DELPHI CORP
Form 10-K
February 19, 2008

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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, 2007

OR

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

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 29, 2007, 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 $1.3 billion. The closing price of the Common Stock on June 29, 2007 as reported on Pink Sheets, LLC, a quotation service for over the counter securities, was $2.37 per share. As of June 29, 2007, the number of shares outstanding of the registrant s Common Stock was 561,781,590 shares.

The number of shares outstanding of the registrant s Common Stock, $0.01 par value per share as of January 31, 2008, was 563,477,461.

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, have continued 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 technology is also found in computing, communications, energy and medical applications. Delphi was incorporated in 1998 in contemplation of its separation from 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.

In addition, since the Separation, Delphi has diversified its customer base by taking advantage of its technological and manufacturing core competencies. Delphi has entered and continues to pursue additional opportunities in adjacent markets such as in communications (including telematics), computer components, automotive aftermarket, energy and the medical devices industry.

We have extensive technical expertise in a broad range of product lines and strong systems integration skills, which enable us to provide comprehensive, systems-based solutions to vehicle manufacturers (VMs). We have established an expansive global presence, with a network of manufacturing sites, technical centers, sales offices and joint ventures located in 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, commercial/industry applications 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, including certain historical pension, postretirement and workers compensation benefit costs, 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 Court is jointly administering these cases as 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 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. 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. In an order dated April 13, 2007, the Spanish court declared DASE to be in voluntary Concurso, which provided DASE support by managing the process of closing the Puerto Real site in Cadiz, Spain in accordance with applicable Spanish law. 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). The Creditors Committee and the Equity Committee supported Delphi s Amended Plan as described below under *Plan of Reorganization, Transformation Plan.*

Debtor-in-Possession Financing. 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, the

Court granted Delphi s motion to obtain replacement postpetition financing of approximately $4.5 billion to refinance both its $2.0 billion DIP financing and Delphi s $2.5 billion prepetition secured indebtedness. On January 9, 2007, Delphi entered into

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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. The Refinanced DIP Credit Facility consists of a $1.75 billion first priority revolving credit facility (Tranche A or the Revolving Facility), a $250 million first priority term loan (Tranche B or the Tranche B Term Loan and, together with the Revolving Facility, the First Priority Facilities), and an approximately $2.5 billion second priority term loan (Tranche C or the Tranche C Term Loan). Refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in this Annual Report for further details on Delphi s sources and uses of liquidity and for a more detailed description of the terms of Delphi s Refinanced DIP Credit Facility, as amended through the date hereof.

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 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. 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 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 Amended Plan, as referenced below. For additional information, refer to Item 7. Management s Discussion and Analysis and Results of Operations Plan of Reorganization and Transformation Plan in this Annual Report and Note 13. 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. At a Court hearing on September 27, 2007, Delphi stated

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that the current dynamics of the capital markets prompted Delphi to consider whether amendments to the Plan filed on September 6 might be necessary. Delphi commenced its Disclosure Statement hearing on October 3, 2007, and after resolving certain objections, requested that the hearing continue on October 25, 2007. During October and November, the Court granted additional requests by Delphi to further continue the hearing on the adequacy of the Disclosure Statement to allow Delphi to negotiate potential amendments to the Plan and the related agreements with its stakeholders, including the comprehensive agreements reached with GM and the Equity Purchase and Commitment Agreement (EPCA) 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 August 3, 2007 and ultimately amended on December 10, 2007. On December 3, 2007, Delphi filed further potential amendments to the Plan, the comprehensive agreements reached with GM, the EPCA, and the related Disclosure Statement and on December 4, 2007 Delphi announced that it had reached agreement in principle on these amendments with the Creditors Committee, the Equity Committee, GM, and the Investors. After a hearing on the adequacy of the proposed Disclosure Statement on December 6 and 7, 2007, on December 10, 2007, Delphi filed its first amended joint Plan of Reorganization (Amended Plan) and its first amended Disclosure Statement with respect to the Amended Plan (Amended Disclosure Statement). The Court entered an order approving the adequacy of the Amended Disclosure Statement on December 10, 2007. After entry of the order approving the Amended Disclosure Statement, Delphi began solicitation of votes on the Amended Plan. On January 16, 2008, Delphi filed further modifications to the Amended Plan. Additional modifications are set forth in Exhibit A to the Confirmation Order entered by the Court on January 25, 2008, after conclusion of a hearing on confirmation of the Amended Plan that took place on January 17, 18, and 22, 2008.

In accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), the cost related to the transformation plan will be recognized in the Company s consolidated financial statements as elements of the Amended Plan, the U.S. labor agreements, and the comprehensive settlement agreements with GM become effective. The Amended Plan and agreements will significantly impact Delphi s accounting for its pension plans, post-retirement benefit plans, other employee related benefits, 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.

Effectiveness of the Amended Plan is subject to a number of conditions, including the completion of the transactions contemplated by the EPCA, the entry of certain orders by the Court and the obtaining of exit financing. The transactions contemplated by the EPCA also are subject to a number of conditions. On November 6, 2007, the Court entered an order authorizing the Debtors to enter into and perform all obligations under a best efforts engagement letter and fee letter with JPMorgan Securities Inc., JPMorgan Chase Bank, N.A. and Citigroup Global Markets Inc., in connection with an exit financing arrangement comprised of: (i) a senior secured first lien asset-based revolving credit facility in an aggregate principal amount of $1.6 billion; (ii) a senior secured first-lien term facility in an aggregate amount of $3.7 billion; and (iii) a senior secured second-lien term facility in the amount of $1.5 billion. There can be no assurances that such exit financing will be obtained or such other conditions will be satisfied, and we cannot assure you that the Amended Plan will become effective on the terms described herein or at all. 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.

If the Amended Plan does not become effective as described herein, 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

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with respect to existing and future investments in its common stock or other equity securities, or any claims relating to prepetition liabilities.

For more detailed information regarding the current status of our chapter 11 cases as relevant to the consolidated financial statements and results of operation of Delphi and its subsidiaries, and the terms of the Amended Plan, including potential recoveries to stakeholders, the agreements reached with our U.S. labor unions and comprehensive settlement agreements reached with GM, and the terms of the EPCA, see Item 7. Management s Discussion & Analysis and Results of Operations Plan of Reorganization and Transformation Plan.

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 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. The VM market is characterized by short-term volatility, with overall expected long-term growth of vehicle sales and production. 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 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.

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, broad economic improvements continue to be made, increasing the demand for smaller, less expensive vehicles that satisfy basic transportation needs. In addition, increasingly stringent government regulations regarding vehicle safety and environmental standards are accelerating new product development cycles.

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 combination of decreasing volumes of domestic VMs, and increasing competition from non-U.S. VMs and transplant suppliers, who generally have lower and more flexible cost structures, have accelerated the pace of consolidation and the need of many domestic suppliers, including Delphi, to restructure operations and refocus product design and development to enable them to compete more effectively.

Research, Development and Intellectual Property

Delphi maintains technical engineering centers in 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, 2007, we employed approximately 18,500 engineers, scientists and technicians around the world, including 16,000 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, and during 2007 we maintained our total expenditures for research and development activities (including engineering) despite cost pressures in other aspects of our business. Total expenditures for research and development activities (including engineering) were approximately $2.0 billion, $2.0 billion, and $2.1 billion for the years ended December 31, 2007, 2006, and 2005, 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 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 steel, resins, aluminum and copper. We continue to proactively work with our suppliers and customers to manage these cost pressures. Despite our efforts, surcharges and other cost increases, particularly when necessary to ensure the continued financial viability of a key supplier, had the effect of reducing our earnings during 2007. In the case of copper, contract escalation clauses have enabled us to pass on some of the price increases to our customers and thereby partially offset the impact of contractual price reductions on net sales for the related products, though in some cases there is a lapse of time before we are able to pass price increases through to our customers. To date, due to existing contractual terms, our success in passing commodity cost increases on to our customers has been limited. As contracts with our customers expire, we will seek to renegotiate terms that allow us to recover the actual commodity costs we are incurring. Steel supply has continued to be constrained and commodity cost pressures intensified as our supply contracts expired during 2007. We expect commodity cost pressures will continue during 2008. We have been seeking to manage these cost pressures using a combination of strategies, including working with our suppliers to mitigate costs, seeking alternative product designs and material specifications, combining our purchase requirements with our customers and/or suppliers, changing suppliers and other means. Additionally, Delphi manages its exposure to fluctuations in certain commodity prices, particularly various non-ferrous metals used in our manufacturing operations, by entering into a variety of forward contracts and swaps with various counterparties. We expect to be continually challenged to maintain costs as demand for our principal raw materials will be significantly impacted by demand in emerging markets, particularly in China and India. Despite the challenges identified above, in 2007 Delphi achieved net material performance (including cost adjustments from suppliers, material cost improvement initiatives and commodity market changes) on a year-over-year basis.

Employees-Union Representation

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. On a comparable basis, as of December 31, 2006, we employed approximately 171,400 people (34,600 in the U.S., and 136,800 outside of the U.S.): approximately 36,700 salaried employees and approximately 134,700 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, 2007 and 2006, approximately 14,200 and 18,300 hourly employees were represented by the UAW, approximately 2,000 and 1,900 by the IUE-CWA and approximately 500 and 1,100 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 with a $35,000 lump sum incentive payment paid by Delphi and reimbursed by GM. The programs also provided a pre-retirement program under which employees with at least 26 and fewer than 30 years of credited service were granted the ability to cease working and to receive monthly payments and benefits until they accrue 30 years of credited service at which time they would be eligible to retire without additional incentives. The programs also provided buyout payments which, depending on the amount of seniority or credited service, ranged from $40,000 to $140,000. GM has agreed to reimburse Delphi for one-half of these buyout payments and in exchange will receive an allowed prepetition general unsecured claim. In addition, employees who elected to participate in the UAW Attrition Programs were eligible to retire as employees of Delphi or flow back to GM and retire. During 2006, approximately 10,000 employees elected to flow back to GM and retire. Although GM agreed to assume the postretirement healthcare and life insurance coverages for these retirees, due to the volume of retirements, GM was unable immediately to transition these retirees to GM healthcare and life insurance plans. Delphi agreed to administer health and life insurance coverage for these retirees during the transition period and GM agreed to reimburse Delphi for the actual costs of providing such coverage.

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 lump sum incentive payments of $35,000 per eligible employee and one-half of the $40,000 to $140,000 buyout payments are being paid by Delphi and reimbursed by GM. GM will receive an allowed prepetition general unsecured claim equal to the amount it reimburses Delphi for the buyout payments. The IUE-CWA special attrition program (the IUE-CWA Special Attrition Program) was approved by the Court by order entered on July 7, 2006.

Wilmington Trust Company (Wilmington Trust), 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, Wilmington Trust 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 UAW settlement agreement includes extending, until March 31, 2008, our obligation to indemnify GM if certain GM-UAW benefit guarantees are triggered. The U.S. labor settlement agreements include workforce transition programs which provide eligible employees with transformation plan options which, depending on the particular agreement, included (1) attrition options similar to the previously-approved attrition programs, (2) flowback rights to eligible Delphi employees who do not elect the attrition options, (3) provision of lump sum buy-down payments for traditional eligible employees who do not elect to leave Delphi, and (4) severance payments and supplemental unemployment benefits to eligible employees who are permanently laid off prior to September 14, 2011. During 2007, approximately 1,300 employees eligible to participate in the attrition programs encompassed in the workforce transition programs elected to leave Delphi. Refer to Note 15. U.S. Employee Workforce Transition Programs to the consolidated financial statements for more information.

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)

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Thermal (Climate Control & Powertrain Cooling)

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, 2007 are described below. Refer to Note 21. Segment Reporting to the consolidated financial statements and Management s Discussion and Analysis 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, 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(a)	Total
				(in millions)			
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)
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)
2005:							
Net sales	$ 5,319	$ 5,697	$ 5,310	$ 2,576	$ 3,777	$ 715	$ 23,394
Operating income (loss)	$ 154	$ (514)	$ 248	$ (160)	$ (696)	$ (1,009)	$ (1,977)

(a) 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, including certain historical pension, postretirement and workers compensation benefit costs, and the elimination of inter-segment transactions.

Refer to Note 21. Segment Reporting for discussion on significant items included in the segment operating income.

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).

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.

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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, exhaust systems and powertrain electronic control modules with software, algorithms and calibration.

The diesel EMS product line offers high quality common rail system technologies and they are selected by many of the world s top automakers.

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

Innovative evaporative emissions systems that are recognized as industry-leading technologies by our customers in North America and Europe.

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.

Sales are predominantly to GM or Tier 1 suppliers that ultimately sell our products to GM.

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. The cockpit and interiors and integrated closures products are reported in discontinued operations. The interiors and closures business offers interiors and closure system products that address customers styling, quality and performance requirements.

Interiors products include instrument panels, consoles, and fully assembled in-sequence cockpits.

Closures products include door and rear compartment latches, window lift systems, and fully assembled and tested door modules.

Principal competitors in interior systems include JCI, IAC, Magna, Draxlmaier and Faurecia. Principal competitors in closure systems include Magna, Keikert, Brose and Valeo.

Customers

We primarily sell our products and services to the major global vehicle manufacturers (VMs). 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 is classified as sales to other customers. As a percentage of sales from continuing operations, our sales to customers other than GM were 63% in 2007. Our business with customers other than GM has increased since the Separation. 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 the elimination of non-core businesses and, to a lesser degree, declining GM production, the impact of customer driven price reductions, as well as GM s diversification of its supply base and ongoing changes in our vehicle content and the product mix supplied. Delphi currently supplies parts to VMs in every region globally. 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). 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.

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,					
	2007		2006		2005	
Customer	**$**	**%**	**$**	**%**	**$**	**%**
	(dollars in millions)					

GM-North America	$ 6,351	28%	$ 7,443	33%	$ 8,429	36%
GM-International	1,560	7%	1,351	6%	1,314	6%
GM-SPO	390	2%	550	2%	753	3%
Total GM	8,301	37%	9,344	41%	10,496	45%
Other customers	13,982	63%	13,393	59%	12,898	55%
Total net sales	$ 22,283	100%	$ 22,737	100%	$ 23,394	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

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ultimately sell to GM. Sales to four of these other major global VMs exceeded $750 million in 2007 including Ford Motor Company, Chrysler Corporation, Volkswagen Group and Renault/Nissan Motor Company, Ltd. Also included in sales to other customers are sales to independent aftermarket customers, consumer electronics customers, manufacturers of medium-duty and heavy-duty trucks, off-road equipment and other new customers beyond our traditional automotive customer base.

