310)
Thermal Systems	1,083	1,355	(272)	(314)	5	28	9	(272)
Automotive Holdings Group	471	1,585	(1,114)	(1,124)		10		(1,114)

Corporate and Other	291	442	(151)	(150)		1	(2)	(151)
Total	$ 5,525	$ 8,301	$ (2,776)	$ (2,918)	$ 27	$ 109	$ 6	$ (2,776)

Decrease in volume includes approximately $636 million due to the work stoppages.

Decrease in volume also includes the impact of exiting non-core businesses totaling approximately $1,159 million in the Automotive Holdings Group segment, and decreases of $45 million and $4 million were related to the migration of our converter business to a non-consolidated venture and the sale of the Catalyst Business in our Powertrain Systems segment during 2007, respectively.

Foreign exchange fluctuations are primarily related to the Euro, Brazilian Real, Chinese Renmenbi, Polish Zloty, and the Hungarian Forint.

Other Customer and Inter-segment Sales by Segment

	Years Ended December 31, 2008	2007	Favorable/ (Unfavorable)	Variance Due To: Volume and Contractual Price Reductions	Commodity Pass-through	Foreign Exchange	Other	Total
	(in millions)			(in millions)				
Electronics and Safety	$ 2,883	$ 3,429	$ (546)	$ (596)	$	$ 50	$	$ (546)
Powertrain Systems	3,395	4,100	(705)	(782)	12	68	(3)	(705)
Electrical/Electronic Architecture	4,209	4,218	(9)	(254)	29	216		(9)
Thermal Systems	1,038	1,057	(19)	(74)	1	59	(5)	(19)
Automotive Holdings Group	877	1,361	(484)	(514)	(2)	33	(1)	(484)
Corporate and Other	133	(183)	316	301		(2)	17	316
Total	$ 12,535	$ 13,982	$ (1,447)	$ (1,919)	$ 40	$ 424	$ 8	$ (1,447)

Decrease in volume includes the impact of exiting non-core businesses in the Powertrain Systems segment of $417 million in sales due to the migration of the converter business to a non-consolidated venture during 2007 and $151 million in sales due to the sale of the Catalyst Business in the third quarter of 2007. Additionally, non-core divestitures in the Automotive Holdings Group segment sales decreased by $350 million.

Foreign exchange fluctuations are primarily related to the Euro, Brazilian Real, Chinese Renmenbi, Polish Zloty, and the Hungarian Forint.

OIBDAR by Segment

	Years Ended December 31, 2008	2007	Favorable/ (Unfavorable)	Variance Due To: Volume	Contractual Price Reductions	Operational Performance	Other	Total
	(in millions)			(in millions)				
Electronics and Safety	$ (70)	$ 439	$ (509)	$ (502)	$ (126)	$ 142	$ (23)	$ (509)
Powertrain Systems	120	125	(5)	(335)	(90)	266	154	(5)
Electrical/Electronic Architecture	96	329	(233)	(219)	(127)	198	(85)	(233)
Thermal Systems	39	84	(45)	(118)	(34)	80	27	(45)
Automotive Holdings Group	44	73	(29)	(536)	(19)	329	197	(29)
Corporate and Other	40	(319)	359	(306)	(13)	1	677	359
Total	$ 269	$ 731	$ (462)	$ (2,016)	$ (409)	$ 1,016	$ 947	$ (462)

As noted in the table above, OIBDAR was impacted by volume, contractual price reductions, and operational performance improvements, which include favorable manufacturing and engineering performance offset by unfavorable material and freight economics, as well as the following items included in Other in the table above:

Warranty:

GM s forgiveness of $112 million of certain cash amounts due under the Warranty Settlement Agreement recorded during 2008 of $12 million, $37 million, $1 million $5 million, $51 million, and $6 million in the Electronics and Safety segment, Powertrain Systems segment, Electrical/Electronic Architecture segment, Thermal Systems segment, Automotive Holdings Group segment, and Corporate and Other segment (which includes the results of the Steering business) respectively; and

Decrease in warranty expense of approximately $30 million in the Electronics and Safety segment due to the 2007 charge for the instrument cluster product line (the instrument cluster product line was transferred to the Electronics and Safety segment effective December 2007); $93 million in the Powertrain Systems segment due to the 2007 charges related to higher than normal warranty claims on engine electronic control units and the warranty settlement agreement with GM; and $28 million in the

Thermal Systems segment due to a recovery from an affiliated supplier during 2008 related to previously incurred warranty costs.

Foreign Exchange

Foreign currency exchange impact of ($23) million, $8 million, $3 million, $9 million and $11 million in the Electronics and Safety, Powertrain Systems, Electrical/Electronic Architecture, Thermal Systems and Automotive Holdings Group segments, respectively.

PCBB and Labor Subsidy

PCBB and labor subsidy reimbursements from GM totaling $95 million were recognized during the fourth quarter of 2008 and allocated in the amounts of $8 million, $15 million, and $8 million, and $64 million to the Electronics and Safety, Powertrain Systems, Thermal Systems and Corporate and Other segments (which includes the results of the Steering segment), respectively. Refer to Note 2. Transformation Plan and Chapter 11 Bankruptcy to the consolidated financial statements.

OIBDAR in the Corporate and Other segment was favorably impacted in 2008 by the following:

$251 million of decreases in pension and other postretirement and postemployment benefit and workers compensation costs;

$196 million due to decreased expenses related to incentive compensation plans for executives; and

$41 million of decreased corporate expenses retained at Corporate and Other due to the impact of divestitures and certain plant closures.

2007 versus 2006

The Company s sales and operating results for the years ended December 31, 2007 and 2006 were as follows:

	Year Ended December 31,				Favorable/
	2007		**2006**		**(Unfavorable)**
	(dollars in millions)				
Net sales:					
General Motors and affiliates	$ 8,301	37%	$ 9,344	41%	$ (1,043)
Other customers	13,982	63%	13,393	59%	589
Total net sales	$ 22,283		$ 22,737		$ (454)
Cost of sales	21,066		21,966		900
Gross margin	$ 1,217	5.5%	$ 771	3.4%	$ 446
U.S. employee workforce transition program charges	212		2,706		2,494
Depreciation and amortization	914		954		40
Long-lived asset impairment charges	98		172		74

Selling, general and administrative	1,595	1,481	(114)
Securities and ERISA litigation charge	343		(343)
Operating loss	$ (1,945)	$ (4,542)	$ 2,597
Interest expense	(769)	(427)	(342)
Loss on extinguishment of debt	(27)		(27)
Other income, net	110	40	70
Reorganization items	(163)	(92)	(71)
Loss from continuing operations before income taxes, minority interest and equity income	$ (2,794)	$ (5,021)	$ 2,227
Income tax benefit (expense)	522	(130)	652
Minority interest, net of tax	(63)	(34)	(29)
Equity income, net of tax	27	44	(17)
Loss from continuing operations	$ (2,308)	$ (5,141)	$ 2,833
Loss from discontinued operations, net of tax	(757)	(326)	(431)
Cumulative effect of accounting change, net of tax		3	(3)
Net loss	$ (3,065)	$ (5,464)	$ 2,399

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Gross margin is defined as net sales less cost of sales (excluding U.S. employee workforce transition program charges, Depreciation and amortization, and Long-lived asset impairment charges).

Delphi typically experiences fluctuations in sales due to changes in customer production schedules, sales mix and the net of new and lost business (which we refer to collectively as volume), increased prices attributable to escalation clauses in our supply contracts for recovery of increased commodity costs (which we refer to as commodity pass-through), fluctuations in foreign currency exchange rates (which we refer to as FX), contractual reductions of the sales price to the customer (which we refer to as contractual price reductions) and design changes. Occasionally business transactions or non-recurring events may impact sales as well.

Delphi typically experiences fluctuations in operating income due to changes in volume, contractual price reductions (which typically range from 1% to 3% of sales), changes to costs for materials and commodities or manufacturing variances (which we refer to collectively as operational performance), and employee termination benefits and other exit costs.

Net Sales

Net Sales from continuing operations for the year ended December 31, 2007 versus December 31, 2006. Total sales for 2007 decreased $454 million. Below is a summary of Delphi s sales for this period.

	Year Ended December 31,					Variance Due To:				
	2007		2006		Favorable/ (Unfavorable)	Volume and Price Reductions	FX	Commodity Pass-Through	Other	Total
	(dollars in millions)						(dollars in millions)			
Net sales:										
General Motors and affiliates	$ 8,301	37%	$ 9,344	41%	$ (1,043)	$ (1,321)	$ 138	$ 61	$ 79	$ (1,043)
Other customers	13,982	63%	13,393	59%	589	(375)	618	259	87	589
Total net sales	$ 22,283		$ 22,737		$ (454)	$ (1,696)	$ 756	$ 320	$ 166	$ (454)

Total sales for 2007 decreased 2% primarily due to reductions in volume and contractual price reductions. Offsetting these decreases were favorable fluctuations in foreign currency exchange rates, primarily driven by the Euro, Brazilian Real, Korean Won, and Chinese Renminbi, commodity pass-through, primarily due to copper, and an increase of $53 million due to design changes. Additionally, total sales were favorably impacted by $109 million of additional sales from Shanghai Delphi Automotive Air Conditioning Company (SDAAC) in the Thermal Systems product segment. Effective July 1, 2006, we acquired a controlling position in SDAAC; prior to obtaining management control, our investment in SDAAC was accounted for using the equity method.

GM sales for 2007 decreased 11% to 37% of total sales, primarily due to reductions in volume of 8% and contractual price reductions. During 2007, our GM North America content per vehicle was $1,562, 7.8% lower than the $1,695 content per vehicle for 2006. The decrease to GM sales was offset slightly due to favorable fluctuations in foreign currency exchange rates, driven by the Euro, Brazilian Real, Korean Won and Chinese Renminbi, commodity pass-through, primarily due to copper, and design changes of $62 million.

Other customer sales for 2007 increased 4% to 63% of total sales, primarily due to favorable foreign currency exchange impacts, commodity pass-through, and $109 million due to our acquisition of a controlling position in SDAAC. Other customer sales were unfavorably impacted by contractual price reductions and slight decreases in volume.

Operating Results

Operating loss decreased by $2.6 billion during 2007. Below is a summary of the variances in Delphi s operating results for 2007 compared to 2006.

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Gross Margin. Gross margin increased to $1,217 million or 5.5% in 2007 compared to $771 million or 3.4% in 2006. Below is a summary of Delphi s gross margin for this period.

	Year Ended December 31,			Variance Due To:					
	2007	2006	Favorable/ (Unfavorable)	Contractual Price Reductions	Volume	Operational Performance	Employee Termination Benefits	Other	Total
	(dollars in millions)			(dollars in millions)					
Gross Margin	$ 1,217	$ 771	$ 446	$ (427)	$ (548)	$ 1,739	$ (240)	$ (78)	$ 446
Percentage of Sales	5.5%	3.4%							

The gross margin increase was primarily due to improvements in operational performance, as noted in the table above, as well as the following items:

- $100 million due to reduced costs for temporarily idled U.S. hourly workers who receive nearly full pay and benefits as a result of the U.S. employee workforce transition programs;
- $121 million due to favorable foreign currency exchange impacts; and
- $36 million due to the change in pension excise tax expense.

Offsetting these increases was decreased volume, primarily attributable to an approximate 8% reduction in GM North America vehicle production, and employee termination benefits and other exit costs, as noted in the table above, as well as the following items:

- $76 million in additional warranty expense, primarily in the Powertrain Systems segment;
- $48 million of costs incurred to rationalize manufacturing capacity;
- $32 million of benefit plan settlements in Mexico;
- $30 million due to the loss on sale of our Catalyst business line in 2007;
- $29 million of costs related to the write-off of excess and obsolete inventory as we consolidate and realign our manufacturing facilities to support our overall transformation;
- $108 million recorded as reduction to cost of sales in 2006 as a result of the release of previously recorded postemployment benefit accruals, which did not occur in 2007. Delphi determined that certain previously recorded accruals representing 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, were no longer necessary.

U.S. Employee Workforce Transition Program Charges. Delphi recorded workforce transition program charges of approximately $212 million during 2007 for UAW-, IUE-CWA-, and USW-represented employees. These charges included $60 million for attrition programs for the eligible union-represented U.S. hourly employees, which is net of a decrease in previously recorded charges due to a change in estimate of $48 million. The 2007 workforce transition

program charge also includes $20 million of amortization expense related to buy-down payments for eligible traditional employees who did not elect an attrition or flowback option and continue to work for Delphi. Additionally, Delphi recorded $132 million in net pension curtailment charges during 2007 as discussed further in Note 16. U.S. Employee Workforce Transition Programs to the consolidated financial statements.

Delphi recorded postretirement wage and benefit charges of approximately $2.7 billion during 2006 related to the workforce transition programs for UAW- and IUE-CWA-represented hourly employees. These charges included net pension and postretirement benefit curtailment charges of $1.8 billion offset by $45 million of a curtailment gain related to extended disability benefits, in U.S. workforce transition program charges as well as special termination benefit charges of approximately $0.9 billion. The curtailment charges are primarily due to reductions in anticipated future service as a result of the employees electing to participate in the program. The special termination benefit charges were for the pre-retirement and buyout portions of the cost of the workforce transition programs for UAW- and IUE-CWA-represented hourly employees who elected to participate.

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Selling, General and Administrative Expenses. Selling general and administrative (SG&A) expenses were $1.6 billion, or 7.2% of total net sales for 2007 compared to $1.5 billion, or 6.5% of total net sales for 2006. The increase as a percentage of total net sales in 2007 was primarily due to an increase in foreign currency exchange impacts of $46 million, an increase in employee termination benefits and other exit costs of $31 million, and a $85 million increase in costs necessary to implement information technology systems to support finance, manufacturing and product development initiatives. Offsetting these increases, SG&A was favorably impacted by a reduction in Corporate and Other expense attributable to an 8% year-over-year headcount reduction in the U.S. in 2007.

Depreciation and Amortization. Depreciation and amortization was $914 million for 2007 compared to $954 million for 2006. The year-over-year decrease of $40 million primarily reflects the impact of certain assets that were impaired in 2006 and 2007, resulting in reduced 2007 depreciation and amortization expense, lower capital spending at impaired sites and the effect of accelerated depreciation on assets nearing the end of their program life in 2006 and 2007. Also contributing to reduced depreciation and amortization expense is a reduction in capital spending of approximately 7% versus 2006.

Long-Lived Asset Impairment Charges. Long-lived asset impairment charges related to the valuation of long-lived assets held for use were recorded in the amounts of approximately $98 million and $172 million during 2007 and 2006, respectively. Delphi evaluates the recoverability of certain long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The 2007 and 2006 charges primarily relate to our Automotive Holdings Group segment. Refer to Note 9. Property, Net to the consolidated financial statements for more information.

Interest Expense. Interest expense for 2007 was $769 million compared to $427 million for 2006. The increase in interest expense was due to the recognition of $411 million of interest expense related to prepetition debt and allowed unsecured claims, which in accordance with the Amended Plan became probable of payment in 2007. This increase was partially offset by a decrease resulting from lower interest rates for the Refinanced DIP Credit Facility even though the overall debt outstanding for 2007 was higher as compared to 2006. Approximately $148 million of contractual interest expense related to outstanding debt, including debt subject to compromise, was not recognized in accordance with the provisions of SOP 90-7 in 2006. All contractual interest expense related to outstanding debt, including debt subject to compromise, was recognized in 2007.

Other Income and Expense. Other income for 2007 was $110 million as compared to other income of $40 million for 2006. In 2007, Delphi received $36 million from GM pursuant to an intellectual property license agreement. The remainder of the increase for 2007 was due to increased non-Debtor interest income associated with additional cash and cash equivalents on hand.

Reorganization Items. Bankruptcy-related reorganization expenses were $163 million and $92 million for 2007 and 2006, respectively. Delphi incurred professional fees, primarily legal, directly related to the reorganization of $169 million and $150 million during 2007 and 2006, respectively. These costs were partially offset by interest income of $11 million and $55 million from accumulated cash from the reorganization and $2 million and $3 million of gains on the settlement of prepetition liabilities during 2007 and 2006, respectively.

Income Taxes. We recorded an income tax benefit of $522 million for 2007 compared to income tax expense of $130 million for 2006. The change in the annual effective tax rate in 2007 was primarily due to the tax benefit of $703 million related to $1.9 billion U.S. pre-tax other comprehensive income related to employee benefits. We do not recognize income tax benefits on losses in continuing operations in our U.S. and certain other non-U.S. tax jurisdictions in excess of the $703 million credit included in other comprehensive income in the current year, due to a history of operating losses. We have determined that it is more likely than not that these tax benefits will not be

realized. Refer to Note 8. Income Taxes to the consolidated financial statements.

Minority Interest. Minority interest was $63 million and $34 million for 2007 and 2006, respectively. Minority interest reflects the results of ongoing operations within Delphi s consolidated investments.

Equity Income. Equity income was $27 million and $44 million for 2007 and 2006, respectively. Equity income reflects the results of ongoing operations within Delphi s equity-method investments. The decrease in equity income during 2007 was primarily due to the operating results of PBR Knoxville and Promotora de Partes Electricas, of which Delphi has minority ownership interests and are included in our Powertrain Systems segment and Electrical/Electronic Architecture segment, respectively.

Loss from Discontinued Operations. Loss from discontinued operations was $757 million and $326 million for 2007 and 2006, respectively. Included in loss from discontinued operations for 2007 were charges of $595 million related to assets held for sale for the Steering and Interiors and Closures Businesses, which include the impact of curtailment loss on pension benefits for impacted employees, long-lived asset impairment charges of $193 million, workforce transition program charges of $32 million and employee termination benefits and other exit costs of $132 million, primarily due to $107 million associated with the exit of the Puerto Real site in Cadiz, Spain (see Note 2. Transformation Plan and Chapter 11 Bankruptcy to the consolidated financial statements). The loss from discontinued operations for 2006 includes long-lived asset impairment charges of $43 million, workforce transition program charges of $249 million and employee termination benefits and other exit costs of $30 million.

Cumulative Effect of Accounting Change. Delphi recorded a $3 million cumulative effect of accounting change (net of tax) as a result of the adoption of SFAS 123 (Revised 2004), *Share Based Payments*, (SFAS 123(R)) during 2006.

Results of Operations by Segment

The calculation of OIBDAR, as derived from operating income, is as follows for the years ended December 31, 2007 and 2006:

	Electronics and Safety	Powertrain Systems	Electrical/ Electronic Architecture	Thermal Systems	Automotive Holdings Group	Corporate and Other	Total
				(in millions)			
2007:							
Operating income (loss)	$ 63	$ (276)	$ (36)	$ (29)	$ (393)	$ (1,274)	$ (1,945)
Depreciation and amortization	267	266	175	61	63	82	914
Long-lived asset impairment charges	1	13	6		78		98
Transformation and rationalization charges:							
U.S. employee workforce transition program charges						212	212
Securities & ERISA litigation charge						343	343
Employee termination benefits and other exit costs	36	55	132	48	239	30	540
Loss on divestitures		30					30
Other transformation and rationalization costs	72	37	52	4	5	77	247
Discontinued operations					81	211	292

OIBDAR	$	439	$	125	$	329	$	84	$	73	$	(319)	$	731

Other transformation and rationalization costs for the year ended December 31, 2007 includes approximately $110 million of costs incurred for the deployment of the Company s enterprise software solution, including the implementation of a perpetual inventory system, as well as costs necessary to implement information technology systems to support finance, manufacturing and product development initiatives, approximately $60 million of costs related to Delphi s engineering and manufacturing footprint rotation, certain plant consolidations and closures, and startup costs related to the consolidation of many staff

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administrative functions into a global business service group, and $32 million related to employee benefit plan settlements in Mexico.

	Electronics and Safety	Powertrain Systems	Electrical/ Electronic Architecture	Thermal Systems	Automotive Holdings Group	Corporate and Other	Total
				(in millions)			
2006:							
Operating income (loss)	$ 188	$ (128)	$ (110)	$ (170)	$ (488)	$ (3,834)	$ (4,542)
Depreciation and amortization	268	260	175	67	100	84	954
Long-lived asset impairment charges	4	12	1	11	144		172
Transformation and rationalization charges:							
U.S. employee workforce transition program charges						2,706	2,706
Employee termination benefits and other exit costs	18	58	82	73	27	11	269
Other transformation and rationalization costs	11	32	6	13	39	90	191
Discontinued operations					57	79	136
OIBDAR	$ 489	$ 234	$ 154	$ (6)	$ (121)	$ (864)	$ (114)

Other transformation and rationalization costs for the year ended December 31, 2006 includes approximately $70 million of costs incurred to complete a number of environmental investigations in conjunction with our transformation plan; and approximately $40 million of costs necessary to implement information technology systems to support finance, manufacturing and product development initiatives.

Sales and gross margin for the years ended December 31, 2007 and 2006 by segment are as follows:

	Electronics and Safety	Powertrain Systems	Electrical/ Electronic Architecture	Thermal Systems	Automotive Holdings Group	Corporate and Other	Total
				(dollars in millions)			
2007 Total Net Sales	$ 5,035	$ 5,663	$ 5,968	$ 2,412	$ 2,946	$ 259	$ 22,283
2006 Total Net Sales	5,093	5,565	5,365	2,607	3,638	469	22,737
(Decrease) Increase	$ (58)	$ 98	$ 603	$ (195)	$ (692)	$ (210)	$ (454)
2007 Gross Margin	$ 634	$ 333	$ 584	$ 173	$ (44)	$ (463)	$ 1,217
2006 Gross Margin	747	442	430	48	(5)	(891)	771

(Decrease)/Increase	$ (113)	$ (109)	$ 154	$ 125	$ (39)	$ 428	$ 446
2007 Gross margin percentage	12.6%	5.9%	9.8%	7.2%	(1.5)%		5.5%
2006 Gross margin percentage	14.7%	7.9%	8.0%	1.8%	(0.1)%		3.4%

GM Sales by Segment

	Years Ended December 31,			Variance Due To:				
	2007	2006	Favorable/ (Unfavorable)	Volume and Contractual Price Reductions	Commodity Pass-through	Foreign Exchange(c)	Other (d)	Total
	(in millions)			(in millions)				
Electronics and Safety	$ 1,606	$ 1,587	$ 19	$ (81)	$	$ 25	$ 75	$ 19
Powertrain Systems	1,563	1,745	(182)	(214)	17	24	(9)	(182)
Electrical/Electronic Architecture	1,750	1,772	(22)	(101)	33	38	8	(22)
Thermal Systems	1,355	1,600	(245)	(283)	9	26	3	(245)
Automotive Holdings Group	1,585	2,031	(446)	(467)	2	21	(2)	(446)
Corporate and Other	442	609	(167)	(174)		3	4	(167)
Total	$ 8,301	$ 9,344	$ (1,043)	$ (1,320)	$ 61	$ 137	$ 79	$ (1,043)

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Decrease in volume includes the impact of exiting non-core businesses in the Automotive Holdings Group segment totaling approximately $65 million in sales.

Foreign exchange fluctuations are primarily related to the Euro, Brazilian Real, Korean Won, and Chinese Renmenbi.

Other Customer and Inter-segment Sales by Segment

	Years Ended December 31,			Variance Due To:				
	2007	2006	Favorable/ (Unfavorable)	Volume and Contractual Price Reductions	Commodity Pass-through	Foreign Exchange	Other	Total
	(in millions)			(in millions)				
Electronics and Safety	$ 3,429	$ 3,506	$ (77)	$ (198)	$	$ 125	$ (4)	$ (77)
Powertrain Systems	4,100	3,820	280	(48)	162	169	(3)	280
Electrical/Electronic Architecture	4,218	3,593	625	335	92	206	(8)	625
Thermal Systems	1,057	1,007	50	(106)		51	105	50
Automotive Holdings Group	1,361	1,607	(246)	(294)	5	42	1	(246)
Corporate and Other	(183)	(140)	(43)	(63)		24	(4)	(43)
Total	$ 13,982	$ 13,393	$ 589	$ (374)	$ 259	$ 617	$ 87	$ 589

Decrease in volume includes the impact of exiting non-core businesses in the Automotive Holdings Group segment totaling approximately $233 million in sales.

Foreign exchange fluctuations are primarily related to the Euro, Brazilian Real, Korean Won, and Chinese Renmenbi.

OIBDAR by Segment

	Years Ended December 31,			Variance Due To:				
	2007	2006	Favorable/ (Unfavorable)	Volume	Contractual Price Reductions	Operational Performance	Other	Total
	(in millions)			(in millions)				
Electronics and Safety	$ 439	$ 489	$ (50)	$ (64)	$ (117)	$ 160	$ (29)	$ (50)
Powertrain Systems	125	234	(109)	(177)	(101)	236	(67)	(109)
Electrical/Electronic Architecture	329	154	175	17	(131)	284	5	175
Thermal Systems	84	(6)	90	(108)	(55)	181	72	90
Automotive Holdings Group	73	(121)	194	(272)	(57)	441	82	194
Corporate and Other	(319)	(864)	545	(8)	(9)	667	(105)	545

Total	$	731	$	(114)	$	845	$	(612)	$	(470)	$	1,969	$	(42)	$	845

As noted in the table above, OIBDAR was impacted by volume, contractual price reductions, and operational performance improvements due to favorable manufacturing, materials and engineering performance, as well as the following items included in Other in the table above:

Warranty

$30 million of increased warranty expense primarily due to the instrument clusters product line in the Electronics and Safety segment; and $66 million in additional warranty reserves in the Powertrain Systems segment; offset by

$40 million of reduced warranty expense in the Thermal Systems segment.

Foreign Exchange

Favorable foreign currency exchange impact of $41 million, $14 million, $17 million, and $3 million in the Electronics and Safety, Powertrain Systems, Electrical/Electronic Architecture and Automotive Holdings Group segments, respectively.

Temporarily Idled Employee Costs

> As a result of the U.S. workforce transition program, reduced costs for temporarily idled U.S. hourly workers who received nearly full pay and benefits of $22 million, $32 million, $7 million, $43 million and $33 million in the Powertrain Systems segment, Electrical/Electronic Architecture segment, Thermal Systems segment, Automotive Holdings Group segment, and Corporate and Other segment (which includes the operating results of the Steering business), respectively.

OIBDAR in the Corporate and Other segment was unfavorably impacted in 2007 by $108 million recorded in 2006 as a reduction to previously recorded postretirement benefit accruals.

Offsetting these improvements were increased costs of $85 million to implement information technology systems to support finance, manufacturing and product development initiatives.

Liquidity and Capital Resources

Overview of Current Capital Structure

Amended and Restated DIP Credit Facility and Accommodation Agreement

During the first quarter of 2007, Delphi refinanced its prepetition and postpetition credit facilities by entering into a Revolving Credit, Term Loan, and Guaranty Agreement (the Refinanced DIP Credit Facility) to borrow up to approximately $4.5 billion from a syndicate of lenders. During the second quarter of 2008, Delphi received Court approval and the required commitments from its lenders to amend and extend its Refinanced DIP Credit Facility (the Amended and Restated DIP Credit Facility), which amendments and extension became effective in May 2008. As a result of the amendment and restatement, the aggregate size of the facility was reduced from $4.5 billion to $4.35 billion, consisting of a $1.1 billion first priority revolving credit facility (Tranche A or the Revolving Facility), a $500 million first priority term loan (the Tranche B Term Loan) and a $2.75 billion second priority term loan (the Tranche C Term Loan).