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.

The composition of our purchase orders and arrangements as measured by terms and conditions, pricing, and other factors 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,											
	2007				2006				2005			
	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)											
a	$ 6,782	$ 4,975	$ 11,757	$ 1,906	$ 8,040	$ 5,881	$ 13,921	$ 2,024	$ 9,223	$ 6,094	$ 15,31
le a	1,002	6,396	7,398	1,476	879	5,463	6,342	1,539	860	5,381	6,24
	76	2,105	2,181	341	71	1,700	1,771	367	80	1,111	1,19
a	441	506	947	140	354	349	703	136	333	312	64

$ 8,301	$ 13,982	$ 22,283	$ 3,863	$ 9,344	$ 13,393	$ 22,737	$ 4,066	$ 10,496	$ 12,898	$ 23,39

Variability in Delphi s Business

The majority 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. Accordingly, our results reflect this seasonality.

Environmental Compliance

We are subject to the requirements of U.S. federal, state, local and non-U.S. environmental and occupational safety and health laws and regulations. These include laws regulating air emissions, water discharge and waste management. We have an environmental management structure designed to facilitate and support our compliance with these requirements globally. Although it is our intent to comply with all such requirements and regulations, we cannot provide assurance that we are at all times in compliance. We have made and will continue to make capital and other expenditures to comply with environmental requirements. Although such expenditures were not material during the past three years, Delphi expects to spend $11 million over the course of the next year 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 concerning a portion of the Site. The Remedial Investigation and Alternatives Array Document were finalized in 2007. A Feasibility Study and Record of Decision are expected to be completed in 2008. Although Delphi believes that capping and future monitoring is a reasonably possible outcome, 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, 2007, Delphi has recorded its best estimate of its share of the remediation based on the remedy described above. However, if that remedy is not accepted, Delphi s expenditures for remediation could increase by $20 million in excess of its existing reserves. Delphi will continue to re-assess any potential remediation costs and, as appropriate, its environmental reserve as the investigation proceeds.

As of December 31, 2007 and 2006, our reserve for environmental investigation and remediation was approximately $112 million and $118 million, respectively, including approximately $3 million within liabilities subject to compromise at December 31, 2006. 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 contemplates 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 additional reserves are primarily related to 35 facilities and are comprised of investigation, remediation and operation and maintenance of the remedy, including postremediation monitoring costs. Addressing contamination at these sites 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, 2007 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, 2007, the difference between the recorded liabilities and the reasonably possible maximum estimate for these liabilities was approximately $105 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, 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 includes extending, 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 a Global Settlement Agreement (GSA) and Master Restructuring Agreement (MRA). The GSA and MRA, which comprise a part of the Amended Plan, were approved in the order confirming the Amended Plan entered on January 25, 2008. Together, these agreements provide for a comprehensive settlement of all outstanding issues between Delphi and GM, including issues arising out of or related to the Separation. 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

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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. In addition, during 2007 Delphi and GM entered into comprehensive settlement agreements. 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 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. Prior to October 1, 2003, GM s standard long term contract provided that GM would not exercise a right to terminate for convenience or require that we be competitive in terms of pricing during the first 18 months of the contract. 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 GSA and the MRA. Pursuant to the 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,

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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. We have entered into an agreement with GM that requires us to indemnify GM if GM is called to perform under the GM-UAW guarantee, which indemnification obligations remained in effect until October 18, 2007. 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. The UAW settlement agreement includes extending, until March 31, 2008, our obligation to indemnify GM if certain GM-UAW benefit guarantees are triggered. Portions of these agreements have already become effective, while other portions will not become effective until the GSA and MRA, which resolve certain financial, commercial and other matters between Delphi and GM, become effective upon consummation of the Amended Plan as confirmed by the Court which incorporates, approves and is consistent with the terms of each agreement.

Flowback Rights. Upon our separation from GM, certain of our hourly UAW-represented employees in the U.S. are provided with opportunities to transfer to GM as appropriate job openings become available at GM and GM employees in the U.S. had similar opportunities to transfer to Delphi. The flow of GM employees to Delphi is eliminated under the UAW settlement agreement. If such a transfer occurs, in general, both our Company and GM will be responsible for pension payments, which in total reflect such employee s entire eligible years of service. Allocation of responsibility between Delphi and GM will be on a pro-rata basis depending on the length of service at each company (although service at Delphi includes service with GM prior to the Separation). There was no transfer of pension assets or liabilities between GM and Delphi with respect to such employees that transfer between our companies, however, pursuant to the GSA, Delphi will transfer certain assets and liabilities of its Delphi Hourly-Rate Employees Pension Plan to the GM Hourly-Rate Employee Pension Plan, as set forth in the union settlement agreements. The employee will receive pension benefits from both the GM and Delphi pension plans based on the pro-rata years of service with each company. GM will be responsible for OPEB obligations for employees that flow to GM, and that GM will receive a cash settlement from Delphi. An agreement with GM provides for a mechanism for determining a cash settlement amount for OPEB obligations (also calculated on a pro-rata basis) associated with employees who transfer between our Company and GM. Cash settlement occurs in the year the employee is actuarially determined to retire. Cash settlement has not occurred between GM and Delphi since Delphi filed for bankruptcy. For more information regarding these matters, refer to Item 7. Management s Discussion and Analysis 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.

Commencing October 8, 2005, and October 14, 2005, the Company and certain of our U.S. subsidiaries filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code. At that time, risks that the Company faced related to the Chapter 11 Filings included, but were not limited to, the following:

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

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

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

We might not have been 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.

Because Debtor entity transactions outside the ordinary course of business are subject to the prior approval of the Court, our ability to respond timely to certain events or take advantage of certain opportunities might have been limited.

The Debtors might not have been able to obtain Court approval or such approval might have been delayed with respect to motions made in the chapter 11 cases.

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

The Debtors might have been unable to maintain satisfactory labor relations as they sought to negotiate changes to their existing collective bargaining agreements and modify certain retiree benefits.

Representatives of certain of the unions representing the Debtors U.S. hourly employees, including the UAW and IUE-CWA, had indicated that they received membership authorization and might call for a strike by their employee members if the Debtors labor agreements were rejected under sections 1113 and 1114 of the Bankruptcy Code.

We might have had 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 could have had a negative impact on future earnings and cash flows.

There was no assurance as to our ability to maintain sufficient financing sources to fund our reorganization plan and meet future obligations, including costs expected to be incurred related to the workforce transition program comprehended in the U.S. labor settlement agreements. We might have been unable to operate pursuant to the terms of our Refinanced DIP Credit Facility, including the financial covenants and restrictions contained therein, or to negotiate and obtain necessary approvals, amendments, waivers, extensions or other types of modifications, and to otherwise fund and execute our business plans during the chapter 11 cases. Failure to continue to operate pursuant to the terms of the Refinanced DIP Credit Facility would have materially adversely impacted our business, financial condition and operating results by severely restricting our liquidity.

GM is one of the largest creditors and a significant stakeholder in our chapter 11 cases, and our ability to consummate the transactions contemplated by the U.S. labor settlement agreements, an investment agreement, and a plan of reorganization depended not only on reaching a consensual agreement with GM, but also on GM s ability to fulfill certain financial obligations to Delphi s UAW-, IUE-CWA-, and USW-represented employees and retirees. GM had reported a variety of challenges it is facing, including with respect to its debt ratings, its relationships with its unions and large shareholders and its cost and pricing structures. If GM had been unable or unwilling to fulfill these commitments, we believe that the Company s cost structure and ability to operate would have been adversely affected.

Third parties might have sought and obtained 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.

Our Amended Plan was confirmed by the Court on January 25, 2008. The risks that the Company now faces are that the Amended Plan might not be consummated, the transactions contemplated by the EPCA might not be consummated and GM might be unable or unwilling to fulfill its obligations to the Company as set forth in the MRA, GSA, and as comprehended in the UAW, IUE-CWA and USW settlement agreements. Moreover, if the Amended Plan cannot be consummated, the risks that the Company faced upon the commencement of its reorganization cases, as described above, will likely continue to exist.

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, 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 Amended Plan and the transactions contemplated thereby, 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. The ultimate recovery to creditors and/or shareholders is set forth in the Amended Plan as described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, Transformation Plan. Even though the Amended Plan has been confirmed, there can be no assurances that we will be able to satisfy the conditions to effectiveness set forth in the Amended Plan or that it will become effective on the terms described herein or at all. If the Amended Plan does not become effective as described herein, 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 the Company is unable to consummate the transactions set forth in the Amended Plan and EPCA its common stock may ultimately be determined to have no value. Accordingly, the Company urges that appropriate caution be exercised with respect to existing and future investments in its common stock or other equity securities, or any claims relating to prepetition liabilities.

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 Amended 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 Amended 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 Amended Plan.

We May Not Be Able To Obtain Sufficient Exit Financing To Support Our Amended Plan.

As discussed above, effectiveness of our plan of reorganization and consummation of the transactions contemplated by the EPCA are subject to a number of conditions, including obtaining exit financing. It is expected that on the effective date of the Amended Plan our debtor-in-possession financing will be replaced with approximately $6.1 billion of new exit financing, which we anticipate will consist of first lien financing of $3.7 billion, second lien financing of $825 million, and an asset based revolving credit facility of $1.6 billion, substantially all of which is expected to be undrawn at emergence from chapter 11. There can be no assurances that such exit financing can be obtained. The EPCA further provides the Investors certain rights to review the terms of the exit financing we obtain in light of the financing and other related conditions and covenants of the EPCA, including a limitation that the Company s pro forma interest expense during 2008 with respect to the Company s total indebtedness, as defined in the EPCA, will not exceed $585 million. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, Plan of Reorganization and Transformation Plan, Equity Purchase and Commitment Agreement for more information.

Business Environment and Economic Conditions

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

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

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

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requirements on a timely, cost effective basis. The ability to respond to competitive pressures and react quickly to other major changes in the marketplace including in the case of automotive sales, increased gasoline prices or consumer desire for and availability of vehicles using alternative fuels is also a risk to our future financial performance.

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

GM is our largest customer and accounted for 37% of our total net sales from continuing operations in 2007, 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 with respect to its debt ratings, its relationships with its unions and large shareholders and its cost and pricing structures. If GM is unable or unwilling to engage in a business relationship with us on a basis that involves improved terms for Delphi, as set forth in the comprehensive settlement agreements, the MRA and GSA that have been agreed to as part of our Amended Plan (as compared to those currently in place), we believe that the Company s sales, cost structure and profitability will be adversely affected. For these reasons, we cannot provide any assurance as to the amount of our future business with GM. To the extent that we do not maintain our existing level of business with GM, we will need to attract new customers or our results of operations and financial condition will be adversely affected. There can be no assurance that we will be successful in expanding our existing customer base.

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

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

In recent periods there have been significant increases in the global prices of aluminum, copper, resins and steel, which have had and may continue to have an unfavorable impact on our business. We anticipate that these increases will continue to adversely affect our business throughout fiscal 2008. Any continued fluctuations in the price or availability of steel, resins or copper may have a material adverse effect on our business, results of operations or financial condition. As the resin raw material market related cost pressure continues, we expect to see increasing costs in our resin as well as our plastic component supplier value streams. We will continue efforts to pass some of the supply and raw material cost increases onto our customers, although competitive and marketing pressures have limited our ability to do that, particularly with domestic VMs, and may prevent us from doing so in the future and in some cases there is a lapse of time before we are able to pass price increases through to the customer. 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 prices 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. 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.

We may have difficulty in generating cost savings and operational improvements in the future and in adapting our cost structure, adequately to adjust for significant changes in vehicle production rates, and to offset 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, however 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). Certain commodity prices, particularly aluminum, copper, resins and steel, have markedly increased. Price reductions are often required pursuant to contracts or to remain competitive with our peers and are sometimes necessary to win additional business. In addition, our cost structure may be adversely affected by changes in the laws, regulations, policies or other activities of governments, agencies and similar organizations where such actions may affect the production, licensing, distribution or sale of our company s products, the cost thereof or applicable tax rates, or affect the cost of legal and regulatory compliance or the cost of financing.

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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 2007, 2006 and 2005, we recorded substantial long-lived asset impairment losses. In light of the shifting nature of the competitive environment in which we operate, it is possible that we will incur similar losses and charges in the future, and those losses and charges may be significant.

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

We may require additional cash to meet increases in U.S. Pension and OPEB funding obligations resulting from market volatility that adversely affects our asset return expectations, a declining interest rate environment or other reasons. Delphi s pension and OPEB obligations, including those covering U.S. hourly and salaried employees, exposed Delphi to approximately $12.5 billion and $13.9 billion in underfunded liabilities at December 31, 2007 and 2006, respectively, of which approximately $3.8 billion and $4.8 billion was attributable to underfunded pension obligations and $8.7 billion and $9.1 billion was attributable to OPEB obligations, respectively. However, through the chapter 11 process and favorable IRS pension waivers, Delphi is permitted to defer a significant portion of the pension contributions until it emerges from chapter 11. Additionally, as part of Delphi s plan of reorganization and transformation plan, Delphi has reached agreements with GM and the unions representing its U.S. hourly employees to transfer to GM certain OPEB obligations at bankruptcy emergence. However, Delphi will be required to make up any deferred pension contributions at the time of its emergence from chapter 11. Delphi s discussions with the Internal Revenue Service (IRS) and Pension Benefit Guaranty Corporation (PBGC) regarding the funding of certain of its pension obligations upon emergence from chapter 11 culminated in a funding plan that would enable us to satisfy our deferred pension funding obligations upon emergence from chapter 11 through a combination of cash contributions and a transfer of certain underfunded liabilities to a pension plan sponsored by GM. In addition, the IRS and PBGC agreed to certain conditional waivers that were necessary to make the transfer of certain underfunded liabilities to a pension plan sponsored by GM economically efficient, thereby effectively lowering the amount of cash contributions to be made after Delphi s emergence from chapter 11. The conditional waivers also include a full settlement of potential excise tax claims for the funding deficiencies that accumulated throughout the chapter 11 process. The funding plan and waivers are conditioned upon Delphi emerging from chapter 11 by February 29, 2008, although Delphi is discussing a possible extension with the IRS and PBGC. If the Amended Plan, including the comprehensive settlement agreements reached with GM, do not become effective and the transactions contemplated thereby are not consummated such that we do not emerge from chapter 11 on or before the expiration of the conditional waivers, the PBGC may immediately draw down the $150 million letters of credit, the PBGC could initiate an involuntary plan termination, missed contributions would be due and the IRS could assess penalties on the missed contributions. Refer to Note 2. Transformation Plan and Chapter 11 Bankruptcy for further information on Delphi s discussions with the Internal Revenue Service and the Pension Benefit Guaranty Corporation.