On November 7, 2008, Delphi filed a motion with the Court seeking authority to enter into the Accommodation Agreement allowing Delphi to retain the proceeds of its Amended and Restated DIP Credit Facility, which otherwise matured on December 31, 2008. On December 3, 2008, the Court entered an order approving Delphi s motion and authorizing Delphi to enter into the Accommodation Agreement following the expiration of the applicable appeal period, assuming resolution of any objections filed in the interim. On December 12, 2008, Delphi satisfied the closing conditions set forth in the Accommodation Agreement and the Accommodation Agreement became effective. On January 30, 2009, Delphi reached agreement with its lenders to amend (the Amendment) the Accommodation Agreement. In support of Delphi s efforts to develop a modified reorganization plan adapted to the current global economic environment, the lenders agreed to modify certain financial covenants and pay-down requirements contained in the Accommodation Agreement. In addition, GM agreed to immediately accelerate payment of $50 million in payables to Delphi under the Partial Temporary Accelerated Payments Agreement and to, no later than February 27, 2009, either accelerate payment of an additional $50 million in payables under such agreement or increase from $300 million to $350 million the amount which it is committed to advance under the GM Advance Agreement. The Amendment and GM s agreement to accelerate payments were effective January 30, 2009; however, both agreements were subject to satisfaction of certain post-closing conditions, including Court approval and in the case of the Amendment, the payment of fees to the consenting lenders. The Company filed motions with the Court seeking approval of these agreements and authority to pay the applicable fees. Just prior to the hearing on such motions, the lenders and Delphi agreed to a further supplemental amendment to the Accommodation Agreement (the

Supplemental Amendment), to further extend certain milestone dates, and on February 24, 2009 the Court approved the Amendment, the Supplemental Amendment and the amendment to the Partial Temporary Accelerated Payments Agreement.

Termination Date of the Accommodation Agreement

Under the Accommodation Agreement (as amended by the Amendment and Supplemental Amendment), Delphi may continue using the proceeds of the Amended and Restated DIP Credit Facility and the lenders

have agreed, among other things, to forbear from the exercise of certain default-related remedies, in each case until the earlier to occur of:

June 30, 2009, but subject to the satisfaction of certain conditions below;

Delphi s failure to comply with its covenants under the Accommodation Agreement or the occurrence of certain other events set forth in the Accommodation Agreement; and

An event of default under the Amended and Restated DIP Credit Facility (other than the failure to repay the loans under the facility on the maturity date or comply with certain other repayment provisions).

However, as referenced above, the expiration date of June 30, 2009 for the accommodation period will be shortened to May 5, 2009 if Delphi has not satisfied the following conditions:

(a) received binding commitments, subject to customary conditions, on or prior to April 2, 2009, for debt and equity financing sufficient for it to emerge from chapter 11 pursuant to the modified plan of reorganization which was filed with the Court on October 3, 2008, or any other plan of reorganization that provides the administrative agent and the lenders under the Amended and Restated DIP Credit Facility with the same treatment as that set forth in the modified plan of reorganization; or

(b) (i) has filed on or prior to April 2, 2009, modifications to the modified plan of reorganization or any other plan of reorganization to which the administrative agent does not submit a notice, within ten business days of such filing, informing Delphi that either (A) the Required Lenders (as defined in the Accommodation Agreement) or (B) lenders party to the Accommodation Agreement holding Tranche A, Tranche B Term Loan and Tranche C Term Loan commitments and exposure representing in excess of 50% of the Tranche A, Tranche B Term Loan and Tranche C Term Loan commitments and exposure held by all lenders party to the Accommodation Agreement (the Required Total Participant Lenders), affirmatively oppose such modifications or plan of reorganization (a Notice), and

(ii) on or prior to May 2, 2009, has obtained entry of the Court s order approving modifications to the Disclosure Statement with respect to the modified plan of reorganization, as may have been further modified, or a disclosure statement with respect to such other plan of reorganization as described above and the approval to re-solicit or solicit votes, as the case may be. The administrative agent would submit a Notice if either the Required Lenders or the Required Total Participant Lenders vote, within ten business days after the filing of the modifications to the modified plan of reorganization or the new plan of reorganization, to oppose such plan modifications (or any such other filed plan of reorganization) on the grounds that such plan was not acceptable to them.

There can be no assurance that the outside termination date of the Accommodation Agreement will not be shortened from June 30, 2009 to May 5, 2009 because there can be no assurance that we will meet the conditions of (a) or (b) above.

<u>Requirements of the Accommodation Agreement</u>

Notwithstanding the Accommodation Agreement, Delphi is in default of the terms of its Amended and Restated DIP Credit Facility and as a result, Delphi is no longer able to make additional draws under the facility after December 12, 2008, (the effective date of the Accommodation Agreement). However, under the Accommodation Agreement, Delphi is required to continue to comply with the provisions of the Amended and Restated DIP Credit Facility (as amended and modified by the Accommodation Agreement). Additionally, prior to the effective date of the Accommodation Agreement, Delphi was required to and did the following:

replace or cash collateralize, at 105% of the undrawn amount thereof, all outstanding letters of credit under the Amended and Restated DIP Credit Facility that had not been collateralized prior to that date, and

limit the aggregate principal amounts outstanding under Tranche A borrowings to no more than $377 million.

Prior to the effectiveness of the Accommodation Agreement, Delphi was permitted to and did provide cash collateral, in an aggregate amount of $200 million which was pledged to the administrative agent for the benefit of the lenders (Borrowing Base Cash Collateral). Upon Delphi s request, portions or all of the Borrowing Base Cash Collateral will be transferred back to Delphi provided that Delphi is in compliance with the borrowing base calculation in the Accommodation Agreement and no event of default has occurred. In addition, under certain conditions included in the Accommodation Agreement, Delphi increased its pledge of the equity interests in Delphi s first-tier foreign subsidiaries from 65% to 100%, which triggered a deemed dividend for tax purposes (no additional cash taxes were incurred).

Terms of the Amended and Restated DIP Credit Facility and Accommodation Agreement

The facilities currently bear interest at the Administrative Agent s Alternate Base Rate (ABR) plus a specified percent, as detailed in the table below, and the amounts outstanding (in millions) and rates effective as of December 31, 2008 were:

	ABR plus	Borrowings as of December 31, 2008		Rates Effective as of December 31, 2008
Tranche A	5.00%	$	370	9.25%
Tranche B	5.00%	$	500	9.25%
Tranche C	6.25%	$	2,750	10.50%

Tranche A, Tranche B and Tranche C facilities include ABR floor of 4.25%

The Company had $117 million in letters of credit outstanding under the Revolving Facility as of December 31, 2008. The amount outstanding at any one time under the First Priority Facilities is limited by a borrowing base computation as described in the Accommodation Agreement. Under the Accommodation Agreement, Delphi is required to provide weekly borrowing base calculations to the bank lending syndicate. Based on the current borrowing base computation in effect at December 31, 2008, as defined in the Accommodation Agreement, Delphi s borrowing base was reduced by the maximum deduction of $275 million for unrealized losses related to Delphi s hedging portfolio, which as of December 31, 2008 resulted in net losses included in OCI of $194 million pre-tax, primarily related to copper and Mexican Peso hedges, as further described in Note 23. Fair Value of Financial Instruments, Derivatives and Hedging Activities to the consolidated financial statements.

The Amended and Restated DIP Credit Facility includes affirmative, negative and financial covenants that impose restrictions on Delphi s financial and business operations, including Delphi s ability, among other things, to incur or secure other debt, make investments, sell assets and pay dividends or repurchase stock. As long as the Facility Availability Amount (as defined in the Amended and Restated DIP Credit Facility) is equal to or greater than $500 million, compliance with the restrictions on investments, mergers and disposition of assets does not apply (except with respect to investments in, and dispositions to, direct or indirect domestic subsidiaries of Delphi that are not guarantors). Delphi s Facility Availability Amount was less than $500 million at December 31, 2008 as all commitments were cancelled with the effectiveness of the Accommodation Agreement on December 12, 2008.

The Accommodation Agreement also contains additional covenants, amends certain of the existing covenants in the Amended and Restated DIP Credit Facility and includes additional events of default under the Amended and Restated

DIP Credit Facility. Additional covenants under the Accommodation Agreement include (i) a prescribed minimum borrower liquidity level, (ii) a requirement to repay obligations under the Amended and Restated DIP Credit Facility pursuant to an Accommodation Agreement borrowing base covenant (approximately $131 million was repaid during January 2009 as a result of the borrowing base calculation), (iii) a requirement to repay obligations under the Amended and Restated DIP Credit Facility to the extent any specified litigation proceeds are received in cash, (iv) a prohibition on the repatriation of cash from foreign subsidiaries as cash dividends, cash otherwise distributed in redemption of or in exchange for equity interests in foreign subsidiaries or through the repayment of notes unless used to repay obligations under the Amended and Restated DIP Credit Facility and (v) a requirement to repay $60 million in obligations

under the Amended and Restated DIP Credit Facility in accordance with the schedule set forth in the Accommodation Agreement.

Changes to covenants under the Amended and Restated DIP Credit Facility include (i) a reduction in the cap on permitted debt and liens on assets of foreign subsidiaries, (ii) a reduction in the cap on net cash proceeds from asset sales before such proceeds must be utilized to repay the obligations under the Amended and Restated DIP Credit Facility, (iii) modifications to certain debt and lien baskets, including permitting cash collateralization of letters of credit and an increase in secured hedging obligations and (iv) enhanced monthly financial reporting.

The covenants require Delphi, among other things, to maintain a rolling 12-month cumulative Global EBITDAR (as defined in the Amended and Restated DIP Credit Facility and Accommodation Agreement) for Delphi and its direct and indirect subsidiaries, on a consolidated basis. Prior to the Amendment the Global EBITDAR covenant was $450 million for the period ended December 31, 2008.

The covenants also impose restrictions on Delphi s derivative contracts. Refer to Note 23. Fair Value of Financial Instruments, Derivatives and Hedging Activities to the consolidated financial statements for more information.

Delphi was in compliance with the Amended and Restated DIP Credit Facility and Accommodation Agreement covenants as of December 31, 2008. However, during December 2008 as a result of significant vehicle production cuts, particularly in North America, the amount of outstanding accounts receivable and inventory declined, thus requiring periodic repayments of amounts outstanding under Tranches A and B of the Amended and Restated DIP Credit Facility to maintain compliance with the borrowing base computation. As of January 31, 2009 there was approximately $314 million outstanding under Tranche A and approximately $425 million outstanding under the Tranche B Term Loan. Reduced volume projections were expected to result in a significant decline in rolling 12-month cumulative Global EBITDAR at the end of January 2009, which without the Amendment might have put Delphi s ability to comply with the Global EBITDAR covenants at risk. In addition, this deterioration reduced the amount of outstanding receivables, potentially requiring Delphi to repay significant additional amounts currently outstanding under the Revolving Facility in the months of January and February 2009, further reducing liquidity in its North American operations. However, pursuant to the Amendment, the lenders have agreed to modify certain covenants contained in the Accommodation Agreement. Specifically the Amendment provides for:

Revised rolling 12-month cumulative Global EBITDAR covenant levels based upon the current economic and automotive environment as follows:

Period Ending		**Global EBITDAR (in millions)**
January 31, 2009	$	185
February 28, 2009	$	(50)
March 31, 2009	$	(150)
April 30, 2009	$	(250)
May 31, 2009	$	(350)

An additional cash collateral basket of up to $117 million (the Basket), which solely for purposes of the prepayment provisions in the Accommodation Agreement is considered an offset to amounts outstanding under the Revolving Facility (provided during February 2009). The Basket may be released to Delphi (and each such release may not be restored) upon the satisfaction of certain conditions described below.

By February 27, 2009 GM agreed that it would either (a) convert, subject to obtaining the approval of the Court and obtaining any required approvals from the President s Designee pursuant to its loan agreement with the U.S. Treasury, the $50 million acceleration of payment terms referred to above to increase the amount available under the GM Advance Agreement to an aggregate of $350 million or (b) accelerate an additional $50 million in advances. The Amendment further provided that if GM chose option (a), the prescribed minimum borrower liquidity level in the Accommodation Agreement would be reduced to $50 million and the

target cash balance in the GM Advance Agreement (as described below) would be increased to $50 million, provided that all necessary approvals to amend the GM Advance Agreement were received, before March 25, 2009. On February 27, 2009, GM chose option (a) and committed to increase from $300 million to $350 million the amounts available under the GM Advance Agreement, subject to receipt prior to March 24, 2009, of required approvals of the President s Designee in accordance with the provisions of GM s federal loans and prior to March 25, 2009, approval of the Court.

To provide additional liquidity support the Amendment (as modified by the Supplemental Amendment) further provides that the amounts in the Basket may be released to Delphi if each of the following conditions is satisfied at the time of the release (a) by April 2, 2009 Delphi has filed a plan of reorganization or modifications to Delphi s existing plan of reorganization meeting the conditions specified in the Accommodation Agreement and the 10 business day notice period after April 2, 2009 has elapsed without the majority of Tranche A and Tranche B lenders or majority of all lenders who signed the Accommodation Agreement having delivered notice that such plan of reorganization or modifications to Delphi s existing Plan of Reorganization are not satisfactory, (b) after giving effect to the release, Delphi is compliant with the mandatory prepayment provisions in the Accommodation Agreement and all other covenants in the Amended and Restated DIP Credit Facility as modified by the Accommodation Agreement and the Amendment, and (c) prior to March 25, 2009 GM has agreed and has obtained all required approvals to increase the available amounts under the GM Advance Agreement to $450 million (which includes any conversion by GM of the previously accelerated payables described above into advances under the GM Advance Agreement). As noted above, GM has committed to increase to $450 million the amounts available under the GM Advance Agreement, subject to (i) GM not being notified by the President s Designee that such increase is not permitted in accordance with the provisions of GM s federal loans, (ii) Court approval, (iii) the GM board of directors approval, (iv) Delphi and GM executing a definitive transaction agreement relating to the sale of Delphi s Steering Business, and (v) Court approval of the Steering Business Option Exercise Agreement. The Option Exercise Agreement contains a procedure for completing the definitive transaction agreement relating to the sale of the Steering Business to GM which, among other things, takes into account the terms of the Amended MRA and certain modifications set forth in the Option Exercise Agreement. Based on the terms of the Option Exercise Agreement and the Amended MRA, the terms upon which the Steering Business will be sold to GM have been substantially agreed by GM and Delphi. The Option Exercise Agreement is subject to conditions described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Discontinued Operations: Steering and Halfshaft Business. Delphi believes GM s commitment to increase availability under the GM Advance Agreement is a significant step toward Delphi being able to access amounts in the Basket.

Notwithstanding the above, Delphi will be required to apply all amounts in the Basket to pay down the Amended and Restated DIP Credit Facility under the following circumstances: (i) Delphi has not delivered to the agent under the Amended and Restated DIP Credit Facility a proposal to GM regarding Delphi s North American sites and the related GM plan to support Delphi s overall emergence plan by February 17, 2009 (the Proposal); (ii) Delphi has not delivered to the agent under the Amended and Restated DIP Credit Facility a business plan incorporating the Proposal by February 20, 2009 (the Business Plan) and shall have delivered a supplement to such proposal by March 24, 2009; (iii) a majority of lenders executing the Amendment direct the agent under the Amended and Restated DIP Credit Facility on or before March 6, 2009 that the Proposal or the Business Plan is not satisfactory, (iv) a majority of lenders executing the supplement to the First Amendment shall direct the agent under the Amended and Restated DIP Credit Facility on or prior to April 7, 2009 that the March 24, 2009 supplement referred to in clause (ii) is not satisfactory, (v) if Delphi fails to file a plan of reorganization or modifications to its existing plan of reorganization meeting the conditions specified in the Accommodation Agreement by April 2, 2009 or if within 10 business days of such filing the majority of Tranche A and Tranche B lenders or majority of all lenders who signed the Accommodation Agreement deliver notice that such filing is not satisfactory, or (vi) if on March 24, 2009 there is less than $450 million of aggregate availability committed under the GM Advance Agreement. Delphi did timely deliver the Proposal and Business Plan to the agent as provided in clauses (i) and (ii) above and to date has not received any

indication that such items were not satisfactory. In addition, Delphi will be required to apply an amount equal to twenty percent of the aggregate amount in the Basket to pay down the Amended

and Restated DIP Credit Facility in the event that (A) Delphi does not deliver certain analyses on or before March 4, 2009, or (B) a majority of lenders executing the Supplemental Amendment shall direct the agent under the Amended and Restated DIP Credit Facility on or prior to March 18, 2009 that such certain analyses are not satisfactory.

The Amended and Restated DIP Credit Facility also 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 and Restated DIP Credit Facility, and interest on all outstanding amounts is payable on demand at 2% above the then applicable rate.

New events of default under the Amended and Restated DIP Credit Facility include (i) any amendment, waiver, supplement or modification to the Amended GSA or the Amended MRA requiring Court approval that, taken as a whole, materially impairs the rights of Delphi or its affiliated debtors as borrowers or guarantors, materially reduces the amount, or decelerates the timing of, any material payments under either such agreement, if the Required Lenders object, (ii) any repudiation in writing or termination of the Amended GSA or the Amended MRA by any party thereto, or a failure to perform any obligation thereunder, which failure materially impairs the rights of Delphi thereunder, (iii) certain amendments, waivers, modifications, or supplementations of any term of the GM Advance Agreement or the Partial Temporary Accelerated Payments Agreement (as defined below), (iv) any event or condition that results in GM not funding amounts requested under the GM Advance Agreement and (v) the enforcement or failure to stay enforcement of a judgment or order against any borrower or guarantor with respect to any amounts advanced under the Amended and Restated DIP Credit Facility.

In connection with the Accommodation Agreement, Delphi has paid fees to the consenting lenders of 200 basis points, or approximately $37 million. Delphi also received approval from the Court to pay arrangement and other fees to various lenders in conjunction with the Accommodation Agreement. The Company also received authority to pay applicable fees to various lenders in conjunction with the Amendment and the Supplemental Amendment, and has paid approximately $11 million in fees to the consenting lenders for both amendments.

In connection with the entry into the Amended and Restated DIP Credit Facility in May 2008, Delphi paid a total of approximately $75 million to participating lenders on the Revolving Facility, the Tranche B facility and the Tranche C facility. Delphi also received approval from the Court to pay arrangement and other fees to various lenders in conjunction with the Amended and Restated DIP Credit Facility and the bankruptcy exit financing that was commenced but not completed.

In conjunction with the entry into the Amended and Restated DIP Credit Facility, the Refinanced DIP Credit Facility was terminated. Delphi incurred no early termination penalties in connection with the termination of this agreement. However, as a result of significant changes in the debt structure and corresponding cash flows related to the refinancing, Delphi expensed $49 million of unamortized debt issuance costs related to the Amended and Restated DIP Credit Facility and the Refinanced DIP Credit Facility in the second quarter of 2008, which was recognized as loss on extinguishment of debt. As of December 31, 2008, $56 million of debt issuance costs remains deferred in other current assets and is being amortized over the term of the Amended and Restated DIP Credit Facility, as modified by the Accommodation Agreement.

In 2007, concurrently with the entry into the Refinanced DIP Credit Facility, Delphi expensed $25 million of unamortized debt issuance costs related to the Revolving Credit, Term Loan and Guaranty Agreement Delphi entered into on October 14, 2005, as amended through November 13, 2006, and the Five Year Third Amended and Restated Credit Agreement, dated as of June 14, 2005 in the first quarter of 2007, of which $23 million was recognized as loss on extinguishment of debt, as these fees relate to the refinancing of the term loans, and $2 million was recognized as interest expense, as these fees relate to the refinancing of the revolving credit facility.

Advance Agreement and Liquidity Support from General Motors and Related Matters

Concurrently with the Amended and Restated DIP Credit Facility, Delphi entered into an agreement with GM whereby GM agreed to advance Delphi amounts anticipated to be paid following the effectiveness of the

GSA and MRA (the GM Advance Agreement). The original GM Advance Agreement had a maturity date of the earlier of December 31, 2008, when $650 million was to have been paid under the GSA and MRA and the date on which a plan of reorganization becomes effective. The original GM Advance Agreement provided for availability of up to $650 million, as necessary for Delphi to maintain $500 million of liquidity, as determined in accordance with the GM Advance Agreement. The amounts advanced accrue interest at the same rate as the Tranche C Term Loan on a paid-in-kind basis. The accrued interest on the advances made through the effectiveness of the Amended GSA and Amended MRA was cancelled due to the effectiveness of the Amended GSA and Amended MRA, as more fully described in Note 2. Transformation Plan and Chapter 11 Bankruptcy to the consolidated financial statements, and Delphi was not able to redraw the original $650 million facility amount.

On September 26, 2008, the Court granted Delphi s motion to amend the GM Advance Agreement to provide for an additional $300 million facility, which could be drawn against from time to time as necessary for Delphi to maintain $300 million of liquidity, as determined in accordance with the amendment to the GM Advance Agreement signed on August 7, 2008 and to give GM an administrative claim for all unpaid advances under such additional facility. Continued availability to draw against the additional $300 million facility was conditioned upon Delphi filing a plan of reorganization and related disclosure statement in form and substance materially consistent with Section 5 of the Amended GSA and Section 7.01 of the Amended MRA which condition was satisfied with Delphi s filing of proposed modifications to its previously confirmed plan of reorganization with the Court on October 3, 2008, and certain other conditions.

In support of Delphi s efforts to obtain the Accommodation Agreement, GM agreed to extend the term of the GM Advance Agreement, pursuant to the terms set forth in an amendment thereto filed with the Court on November 7, 2008 (as supplemented) (the GM Advance Agreement Amendment), through the earlier of (i) June 30, 2009, (ii) such date as Delphi files any motion seeking to amend the plan of reorganization in a manner that is not reasonably satisfactory to GM, (iii) the termination of the Accommodation Agreement or the accommodation period therein, or (iv) such date when a plan of reorganization becomes effective. The Court approved Delphi s motion to amend and extend the GM Advance Agreement concurrently with the approval of Delphi s motion seeking authority to enter into the Accommodation Agreement. Additionally, GM has agreed, subject to certain conditions, to accelerate payment of certain payables to Delphi, pursuant to the Partial Temporary Accelerated Payments Agreement, which could result in an additional $300 million of liquidity through May 2009. The Partial Temporary Accelerated Payments Agreement provides that GM will generally recoup these accelerated payments over its three subsequent monthly payments on or after the date that GM s obligation to advance funds under the GM Advance Agreement terminates or advances made become due and payable in accordance with the GM Advance Agreement. Both the amendment to the GM Advance Agreement and the Partial Temporary Accelerated Payments Agreement were effective concurrent with the Accommodation Agreement, on December 12, 2008. Conforming amendments were made to the GM Advance Agreement and Partial Temporary Accelerated Payments Agreement contemporaneously with Court approval of the Amendment and Supplemental Amendment to the Accommodation Agreement as described above. Additionally, Delphi anticipates filing a motion with the Court seeking approval of subsequent amendments to the GM Advance Agreement to reflect the conditions pursuant to which GM will agree to increase the amounts available under such agreement, see the immediately preceding section under Amended and Restated DIP Credit Facility and Accommodation Agreement.

There can be no assurances, however that GM will have sufficient liquidity to accelerate payables to Delphi or advance amounts under the GM Advance Agreement. Refer to Item 1A. Risk Factors in this Annual Report on Form 10-K for risks and uncertainties related to our business relationship with GM.

The GM Advance Agreement currently has a targeted cash balance amount of $25 million and Delphi is required to use any free cash flow above the targeted cash balance amount (as determined in accordance with the GM Advance Agreement) to repay from time to time any amounts outstanding thereunder. As noted above, provided all necessary

approvals are received and all conditions are satisfied to increase the amounts available under the GM Advance Agreement to $450 million prior to March 25, 2009, the targeted cash balance amount will be increased to $50 million. As of December 31, 2008, no amounts were outstanding pursuant to the GM Advance Agreement and $300 million was available for future advances.

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Other Financing

European Securitization Program In December 2008, Delphi signed a termination agreement under the European accounts receivables securitization program (the European Program) establishing that the program principal would be repaid by March 31, 2009. However, in January 2009, Delphi entered into an extension to the termination period such that the program principal will be repaid by June 17, 2009 via amortization of principal over the extension period. The program had an availability of 178 million ($249 million with December 31, 2008 foreign currency exchange rates) and £12 million ($17 million with December 31, 2008 foreign currency exchange rates) until the termination date. During the extension period, the availability under the program is capped at dollar equivalent of the sum of 38 million ($54 million with December 31, 2008 foreign currency exchange rates) and £9 million ($13 million with December 31, 2008 foreign currency exchange rates). Borrowings on the accounts receivable transferred under this program are accounted for as short-term debt. As of December 31, 2008 and 2007, outstanding borrowings under this program were approximately $88 million and $205 million, respectively. Delphi continues to have access to other forms of receivables financing in Europe as noted below, and has received preliminary credit approval from a syndicate of lenders on a replacement securitization program that it is seeking to implement in the first quarter of 2009.

The table below shows a reconciliation of changes in interest in accounts receivables transferred for the period ended December 31, 2008.

		(in millions)
Beginning Balance at December 31, 2007	$	205
Receivables transferred		1,496
Proceeds from new securitizations		(1,549)
Receivables Repurchased		(96)
Other		32
Ending Balance	$	88

Accounts Receivable Factoring Delphi also maintains 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, 2008 and 2007, we had $264 million and $384 million, respectively, outstanding under these accounts receivable factoring facilities.

Capital Leases and Other As of December 31, 2008 and 2007, Delphi had other debt outstanding issued by certain international subsidiaries, primarily bank lines in Asia Pacific, and capital lease obligations of approximately $257 million and approximately $219 million, respectively.

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Prepetition Indebtedness

As of December 31, 2008, substantially all of our unsecured prepetition long-term debt was in default and is subject to compromise. Pursuant to the terms of our confirmed Plan, the following table details our unsecured prepetition long-term debt subject to compromise, and our short-term and other debt not subject to compromise:

	December 31, 2008		December 31, 2007	
	(in millions)			
Long-term debt subject to compromise:				
Senior unsecured debt with maturities ranging from 2006 to 2029	$	1,984	$	1,984
Junior subordinated notes due 2033		391		391
Total long-term debt subject to compromise		2,375		2,375
Short-term, other, and long-term debt not subject to compromise:				
Amended and Restated DIP term loans (Tranches B and C)		3,250		
Amended and Restated DIP revolving credit facility (Tranche A)		370		
Refinanced DIP term loans				2,746
Accounts receivable factoring and European securitization		352		589
Other debt		202		160
Total short-term and other debt not subject to compromise		4,174		3,495
Other long-term debt		55		59
Total debt not subject to compromise		4,229		3,554
Total outstanding debt	$	6,604	$	5,929

Senior Unsecured Debt. Delphi had approximately $2.0 billion of senior unsecured debt at December 31, 2008 and 2007. Pursuant to the requirements of SOP 90-7, as of the Chapter 11 Filings, deferred financing fees of $16 million 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, 2008 and 2007. The carrying value of the prepetition debt will be adjusted once it has become an allowed claim by the Court to the extent the carrying value differs from the amount of the allowed claim. 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, $493 million of securities bearing interest at 7.125% and maturing on May 1, 2029.

Junior Subordinated Notes. Delphi previously had trust preferred securities that were issued by our subsidiaries, Delphi Trust I (Trust I) and Delphi Trust II (Trust II , collectively the Trusts , and each a subsidiary of Delphi which issued trust preferred securities and whose sole assets consisted of junior subordinated notes issued by Delphi). Delphi Trust I issued 10,000,000 shares of 81/4% Cumulative Trust Preferred Securities, with a liquidation amount of $25 per trust preferred security and an aggregate liquidation preference amount of $250 million. These securities were listed on the New York Stock Exchange under the symbol DPHRA and began trading on the Pink Sheets, a quotation source

for over-the-counter securities on November 11, 2005. (Refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, Credit Ratings, Stock Listing in this Annual Report). The sole assets of Trust I were $257 million of aggregate principal amount of Delphi junior subordinated notes due 2033. Trust I was obligated to pay cumulative cash distributions at an annual rate equal to 81/4% of the liquidation amount on the preferred securities. As a result of the Chapter 11 Filings, payments of these cash distributions were stayed. 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 were $155 million aggregate principal amount of Delphi junior subordinated notes due 2033. Trust II was obligated to pay 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. As a result of our filing for chapter 11, payments of these cash distributions were stayed.