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 ninety-seven percent 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 Amended Plan and the transactions contemplated thereby may leave us with no choice but to reinitiate a process to reject our collective bargaining agreements. Rejection of our labor contracts could lead such unions to call a strike or other form of significant work disruption. In addition, it is a condition to the Investors obligations under the EPCA that there shall have been no material strike, labor stoppage or slowdown involving certain labor unions, including the UAW, at either Delphi or GM or any of their respective subsidiaries after October 29, 2007. In addition, it is also a condition to the Investors obligations under the EPCA that since October 29, 2007 there shall have been no strike, labor stoppage or slow down involving certain labor unions at Ford Motor Company or Chrysler Group or any of their respective subsidiaries that would have a material impact on the Investors proposed investment in Delphi.

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 That 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, 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

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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 12. 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 Amended Plan occurring, and if, for any reason, we cannot emerge as contemplated, the settlement will be null and void, and the actions could result in significant legal costs going forward. Refer to Note 17. Commitments and Contingencies, Shareholder Lawsuits.

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.

Debt

We Will Maintain And Need to Service Significant Levels Of Debt To Support Our Restructuring And Operations, Which May Further Divert A Significant Amount Of Cash From Our Business Operations.

Our net cash used in operating activities totaled $289 million for 2007 and our net cash provided by operating activities totaled $9 million for 2006. The increase in cash used in operating activities is primarily due to payments, net of reimbursement by GM, related to the U.S. employee workforce transition program charges in the amount of $528 million, payments of $155 million related to executive and U.S. salaried employee incentive plans and payments of $153 million to severed employees as part of the DASE Separation

Plan. In addition, cash flow from operating activity is impacted by the timing of payments to suppliers and receipts from customers as well as seasonality of production volumes and the impact of foreign currency exchange rates. Absent a comprehensive restructuring to address our high cost structure in the U.S., over the long term, we expect that our operating activities will continue to use, not generate, cash and that we will need to supplement cash from operations with periodic draws on our revolving portion of our Refinanced DIP Credit Facility.

We have substantial levels of debt, including debt under our Refinanced DIP Credit Facility and other debt instruments. We had $2.7 billion in term loans and $255 million of letters of credit outstanding under our Refinanced DIP Credit Facility at December 31, 2007. Additionally, at that time, we had $2.0 billion of debt and $391 million of notes payable, all of which are subject to compromise, $808 million of other debt and $1.2 billion of cash and cash equivalents, including restricted cash. The Refinanced DIP Credit Facility imposes limits on our ability to incur additional debt including our ability to draw down remaining amounts under the $1.75 billion revolver in our Refinanced DIP Credit Facility. Within the limits set forth in those agreements, we may incur additional debt in the future. The degree to which we will be leveraged could have important consequences, including:

- requiring a substantial portion of our cash flow from operations to be dedicated to debt service and therefore not available to us for our operations, capital expenditures and future business opportunities;
- increasing our vulnerability to a downturn in general economic conditions or in our business;
- limiting our ability to adjust to changing market conditions, placing us at a competitive disadvantage compared to our competitors that have relatively less debt; and
- limiting our ability to obtain additional financing or access other debt in the future for capital expenditures, working capital or general corporate purposes.

In addition, the Refinanced DIP Credit Facility currently has a maturity date of July 1, 2008. If we are not able to emerge from chapter 11 prior to this maturity date, we would seek to either extend the term of that facility or seek alternative sources of financing. If this were to occur, there can be no assurances that we would be able to extend this facility prior to maturation or otherwise obtain alternative sources of financing. The failure to secure such extension or alternative source of financing would materially adversely impact our business, financial condition and operating results by severely restricting our liquidity.

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

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

The covenants in the Refinanced DIP Credit Facility generally require Delphi to, among other things, maintain a rolling 12-month cumulative global earnings before interest, taxes, depreciation, amortization, reorganization and restructuring costs (Global EBITDAR), as defined, for Delphi and its direct and indirect subsidiaries, on a consolidated basis, beginning on December 31, 2006 and ending on June 30, 2008, at the levels set forth in the Refinanced DIP Credit Facility. The Refinanced DIP Credit Facility contains certain defaults and events of default customary for debtor-in-possession financings of this type. Upon the occurrence and during the continuance of any default in payment of principal, interest or other amounts due under the Refinanced DIP Credit Facility, interest on all outstanding amounts is payable on demand at 2% above the then applicable rate.

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The Refinanced DIP Credit Facility provides the lenders with a first lien on substantially all material tangible and intangible assets of Delphi and its wholly-owned domestic subsidiaries (however, Delphi is only pledging 65% of the stock of its first tier non-U.S. subsidiaries) and further provides that amounts borrowed under the Refinanced DIP Credit Facility will be guaranteed by substantially all of Delphi s affiliated Debtors, each as debtor and debtor-in-possession.

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

Internal Controls

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

As a publicly traded company, we are subject to rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires us to include an internal control report from management in this Annual Report on Form 10-K. The internal control report must include the following: (1) a statement of management s responsibility for establishing and maintaining adequate internal control over financial reporting, (2) a statement identifying the framework used by management to conduct the required evaluation of the effectiveness of our internal control over financial reporting, (3) management s assessment of the effectiveness of our internal control over financial reporting as of December 31 of each fiscal year, including a statement as to whether or not internal control over financial reporting is effective, and (4) a statement that our independent registered public accounting firm has issued an attestation report on management s 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. Our assessment as of December 31, 2007 identified a material weakness in our internal controls over financial reporting, which also adversely impacted our disclosure controls and procedures. 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. As a result, we must perform extensive additional work to obtain reasonable assurance regarding the reliability of our financial statements. Given the nature of the material weakness identified, even with this additional work there is a risk of errors not being prevented or detected, which could result in further restatements. For additional information refer to Item 9A. Controls and Procedures in this Annual Report.

Because of the material weakness referenced in the preceding paragraph, management has concluded that, as of December 31, 2007, our internal controls over financial reporting were not effective based on those criteria. This failure and any failure in the future to achieve and maintain effective internal controls over financial reporting and otherwise comply with the requirements of Section 404 could have a material adverse effect on our business. Such noncompliance could result in perceptions of our business among customers, suppliers, rating agencies, lenders, investors, securities analysts and others being adversely affected. We may not be able to complete our remediation plans designed to address the identified material weakness in our internal controls over financial reporting and continue to attract additional qualified accountants, and auditing and compliance professionals to assist in completing such plans and maintaining compliance programs. There will also continue to be a serious risk that we will be unable to file future periodic reports with the SEC in a timely manner, that a default could result under the covenants governing our Refinanced DIP Credit Facility and that our future financial statements could contain errors that will be undetected.

We Face Substantial Costs Associated With Complying With the Requirements of Section 404 of the Sarbanes-Oxley Act.

As a result of the extent of the deficiencies in our internal controls over financial reporting, we incurred significant professional fees and other expenses in the year ended December 31, 2007 to prepare our consolidated financial statements and to comply with the requirements of Section 404 of the Sarbanes-Oxley Act. Until our remediation is completed, we will continue to incur the expenses and management burdens associated with the manual procedures and additional resources required to prepare our consolidated financial statements.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved SEC staff comments to report.

ITEM 2. PROPERTIES

Delphi s world headquarters is in Troy, Michigan. Delphi also maintains regional headquarters in Shanghai, China; Bascharage, Luxembourg; and Sao Paulo, Brazil. Excluding our joint ventures and other investments, as of December 31, 2007 we maintained 290 sites in 34 countries throughout the world, including manufacturing facilities, technical centers, customer centers and sales offices. Our business segments share many of the manufacturing facilities throughout the world. As of December 31, 2007, we owned our world headquarters. Of the remaining 289 sites, 26 were owned and 40 were leased in the U.S. and Canada, 32 were owned and 21 were leased in Mexico, 33 were owned and 80 were leased in Europe/Middle East/Africa; 10 were owned and 8 were leased in South America; and 10 were owned and 29 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 section 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 are named as defendants in several lawsuits filed following the Company s announced intention to restate certain of its financial statements in 2005. Through mediated settlement discussions, on August 31, 2007, representatives of Delphi, Delphi s insurance carriers, certain current and former directors and officers of Delphi, and certain other defendants involved in the securities actions, ERISA actions, and shareholder derivative actions in consolidated proceedings (the Multidistrict Litigation or MDL) reached an agreement with the lead plaintiffs in the Securities Actions as defined below (the Lead Plaintiffs) and named plaintiffs in the Amended ERISA Action as defined below (the ERISA Plaintiffs) resulting in a settlement of the Multidistrict Litigation (the MDL Settlements). Pursuant to the MDL Settlements, the class claimants will receive cash and allowed claims in the chapter 11 proceedings that, when valued at the face amount of the allowed claims, is equivalent to approximately $351 million. The MDL Settlements were approved by the District Court in which the actions are pending, and by the Court on January 25, 2008.

On September 5, 2007 the U.S. District Court for the Eastern District of Michigan (the District Court) entered an order preliminarily certifying the class and approving the settlement and scheduled the matter for a fairness hearing on November 13, 2007. On November 13, the District Court conducted the fairness hearing and took the matter under advisement. 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 MDL Settlements (the Modified MDL Settlements), and tentatively approved the Modified MDL Settlements, after determining that the modifications were at least neutral to the Lead Plaintiffs and potentially provide a net benefit to the Lead Plaintiffs. The District Court approved the MDL Settlements in an opinion and order issued on January 10, 2008 and amended on January 11, 2008, and the District Court entered final orders and judgments dated January 23, 2008 with respect to the securities and ERISA actions. On January 25, 2008, the Court approved the MDL Settlements. As provided in the confirmation order, the MDL Settlements are contingent upon the effective date of the Amended Plan occurring, and if, for any reason, we cannot emerge as contemplated, the MDL Settlements will become null and void. A copy of an addendum setting forth the modification is attached as Exhibit 99(f) to the Company s Current Report on Form 8-K filed with the SEC on January 30, 2008.

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 (the ERISA Actions). Plaintiffs in the ERISA Actions allege, among other things, that the plans suffered losses as a result of alleged breaches of fiduciary duties under ERISA. The ERISA Actions were subsequently transferred to the Multidistrict Litigation. On March 3, 2006, plaintiffs filed a consolidated class action complaint (the Amended ERISA Action) with a class period of May 28, 1999 to November 1, 2005. The Company, which was previously named as a defendant in the ERISA Actions, was not named as a defendant in the Amended ERISA Action due to the Chapter 11 Filings, but the plaintiffs stated that they intended to proceed with claims against the Company in the ongoing bankruptcy cases, and will seek to name the Company as a defendant in the Amended ERISA Action if the bankruptcy stay 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 is providing certain discovery to the Lead Plaintiffs 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 Actions) 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 Actions name several additional defendants, including Delphi Trust II, certain former directors, and underwriters and other third parties, and includes securities claims regarding additional offerings of Delphi securities. The Securities Actions consolidated in the United States District Court for Southern District of New York (and a related securities action filed in the United States District Court for the Southern District of Florida concerning Delphi Trust I) were subsequently transferred to the District Court as part of the Multidistrict Litigation. The action is stayed against the Company pursuant to the Bankruptcy Code, but is continuing against the other defendants. On February 15, 2007, the District Court partially granted the plaintiffs motion to lift the stay of discovery provided by the Private Securities Litigation Reform Act of 1995, thereby allowing the 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 is providing 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 (Oakland County Circuit Court in Pontiac, Michigan). 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 consolidated with the securities and ERISA class actions in the U.S. District Court. Following the filing on October 8, 2005 of the Debtors petitions for reorganization relief under chapter 11 of the Bankruptcy Code, all the derivative cases were administratively closed.

The following is a summary of the principal terms of the MDL Settlements as they relate to the Company and its affiliates and related parties and is qualified in its entirety by reference to the complete agreements submitted to the

Court for approval and which were filed as exhibits to the Company s Current Report on Form 8-K dated September 5, 2007.

Under the terms of the Modified MDL Settlements, the Lead Plaintiffs and the ERISA Plaintiffs will receive claims that will be satisfied through Delphi s Amended Plan as confirmed by the Court pursuant to the confirmation order described under Item 1.03 of the Company s Current Report on Form 8-K filed with the SEC on January 30, 2008. 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 Amended Plan. Additionally, the Lead Plaintiffs will receive $15 million to be provided by a third party. Delphi has also agreed to provide the Lead Plaintiffs, on behalf of the class members, the ability to exercise their rights in the anticipated discount rights offering in connection with the Amended Plan through a notice mechanism and a pledge of cash collateral. 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 settlement reached with the Lead Plaintiffs. Delphi will object to any claims filed by opt-out plaintiffs in the Court, and will seek to have such claims expunged. The settlement with the ERISA Plaintiffs is structured similarly to the settlement reached with the Lead Plaintiffs. The ERISA Plaintiffs claim 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. Unlike the settlement reached with the Lead Plaintiffs, the ERISA Plaintiffs will not be able to opt out of their settlement.

In addition to the amounts to be provided by Delphi from the above described claims in its chapter 11 cases, the Lead Plaintiffs will also receive 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. The ERISA Plaintiffs will also receive a distribution of insurance proceeds in the amount of approximately $22 million. Settlement amounts from insurers and underwriters were paid and placed in escrow by September 25, 2007 pending Court approval.

The MDL Settlements include a dismissal with prejudice of the ERISA and Securities Actions and a full release as to 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. 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, 2007, Delphi has a liability of $351 million recorded for this matter. The expense incurred for this matter was $343 million during 2007. 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. Delphi had previously recorded an initial reserve in the amount of its $10 million insurance deductible, and net of related payments, had an $8 million liability recorded as of December 31, 2006. Based on the modifications to the MDL Settlements discussed above, Delphi reduced its liability by approximately $10 million during December 2007. As discussed above, in conjunction with the MDL Settlements, Delphi expects to record recoveries of $148 million for the settlement amounts provided to the plaintiffs from insurers, underwriters, and third-party reimbursements and will record such recoveries upon Delphi s emergence from chapter 11.

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.

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Under section 362 of the Bankruptcy Code, the filing of a bankruptcy petition automatically stays most actions against a debtor, including most actions to collect prepetition indebtedness or to exercise control over the property of the debtor s estate. Absent an order of the Court, substantially all prepetition liabilities are subject to settlement under a plan of reorganization. The Amended 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 Amended Plan, the automatic stay remains in effect until the effective date of the Amended 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. 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.

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 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 concerning a portion of the Site. The Remedial Investigation and Alternatives Array Document were finalized in 2007. A Feasibility Study and Record of Decision are expected to be completed in 2008. Although Delphi believes that capping and future monitoring is a reasonably possible outcome, 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, 2007, Delphi has recorded its best estimate of its share of the remediation based on the remedy described above. However, if that remedy is not accepted, Delphi s expenditures for remediation could increase by $20 million in excess of its existing reserves. Delphi will continue to re-assess any potential remediation costs and, as appropriate, its environmental reserve as the investigation proceeds.

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.

GM Warranty Settlement Agreement

As previously disclosed, GM alleged that catalytic converters supplied by Delphi s Powertrain Systems segment to GM for certain 2001 and 2002 vehicle platforms did not conform to specifications. In May 2007 GM informed Delphi that it has experienced higher than normal warranty claims with respect to certain 2003-2005 vehicle models due to instrument clusters previously supplied by Delphi s Automotive Holdings Group segment. Effective December 2007, the responsibility for this product line was transferred to the Electronics and Safety segment. In 2007, Delphi reached a tentative agreement with GM to resolve these claims along with certain other known warranty matters. Based on the agreement, Delphi recorded $83 million of additional warranty expense in cost of sales, net of $8 million of recovery, primarily related to the Electronics and Safety and Powertrain segments. On September 27, 2007, the Court authorized

Delphi to enter into a Warranty, Settlement, and Release Agreement (the Warranty Settlement Agreement) with GM resolving these and certain other known warranty matters. Under the terms of the Warranty Settlement Agreement, Delphi will pay GM up to an estimated $199 million, comprised of approximately $127 million to be paid in cash over time as noted below, and up to approximately $72 million to be paid in the form of delivery by Delphi to GM of replacement product. The Warranty Settlement Agreement settles all outstanding warranty claims and issues related to any component or

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assembly supplied by Delphi to GM, which as of August 10, 2007 are (i) known by GM, subject to certain specified exceptions, (ii) believed by GM to be Delphi s responsibility in whole or in part, and (iii) in GM s normal investigation process, or which should have been within that process, but were withheld for the purpose of pursuing a claim against Delphi. Included in the settlement are all warranty claims set forth in GM s amended proof of claim filed on July 31, 2006 in connection with Delphi s chapter 11 cases (GM s Proof of Claim).

In addition, the Warranty Settlement Agreement limits Delphi s liability related to certain other warranty claims that have become known by GM on or after June 5, 2007, and generally prohibits both GM and Delphi from initiating actions against the other related to any warranty claims settled in the agreement. In accordance with the Warranty Settlement Agreement, Delphi s claims agent has reduced the liquidated component relating to warranty claims contained in GM s Proof of Claim by approximately $530 million which includes, among other things, those personal injury claims asserted in GM s Proof of Claim that relate to warranty claims settled in the agreement, and has expunged with prejudice the unliquidated component relating to warranty claims asserted in GM s Proof of Claim. Pursuant to the Warranty Settlement Agreement, GM is foreclosed from bringing any type of claim set forth on the exhibits attached thereto, if it is shown that on or before August 10, 2007, (i) GM knew about the claim, (ii) the amount of the claim exceeded $1 million, or GM believed the claim would exceed $1 million, (iii) the claim is in GM s investigation process or GM determined that it should have been in GM s investigation process but excluded it from that process for the purpose of pursuing a claim against Delphi, and (iv) GM believed or reasonably should have believed that Delphi had some responsibility for the claim.

Delphi elected to defer amounts due under the Warranty Settlement Agreement until it receives payments from GM on or about the time of its emergence from chapter 11. As a result, GM will set off these payments against the amounts then payable to Delphi by GM. Since Delphi has elected to defer these payments, GM will receive interest at the rate of 6% per annum on the payment from November 1, 2007, until the amounts are paid by Delphi or set off against amounts payable by GM.

Other Warranty Matters

During 2007, Delphi observed higher than normal warranty claims on engine electronic control units supplied for certain 2005-2007 vehicle models by Delphi s Powertrain Systems segment and recorded $93 million of additional warranty expense in cost of sales in 2007.

During 2006, Delphi s Thermal Systems segment began experiencing quality issues regarding compressor parts that were purchased from one of Delphi s affiliated suppliers and subsequently established warranty reserves of $59 million to cover the cost of various repairs that may be implemented. As of December 31, 2007, the related warranty reserve is $41 million.

Intellectual Property Matters

In December 2007, the Company concluded patent license negotiations with Denso and reached a settlement agreement in connection with variable valve timing technology. Under the settlement agreement, which is subject to the Court s approval, the Company is authorized to use the technology pursuant to a license agreement with Denso, and the Company will pay Denso a royalty based upon the sales of products containing the technology. On February 5, 2008, the Company filed a motion with the Court seeking approval of the settlement agreement, and the Court hearing is scheduled for February 29, 2008.

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 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. 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	66	Executive Chairman of the Board
Rodney O Neal	54	Chief Executive Officer & President
Robert J. Dellinger	47	Executive Vice President & Chief Financial Officer
Mark R. Weber	59	Executive Vice President, Global Business Services
James A. Bertrand	50	Vice President & President, Delphi Automotive Holdings Group
Guy C. Hachey	52	Vice President & President, Delphi Powertrain Systems & President, Delphi Europe, Middle East & Africa
Francisco A. Ordonez	57	Vice President & President, Delphi Product & Service Solutions
Jeffrey J. Owens	53	Vice President & President, Delphi Electronics & Safety & President, Delphi Asia Pacific
Ronald M. Pirtle	53	Vice President & President, Delphi Thermal Systems
Robert J. Remenar	52	Vice President & President, Delphi Steering
John D. Sheehan	47	Vice President & Chief Restructuring Officer
David M. Sherbin	48	Vice President, General Counsel & Chief Compliance Officer
James A. Spencer	55	Vice President & President, Delphi Electrical/Electronic Architecture & President, Delphi South America & Mexico

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. Dellinger was named executive vice president and chief financial officer of Delphi Corporation effective October 8, 2005. From June 2002 to September 2005, Mr. Dellinger served as executive vice president and chief financial officer of Sprint Corporation, where he also was executive vice president finance from April 2002 to June 2002. Before joining Sprint, Mr. Dellinger served as president and chief executive officer of GE Frankona Re based in Munich, Germany with responsibility for the European operations of General Electric s Employers Reinsurance Corporation, a global reinsurer, from 2000 to 2002. From 2001 to 2002, he also served as president and chief executive officer of General Electric s Employers Reinsurance Corporation s Property and Casualty Reinsurance business in Europe and Asia. From 1997 to 2000, he served as executive vice president and chief financial officer of General Electric s Employers Reinsurance Corporation. Other positions Mr. Dellinger held at GE include manager of finance for GE Motors and Industrial Systems and director of finance and business development for GE Plastics Pacific based in Singapore. Mr. Dellinger has been a director of SIRVA, INC. since March 2003.

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

Mr. Bertrand was named president of Delphi Automotive Holdings Group Division, effective January 2004. Prior to this position, Mr. Bertrand served a dual role as president of Delphi s Automotive Holdings Group Division since January 2003 and President of Delphi s former Safety & Interior Systems Division since January 2000. He has been a vice president of Delphi since 1998.

Mr. Hachey was named president of Delphi Powertrain Systems Division and president for Delphi Europe, Middle East and Africa effective July 2006. Previously he served as president of the former Delphi Energy & Chassis Division effective January 2000. He has been a vice president of Delphi since 1998. Mr. Hachey is a Board Member of CLEPA (Supplier Association For Europe).

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 Thermal Systems division effective July 2006. Previously, he served 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. Pirtle serves on the Advisory Board of Focus Hope Detroit.

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. Sheehan was named vice president and chief restructuring officer for Delphi Corporation effective October 2005. 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. 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. Sherbin serves on the Board of Directors of the Michigan Center for Civic Education.

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Mr. Spencer was named vice president of Delphi Corporation and president of Delphi Electric/Electronic Architecture division, formerly Packard Electric Systems division, effective November 2000. He also serves as president for Delphi South America and Mexico 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 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. On December 31, 2007 and January 31, 2008, there were 278,006 and 277,418 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 20. Share-Based Compensation of the consolidated financial statements in this Annual Report for additional information regarding equity compensation plans.

	Price Range of Common Stock	
Year Ended December 31, 2007	**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

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Year Ended December 31, 2006	Price Range of Common Stock High	Low
4th Quarter	$ 3.92	$ 1.35
3rd Quarter	$ 1.88	$ 1.07
2nd Quarter	$ 1.99	$ 0.60
1st Quarter	$ 1.02	$ 0.03

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 2007 and the Company did not have a share repurchase program during 2007.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data reflects the results of operations and balance sheet data for the years ended 2003 to 2007. 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.

In October 2005, the Debtors filed voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code. The Debtors have continued to operate their businesses as debtors-in-possession under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Court. Delphi s non-U.S. subsidiaries were not included in the filings, continue their business operations without supervision from the U.S. courts and are not subject to the requirements of the Bankruptcy Code. For additional information on the bankruptcy cases, refer to Note 2. Transformation Plan and Chapter 11 Bankruptcy to the consolidated financial statements in this Annual Report.

	Year Ended December 31, 2007	2006	2005	2004	2003
	(in millions, except per share amounts)				
Statement of Operations Data:					
Net sales	$ 22,283	$ 22,737	$ 23,394	$ 24,731	$ 24,013
Loss from continuing operations (1) (2) (3)	$ (2,308)	$ (5,141)	$ (2,130)	$ (4,886)	$ (150)
Net loss (1) (2) (3)	$ (3,065)	$ (5,464)	$ (2,357)	$ (4,818)	$ (10)
Basic & Diluted (loss) earnings per share					
Continuing operations	$ (4.11)	$ (9.16)	$ (3.80)	$ (8.71)	$ (0.27)
Discontinued operations	(1.34)	(0.58)	(0.38)	0.12	0.25
Cumulative effect of accounting change		0.01	(0.03)		
Basic and diluted loss per share (1) (2) (3)	$ (5.45)	$ (9.73)	$ (4.21)	$ (8.59)	$ (0.02)
Cash dividends declared per share	$ 0.000	$ 0.000	$ 0.045	$ 0.280	$ 0.280
Ratio of earnings to fixed charges (4)	N/A	N/A	N/A	N/A	N/A
Balance Sheet Data:					

Total assets	$ 13,667	$ 15,392	$ 17,023	$ 16,559	$ 21,066
Total debt	$ 3,554	$ 3,342	$ 3,389	$ 2,976	$ 3,456
Liabilities subject to compromise (5)	$ 16,197	$ 17,416	$ 15,074	$	$
Stockholders (deficit) equity	$ (13,472)	$ (12,055)	$ (6,245)	$ (3,625)	$ 1,446

(1) Includes pre-tax impairment charges related to long-lived assets held for use of $98 million, $172 million, $172 million, $324 million, and $58 million in 2007, 2006, 2005, 2004 and 2003, respectively. Includes

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pre-tax impairment charges related to intangible assets of $6 million in 2005. Includes pre-tax impairment charges related to goodwill of $390 million and $30 million in 2005 and 2004, respectively.

(2) In 2007 and 2006 Delphi incurred a pre-tax charge of $212 million and $2,706 million, respectively, related to the U.S. employee workforce transition programs, as described in Note 15. U.S. Employee Workforce Transition Programs to the consolidated financial statements.

(3) 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.

(4) Fixed charges exceeded earnings by $2,765 million, $5,031 million, $2,218 million, $830 million and $360 million for the years ended December 31, 2007, 2006, 2005, 2004, 2003, respectively resulting in a ratio of less than one.

(5) As a result of the Chapter 11 Filings, the payment of prepetition indebtedness is subject to compromise or other treatment under a plan of reorganization. In accordance with Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7) we are required to segregate and disclose all prepetition liabilities that are subject to compromise. 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 11. Liabilities and Note 13. 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.

Executive Summary of Business

Delphi Corporation is a global supplier of vehicle electronics, engine management systems, safety components, thermal management systems and other transportation components. In addition, our technologies are present in communication, computer, energy and medical applications. We operate in extremely competitive markets. Our customers select us based upon numerous factors, including technology, quality and price. Our efforts to generate new business do not immediately affect our financial results, because supplier selection in the auto industry is generally finalized several years prior to the start of production of the vehicle. As a result, business that we win in 2007 will generally not impact our financial results until 2009 or beyond.

In light of our continued deterioration in performance in recent years, we determined that it was necessary to address and resolve our United States (U.S.) legacy liabilities, product portfolio, operational issues and profitability requirements. As a result, we intensified our efforts during 2005 to engage our 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 filings, continue their business operations without supervision from the Court and are not subject to the requirements of the Bankruptcy Code.