Additionally, although neither of the Trusts sought relief under chapter 11 of the Bankruptcy Code, Delphi s filing under chapter 11 of the Bankruptcy Code constituted an early termination event, pursuant to which the Trusts were required to be dissolved in accordance with their respective trust declarations after notice of such dissolution was sent to each security holder. Law Debenture Trust Company of New York, as Trustee (Law Debenture), issued an initial notice of liquidation to the trust preferred security holders on August 17, 2006. On November 14, 2006, Law Debenture effected the termination of both trusts and liquidated the assets of each trust in accordance with the trust declarations. The trust preferred securities, each of which was represented by a global security held by Cede & Company as nominee for the Depository Trust Company (DTC), were exchanged for a registered global certificate, also held by DTC or its nominee, representing the junior subordinated notes issued by Delphi and previously held by the Trusts. Each trust preferred security holder received an interest in the junior subordinated notes equal to the aggregate liquidation amount of trust preferred securities held by such holder as provided for in the trust declarations. At December 31, 2006, Delphi had approximately $250 million of junior subordinated notes bearing interest at 8.25% maturing on November 15, 2033, and $150 million of variable rate junior subordinated notes maturing on November 15, 2033.

Prepetition Credit Facilities. On January 9, 2007, Delphi repaid the Prepetition Facility in full with the proceeds of the Tranche C Term Loan of the Refinanced DIP Credit Facility and, accordingly, the adequate protection package for the Prepetition Facility ceased to be in effect. Additionally, the Prepetition Facility was terminated.

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. The amounts below exclude:

(a) Our minimum funding requirements as set forth by ERISA. Our minimum statutory funding requirements after 2008 are dependent on several factors as discussed in Note 17. Pension and Other Postretirement Benefits to the consolidated financial statements.

(b) 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 and Note 25. Subsequent Events to the consolidated financial statements in this Annual Report.

(c) Estimated interest costs of $188 million for 2009 through the accommodation period under the Accommodation Agreement. Amounts beyond the term of the Accommodation Agreement are unable to be estimated.

(d) As of December 31, 2008, the gross liability for uncertain tax positions under FIN 48 is $79 million. We do not expect a significant payment related to these obligations to be made within the next twelve months. We are not able to provide a reasonably reliable estimate of the timing of future payments relating to the

non-current FIN 48 obligations. For more information, refer to Note 8. Income Taxes to the consolidated financial statements.

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(e) Any payments resulting from the settlement of liabilities subject to compromise.

	Payments due by Period				
	Total	2009	2010 & 2011	2012 & 2013	Thereafter
	(in millions)				
Debt and capital lease obligations (1)	$ 4,229	$ 4,174	$ 24	$ 10	$ 21
Operating lease obligations	385	92	136	99	58
Contractual commitments for capital expenditures	254	247	7		
Other contractual purchase commitments, including information technology	304	156	137	11	
Total	$ 5,172	$ 4,669	$ 304	$ 120	$ 79

(1) These amounts include the $3.6 billion outstanding under the Amended and Restated DIP Credit Facility

The Chapter 11 Filings triggered defaults on substantially all prepetition debt obligations of the Debtors. However, the stay of proceedings provisions of section 362 of the Bankruptcy Code applies 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 are set forth in the modified Plan. Therefore, all liabilities, including debt, classified as subject to compromise have been excluded from the above table. Refer to Note 14. Liabilities Subject to Compromise to the consolidated financial statements for a further explanation of such classification.

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. Pursuant to the modified Plan, the Company assumed most of its prepetition executory contracts and unexpired leases. 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, however, as a result of the Chapter 11 Filings, Standard & Poor s, Moody s, and Fitch Ratings had withdrawn their ratings of Delphi s senior unsecured debt, preferred stock, and senior secured debt. In January 2007 Standard & Poor s, Moody s, and Fitch Ratings assigned point-in-time ratings to the Refinanced DIP Credit Facility first-priority loans of BBB+/Ba1/BB and to the Refinanced DIP Credit Facility second-priority loans of BBB-/Ba3/BB-. There are no ratings on the Amended and Restated DIP Credit Facility.

As of the date of filing this Annual Report on Form 10-K, Delphi s common stock (OTC: DPHIQ) is being traded on the Pink Sheets, LLC (the Pink Sheets), a quotation service for over-the-counter (OTC) securities. Delphi s preferred shares (OTC: DPHAQ) ceased trading on the Pink Sheets November 14, 2006 due to the fact that the same day the property trustee of each Trust liquidated each Trust s assets in accordance with the terms of the applicable trust declarations. 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 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, 2008, Delphi had approximately $254 million in outstanding cancelable and non-cancelable capital commitments. We expect capital expenditures to be approximately $516 million in 2009, which is decreased from prior years, based on the current organizational structure as a going concern**.** However, in light of the increasing need to reduce costs, we are more critically evaluating the profit potential of new and existing customer programs and the extent to which any proposed investment is necessary to maintain or improve the Company s operating margins to more efficiently rationalize capital spending. Capital expenditures by operating segment and geographic region for the periods presented were:

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Electronics and Safety	$ 166	$ 161	$ 180
Powertrain Systems	306	149	157
Electrical/Electronic Architecture	179	182	182
Thermal Systems	98	66	25
Automotive Holdings Group	15	3	53
Corporate and Other	33	19	25
Continuing operations capital expenditures	797	580	622
Discontinued operations	161	66	99
Total capital expenditures	$ 958	$ 646	$ 721
North America	$ 261	$ 255	$ 253
Europe, Middle East & Africa	373	217	275
Asia Pacific	118	85	72
South America	45	23	22
Continuing operations capital expenditures	797	580	622
Discontinued operations	161	66	99
Total capital expenditures	$ 958	$ 646	$ 721

Cash Flows

Cash in the U.S. is managed centrally for most business units through a U.S. cash pooling arrangement. A few U.S. business units, particularly those which are maintained as separate legal entities, manage their own cash flow, but generally receive funding from the parent entity as required. Outside the U.S., cash may be managed through a country cash pool, a self-managed cash flow arrangement or a combination of the two depending on Delphi s presence in the respective country.

Operating Activities. Net cash provided by operating activities totaled $236 million for the year ended December 31, 2008, net cash used in operating activities totaled $289 million for the year ended December 31, 2007, and net cash provided by operating activities totaled $9 million for the year ended December 31, 2006. Cash flow from operating activities during 2008 reflects the net cash received from GM totaling $1.1 billion as a result of the effectiveness of the Amended GSA and the Amended MRA as further described in Note 2. Transformation Plan and Chapter 11 Bankruptcy to the consolidated financial statements. Offsetting this cash received, cash flow from operating activities continues to be negatively impacted by operating challenges due to lower North American production volumes, related pricing pressures stemming from increasingly competitive markets, and the overall slowdown in the global economy. We expect that our operating activities will continue to use, not generate, cash. Cash flow from operating activities was reduced for all periods by contributions to our U.S. and non-U.S. pension plans of $383 million, $304 million and $305 million and OPEB payments of $216 million, $207 million and $262 million for the years ended

December 31, 2008, 2007 and 2006, respectively. Cash flow from operating activities in 2008, 2007 and 2006 was reduced for cash paid to employees in conjunction with the U.S. Employee Workforce Transition Programs of $219 million, $793 million and $654 million, respectively, less amounts reimbursed to Delphi from GM of $265 million and $405 million in 2007 and 2006, respectively. During 2008, 2007 and 2006 our cash flows from operating activities were negatively impacted by payments of $442 million, $377 million and $424 million, respectively, of interest, and $78 million, $155 million and $100 million, respectively, of incentive compensation to executives and U.S. salaried employees. During 2008, 2007 and 2006, our cash flows from operating activities were negatively impacted by payments of $104 million, $142 million and $70 million, respectively, of reorganization related costs. During 2007, cash flow from operating activities was negatively impacted by payments of $153 million to severed employees as part of the DASE Separation Plan.

Delphi has not made pension contributions to its U.S. pension plans on account of prepetition services. Although the IRS has asserted against Delphi excise taxes as described in Note 2. Transformation Plan and Chapter 11 Bankruptcy, to the consolidated financial statements, and could assert additional excise taxes, Delphi believes that, under the Bankruptcy Code, the Company is not obligated to make contributions for pension benefits while in chapter 11 and that, as a result, the Company would not be liable for any such assessments.

Investing Activities. Cash flows used in investing activities totaled $739 million, $339 million and $554 million for the years ended December 31, 2008, 2007 and 2006, respectively. The principal use of cash in 2008, 2007 and 2006 reflected capital expenditures related to ongoing operations and an increase in restricted cash related to the U.S. employee workforce transition programs of approximately $230 million, $22 million and $105 million, respectively. The increase in restricted cash during the year ended December 31, 2008 primarily relates to a total of the $323 million of cash collateral required by the Accommodation Agreement, including $123 million related to outstanding letters of credit at December 31, 2008, offset by attrition payments. Offsetting the cash flows used in investing activities were proceeds from divestitures, collections of notes receivable and proceeds from the sale to third parties of non-U.S. trade bank notes representing short-term notes receivable received from customers with original maturities of 90 days or more, principally in China.

Financing Activities. Net cash provided by financing activities was $465 million for the year ended December 31, 2008 and net cash used in financing activities was $58 million and $122 million for the years ended December 31, 2007 and 2006, respectively. Net cash provided by financing activities during 2008 primarily reflects increased borrowings under the Amended and Restated DIP Credit Facility rather than borrowings under the Refinanced DIP Credit facility. Net cash used in financing activities during 2007 consisted primarily of repayments of the Amended DIP Credit Facility and the Prepetition Facility offset by borrowings under the Refinanced DIP Credit Facility. Net cash used in financing activities during 2006 consisted primarily of repayments of credit facilities and other debt.

Dividends. The Company s debtor-in-possession credit facilities include negative covenants, which prohibit the payment of dividends by the Company. The Company does not expect to pay dividends in the near future.

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 through the first quarter of 2006. We did not repurchase any shares pursuant to this plan and the plan was not renewed.

Liquidity Outlook

In light of the current economic climate in the global automotive industry and the global recession, we anticipate continued operating challenges due to lower global production volumes, and liquidity constraints that impair our ability to further streamline our cost structure to address these volume declines. These issues are further compounded by continued constraints in the credit markets which impair our ability to obtain financing and delay our emergence

from chapter 11, making us particularly vulnerable to further changes in the overall economic climate. In addition, we believe that these pressures will only intensify competitive

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market forces, including pressures on pricing, as our customers restructure their operations and as all industry participants consolidate operations in an effort to lower their fixed cost structure.

As a result of the foregoing, we believe revenue in the first and second quarter of 2009 will be significantly lower compared to revenue in 2008, reflecting lower sales globally, primarily as a result of lower forecast production volumes, including significant volume decreases being forecast by GM in North America and Europe. Accordingly, we have implemented and continue to implement a number of cash conservation measures, including temporary lay-offs and salaried benefit cuts for both active employees and retirees, delay of capital and other expenditures, permanent salaried workforce reductions, requests to customers for accelerated payments and other cost saving measures to insure adequate liquidity for operations until volumes recover or until we are able to complete further restructuring efforts in response to changes in the global vehicle markets. We have also sought and received support from certain foreign governments, including the accelerated payment of tax credits and amounts owed by such governments to Delphi and the deferral of amounts owed or to be owed by Delphi to such governments. The combination of these actions, together with the above noted Amendment and Supplemental Amendment to the Accommodation Agreement, and GM s commitment to increase amounts available under the GM Advance Agreement, assuming all required governmental approvals are received, all other conditions with respect to such commitment are satisfied prior to March 25, 2009, and Delphi is able to meet certain specified milestones in its reorganization cases, is expected to provide the Company with sufficient short-term U.S. liquidity to support its working capital requirements and operations into May 2009. However liquidity remains constrained and we must continue implementing and executing our cash savings initiatives to preserve liquidity in this very difficult economic environment. Additionally, GM s commitment to increase amounts available under the GM Advance Agreement remains subject to a number of conditions as noted above, including (i) GM not being notified by the President s Designee that its increase of the amounts available under the GM Advance Agreement to $450 million is not permitted in accordance with the provisions of GM s federal loans, (ii) Court approval of such increase, (iii) the GM board of directors approval of such increase, (iv) Delphi and GM executing a definitive transaction agreement relating to the sale of Delphi s Steering Business, and (v) Court approval of the Steering Business Option Exercise Agreement. The Option Exercise Agreement contains a procedure for completing the definitive transaction agreement relating to the sale of the Steering Business to GM which, among other things, takes into account the terms of the Amended MRA and certain modifications set forth in the Option Exercise Agreement. Based on the terms of the Option Exercise Agreement and the Amended MRA, the terms upon which the Steering Business will be sold to GM have been substantially agreed by GM and Delphi. The Option Exercise Agreement is subject to conditions described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Discontinued Operations: Steering and Halfshaft Business.

In addition, the Amendment and Supplemental Amendment to the Accommodation Agreement will allow Delphi to access additional liquidity through the periodic release of amounts currently in a cash collateral basket of up to $117 million, provided (i) that all of the above conditions necessary to increase amounts available under the GM Advance Agreement to $450 million are satisfied, (ii) Delphi remains in compliance with all mandatory prepayment provisions and other covenants in the Accommodation Agreement, including the borrowing base calculation after giving effect to such release, and (iii) Delphi has achieved the remaining specified milestones in its reorganization cases, including the filing of a plan of reorganization or modifications to the Plan meeting the conditions specified in the Accommodation Agreement by April 2. However, there can be no assurance as to whether Delphi will be able to access the additional $117 million in liquidity provided for under the Amendment as necessary to provide sufficient liquidity beyond May 2009. In addition, there can be no assurance that the outside termination date of the Accommodation Agreement will not be shortened from June 30, 2009 to May 5, 2009 because there can be no assurance that the Company will be able to obtain binding commitments for debt and equity financing sufficient to emerge from chapter 11 pursuant to a plan of reorganization satisfying the conditions set forth in the Accommodation Agreement by the deadlines specified therein or obtain necessary waivers. Delphi s ability to develop a revised recapitalization plan and consummate a confirmed plan of reorganization has been adversely affected by the

substantial uncertainty and a significant decline in capacity in the credit markets, the global economic downturn generally and the current economic climate in the global automotive industry. In addition, there can

be no assurances that the cash conservation measures Delphi implements now or in the future will not delay or limit its ability to achieve its long range business objectives or participate in future growth opportunities when economic conditions improve. Furthermore, should additional cost saving measures or other significant actions, including sales of assets and wind-down of operations become necessary, whether because constraints in the global credit market continue or worsen, the global recession deepens, the current economic climate in the global automotive industry does not improve over the course of 2009 or otherwise, Delphi s inability to conserve liquidity or obtain alternative financing would likely have a detrimental impact on the Company s financial condition and operations.