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, as detailed below, including agreements reached with each of Delphi s principal U.S. labor unions and GM. At a Court hearing on September 27, 2007, Delphi stated that the current dynamics of the capital markets prompted Delphi to consider whether amendments to the Plan filed on September 6 might be necessary. Delphi commenced its Disclosure Statement hearing on October 3, 2007, and after resolving certain objections, requested that the hearing continue on October 25, 2007. During October and November, the Court granted additional requests by Delphi to further continue the hearing on the adequacy of the Disclosure Statement to allow Delphi to negotiate potential amendments to the Plan and the related agreements with its stakeholders, including the comprehensive agreements reached with GM and the Equity Purchase and Commitment Agreement (July EPCA) 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

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Investors). On December 3, 2007, Delphi filed further potential amendments to the Plan, the comprehensive agreements reached with GM, the July EPCA, and the related Disclosure Statement and on December 4, 2007 Delphi announced that it had reached agreement in principle on these amendments with the Creditors Committee, the Equity Committee, GM, and the Investors. On December 10, 2007, Delphi and the Investors entered into an amendment to the July EPCA (together with the July EPCA, the EPCA). After a hearing on the adequacy of the proposed Disclosure Statement on December 6 and 7, 2007, on December 10, 2007, Delphi filed its first amended joint Plan of Reorganization (Amended Plan) and its first amended Disclosure Statement with respect to the Amended Plan (Amended Disclosure Statement). The Court entered an order approving the adequacy of the Amended Disclosure Statement on December 10, 2007. After entry of the order approving the Amended Disclosure Statement, Delphi began solicitation of votes on the Amended Plan. On January 16, 2006, Delphi filed further modifications to the Amended Plan. Additional modifications are set forth in Exhibit A to the Confirmation Order which was entered on January 25, 2008. On January 16, 2008, Delphi announced that the voting results, which are summarized below, had been filed with the Court. A hearing on confirmation of the Amended Plan took place on January 17, 18, and 22, 2008. The Court entered the order confirming the Amended Plan on January 25, 2008, and that order became final on February 4, 2008. In order to consummate the Amended Plan several conditions precedent set forth in section 12.2 of the Amended Plan must be satisfied or waived in accordance with section 12.3 of the Amended Plan. The remaining conditions to be satisfied subsequent to receipt of the order confirming the Amended Plan include:

- Delphi must have entered into the exit financing arrangements and all conditions precedent to the consummation thereof must have been waived or satisfied.

- The settlement agreement documents with GM must have become effective in accordance with their terms, and GM must have received the consideration from Delphi pursuant to the terms of the settlement agreement.

- No request for revocation of the order confirming the Amended Plan under section 1144 of the Bankruptcy Code may have been made, or, if made, may remain pending.

- Each exhibit, document, or agreement to be executed in connection with the Amended Plan must be in form and substance reasonably acceptable to Delphi.

- All conditions to the effectiveness of the EPCA must have been satisfied or waived.

- The aggregate amount of all Trade and Other Unsecured Claims (as defined in the Amended Plan) that have been asserted or scheduled but not yet disallowed must have been allowed or estimated for distribution purposes by the Court to be no more than $1.45 billion, excluding all applicable accrued postpetition interest thereon.

While Delphi is working to satisfy the conditions set forth above there can be no assurances that all conditions to the consummation of the Amended Plan will be satisfied in a timely manner. Delphi s ability to satisfy the conditions set forth above is affected by the substantial uncertainty and a significant decline in capacity in the credit markets and operational challenges due to the overall climate in the U.S. automotive industry. Refer to the rest of this Item 7 and Item 1A. Risk Factors, Risk Factors Specifically Related to our Current Reorganization Cases Under Chapter 11 of the U.S. Bankruptcy Code and Business Environment and Economic Conditions for further discussions. In the event that one or more conditions cannot be satisfied in a timely manner, it is likely that Delphi and certain of its U.S. subsidiaries would continue as debtors-in-possession in chapter 11, until one of the following occurs: the order confirming the Amended Plan is modified, a further amended plan of reorganization is confirmed or other dispositive action is taken. In addition, in the event the Amended Plan is not consummated, approvals obtained in connection with the confirmation of the Amended Plan, may become null and void, including:

Court approval of the GM settlement and restructuring agreements.

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 multidistrict litigation.

The Court s entry of orders, authorizing the assumption and rejection of unexpired leases and executory contracts by Delphi as contemplated by Article 8.1 of the Amended Plan.

In the event the Amended Plan does not become effective and the approvals obtained in connection therewith will become null and void, Delphi likely would engage in alternate actions in furtherance of its transformation plan, including working with its stakeholders to review and revise the Amended Plan to reflect the change in circumstances. There can be no assurances that Delphi would be successful in these alternative actions or any other actions necessary in the event the Amended Plan is not consummated or the orders confirming the Amended Plan or other related approvals will become null and void.

In addition, the Refinanced DIP Credit Facility (as defined in this Item 7) currently has a maturity date of July 1, 2008. If Delphi is not able to emerge from chapter 11 prior to this maturity date, Delphi would seek to either extend the term of that facility or seek alternative sources of financing. If this were to occur, there can be no assurances that Delphi would be able to extend this facility prior to maturation or otherwise obtain alternative sources of financing. The failure to secure such extension or alternative source of financing would materially adversely impact our business, financial condition and operating results by severely restricting our liquidity. See also Item 1A. Risk Factors, Risk Factors Specifically Related to our Current Reorganization Cases Under Chapter 11 of the U.S. Bankruptcy Code, and Debt.

In the event the conditions to the EPCA have not been satisfied or waived (and absent revisions) prior to March 31, 2008, the terms of the EPCA provide that Delphi and an affiliate of Appaloosa each will have the unilateral right to terminate the EPCA. In addition, absent revisions to the settlement and restructuring agreements with GM, these agreements may be terminated by Delphi or GM if the effective date of the Amended Plan has not occurred by March 31, 2008 and the EPCA has been terminated prior thereto. However, if the effective date of the Amended Plan has not occurred by March 31, 2008 and the EPCA has not been terminated by such date the agreements with GM may be terminated by Delphi or GM on the earlier of the termination of the EPCA or April 30, 2008.

Delphi is working to satisfy or obtain waivers with respect to the principal conditions in the EPCA and GM settlement and restructuring agreements but there can be no assurances that it can satisfy all conditions or obtain necessary waivers or amendments. These conditions include conditions relating to exit financing and certain funding waivers applicable to Delphi s U.S. pension obligations. With respect to the exit financing conditions contained in the Amended Plan and EPCA, it is expected that on the effective date of the Amended Plan our existing debtor-in-possession financing will be replaced with approximately $6.1 billion of new exit financing. However, the U.S. and global credit markets currently are challenging and in particular the market for leveraged loans is marked by substantial uncertainty and a significant decline in capacity. Delphi is in discussions with the Investors and GM regarding implementation of exit financing. There can be no assurances as to whether such exit financing can be obtained. On February 12, 2008, GM confirmed that it is exploring alternatives with Delphi in the event that the planned financing level is not achieved. Refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, Plan of Reorganization and Transformation Plan, Equity Purchase and Commitment Agreement for more information.

In addition, with respect to implementing the transfer of certain of Delphi s unfunded pension obligations to a pension plan sponsored by GM, the Internal Revenue Service (IRS) and Pension Benefit Guaranty Corporation (PBGC) have agreed to certain waivers that are necessary for the transfers to proceed, which waivers are conditioned upon Delphi emerging from chapter 11 by February 29, 2008. Delphi currently does not believe that it will emerge by such date and is discussing a possible extension of such waivers with the IRS and PBGC through at least March 31, 2008. If Delphi does not emerge from chapter 11 on or before the expiration of the conditional waivers, there can be no assurance that Delphi will be able to negotiate a revised funding plan with the IRS and PBGC, that GM will agree that any revised funding plan satisfies the conditions to consummation of the other transactions called for by the global settlement and restructuring agreements, or that any plan agreed to will not result in the need for substantially greater cash contributions or that Delphi will be able to satisfy such increased obligations. If the Amended Plan, including the settlement agreements reached with GM, does not become effective and the transactions contemplated thereby are not consummated such that Delphi does not emerge from chapter 11 on or before the expiration of the conditional waivers, the PBGC may immediately draw down the $150 million letter of credit, the PBGC could initiate an involuntary plan termination, missed contributions would become due and the IRS could assess penalties on the missed contributions. Although Delphi would likely contest such assessment, the PBGC could consider our failure to immediately fund our plans a basis to call for an involuntary termination of the plans. Refer to Note 2. Transformation Plan and Chapter 11 Bankruptcy for further information on Delphi s discussions with the IRS and the PBGC.

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 Amended Plan and the series of settlement agreements it embodies. The progress on each element is discussed below.

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. The UAW settlement agreement includes extending, until March 31, 2008, our obligation to indemnify GM if certain GM-UAW benefit guarantees are triggered. Portions of these agreements have already become effective, and the remaining portions will not become effective until the effectiveness of the GSA and the MRA with GM and upon substantial consummation of the Amended Plan as confirmed by the Court. The Amended Plan incorporates, approves and is consistent with the terms of each agreement.

These U.S. labor settlement agreements include those with the:

UAW, dated June 22, 2007;

International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers-Communication Workers of America (IUE-CWA), dated August 5, 2007;

International Association of Machinists and Aerospace Workers and its District 10 and Tool and Die Makers Lodge 78 (IAM), dated July 31, 2007;

International Brotherhood of Electrical Workers and its Local 663 (IBEW) relating to Delphi Electronics and Safety, dated July 31, 2007;

IBEW relating to Delphi s Powertrain division, dated July 31, 2007;

International Union of Operating Engineers (IUOE) Local 18S, dated August 1, 2007;

IUOE Local 101S, dated August 1, 2007;

IUOE Local 832S, dated August 1, 2007;

United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union and its Local Union 87L (together, the USW) relating to Delphi s operations at Home Avenue, dated August 16, 2007; and

USW relating to Delphi s operations at Vandalia, dated August 16, 2007.

Subject to these settlement agreements, the existing collective bargaining agreements:

- were modified and extended to September 14, 2011 for the UAW, the IAM, the IBEW, the IUOE Local 18S, the IUOE Local 832S, and the USW;

- were modified and extended to October 12, 2011 for the IUE-CWA; and

- were terminated and superseded for the IUOE Local 101S by the settlement agreement for the IUOE Local 101S.

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 15. 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).

GM Conclude negotiations with GM to finalize financial support for certain of our 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 a Global Settlement Agreement, as amended (the GSA) and a Master Restructuring Agreement, as amended (the MRA). The GSA and the MRA comprised part of the Amended Plan and were approved in the order confirming the Amended Plan on January 25, 2008. The GSA and MRA are not effective until and unless Delphi emerges from chapter 11. Accordingly, the accompanying consolidated financial statements do not include any adjustments related to the GSA or the MRA. These agreements will produce a material reduction in Delphi s liabilities related to the workforce transition programs. Delphi will account for the impact of the GSA or the MRA when the conditions of the agreements are satisfied, which will likely occur upon emergence from chapter 11.

- Most obligations set forth in the GSA are to be performed upon the occurrence of the effective date of the Amended Plan or as soon as reasonably possible thereafter. By contrast, resolution of most of the matters addressed in the MRA will require a significantly longer period that will extend for a number of years after confirmation of the Amended Plan.

- GM s obligations under the GSA and MRA are conditioned upon, among other things, Delphi s consummation of the Amended Plan, including payment of amounts to settle GM claims as outlined below.

The GSA is intended to resolve outstanding issues between Delphi and GM that have arisen or may arise before Delphi s emergence from chapter 11, and will be implemented by Delphi and GM in the short term. On November 14, 2007 and again on December 3, 2007, Delphi entered into restated amendments to both the GSA and the MRA. Together, these agreements provide for a comprehensive settlement of all outstanding issues between Delphi and GM (other than ordinary course matters), including: litigation commenced in March 2006 by Delphi to terminate certain supply agreements with GM; all potential claims and disputes with GM arising out of the separation of Delphi from GM in 1999; certain post-separation claims and disputes between Delphi and GM; the proofs of claim filed by GM against Delphi in Delphi s chapter 11 cases; GM s treatment under Delphi s Amended Plan; and various other legacy issues.

In addition to establishing claims treatment, including specifying which claims survive and the consideration to be paid by Delphi to GM in satisfaction of certain claims, the GSA addresses, among other things, commitments by Delphi and GM regarding other postretirement benefit and pension obligations, and other GM contributions with respect to labor matters and releases.

GM will assume approximately $7.3 billion of certain post-retirement benefits for certain of the Company s active and retired hourly employees, including health care and life insurance;

Delphi will freeze its Delphi Hourly-Rate Employees Pension Plan as soon as practicable following the effective date of the Amended Plan, as provided in the union settlement agreements, and GM s Hourly Pension Plan will become responsible for certain future costs related to the Delphi Hourly-Rate Employees Pension Plan;

Delphi will transfer certain assets and liabilities of its Delphi Hourly-Rate Employees Pension Plan to the GM Hourly-Rate Employee Pension Plan, as set forth in the union settlement agreements;

Shortly after the effectiveness of the Amended Plan, GM will receive an interest bearing note from Delphi in the amount of $1.5 billion which is expected to be paid promptly following effectiveness;

GM will make significant contributions to Delphi to fund various special attrition programs, consistent with the provisions of the U.S. labor agreements; and

GM and certain related parties and Delphi and certain related parties will exchange broad, global releases (which will not apply to certain surviving claims as set forth in the GSA).

The MRA is intended to govern certain aspects of Delphi and GM s commercial relationship following Delphi s emergence from chapter 11. The MRA addresses, among other things, the scope of GM s existing and future business awards to Delphi and related pricing agreements and sourcing arrangements, GM commitments with respect to reimbursement of specified ongoing labor costs, the disposition of certain Delphi facilities, and the treatment of existing agreements between Delphi and GM. Through the MRA, Delphi and GM have agreed to certain terms and conditions governing, among other things:

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;

GM will make significant, ongoing contributions to Delphi and reorganized Delphi to reimburse the Company for labor costs in excess of $26 per hour, excluding certain costs, including hourly pension and other postretirement benefit contributions provided under the Supplemental Wage Agreement, at specified UAW manufacturing facilities retained by Delphi;

GM and Delphi have agreed to certain terms and conditions concerning the sale of certain of Delphi s non-core businesses;

GM and Delphi have agreed to certain additional terms and conditions if certain of Delphi s businesses and facilities are not sold or wound down by certain future dates (as defined in the MRA); and

GM and Delphi have agreed to the treatment of certain contracts between Delphi and GM arising from Delphi s separation from GM and other contracts between Delphi and GM.