In addition, upon emergence from chapter 11, the Company intends to meet the minimum funding standards under section 412 of the Code applicable to the pension plans. If completed, the second step of the 414(l) Net Liability Transfer will allow us to satisfy substantially all of the pension funding obligations to our hourly employees, however that second transfer is conditioned on our emergence from chapter 11 under a modified plan of reorganization that meets the terms of the Amended GSA. If the conditions to the second step of the 414(l) Net Liability Transfer are not satisfied, and the second step does not take place, we do not believe we will be able to fund those U.S. pension obligations.

Furthermore, we may be unable to satisfy our U.S. pension funding obligations for those plans covering our remaining hourly employees, salaried employees or certain subsidiary employees. Due to the impact of the global economic recession, including reduced global automotive production, capital markets volatility that has adversely affected our pension asset return expectations, a declining interest rate environment, or other reasons, our funding requirements have substantially increased since September 30, 2008. Should we be unable to obtain funding from some other source to resolve these pension funding obligations, either Delphi or the Pension Benefit Guaranty Corporation (the PBGC) may initiate plan terminations. The PBGC would seek termination, if in its view, the risk of loss with respect to the plans may increase unreasonably if the plans are not terminated. The amount of pension contributions due upon emergence from chapter 11 will be dependent upon various factors including, among other things, the date of emergence, whether we have satisfied all conditions precedent such that we are able to complete the second step of the 414(l) Net Liability Transfer, and the funded status of the pension plans at the date of emergence. Refer to Note 2. Transformation Plan and Chapter 11 Bankruptcy and Note 17. Pension and Other Postretirement Benefits to the consolidated financial statements for further information.

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, 2008, the projected benefit obligation (PBO) of the U.S. defined benefit pension plans exceeded the market value of the plan assets by $5.3 billion, compared to $3.3 billion at December 31, 2007; the change is explained as follows:

	U.S. Delphi Hourly	U.S. Delphi Salaried	U.S. Delphi Subsidiaries	U.S. Delphi Total
	(in millions)			
Underfunded status at December 31, 2007 (PBO basis)	$ (2,719)	$ (572)	$ (15)	$ (3,306)
Pension contributions	157	105	2	264
2008 actual asset returns	(2,028)	(1,109)	(18)	(3,155)
Actuarial gain (loss)	43	(288)	(6)	(251)
Interest and service cost	(595)	(340)	(7)	(942)

Impact of transfers/settlements		2,083						2,083
Impact of curtailments				(75)				(75)
Plan amendments and other				118				118
Underfunded status at December 31, 2008 (PBO basis)	$	(3,059)	$	(2,161)	$	(44)	$	(5,264)

As permitted under chapter 11 of the Bankruptcy Code, during 2008, Delphi contributed only the portion of the required contributions attributable to service after the Chapter 11 Filings, and as a result, the IRS has asserted against Delphi excise taxes in the approximate amounts of $17 million and $18 million for plan years ended September 30, 2005, and September 30, 2007, respectively, and may assert additional excise taxes against Delphi. If these asserted assessments are not paid, the IRS could increase the assessments that relate to the Salaried Plan to 100% of any Salaried Plan contributions considered by the IRS to be due and unpaid. However, because the 414(l) Net Liability Transfer to the GM hourly plan avoided an accumulated funding deficiency in the Delphi Hourly Plan for the plan year ended September 30, 2008, exposure to the 100% excise tax related to the Delphi Hourly Plan has been eliminated. Delphi believes that, under the Bankruptcy Code, the Company is not obligated to make contributions for pension benefits while in chapter 11 and, as a result, the Company would not be liable for any such assessments. Accordingly, management has concluded that an unfavorable outcome is not currently probable and, as of December 31, 2008, no amounts have been recorded for any potential excise tax assessment.

During 2008, Delphi contributed approximately $264 million to its U.S. pension plans, of which $45 million, and $46 million related to services rendered during the fourth quarter of 2007 and the first quarter of 2008, respectively, and the remaining $172.5 million related to the PBGC draw against the letters of credit in favor of the Hourly and Salaried Plans discussed in Note 2. Transformation Plan and Chapter 11 Bankruptcy, to the consolidated financial statements. As permitted under ERISA and the Code, all of these amounts have been applied to the plan years ended September 30, 2007. As further permitted under ERISA and the Code, Delphi elected to defer contributions necessary to satisfy approximately $69 million of additional minimum funding obligations under the Salaried and subsidiary plans until as late as June 15, 2009 for the Salaried Plan (later, if the IRS grants the funding waiver requested by Delphi on December 15, 2008) and as late as September 15, 2009 for the subsidiary plans.

Historically, Delphi s U.S. pension plans have generally provided covered U.S. hourly employees with pension benefits of negotiated, flat dollar amounts for each year of credited service earned by an individual employee. As part of Delphi s plan of reorganization and transformation plan, Delphi reached agreement with its labor unions which allowed Delphi to freeze the Hourly Plan effective as of November 30, 2008 for those with traditional benefits. Similarly, Delphi froze the Salaried Plan, the Supplemental Executive Retirement Program (SERP) the ASEC Manufacturing Retirement Program, the Delphi Mechatronics Retirement Program and the PHI Non-Bargaining Retirement Plan effective as of September 30, 2008. Effective as of October 1, 2008, Delphi s existing Delphi Salaried Retirement Savings Program (formerly the Delphi Savings-Stock Purchase Program for Salaried Employees) was enhanced to provide a Delphi matching contribution and a 4% non-elective Delphi retirement contribution. Additionally, pursuant to the Amended GSA, the first step of the 414(l) Net Liability Transfer occurred on September 29, 2008 and Delphi transferred liabilities of approximately $2.6 billion and assets of approximately $486 million from the Hourly Plan to the GM Hourly-Rate Employees Pension Plan, representing 30% and 10% of the projected benefit obligation and plan assets, respectively, as of September 29, 2008.

We also maintain postretirement benefit plans other than pensions, which provide covered U.S. hourly and salaried employees with retiree medical and life insurance benefits. At December 31, 2008 and 2007, the accumulated postretirement benefit obligation (APBO) was $1.2 billion and $8.7 billion, respectively. These plans do not have minimum funding requirements, but rather are pay as you go. During 2008 and 2007, net other postretirement benefit payments totaled $221 million and $243 million, respectively. Under the terms of the Amended GSA and union labor agreements, during 2008 GM assumed $6.8 billion of traditional hourly OPEB liabilities related to plan participants with prior GM service.

On February 4, 2009, Delphi filed a motion with the Court seeking the authority to cease providing health care and life insurance benefits in retirement to salaried employees, retirees, and surviving spouses as soon as practicable after March 31, 2009. On February 24, 2009, the Court provisionally approved Delphi s motion to modify salaried health care and life insurance benefits in retirement to eliminate Company funding effective April 1, 2009. The Court also

authorized Delphi to immediately begin the administrative process to implement these modifications. The provisional approval was based on the Court s finding that the Company had met its evidentiary burdens, subject to the appointment of a Retirees Committee to review whether it

believes that any of the affected programs involved vested benefits (as opposed to at will or discretionary, unvested benefits). The Court scheduled a hearing to review the committee s findings for March 11, 2009. Delphi s termination of health care and life insurance benefits in retirement to salaried employees, retirees, and surviving spouses will enable Delphi to settle the related APBO of more than $1.1 billion and conserve projected annual cash expenditures of approximately $70 million.

In 2007 and 2006, Delphi selected discount rates for measurements by analyzing the results of matching each plan s projected benefit obligations with hypothetical portfolios of high quality corporate bonds rated AA- or higher by Standard and Poor s. Because high quality corporate bonds in sufficient quantity and with appropriate maturities are not available for all years when benefit cash flows are expected to be paid, hypothetical bonds were imputed based on combinations of existing bonds, and interpolation and extrapolation reflecting current and past yield trends. In 2008, due to a reduction in the number of high quality corporate bonds, Delphi selected discount rates for measurements as of December 31, 2008 by analyzing the results of matching each plan s projected benefit obligations with the portfolios of high quality corporate bonds. Delphi selected discount rates for its non-U.S. plans by analyzing the yields of high quality fixed income investments.

For 2008, 2007 and 2006 expense, Delphi assumed a U.S. long-term asset rate of return of 8.75%. In developing the 8.75% expected long-term rate of return assumption, Delphi evaluated input from its third party pension plan asset manager, including a review of asset class return expectations and long-term inflation assumptions. Delphi also considered its post-spin off and GM s pre-spinoff historical 10-year and 20-year compounded returns, which were consistent with its long-term rate of return assumption. For the determination of 2009 expense, Delphi will assume a U.S. long-term asset rate of return of 8.25%. This 50 basis point reduction compared to previous years is based on the significant decline in the assets of the Hourly and Salaried Plans during 2008, which have reduced Delphi s post-spin off and GM s pre-spin off historical 10-year and 20-year compounded returns. The primary non-U.S. plans conduct similar studies in conjunction with local actuaries and asset managers. While the studies give appropriate consideration to recent fund performance and historical returns, the assumptions are primarily long-term, prospective rates.

Shareholder Lawsuits

As previously disclosed, the Company, along with certain of its subsidiaries, current and former directors of the Company, and certain current and former officers and employees of the Company or its subsidiaries, and others are named as defendants in several lawsuits filed following the Company s announced intention to restate certain of its financial statements in 2005. These lawsuits (the Multidistrict Litigation) were coordinated for pretrial proceedings by the Judicial Panel on Multidistrict Litigation and assigned to Hon. Gerald E. Rosen in the United States District Court for the Eastern District of Michigan (the District Court). Set forth below is a description of the Multidistrict Litigation and a summary of a settlement concerning the Multidistrict Litigation.

The Multidistrict Litigation is comprised of lawsuits in three categories. One group of class action lawsuits, which is 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 ERISA. On October 21, 2005, the District Court appointed interim lead plaintiffs for the putative class. On March 3, 2006, these plaintiffs filed a consolidated class action complaint (the ERISA Action) with a class period of May 28, 1999 to November 1, 2005. Plaintiffs in the ERISA Action allege, among other things, that the plans suffered losses as a result of alleged breaches of fiduciary duties under ERISA. The Company, which was initially named as a defendant in these lawsuits, was not named as a defendant in the ERISA Action due to its chapter 11 filing, but the plaintiffs stated that they intended to proceed with claims against the Company in the ongoing bankruptcy cases, and would seek to name the Company as a defendant in the ERISA Action if the bankruptcy stay were modified or lifted to permit such action. On May 31, 2007, by agreement of the parties, the Court entered a limited modification of the automatic stay, pursuant to which Delphi

provided certain discovery to plaintiffs counsel and other parties in the case.

A second group of class action lawsuits 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 30, 2005, the court-appointed Lead Plaintiffs filed a consolidated class action complaint (the Securities Action) on behalf of a 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 class period of March 7, 2000 through March 3, 2005. The Securities Action names several additional defendants, including Delphi Trust I and Delphi Trust II, certain former directors, and underwriters and other third parties, and includes securities claims regarding additional offerings of Delphi securities. The Securities Action, which had been consolidated in the United States District Court for Southern District of New York, was subsequently transferred to the District Court as part of the Multidistrict Litigation (as was a related securities action filed in the United States District Court for the Southern District of Florida concerning Delphi Trust I, which was subsequently consolidated into the Securities Action). The Securities Action was stayed against the Company pursuant to the Bankruptcy Code, but continued against the other defendants. On February 15, 2007, the District Court partially granted the Lead Plaintiffs motion to lift the stay of discovery provided by the Private Securities Litigation Reform Act of 1995, thereby allowing the Lead Plaintiffs to obtain certain discovery from the defendants. On April 16, 2007, by agreement of the parties, the Court entered a limited modification of the automatic stay, pursuant to which Delphi provided certain discovery to the Lead Plaintiffs and other parties in the case.

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). A total of four complaints were filed: two in the federal court (one in the Eastern District of Michigan and another in the Southern District of New York) and two in Michigan state court. These suits alleged that certain current and former directors and officers of the Company breached a variety of duties owed by them to Delphi in connection with matters related to the Company s restatement of its financial results. The federal cases were coordinated with the securities and ERISA class actions in the Multidistrict Litigation. Following the filing on October 8, 2005 of the Debtors petitions for reorganization relief under chapter 11 of the Bankruptcy Code, all the Shareholder Derivative Actions were administratively closed.

Following mediated settlement discussions, on August 31, 2007, representatives of Delphi, Delphi s insurance carriers, certain current and former directors and officers of Delphi named as defendants, and certain other defendants involved in the Multidistrict Litigation reached agreements with the Lead Plaintiffs in the Securities Action and the named plaintiffs in the ERISA Action to settle the claims asserted against them in those actions (the MDL Settlements).

On September 5, 2007 the District Court entered an order preliminarily certifying a class in the Securities Action and the ERISA Action, preliminarily approving the MDL Settlements, and scheduling a fairness hearing on November 13, 2007. On November 13, 2007, the District Court conducted the fairness hearing and took the matter under advisement. Separately, on October 29, 2007, the Court entered an order preliminarily approving the MDL Settlements subject to final consideration at the confirmation hearing on Delphi s plan of reorganization and the Court s consideration of certain objections that may be filed as to the MDL Settlements. On October 29, 2007, the Court lifted the automatic stay as to the discovery provided to the Lead Plaintiffs. On December 4, 2007, the District Court held another hearing to consider proposed modifications to the proposed settlement of the Securities Action (as modified, the Securities Settlement), and tentatively approved the Securities Settlement, after determining that the modifications were at least neutral to the class and may potentially provide a net benefit to the class.

The District Court approved the MDL Settlements (including the Securities Settlement) in an opinion and order issued on January 10, 2008 and amended on January 11, 2008, and the District Court entered an Order and Final Judgment dated January 23, 2008 in both the Securities Action and ERISA Action. One security holder appealed certain aspects of the District Court s opinion and order, as amended, approving the MDL Settlements. That appeal is pending before the United States Court of Appeals for the Sixth Circuit.

On January 25, 2008, the Court approved the MDL Settlements. Under the terms of the MDL Settlements, the Lead Plaintiffs in the Securities Action and the named plaintiffs in the ERISA Action will

receive claims that will be satisfied through Delphi s Plan as confirmed by the Court pursuant to the confirmation order. Under the Securities Settlement, (i) the Lead Plaintiffs will be granted an allowed claim in the face amount of $179 million, which will be satisfied by Delphi providing $179 million in consideration in the same form, ratio, and treatment as that which will be used to pay holders of general unsecured claims under its Plan, and (ii) the class in the Securities Action will receive $15 million to be provided by a third party, a distribution of insurance proceeds of up to approximately $89 million, including a portion of the remainder of any insurance proceeds that are not used by certain former officers and directors who are named defendants in various actions, and a distribution of approximately $2 million from certain underwriters named as defendants in the Securities Actions. In addition, Delphi s insurance carriers have also agreed to provide $20 million to fund any legal expenses incurred by certain of the former officer and director named defendants in defense of any future civil actions arising from the allegations raised in the securities cases. If an individual plaintiff opts out of the settlement reached with the Lead Plaintiffs and ultimately receives an allowed claim in Delphi s chapter 11 cases, the amount received by the opt-out plaintiff will be deducted from the amount received by the class in the Securities Action. Delphi will object to any claims filed by opt-out plaintiffs in the Court, and will seek to have such claims expunged.

The settlement of the ERISA Action is structured similarly to the settlement reached with the Lead Plaintiffs. The claim of the named plaintiffs in the ERISA Action will be allowed in the amount of approximately $25 million and will be satisfied with consideration in the same form, ratio, and treatment as that which will be used to pay holders of general unsecured claims under the plan of reorganization. The class in the ERISA Action will also receive a distribution of insurance proceeds in the amount of approximately $22 million. Unlike the settlement of the Securities Action, no member of the class in the ERISA Action can opt out of the settlement.

Settlement amounts from insurers and underwriters were paid and placed in escrow by September 25, 2007, pending the effective date of the MDL Settlements.

The MDL Settlements also provide for the dismissal with prejudice of the ERISA Action and Securities Action and a release of certain claims against certain named defendants, including Delphi, Delphi s current directors and officers, the former directors and officers who are named defendants, and certain of the third-party defendants. As provided in the confirmation order, the MDL Settlements are contingent upon the effective date of the Plan occurring as well as the payment of the $15 million amount to be provided by a third party, and if, for any reason, these contingencies are not met, the MDL Settlements will become null and void. Delphi is in discussion with various of its stakeholders regarding potential modifications to the terms of the MDL Settlements that would allow for the MDL Settlements, as modified, to become effective in advance of the resolution of Delphi s chapter 11 cases, however there can be no assurances that the parties will reach agreement on such modifications. If the MDL Settlements are terminated according to their terms, the parties will proceed in all aspects as if the MDL Settlements had not been executed and any related orders had not been entered.

The Company also received a demand from a shareholder that the Company consider bringing a derivative action against certain current and former directors and officers premised on allegations that certain current and former directors and officers made materially false and misleading statements in violation of federal securities laws and/or of their fiduciary duties. The Company appointed a committee of the Board of Directors (the Special Committee) to evaluate the shareholder demand. As a component of the MDL Settlements, the Special Committee determined not to assert these claims; however, it has retained the right to assert the claims as affirmative defenses and setoffs against any action to collect on a proof of claim filed by those individuals named in the demand for derivative action should the Company determine that it is in its best interests to do so.

As a result of the MDL Settlements, as of December 31, 2008 and December 31, 2007, Delphi has a liability of $351 million recorded for this matter. Delphi maintains directors and officers insurance providing coverage for indemnifiable losses of $100 million, subject to a $10 million deductible, and a further $100 million of insurance

covering its directors and officers for nonindemnifiable claims, for a total of $200 million. As part of the settlement, the insurers contributed the entire $100 million of indemnifiable coverage, and a portion of the nonindemnifiable coverage. In conjunction with the MDL Settlements, Delphi expects recoveries of $148 million for the settlement amounts provided to the plaintiffs from insurers,

underwriters, and third-party reimbursements and will record such recoveries on the effective date of the MDL Settlements.

Environmental and Other Regulatory 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 2006 and 2007, Delphi spent approximately $10 million in 2008 to install pollution control equipment on coal-fired boilers at its Saginaw, Michigan Steering Division facility to meet U.S. and State of Michigan air emission regulations. 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 remediation costs and liabilities will not be material.

Delphi recognizes environmental remediation 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 remediation is estimated by engineering, financial, and legal specialists within Delphi based on current law and considers 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. The process of estimating environmental remediation 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 remediation technologies, and additional information about the ultimate remediation methodology to be used could significantly change Delphi s estimates.

Delphi received notices that it is a potentially responsible party (PRP) in proceedings at various sites, including the Tremont City Landfill Site (the 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 U.S. Environmental Protection Agency (EPA) to perform a Remedial Investigation and Feasibility Study (the Feasibility Study) concerning a portion of the Site. The Remedial Investigation and Alternatives Array Document were finalized in 2007. The Feasibility Study was approved (with modifications) by the EPA on November 25, 2008. On December 11, 2008, Delphi and the other PRPs filed a Notice of Objection and Invocation of Dispute Resolution with the EPA. Delphi and the other PRPs believe that the modifications to the Feasibility Study required by the EPA are not supported by the site assessment information developed to date, and would have the effect of unjustifiably increasing the likelihood of the EPA ultimately selecting excavation as the remedial approach for the Site. The dispute resolution process is pending. In the interim, Delphi and the other PRPs and the EPA are evaluating an additional remedial alternative for inclusion in the Feasibility Study. The additional remedy would involve installation of numerous wells at the Site for removal of liquid wastes. A Record of Decision is expected to be issued in 2009. Although Delphi believes that capping and future monitoring alone would be an appropriate and protective remedy, a different cleanup approach ultimately may be required for the Site. Because the manner of remediation is yet to be determined, it is possible that the resolution of this matter may require Delphi to make material future expenditures for remediation, possibly over an extended period of time and possibly in excess of existing reserves. As of December 31, 2008, Delphi has recorded its best estimate of its share of the remediation based on the removal of liquids remedy. However,

if that remedy is not accepted, Delphi s expenditures for remediation could increase by $11 million to $15 million in excess of its existing reserves. Delphi will continue to reassess any potential remediation costs and, as appropriate, its environmental reserve as the investigation proceeds.

Delphi received a Notice of Intent to File Civil Administrative Complaint (Notice) from the EPA on May 30, 2008 regarding a June 2007 chlorine gas cylinder leak that occurred at the Saginaw, Michigan Delphi Steering facility. The Notice alleges that Delphi failed to properly notify agency officials about the leak or the presence of chlorine gas at the site, and describes the EPA s intent to seek approximately $0.1 million in civil penalties relating to the incident. Although Delphi disagrees with certain of the agency s assertions, Delphi resolved the matter in February 2009 through signing a Consent Agreement and Final Order that commits Delphi to pay a civil penalty of $66,887.

As of December 31, 2008 and 2007, our reserve for environmental investigation and remediation was approximately $106 million (of which $9 million was recorded in accrued liabilities and $97 million was recorded in other long-term liabilities) and $112 million (recorded in other long-term liabilities), respectively. As of December 31, 2008 and 2007, $95 million and $101 million, respectively, of the reserve related to sites within the U.S. The amounts recorded take into account the fact that GM retained the environmental liability for certain inactive sites as part of the Separation. Delphi completed a number of environmental investigations during 2006 in conjunction with our transformation plan, which contemplated significant restructuring activity, including the sale or closure of numerous facilities. As part of developing and evaluating various restructuring alternatives, environmental assessments that included identification of areas of interest, soil and groundwater testing, risk assessment and identification of remediation issues were performed at nearly all major U.S. facilities. These assessments identified previously unknown conditions and led to new information that allowed us to further update our reasonable estimate of required remediation for previously identified conditions requiring an adjustment to our environmental reserve of approximately $70 million in 2006. The recorded reserves relate to 35 facilities and are comprised of investigation, remediation and operation and maintenance of the remedy, including postremediation monitoring costs. Addressing contamination at various sites, including facilities designated as non-core and slated for closure or sale, is required by the Resource Conservation & Recovery Act and various other federal, state or local laws and regulations and represent management s best estimate of the cost to complete such actions. Management believes that its December 31, 2008 accruals will be adequate to cover the estimated liability for its exposure with respect to such matters and that these costs will be incurred over the next 20 years. However, as we continue the ongoing assessment with respect to such facilities, additional and perhaps material environmental remediation costs may require recognition, as previously unknown conditions may be identified. We cannot ensure that environmental requirements will not change or become more stringent over time or that our eventual environmental remediation costs and liabilities will not exceed the amount of our current reserves. In the event that such liabilities were to significantly exceed the amounts recorded, Delphi s results of operations could be materially affected.

Delphi estimates environmental remediation liabilities based on the most probable method of remediation, current laws and regulations and existing technology. Estimates are made on an undiscounted basis and exclude the effects of inflation. If there is a range of equally probable remediation methods or outcomes, Delphi accrues at the lower end of the range. At December 31, 2008, the difference between the recorded liabilities and the reasonably possible maximum estimate for these liabilities was approximately $82 million.

Inflation

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

Refer to Note 1. Significant Accounting Policies, Recently Issued Accounting Pronouncements to the consolidated financial statements for a complete description of recent accounting standards which we have not yet been required to implement and may be applicable to our operation, as well as those significant accounting standards that have been adopted during 2008.

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Significant Accounting Policies and Critical Accounting Estimates

Our significant accounting policies are described in Note 1. Significant Accounting Policies to the 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.

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. The key factors which impact our estimates are (1) the stated or implied warranty; (2) vehicle manufacturer (VM) source; (3) VM policy decisions regarding warranty claims; and (4) VMs seeking to hold suppliers responsible for product warranties.

Environmental Remediation Liabilities   We are required to estimate the cost of remediating known environmental issues. We established our liability on the assessment of key factors which impact our estimates, including (1) identification of environmental risk; (2) preparation of remediation alternatives; (3) assessment of probabilities of performing the remediation alternatives; and (4) environmental studies.

Pension and Other Postretirement Benefits

We use actuarial estimated and related actuarial methods to calculate 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 and the related footnotes to the financial statements. Our assumptions are determined based on current market conditions, historical information and consultation with and input from our actuaries and asset managers. Refer to Liquidity and Capital Resources, U.S. Pension Plans and Other Postretirement Benefits above and Note 17. Pension and Other Postretirement Benefits to the consolidated financial statements for additional details. The key factors which impact our estimates are (1) discount rates; (2) asset return assumptions; (3) actuarial assumptions such as retirement age and mortality; and (4) health care inflation rates.

Accounts Receivable Allowance

Establishing valuation allowances for doubtful accounts requires the use of estimates and judgment in regard to the risk exposure and ultimate realization. The allowance for doubtful accounts is established based upon analysis of trade receivables for known collectibility issues, including bankruptcies, and aging of receivables at the end of each period. Changes to our assumptions could materially affect our recorded allowance.

Valuation of Long-lived Assets, Goodwill, and Investments in Affiliates and Expected Useful Lives

We are required to review the recoverability of certain of our long-lived assets based on projections of anticipated future cash flows, including future profitability assessments of various manufacturing sites. We estimate cash flows and fair value using internal budgets based on recent sales data, independent automotive production volume estimates and customer commitments and review of appraisals. The key factors which

impact our estimates are (1) future production estimates; (2) customer preferences and decisions; (3) product pricing; (4) manufacturing and material cost estimates; and (5) product life / business retention.

We review the recoverability of goodwill annually on May 31 and at any other time when business conditions indicate a potential change in recoverability. We perform our goodwill impairment test by comparing the carrying value of each of our reporting units to the fair value of the reporting unit. In determining fair value of reporting units, we utilize a number of methodologies, including discounted cash flow analysis and review of fair value appraisals. Where the carrying value exceeds the fair value for a particular reporting unit, a goodwill impairment charge is recognized. The goodwill impairment charges recognized are determined by stating all other assets and liabilities of a reporting unit at their fair values with the remaining fair value of the reporting unit attributed to goodwill. The resulting goodwill impairment charges are the excess of the recorded goodwill balance over the implied fair value of goodwill for the reporting unit.

Deferred Tax Assets

We are required to estimate whether recoverability of our deferred tax assets is more likely than not. 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. The key factors which impact our estimates are (1) variances in future projected profitability, including by taxable entity; (2) tax attributes; and (3) tax planning alternatives.

Liabilities 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. Liabilities subject to compromise are adjusted for changes in estimates and settlements of prepetition obligations. The key factors which impact our estimates are (1) court actions; (2) further developments with respect to disputed claims; (3) determinations of the secured status of certain claims; and (4) the values of any collateral securing such claims.

Fair Value Measurement of Derivative Instruments

In determining the fair value of its derivatives, Delphi utilizes valuation techniques as prescribed by SFAS 157, and also prioritizes the use of observable inputs. The availability of observable inputs varies amongst derivatives and depends on the type of derivative and how actively traded the derivative is. For many of Delphi s derivatives, the valuation does not require significant management judgment as the valuation inputs are readily observable in the market. For other derivatives, however, valuation inputs are not as readily observable in the market, and significant management judgment may be required.

Delphi estimates the fair value of its commodity and foreign currency derivative contracts using an income approach based on valuation techniques to convert future amounts to a single, discounted amount. Estimates of the fair value of foreign currency and commodity derivatives are determined using exchange traded prices and rates. We also consider the risk of non-performance in the estimation of fair value, and include an adjustment for non-performance risk in the measure of fair value of derivatives. The adjustment reflects the full credit default spread (CDS) applied to the net commodity and foreign currency exposures by counterparty. When Delphi is in a net derivative asset position, the counterparty CDS rates are applied to the net derivative asset position. When Delphi is in a net derivative liability position, CDS rates are applied to the net derivative liability position.