The GSA and MRA may be terminated by the Company or GM if the effective date of the Amended Plan has not occurred by March 31, 2008 and the EPCA has been terminated. However, if the effective date of the Amended Plan has not occurred by March 31, 2008 and the EPCA has not been terminated by such date the GSA and MRA may be terminated by the Company or GM on the earlier of the termination of the EPCA or April 30, 2008.

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, and wheel bearings. Effective November 1, 2006, in connection with the Company s continuous evaluation of its product portfolio, we decided that our power products business no longer fit within its future product portfolio and that business line was moved to Delphi s Automotive Holdings Group. With the exception of the catalyst product line, included

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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 21. Segment Reporting to the consolidated financial statements.

Throughout 2007, 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. 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 2007, Delphi either obtained Court approval to sell or closed on sales for the global steering and halfshaft businesses, our interiors and closures product line, catalysts product line and brake hose business. Refer to Note 5. Discontinued Operations and Note 6. Acquisitions and Divestitures to the consolidated financial statements for more information.

Costs recorded in 2007 and 2006 related to the transformation plan for non-core product lines in addition to the charge described above include impairments of long-lived assets of $271 million and $187 million, respectively (of which $78 million and $144 million were recorded as a component of long-lived asset impairment charges and $193 million and $43 million were recorded as a component of loss on discontinued operations), and employee termination benefits and other exit costs of $371 million and $57 million, respectively (of which $230 million and $27 million were recorded as a component of cost of sales, $9 million and less than $1 million were recorded as a component of selling, general and administrative expenses, and $132 million and $30 million were recorded as a component of loss on discontinued operations). Included in employee termination benefits and other exit costs for 2007 were $268 million related to a manufacturing facility in Cadiz, Spain discussed below.

Cost Structure Transform our salaried workforce and reduce general and administrative expenses to ensure that its 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 and information technology outsourcing activities, reduction in our global salaried workforce by taking advantage of attrition and using salaried separation plans, and realignment of our salaried benefit programs to bring them in line with more competitive industry levels. Given the investment required to implement these initiatives, we do not expect to fully realize substantial savings until 2009 and beyond.

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

Delphi s discussions with the IRS and the PBGC regarding the funding of the Delphi Hourly-Rate Employees Pension Plan (the Hourly Plan) and the Delphi Retirement Program for Salaried Employees (the Salaried Plan) upon emergence from chapter 11 culminated in a funding plan that would enable the Company to satisfy its pension funding obligations upon emergence from chapter 11 through a combination of cash contributions and a transfer of certain unfunded liabilities to a pension plan sponsored by GM. On May 1, 2007, the IRS issued conditional waivers for the Hourly Plan and Salaried Plan with respect to the plan year ended September 30, 2006 (the 2006 Waivers). On May 31, 2007, the Court authorized Delphi to perform under the terms of those funding waivers. The IRS modified the 2006 Waivers by extending the dates by which Delphi is required to file its Amended Plan and emerge from chapter 11. On September 28, 2007, the IRS issued a second conditional waiver for the Hourly Plan for the plan year ended September 30, 2007 (the 2007 Hourly Plan Waiver). The 2007 Hourly Plan Waiver is necessary to make the transfer of hourly pension obligations to the GM plan economically efficient by avoiding redundant cash contributions that

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would result in a projected overfunding of the Hourly Plan. On October 26, 2007, the Court authorized Delphi to perform under the 2007 Hourly Plan Waiver. The conditional funding waivers will permit Delphi to defer funding contributions due under ERISA and the IRC until February 29, 2008.

The pertinent terms of the 2006 Waivers, as modified, include that the effective date of the Company s plan of reorganization must occur no later than February 29, 2008. Effective June 16, 2007, Delphi provided to the PBGC letters of credit in favor of the Hourly and Salaried Plans in the amount of $100 million to support funding obligations under the Hourly Plan and $50 million to support funding obligations under the Salaried Plan. Not later than five days after the effective date of the Company s plan of reorganization, the Company must either (1) effect a transfer under IRC § 414(l) to a GM plan, (2) make cash contributions to the Hourly Plan, or (3) make a combination thereof that reduces the net unfunded liabilities of the Hourly Plan by $1.5 billion as determined on a basis in accordance with FASB Statement No. 87, *Employers Accounting for Pensions.*

Not later than five days after the effective date of the Company s plan of reorganization, the Company must contribute approximately $1.25 billion to the Hourly and Salaried Plans with approximately $1.05 billion in plan contributions and approximately $200 million into escrow. These contributions include additional contributions required by the conditional waivers as extended.

The Company has represented that it intends to meet the minimum funding standard under IRC section 412 for the plan years ended September 30, 2006 and 2007 upon emergence from chapter 11. The Company is seeking an extension of the waiver terms with the IRS and the PBGC as they relate to the effective date of the Amended Plan. The foregoing description of the pension funding plan is a summary only and is qualified in its entirety by the terms of the waivers and the orders of the Court.

In addition to the funding strategy discussed above and the changes to the Hourly Plan discussed in the Labor section, Delphi committed to freeze the Hourly and Salaried Plans effective upon emergence from chapter 11 which resulted in curtailment charges of $59 million and $116 million, respectively, in 2007. Refer to Note 16. Pension and Other Postretirement Benefits for more information.

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 at the end of 2005 and throughout 2006 and 2007, 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. Under the Amended Plan, all executory contracts and unexpired leases to which any of the Debtors is a party will be deemed automatically assumed in accordance with the provisions and requirements of sections 365 and 1123 of the Bankruptcy Code as of the effective date of the Amended Plan, unless such executory contracts or unexpired leases (i) will have been previously rejected by Delphi pursuant to a final order of the Court, (ii) are the subject of a motion to reject pending on or before such effective date, (iii) have expired or been terminated on or prior to December 31, 2007 (and not otherwise extended) pursuant to their own terms, (iv) are listed on an exhibit to the Amended Plan as rejected executory contracts or unexpired leases, or (v) are otherwise rejected pursuant to the terms of the Amended Plan. The entry of the order confirming the Amended Plan is also the order approving the rejections and assumptions described in the Amended Plan. Notwithstanding the foregoing or anything else in Article VIII of the Amended Plan, (i) all executory contracts or unexpired leases between GM and any of the Debtors will receive the treatment described in the GSA and the MRA between Delphi and GM, (ii) all agreements, and exhibits or attachments thereto, between the Delphi s unions and Delphi will receive the treatment described in Article 7.21 of the Amended Plan and the union settlement agreements, and (iii) all executory contracts memorializing ordinary course customer obligations (as defined in the Amended Plan) will receive the treatment described in Article 5.2 of the Amended Plan.

The Amended Plan of Reorganization

The Amended Disclosure Statement and Amended Plan are based upon a series of global settlements and compromises that involved every major constituency of Delphi and its affiliated Debtors reorganization cases, including Delphi s principal U.S. labor unions, GM, the official committee of unsecured creditors (the Creditors Committee) and the official committee of equity security holders (the Equity Committee) appointed in Delphi s chapter 11 cases, and the lead plaintiffs in certain securities and Employee Retirement Income Security Act (ERISA) multidistrict litigation (on behalf of holders of various claims based on alleged violations of federal securities law and ERISA), and include detailed information regarding the treatment of claims and interests and an outline of the EPCA and rights offering. The Amended Disclosure Statement also outlines Delphi s transformation centering around the five core areas discussed above.

The Court entered an order approving the adequacy of the Amended Disclosure Statement on December 10, 2007. After entry of the order approving the Amended Disclosure Statement, Delphi began solicitation of votes on the Amended Plan. On January 16, 2008, Delphi filed further modifications to the Amended Plan. Additional modifications are set forth in Exhibit A to the Confirmation Order entered on January 25, 2008. On January 16, 2008, Delphi announced that the voting results had been filed with the Court. Voting by classes of creditors and holders of interest (including shareholders) entitled to vote on the Amended Plan illustrates broad-based support for the Amended Plan. Eighty-one percent of all voting general unsecured creditors voted to accept the Amended Plan (excluding ballots cast by GM, plaintiffs in the MDL, and holders of interests). Of the total amount voted by all general unsecured creditors classes, seventy-eight percent voted to accept the Amended Plan. One hundred percent of the ballots cast in the GM and MDL classes voted to accept the Amended Plan. Seventy-eight percent of voting shareholders voted to accept the Amended Plan.

The recoveries, distributions, and investments pursuant to the confirmed Amended Plan are as follows:

	Confirmed Plan (1/25/2008)
Net Funded Debt	**$4.6 billion**
Plan Equity Value	Total enterprise value of **$12.8 billion**, which after deducting net debt and warrant value results in distributable equity value of **$8.0 billion** (or approximately $59.61 per share based on approximately 134.3 million shares)
Plan Investors	**Direct Investment** Purchase $400 million of preferred stock convertible at an assumed enterprise value of $10.2 billion (or 29.2% discount from Plan Equity Value) Purchase $400 million of preferred stock convertible at an assumed enterprise value of $10.3 billion (or 28.6% discount from Plan Equity Value) Purchase $175 million of New Common Stock at an assumed enterprise value of $9.7 billion (or 35.6% discount from Plan Equity Value)

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	Confirmed Plan (1/25/2008)
Plan Investors (continued)	**Backstop of Discount Rights Offering** Commit to purchase any unsubscribed shares of common stock in connection with an approximately $1.6 billion rights offering to be made available to unsecured creditors (the Discount Rights Offering)
GM	**Recovery of $2.48 billion at Plan value of $12.8 billion** At least $750 million in Cash Up to $750 million in a second lien note $1.073 billion (in liquidation value) in junior convertible preferred stock
Unsecured Creditors	**Par plus accrued recovery at Plan value of $12.8 billion** 78.4% in New Common Stock at Plan Equity Value 21.6% through pro rata participation in the Discount Rights Offering at an assumed enterprise value of $9.7 billion (or 35.6% discount from Plan Equity Value)
TOPrS	**90% of par recovery at Plan value of $12.8 billion** 78.4% in New Common Stock at Plan Equity Value 21.6% through pro rata participation in the Discount Rights Offering at an assumed enterprise value of $9.7 billion (or 35.6% discount from Plan Equity Value)
Existing Common Stockholders	**Par Value Rights** Right to acquire approximately 21,680,996 shares of New Common Stock at a purchase price struck at Plan Equity Value **Warrants** Warrants to acquire 6,908,758 shares of New Common Stock (which comprises 5% of the fully diluted New Common Stock) exercisable for seven years after emergence struck at 20.7% premium to Plan Equity Value Warrants to acquire $1.0 billion of New Common Stock exercisable for six months after emergence struck at 9.0% premium to Plan Equity Value Warrants to acquire 2,819,901 shares of New Common Stock (which comprises 2% of the fully diluted New Common Stock) exercisable for ten years after emergence struck at Plan Equity Value **Common Stock** 461,552 shares of New Common Stock

Delphi entered into a best efforts engagement letter and fee letter with JPMorgan Securities, Inc., JPMorgan Chase Bank, N.A., and Citigroup Global Markets Inc. in connection with an exit financing arrangement, with the goal of emergence from chapter 11 as soon as practicable.

Pursuant to an order entered by the Court on December 20, 2007, the Debtors exclusivity period under the Bankruptcy Code for filing a plan of reorganization was extended to and including March 31, 2008, and the Debtors exclusivity period for soliciting acceptances of the Amended Plan was extended to and including May 31, 2008.

Equity Purchase and Commitment Agreement

Delphi was party to (i) a Plan Framework Support Agreement (the PSA) with Cerberus Capital Management, L.P. (Cerberus), Appaloosa, Harbinger, Merrill, UBS and GM, which outlined a framework for the Amended Plan, including an outline of the proposed financial recovery of the Company s stakeholders and the treatment of certain claims asserted by GM, the resolution of certain pension funding issues and the corporate governance of reorganized Delphi, and (ii) an Equity Purchase and Commitment Agreement (the Terminated EPCA) with affiliates of Cerberus, Appaloosa and Harbinger (the Investor Affiliates), as well as Merrill and UBS, pursuant to which these investors would invest up to $3.4 billion in reorganized Delphi. Both the PSA and the Terminated EPCA were subject to a number of conditions, including Delphi reaching consensual agreements with its U.S. labor unions and GM.

On April 19, 2007, Delphi announced that it anticipated negotiating changes to the Terminated EPCA and the PSA and that it did not expect that Cerberus would continue as a plan investor. On July 7, 2007, pursuant to Section 12(g) of the Terminated EPCA, Delphi sent a termination notice of the Terminated EPCA to the other parties to the Terminated EPCA. As a result of the termination of the Terminated EPCA, a Termination Event (as defined in the PSA) occurred, and all obligations of the parties to the PSA under the PSA were immediately terminated and were of no further force and effect. Delphi incurred no fees under the Terminated EPCA as a result of this termination.

On July 18, 2007, Delphi announced that it had accepted a new proposal for an equity purchase and commitment agreement (the July EPCA) submitted by a group comprising a number of the original plan investors (Appaloosa, Harbinger, Merrill, and UBS) as well as Goldman Sachs & Co. and an affiliate of Pardus Capital Management, L.P. On August 2, 2007, the Court granted the Company s motion for an order authorizing and approving the July EPCA and on August 3, 2007, the Investors and the Company executed the July EPCA. Under the EPCA (as described below), the Investors may invest up to $2.55 billion in preferred and common equity in the reorganized Delphi to support the Company s transformation plan announced on March 31, 2006 on the terms and subject to the conditions contained in the EPCA.