In certain instances where market data is not available, Delphi uses management judgment to develop assumptions that are used to determine fair value. This could include situations of market illiquidity for a particular currency or commodity or where observable market data may be limited. In those situations, Delphi

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generally surveys investment banks and/or brokers and utilizes the surveyed prices and rates in estimating fair value.

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.

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 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. In some cases, you can identify these statements by forward-looking words such as may, might, will, should, expects, plans, anticipates, believes, estimates, predicts, the negative of these terms and other comparable terminology. 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 financing facility, its advance agreement with GM, to obtain an extension of term or other amendments as necessary to maintain access to such facility and advance agreement, and partial temporary accelerated payments agreement with GM; 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 achieve all of the conditions to the effectiveness of those portions of the Amended and Restated Global Settlement Agreement and Amended and Restated Master Restructuring Agreement with GM which are contingent on Delphi s emergence from chapter 11; the ability of the Company to obtain Court approval to modify the Plan which was confirmed by the Court on January 25, 2008, to confirm such modified plan or any other subsequently filed plan of reorganization and to consummate such plan; 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 as described in the proposed modifications to its Plan as filed with the Court 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 or those of its principal customers and the ability of the Company to attract and retain customers. Additional factors that could affect future results are identified in this Annual Report on Form 10-K, including the risk factors in Part I. Item 1A. Risk Factors, contained herein. 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. It is possible that Delphi s common stock may have no value and claims relating to prepetition liabilities may receive no value.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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. Delphi does not enter into derivative transactions for speculative or trading purposes.

A discussion of our accounting policies for derivative instruments is included in Note 1. Significant Accounting Policies to the consolidated financial statements and further disclosure is provided in Note 23. Fair Value of Financial Instruments, Derivatives and Hedging Activities to the 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. Currently, Delphi does not have any options or instruments with non-linear returns.

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. Postpetition, we continue to manage our exposures to changes in currency rates and commodity prices using these derivative instruments.

Currency Exchange Rate Risk

Currency 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 Mexican Peso, Euro, Brazilian Real, South Korean Won, and Chinese Yuan (Renminbi). As of December 31, 2008 the net fair value liability of all financial instruments (hedges and underlying transactions) with exposure to currency risk was approximately $41 million (includes an approximate discount of $157 million related to Delphi s non-performance risk) and the net fair value asset at December 31, 2007 was $189 million. The potential loss or gain in fair value for such financial instruments from a hypothetical 10% adverse or favorable change in quoted currency exchange rates would be approximately $54 million and $115 million at December 31, 2008 and 2007, respectively. 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/average rate forward contracts are executed to offset a portion of our exposure to the potential change in prices mainly for natural gas and various non-ferrous metals used in the manufacturing of automotive components. The net fair value of our contracts was a liability of approximately $99 million (includes an approximate discount of $139 million related to Delphi s non-performance risk) and $10 million at December 31, 2008 and 2007, respectively. If the price of the commodities that are being hedged by our commodity swaps/average rate forward contracts changed adversely or favorably by 10%, the fair value of our commodity swaps/average rate forward

contracts would decrease or increase by $19 million and $47 million at December 31, 2008 and 2007, respectively. The changes in the net fair value 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/average rate forward 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 $2.4 billion of fixed rate debt, junior subordinated notes and other debt which are subject to compromise. The interest rate applicable to a portion of the junior subordinated notes, with an aggregate principal value of approximately $150 million, is an adjustable rate with an initial five-year fixed rate through November 15, 2008. Our Amended and Restated DIP Credit Facility includes a first priority revolving credit facility (Tranche A) which carries an interest rate of the Administrative Agent s Alternate Base Rate plus 5.00%, a first priority term loan (Tranche B Term Loan) which carries an interest rate of the Administrative Agent s Alternate Base Rate plus 5.00% and a second priority term loan (Tranche C Term Loan) which carries an interest rate of the Administrative Agent s Alternate Base Rate plus 6.25%. Accordingly, the interest rate will fluctuate based on the movement of the Alternate Base Rate or LIBOR through the term of the Amended and Restated DIP Credit Facility.

The table below indicates interest rate sensitivity on interest expense to floating rate debt based on amounts outstanding as of December 31, 2008.

Change in Rate	Tranche A	Tranche B Term Loan	Tranche C Term Loan	Other(1)
	(impact to interest expense in millions)			
25 bps decrease	N/A (2)	N/A (2)	N/A (2)	−$ 1.1
25 bps increase	+$ 0.9	+$ 1.3	+$ 6.9	+$ 1.1

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

(2) The interest rates in effect at December 31, 2008 for Tranche A, the Tranche B Term Loan and the Tranche C Term Loan were at the minimum contractual interest rates (the ABR floor of 4.25% plus 5.00%, 5.00% and 6.25% for Trance A, the Tranche B Term Loan and the Tranche C Term Loan, respectively).

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Delphi Corporation:

We have audited Delphi Corporation s (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Delphi Corporation 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 included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Delphi Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Delphi Corporation as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity (deficit) and comprehensive loss, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated March 3, 2009 expressed an unqualified opinion thereon, and such report included an explanatory paragraph on the Company s ability to continue as a going concern.

/s/ Ernst & Young LLP

Ernst & Young LLP

Detroit, Michigan
March 3, 2009

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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 (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity (deficit) and comprehensive loss, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Delphi Corporation at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that Delphi Corporation will continue as a going concern. As more fully described in the notes to the consolidated financial statements, on October 8, 2005, Delphi Corporation and its wholly owned United States subsidiaries filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. Uncertainties inherent in the bankruptcy process raise substantial doubt about Delphi Corporation s ability to continue as a going concern. Management s intentions with respect to these matters are also described in the notes. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 17 to the consolidated financial statements, in 2006, the Company changed its method of accounting for the funded status of its defined benefit pension and other postretirement benefit plans. In 2008, the Company changed its method of accounting for the measurement date provisions for its defined benefit pension and other postretirement benefit plans.

As discussed in Note 8 to the consolidated financial statements, in 2007, the Company changed its method of accounting for uncertainties in income taxes.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Delphi Corporation s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2009 expressed an unqualified thereon.

/s/
Ernst & Young LLP
Ernst & Young LLP

Detroit, Michigan
March 3, 2009

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2008	**2007**	**2006**
	(in millions, except per share amounts)		
Net sales:			
General Motors and affiliates	$ 5,525	$ 8,301	$ 9,344
Other customers	12,535	13,982	13,393
Total net sales	18,060	22,283	22,737
Operating expenses:			
Cost of sales, excluding items listed below	17,068	21,066	21,966
U.S. employee workforce transition program charges (Note 16)	78	212	2,706
GM settlement (Note 2 MRA)	(254)		
Depreciation and amortization	827	914	954
Long-lived asset impairment charges (Note 9)	37	98	172
Goodwill impairment charges (Note 10)	325		
Selling, general and administrative	1,460	1,595	1,481
Securities & ERISA litigation charge (Note 18)		343	
Total operating expenses	19,541	24,228	27,279
Operating loss	(1,481)	(1,945)	(4,542)
Interest expense (Contractual interest expense for 2008, 2007 and 2006 was $564 million, $494 million and $577 million, respectively) (Note 1)	(437)	(769)	(427)
Loss on extinguishment of debt	(49)	(27)	
Other income, net (Note 20)	69	110	40
Reorganization items, net:			
GM settlement (Notes 2 and 3 GSA)	5,332		
Professional fees and other, net (Note 3)	(185)	(163)	(92)
Income (loss) from continuing operations before income taxes, minority interest and equity income	3,249	(2,794)	(5,021)
Income tax (expense) benefit	(166)	522	(130)
Minority interest, net of tax	(28)	(63)	(34)
Equity income, net of tax	1	27	44
Income (loss) from continuing operations	3,056	(2,308)	(5,141)
Loss from discontinued operations, net of tax (Note 5)	(19)	(757)	(326)
Cumulative effect of accounting change, net of tax			3
Net income (loss)	$ 3,037	$ (3,065)	$ (5,464)

Basic and diluted income (loss) per share			
Continuing operations	$ 5.41	$ (4.11)	$ (9.16)
Discontinued operations	(0.03)	(1.34)	(0.58)
Cumulative effect of accounting change			0.01
Basic and diluted income (loss) per share	$ 5.38	$ (5.45)	$ (9.73)

See notes to consolidated financial statements.

DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 959	$ 1,036
Restricted cash (Note 1)	403	173
Accounts receivable, net:		
General Motors and affiliates	822	1,257
Other	1,572	2,637
Inventories, net (Note 11)	1,285	1,808
Other current assets	613	588
Assets held for sale (Note 5)	497	720
Total current assets	6,151	8,219
Long-term assets:		
Property, net (Note 9)	3,397	3,863
Investments in affiliates (Note 19)	303	387
Goodwill (Note 10)	62	397
Other	393	801
Total long-term assets	4,155	5,448
Total assets	$ 10,306	$ 13,667
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Notes payable and current portion of long-term debt (Note 15)	$ 554	$ 749
Debtor-in-possession financing (Note 15)	3,620	2,746
Accounts payable	1,771	2,904
Accrued liabilities (Note 12)	2,171	2,281
Liabilities held for sale (Note 5)	313	412
Total current liabilities	8,429	9,092
Long-term liabilities:		
Long-term debt (Note 15)	55	59
Employee benefit obligations (Note 17)	552	443
Other (Note 12)	973	1,185
Total long-term liabilities	1,580	1,687
Liabilities subject to compromise (Note 14)	14,583	16,197

Total liabilities	24,592	26,976
Commitments and contingencies (Note 18)		
Minority interest	139	163
Stockholders deficit:		
Common stock, $0.01 par value, 1,350 million shares authorized, 565 million shares issued	6	6
Additional paid-in capital	2,747	2,756
Accumulated deficit	(12,064)	(14,976)
Accumulated other comprehensive income (loss):		
Employee benefit plans (Note 17)	(4,867)	(1,679)
Other	(241)	446
Total accumulated other comprehensive income (loss)	(5,108)	(1,233)
Treasury stock, at cost (391 thousand and 1.5 million shares in 2008 and 2007, respectively)	(6)	(25)
Total stockholders deficit	(14,425)	(13,472)
Total liabilities and stockholders deficit	$ 10,306	$ 13,667

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2008	**2007**	**2006**
		(in millions)	
Cash flows from operating activities:			
Net income (loss)	$ 3,037	$ (3,065)	$ (5,464)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	827	914	954
Long-lived asset and goodwill impairment charges	362	98	172
Deferred income taxes	(15)	(638)	(55)
Pension and other postretirement benefit expenses	611	905	1,392
Equity income	(1)	(27)	(44)
Reorganization items (Notes 2 and 3 GSA)	(5,147)	163	92
GM settlement (Note 2 MRA)	(254)		
GM warranty settlement (Note 13)	(107)		
U.S. employee workforce transition program charges	78	212	2,706
Loss on extinguishment of debt	49	27	
Securities & ERISA litigation charge		343	
Loss on liquidation/deconsolidation of investment		79	
Loss on assets held for sale, net of gain on sale of investment	9		
Changes in operating assets and liabilities:			
Accounts receivable, net	1,361	(186)	78
Inventories, net	476	29	(242)
Other current assets	245	(38)	(71)
Accounts payable	(1,009)	303	411
Accrued and other long-term liabilities	(512)	747	428
Other, net	(197)	(42)	39
U.S. employee workforce transition program payments, net of reimbursement by GM	(219)	(528)	(249)
Pension contributions	(383)	(304)	(305)
Other postretirement benefit payments	(216)	(207)	(262)
Receipts (payments) for GM settlement and reorganization items, net	1,115	(142)	(70)
Dividends from equity investments	11	45	19
Discontinued operations (Note 5)	115	1,023	480
Net cash provided by (used in) operating activities	236	(289)	9
Cash flows from investing activities:			
Capital expenditures	(797)	(580)	(622)
Proceeds from sale of non-U.S. trade bank notes	219	191	173
Proceeds from divestitures and sale of property	216	129	85
Increase in restricted cash	(230)	(22)	(105)

Other, net	(37)	1	3
Discontinued operations	(110)	(58)	(88)
Net cash used in investing activities	(739)	(339)	(554)
Cash flows from financing activities:			
Proceeds from amended and restated debtor-in-possession facility, net of issuance cost of $92 million	3,528		
Proceeds from refinanced debtor-in-possession facility, net of issuance cost of $7 million		2,691	
Repayments of borrowings from refinanced debtor-in-possession facility	(2,746)		
Net repayments of borrowings under refinanced debtor-in-possession facility		(250)	
Repayments of borrowings under prepetition term loan facility		(988)	
(Repayments) borrowings under prepetition revolving credit facility		(1,508)	2
Repayments under cash overdraft.			(29)
Net (repayments) borrowings under other short-term debt agreements	(203)	49	(111)
Accommodation agreement issuance costs	(58)		
Dividend payments of consolidated affiliates to minority shareholders	(47)	(50)	(22)
Other, net			(4)
Discontinued operations	(9)	(2)	42
Net cash provided by (used in) financing activities	465	(58)	(122)
Effect of exchange rate fluctuations on cash and cash equivalents	(39)	114	79
Decrease in cash and cash equivalents	(77)	(572)	(588)
Cash and cash equivalents at beginning of year	1,036	1,608	2,196
Cash and cash equivalents at end of year	$ 959	$ 1,036	$ 1,608

See notes to consolidated financial statements.

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Common Stock		Additional Paid-in	Retained Earnings (Accumulated	Accumulated Other Comprehensive Loss			Treasury	Total Stockholders Equity
	Shares	Amount	Capital	Deficit)	Employee Benefit Plans	Other	Total	Stock	(Deficit)
					(in millions)				
Balance at December 31, 2005	565	6	2,744	(6,429)	(2,395)	(119)	(2,514)	(52)	(6,245)
Net loss				(5,464)					(5,464)
Currency translation adjustments and other, net of tax						231	231		231
Net change in unrecognized gain on derivative instruments, net of tax						44	44		44
Minimum pension liability adjustment, net of tax									