As noted above, during October and November 2007, Delphi negotiated potential amendments to the July EPCA. On December 10, 2007, the Investors and Delphi entered into an amendment, dated August 3, 2007, to the July EPCA to reflect events and developments since then, including those relating to Court approvals in connection with negotiated amendments to the July EPCA (the EPCA Amendment and together with the July EPCA, the EPCA); delivery of a revised disclosure letter by the Company; delivery of a revised business plan by the Company; updates and revisions to representations and warranties; agreements with principal labor unions; the execution and amendment of certain settlement agreements with GM; and the execution of a best efforts financing letter and the filing of a plan of reorganization and disclosure statement. Further, the EPCA Amendment amends provisions relating to the discount rights offering (including the replacement of existing common stockholders with unsecured creditors). Finally, the EPCA Amendment revised the July EPCA to reflect certain economic changes for recoveries provided under the plan of reorganization, and a post-emergence capital structure which includes Series C Preferred Stock to be issued to GM.

Under the terms and subject to the conditions of the EPCA, the Investors will commit to purchase $800 million of convertible preferred stock and approximately $175 million of common stock in the reorganized Company. Additionally, the Investors will commit to purchasing any unsubscribed shares of common stock in connection with an approximately $1.6 billion rights offering that will be made available to unsecured creditors subject to satisfaction of other terms and conditions. The rights offering would commence sometime following confirmation of the Company s Amended Plan and conclude approximately 20 days thereafter, prior to the Company s emergence from chapter 11.

The EPCA is subject to the satisfaction or waiver of numerous conditions, including the condition that an affiliate of Appaloosa is reasonably satisfied with the terms of certain material transaction documents (evidenced by such affiliate of Appaloosa not delivering a deficiency notice), to the extent the terms thereof would have an impact on the Investors proposed investment in the Company and receipt of proceeds from the sale of preferred stock, exit financing and the discount rights offering sufficient to fund the transaction contemplated by the EPCA and certain related transactions. Other conditions to closing include release and exculpation of each Investor as set forth in the EPCA Amendment; that the Company will have undrawn availability of $1.4 billion including a letter of credit carve out and reductions under a borrowing base formula; that the Company s pro forma interest expense during 2008 on the Company s indebtedness, as defined in the EPCA, will not exceed $585 million; that scheduled Pension Benefit Guarantee Corporation liens are withdrawn; and that the aggregate amount of trade and unsecured claims be no more than $1.45 billion (subject to certain waivers and exclusions).

Delphi can terminate the EPCA in certain circumstances, including at any time on or after March 31, 2008 if the Amended Plan has not become effective. An affiliate of Appaloosa can terminate the EPCA, including, at any time on or after March 31, 2008, if the Amended Plan has not become effective; if the Company has changed its recommendation or approval of the transactions contemplated by the EPCA, the Amended Plan terms or the settlement with GM in a manner adverse to the Investors or approved or recommended an alternative transaction; or if the Company has entered into any agreement, or taken any action to seek Court approval relating to any plan, proposal, offer or transaction, that is inconsistent with the EPCA, the settlement with GM or the Amended Plan. In the event of certain terminations of the EPCA pursuant to the terms thereof, the Company may be obligated to pay the Investors $83 million plus certain transaction expenses in connection with an alternative investment transaction as described in the immediately following paragraph.

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 has deferred the recognition of these amounts in other current assets as they will be netted against the proceeds from the EPCA upon issuance of the new shares. The Company is required to pay the Investors $83 million plus certain transaction expenses if (a) the EPCA is 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 withdraws its recommendation of the transaction or the Company willfully breaches the EPCA, and within the next 24 months thereafter, the Company then agrees to an alternative investment transaction. The Company also has agreed to pay 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. In no event, however, shall the Company s aggregate liability under the EPCA, including any liability for willful breach, exceed $250 million.

The EPCA also includes certain corporate governance provisions for the reorganized Company, each of which has been incorporated into Delphi s Amended Plan. The reorganized Company will be governed initially by a nine-member, classified Board of Directors consisting of the Company s Chief Executive Officer and President (CEO), and Executive Chairman, three members nominated by Appaloosa, three members nominated by the statutory creditors committee, and one member nominated by the co-lead investor representative on a search committee with the approval of either the Company or the statutory creditors committee. As part of the new corporate governance structure, the current Company s Board of Directors along with the Investors, mutually agreed that Rodney O Neal will continue as CEO of the reorganized Company. Subject to certain conditions, six of the nine directors will be required to be independent from the reorganized Company under applicable exchange rules and independent of the Investors.

A five-member search committee will select the Company s post-emergence Executive Chairman, have veto rights over all directors nominated by the Investors and statutory committees, and appoint initial directors to the committees of the Company s Board of Directors. The search committee consists of a representative from the Company s Board of Directors, a representative of each of the Company s two statutory committees, a representative from Appaloosa and a representative of the other co-investors (other than UBS, Goldman and Merrill). Appaloosa, through its proposed preferred stock ownership, will have certain veto rights regarding extraordinary corporate actions, such as change of control transactions and acquisitions or investments in excess of $250 million in any twelve-month period after issuance of the preferred stock.

Executive compensation for the reorganized company must be on market terms, must be reasonably satisfactory to Appaloosa, and the overall executive compensation plan design must be described in the Company s disclosure statement and incorporated into the Plan.

The EPCA incorporates Delphi s earlier commitment to preserve its salaried and hourly defined benefit U.S. pension plans and to fund required contributions to the plans that were not made in full as permitted under the Bankruptcy Code. In particular, as more fully outlined in the agreement, the effectiveness and consummation of the transactions contemplated by the EPCA are subject to a number of conditions precedent, including, among others, agreement on certain key documents and those conditions relating to financing of the emergence transactions.

The foregoing description of the EPCA does not purport to be complete and is qualified in its entirety by reference to the July EPCA, which is filed as an exhibit to the quarterly report, for the quarter ended June 30, 2007, and the EPCA Amendment filed as an exhibit to the Company s Current Report on Form 8-K/A dated December 12, 2007.

There can be no assurances that the Debtors will be successful in achieving their objectives. Effectiveness of the Amended Plan is subject to a number of conditions, including the completion of the transactions contemplated by the EPCA (which are in turn subject to a number of conditions noted above), the entry of certain orders by the Court and the obtaining of exit financing. There can be no assurances that such exit financing will be obtained or such other conditions will be satisfied, and we cannot assure that the Amended Plan will become effective on the terms described herein or at all. In accordance with U.S. GAAP, the cost related to the transformation plan will be recognized in the Company s consolidated financial statements as elements of the Amended Plan, as the U.S. labor agreements, the GSA, and the MRA become effective. The Amended Plan and agreements will significantly impact Delphi s accounting for its pension plans, post-retirement benefit plans, other employee related benefits, 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.

There are a number of risks and uncertainties inherent in the chapter 11 process, including those detailed in Part I, Item 1A. Risk Factors in this Annual Report. In addition, we cannot assure that potential adverse publicity associated with the Chapter 11 Filings and the resulting uncertainty regarding our future prospects will not materially hinder our ongoing business activities and our ability to operate, fund and execute our business plan by impairing relations with existing and potential customers; negatively impacting our ability to attract, retain and compensate key executives and associates and to retain employees generally; limiting our ability to obtain trade credit; and impairing present and future relationships with vendors and service providers.

DASE Liquidation

Delphi s Chapter 11 Filings related solely to its U.S. operations as Delphi s operations outside the United States generally have positive cash flow. 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. In an order dated April 13, 2007, the Spanish court declared DASE to be in voluntary Concurso, which provides DASE support by managing the process of closing the Puerto Real site in Cadiz, Spain in accordance with applicable Spanish law. The Spanish court subsequently appointed three receivers of DASE (the DASE Receivers). During the Concurso process, DASE commenced negotiations on a social plan and a collective layoff procedure related to the separation allowance with the unions representing the affected employees. On July 4, 2007, DASE, the DASE Receivers, and the workers councils and unions representing the affected employees reached a settlement on a social plan of 120 million (then approximately $161 million) for a separation allowance of approximately 45 days of salary per year of service to each employee (the Separation Plan). Delphi concluded that it was in its best interests to voluntarily provide the 120 million to DASE as well as additional funds to DASE in an amount not to exceed 10 million (then approximately $14 million) for the purpose of funding payment of the claims of DASE s other creditors.

As a result of the Spanish court declaring DASE to be in Concurso and the subsequent appointment of the DASE Receivers, 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).

Overview of Performance During 2007

Delphi believes that several significant issues have largely contributed to our financial performance, including (a) a competitive U.S. vehicle production environment for domestic original equipment manufacturers resulting in the reduced number of motor vehicles that GM, our largest customer, produces annually in the U.S. and pricing pressures; (b) increasing commodity prices; (c) U.S. labor legacy liabilities and noncompetitive wage and benefit levels; and (d) restrictive collectively bargained labor agreement provisions which 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 will allow us to reduce our legacy labor liabilities, transition our workforce to more competitive wage and benefit levels and allow us to exit non-core product lines, such changes will occur over several years, and are partially dependent on GM being able to provide significant financial support. We are beginning to see the benefits of decreased labor costs, primarily through lower costs of sales and the resultant improvement in gross margin. However, 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.

In light of the current economic climate in the U.S. automotive industry, Delphi is facing considerable challenges due to revenue decreases in the U.S. and related pricing pressures stemming from a substantial reduction in GM s North American vehicle production in recent years. Our sales to GM have declined since our separation from GM, principally due to declining GM North American production, the impact of customer-driven price reductions and the exit of non-profitable businesses, as well as GM s diversification of its supply base and ongoing changes in our content per vehicle and the product mix purchased. During 2007, GM North America produced 4.1 million vehicles, excluding CAMI Automotive Inc., New United Motor Manufacturing, Inc. and HUMMER H2 brand vehicle production, a decrease of 8% from 2006 production levels.

During 2007 we continued to be challenged by commodity cost increases, most notably copper, aluminum, petroleum-based resin products, steel and steel scrap. We have been 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 contractual price reductions on net sales 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 2007. We will seek to negotiate these cost increases and related prices with our customers, but if we are not successful, our operations in future periods may be adversely affected. 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. Despite the challenges identified above, in 2007 Delphi achieved net material performance (including cost adjustments from suppliers, material cost improvement initiatives and commodity market changes) on a year-over-year basis.

Overview of Net Sales and Net Loss

	Year Ended December 31, 2007		2006		Change
	(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)
Net loss	$ (3,065)		$ (5,464)		$ 2,399

Our non-GM sales from continuing operations in 2007, including the impact of migration during the period of certain product programs from direct sales to GM to sales to customers which ultimately sell our products to GM as a sub-assembly of their final part (Tier I), increased 4% from 2006 and represented 63% of total net sales from continuing operations. In 2007, GM sales from continuing operations decreased 11% from 2006 and represented 37% of total net sales from continuing operations. We benefited from the steady growth of our non-GM business and have continued to diversify our customer base through sales of technology-rich products and systems-based solutions for vehicles. The decreased net loss in 2007 included U.S. employee workforce transition program charges of $212 million in 2007 compared to $2.7 billion in 2006 (see Note 15. U.S. Employee Workforce Transition Programs to the consolidated financial statements), a reduction of $271 million in employee termination benefits and other exit costs, and a reduction of $74 million in long-lived asset impairment charges. These improvements were offset partially by charges related to the assets held for sale for the Steering and Interiors and Closures Businesses of $595 million, including the impact of curtailment loss on pension benefits for impacted employees, a $343 million charge resulting from the settlement of the securities and ERISA litigation, and an increase in interest expense of $342 million primarily due to the recognition of $411 million of prepetition debt and allowed unsecured claims. Despite the continued growth of our non-GM business, we continue to experience poor financial performance.

Discontinued Operations

Delphi expects to dispose of its Interiors and Closures Business and the Steering Business. The Court approval of Delphi s plan to dispose of Interiors and Closures and the Steering Business triggered held for sale accounting under SFAS 144 in 2007.

Steering and Halfshaft Product Line Sale

On December 10, 2007, Delphi announced that it had filed a motion in the Court seeking authority to enter into a Purchase and Sale Agreement (the Purchase Agreement) with a wholly-owned entity 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). On December 20, 2007, the Court approved bidding procedures authorizing Delphi to commence an auction under section 363 of the Bankruptcy Code to dispose of the Steering Business. On January 25, 2008, the Debtors announced that they will seek final Court approval to sell the Steering Business to Platinum at a sale hearing on February 21, 2008. Delphi plans to conclude the sale as soon as Court approval and all regulatory approvals have been received. Upon the Debtors review with GM, GM supported the Debtors decision to seek final Court approval of the sale to Platinum. 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. Delphi expects proceeds from the sale and related Transaction Agreement to approximate $250 million.

Interiors and Closures Product Line Sale

On February 20, 2007, Delphi announced that it had signed a non-binding term sheet with the Renco Group, Inc. for the sale of its interiors and closures product line. On October 15, 2007, Delphi and certain of its affiliates entered into a Master Sale and Purchase Agreement with Inteva Products, LLC (Inteva), a wholly owned subsidiary of the Renco Group, and certain of its affiliates (the Interiors and Closures Agreement) for the sale of substantially all of the tangible assets primarily used in the Interiors and Closures Business. Concurrently, the Debtors filed a motion requesting a hearing to approve bidding procedures in connection with the sale. On October 26, 2007, the Court approved those bidding procedures. On December 20, 2007, the Court approved the sale of the Interiors and Closures Business to Inteva and scheduled a hearing on the sale motion, as it pertains to certain proposed assigned contracts covered by unresolved objections. On January 25, 2008, the Court entered an order approving the assumption and assignment of the executory contracts covered by such objections, all of which were resolved prior to the January 25, 2008 hearing. On that date, the Court also approved a compromise with Inteva, which facilitates the closing of the sale of the Interiors and Closures Business with Inteva by modifying the payment structure under the Interiors and Closures Agreement in consideration for the waiver of certain of Inteva s conditions to closing. The sale is expected to close in the first quarter of 2008. 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. Delphi expects proceeds from the sale to approximate $100 million consisting of $63 million of cash and the remainder in notes at fair value.

As of December 31, 2007 Interiors and Closures and the Steering Business are reported as discontinued operations in the consolidated statement of operations and statement of cash flows, and includes the impairment charges recorded during 2007. The assets and liabilities of Interiors and Closures and the Steering Business are reported as held for sale and included in assets and liabilities held for sale in the consolidated balance sheet. The results of prior periods have been restated to reflect this presentation.

Acquisitions and Divestitures

As detailed below, the results of operations associated with Delphi s acquisitions and divestitures and the gain or loss on the divestitures were not significant to the consolidated financial statements in any period presented.

Catalyst Product Line Sale

On September 28, 2007, Delphi closed on the sale of its global 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 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 its North American brake components machining and assembly assets (North American Brake Components) located at Saginaw, Michigan, Spring Hill, Tennessee, Oshawa, Ontario Canada and Saltillo, Mexico facilities for a purchase price of approximately $40 million. On November 16, 2007, Delphi received approval from the Court to proceed with the sale of the assets which closed in the first quarter of 2008.

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.

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Brake Product Line Sales

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 the third quarter of 2007. 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 the fourth quarter of 2007.

SDAAC Additional Investment

In 2006, Delphi s Thermal Systems segment 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.

MobileAria Asset Sale

In 2006, Delphi s Electronics and Safety division 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.

Bearings Product Line Sale

On January 15, 2008, the Debtors filed a motion with the Court seeking authority to enter into a sale and purchase agreement (the Bearings Agreement) with a wholly owned entity of Resilience Capital Partners, LLC, ND Acquisition Corp (Resilience Capital), for the sale of Delphi s global 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 to sell the Bearings Business. Following completion of the bidding procedures process, a final sale hearing is scheduled for February 21, 2008.

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Results of Operations

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 (a)	$ 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
Loss from continuing operations before minority interest and equity income	$ (2,272)		$ (5,151)		$ 2,879
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

(a) 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 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 volume, contractual price reductions, cost savings due to materials or manufacturing efficiencies (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)	Price Reductions and Volume	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 $454 million 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 $1,043 million to 37% of total sales, primarily due to decreases 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 by $589 million 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.

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)	Price Reductions and Volume	Operational Performance	Employee Termination Benefits	Other	Total
	(dollars in millions)			(dollars in millions)				
Gross Margin	$ 1,217	$ 771	$ 446	$ (975)	$ 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. The estimated payments to be made under the buy-down arrangements within the UAW and IUE-CWA Workforce Transition Programs totaled $323 million and were recorded as a wage asset and liability. Additionally, workforce transition program charges includes $132 million in net benefit plan curtailment charges during 2007. The curtailment losses were to recognize the effect of employees who elected to participate in the workforce transition programs, the effect of prospective plan amendments that will eliminate the accrual of future defined pension benefits for salaried and certain hourly employees on emergence from chapter 11, and the impact of certain divestitures. Refer to Note 15. U.S. Employee Workforce Transition Programs to the consolidated financial statements for more information.

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.

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 Paretes Electricos, of which Delphi has minority ownership interests and are included in our Powertrain Systems segment and

Electric/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). 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

Electronics and Safety

The Electronics and Safety segment, 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, had sales and operating results for the years ended December 31, 2007 and 2006 as follows:

	Years Ended December 31,				
	2007		2006		Favorable/ (Unfavorable)
	(dollars in millions)				
Net sales:					
General Motors and affiliates	$ 1,606	32%	$ 1,587	31%	$ 19
Other customers	3,179	63%	3,278	64%	(99)
Inter-segment	250	5%	228	5%	22
Total Other and Inter-segment	3,429	68%	3,506	69%	(77)
Total net sales	$ 5,035		$ 5,093		$ (58)
Operating income (loss)	$ 63		$ 188		$ (125)
Gross margin	12.6%		14.7%		

Net Sales Total sales for 2007 decreased $58 million from 2006 primarily due to lower volume of $161 million and contractual price reductions of $117 million. These decreases were partially offset by the favorable fluctuations in foreign currency exchange rates of $151 million, primarily due to movements in the Euro and Korean Won, and $70 million due to design changes.

The GM sales increase for 2007 as compared to 2006 was primarily due to design changes of $74 million and a favorable impact from foreign currency exchange rates of $25 million, primarily related to the Euro. These increases were offset by a decline in GM North America volume of $64 million, as well as contractual price reductions.

The other customers and inter-segment sales decreased for 2007 as compared to 2006 primarily due to decreased volume of $97 million as well as contractual price reductions. Other customer and inter-segment sales were favorably impacted by foreign currency exchange rates of $125 million primarily related to the Euro and the Korean Won.

Operating Income/Loss The decreased operating income for 2007 as compared to 2006 was impacted by contractual price reductions of $117 million, a reduction in volume of $64 million, increased warranty expense of $30 million primarily due to the instrument clusters product line, increased expenses related to rationalization of manufacturing capacity of $22 million, employee termination benefits and other exit costs of $18 million, and a $7 million gain on the sale of MobileAria assets in 2006. Operating income in 2007 was also negatively impacted by employee benefit plan settlements in Mexico of $32 million. Offsetting these decreases were operational performance improvements, primarily related to material and manufacturing, of $137 million, and favorable foreign currency exchange impacts of $41 million.

Powertrain Systems

The Powertrain Systems segment, 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, had sales and operating results for the years ended December 31, 2007 and 2006 as follows:

	Years Ended December 31,				
	2007		2006		Favorable/ (Unfavorable)
	(dollars in millions)				
Net sales:					
General Motors and affiliates	$ 1,563	27%	$ 1,745	31%	$ (182)
Other customers	3,607	64%	3,399	61%	208
Inter-segment	493	9%	421	8%	72
Total Other and Inter-segment	4,100	73%	3,820	69%	280
Total net sales	$ 5,663		$ 5,565		$ 98
Operating income (loss)	$ (276)		$ (128)		$ (148)
Gross margin	5.9%		7.9%		

Net Sales Total sales for 2007 increased by $98 million from 2006 primarily due to the favorable impact of foreign currency exchange rates of $193 million, related to the Brazilian Real, Chinese Renminbi and Euro, as well as commodity pass-through of $179 million. Offsetting these increases were decreased volume of $162 million, contractual price reductions of $101 million and reductions due to design changes.

The GM sales decrease for 2007 as compared to 2006 was primarily due to a decline in GM volume of $201 million, as well as contractual price reductions. Offsetting these sales decreases was the favorable impact from currency exchange rates of $24 million, primarily the Brazilian Real, and commodity pass-through of $17 million.

The increase in other customers and inter-segment sales for 2007 as compared to 2006 was due to favorable impacts of $169 million from currency exchange rates, primarily driven by the Euro, Brazilian Real and Chinese Renminbi, as well as commodity pass-through of $162 million, and increases in volume of $40 million, primarily in Europe and Asia Pacific. These increases were offset by unfavorable impacts due to contractual price reductions.

Operating Income/Loss The increase in operating loss for 2007 as compared to 2006 was primarily attributable to reductions in volume of $177 million, contractual price reductions of $101 million, an increase in warranty reserves of $66 million and a $30 million loss as a result of the sale of the Catalyst business in 2007. Additionally, Powertrain recorded $26 million related to the rationalization of manufacturing capacity during 2007. Offsetting these decreases were improvements related to operating performance of $231 million, and reduced costs of $22 million related to temporarily idled U.S. hourly workers who received nearly full pay and benefits as a result of the U.S. workforce transition program.

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Electrical/Electronic Architecture

The Electrical/Electronic Architecture segment, which includes complete electrical architecture and component products, had sales and operating results for the years ended December 31, 2007 and 2006 as follows:

	Years Ended December 31,				
	2007		2006		Favorable/ (Unfavorable)
	(dollars in millions)				
Net sales:					
General Motors and affiliates	$ 1,750	29%	$ 1,772	33%	$ (22)
Other customers	4,038	68%	3,420	64%	618
Inter-segment	180	3%	173	3%	7
Total Other and Inter-segment	4,218	71%	3,593	67%	625
Total net sales	$ 5,968		$ 5,365		$ 603
Operating income (loss)	$ (36)		$ (110)		$ 74
Gross margin	9.8%		8.0%		

Net Sales The total sales increase of $603 million in 2007 as compared to 2006 was primarily due to increases in volume of $526 million in Europe, Asia, and South America. Additionally, total sales were favorably impacted by foreign currency exchange rates of $244 million, primarily related to the Euro and the Brazilian Real, and commodity pass-through, primarily copper of $125 million. The sales increase was partially offset by declines in volume in North America of $159 million. Sales were also unfavorably impacted by contractual price reductions of $131 million.

The GM sales decrease for 2007 as compared to 2006 was primarily due to a decline in GM North America volume of $50 million, as well as contractual price reductions. The decrease was partially offset by favorable currency exchange rates of $38 million, primarily related to the Euro and the Brazilian Real, and commodity pass-through of $33 million.

The other customers and inter-segment sales increase for 2007 as compared to 2006 was due to volume increases of $415 million, primarily in Europe and Asia Pacific, the impact of favorable currency exchange rates of $206 million, primarily related to the Euro and the Brazilian Real, and commodity pass-through of $92 million. Offsetting the favorable volume, commodity pass-through and currency impacts were contractual price reductions.

Operating Income/Loss Operating loss in 2007 was favorably impacted by operational performance improvements, primarily manufacturing and material efficiencies, of $284 million, a reduction of $32 million in costs for idled U.S. hourly workers who receive nearly full pay and benefits as a result of the attrition programs encompassed in the U.S. employee workforce transition programs, and increased volume of $17 million. Additionally, operating income in 2007 increased by $10 million due to the impact of foreign currency exchange rates. The increases in operating income were offset by contractual price reductions of $131 million, incremental expenses related to other transformation initiatives, including information technology systems implementations, of $49 million, and expenses related to employee termination benefits and other exit costs in our U.S. and selected western European operations of $50 million. Additionally, in 2007 we experienced an increase in outbound and premium freight costs to meet customer production schedules of $19 million and costs related to excess and obsolete inventory of $12 million, as we consolidate and realign our manufacturing facilities to support our overall transformation.

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Thermal Systems

The Thermal Systems segment, which includes Heating, Ventilating and Air Conditioning (HVAC) systems, components for multiple transportation and other adjacent markets, commercial/industry applications, and powertrain cooling and related technologies, had sales and operating results for the years ended December 31, 2007 and 2006 as follows:

	Years Ended December 31,				
	2007		2006		Favorable/ (Unfavorable)
	(dollars in millions)				
Net sales:					
General Motors and affiliates	$ 1,355	56%	$ 1,600	61%	$ (245)
Other customers	937	39%	849	33%	88
Inter-segment	120	5%	158	6%	(38)
Total Other and Inter-segment	1,057	44%	1,007	39%	50
Total net sales	$ 2,412		$ 2,607		$ (195)
Operating income (loss)	$ (29)		$ (170)		$ 141
Gross margin	7.2%		1.8%		

Net Sales Total sales for 2007 decreased due to decreased volume of $335 million, and contractual price reductions of $55 million. Offsetting the decreases was a favorable impact in foreign currency exchange rates of $78 million, and commodity pass-through. Additionally, sales in 2007 increased by $109 million due to the acquisition of a controlling position in SDAAC.

The GM sales decrease for 2007 as compared to 2006 was driven by a decline in GM North America volume of $252 million, as well as contractual price reductions. Offsetting these decreases was the favorable impact of foreign currency exchange rates of $26 million, primarily related to the Euro and Brazilian Real, and commodity pass-through, primarily aluminum, of $9 million.

The other customer and inter-segment sales increase for 2007 was favorably impacted by foreign currency exchange rates of $51 million. Additionally, other customer and inter-segment sales increased during 2007 due to the acquisition of a controlling position in SDAAC. Excluding the impact of the SDAAC acquisition, other customers and inter-segment sales decreased $59 million during 2007, primarily due to volume of $83 million and contractual price reductions.

Operating Income/Loss The decrease in operating loss for 2007 as compared to 2006 was primarily due to favorable operational performance of $191 million, a reduction in employee termination and other exit costs of $25 million, a reduction in warranty expense of $40 million, reduced depreciation and amortization expense of $17 million due to previous long-lived asset impairments in 2006 and 2007, and reduced costs related to temporarily idled U.S. hourly workers who received nearly full pay and benefits as a result of the attrition programs encompassed in the U.S. workforce transition program of $11 million. Operating income was unfavorably impacted by a reduction in volume of $108 million, contractual price reductions of $55 million, and Thermal System s ongoing investments and related expenses in developing new markets and transforming European and North American operations to achieve additional costs savings.

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Automotive Holdings Group

The Automotive Holdings Group segment, which includes non-core product lines and plant sites that do not fit Delphi s future strategic framework, had sales and operating results for the years ended December 31, 2007 and 2006 as follows:

	Years Ended December 31,				Favorable/
	2007		2006		(Unfavorable)
	(dollars in millions)				
Net sales:					
General Motors and affiliates	$ 1,585	54%	$ 2,031	56%	$ (446)
Other customers	1,172	40%	1,376	38%	(204)
Inter-segment	189	6%	231	6%	(42)
Total Other and Inter-segment	1,361	46%	1,607	44%	(246)
Total net sales	$ 2,946		$ 3,638		$ (692)
Operating income (loss)	$ (393)		$ (488)		$ 95
Gross margin	(1.5)%		(0.1%)		

Net Sales Total sales for 2007 decreased $692 million from 2006 primarily due to volume and the exit of certain plants and products of $737 million and contractual price reductions of $24 million. These decreases were partially offset by favorable currency exchange rates of $63 million, and a favorable impact from commodity pass-through of $7 million.

GM sales decreased for 2007 as compared to 2006 primarily due to volume of $462 million. The sales decrease was partially offset by favorable foreign currency exchange rates of $21 million.

The other customer and inter-segment decrease in 2007 was primarily due to volume of $275 million. The sales decrease was slightly offset by the impact of favorable foreign currency exchange rates of $42 million.

Operating Income/Loss The decrease in operating loss in 2007 was due to operational performance improvements, primarily in manufacturing, of $352 million, a reduction in impairment charges and depreciation and amortization of $102 million, reduced costs related to temporarily idled U.S. hourly workers who received nearly full pay and benefits as a result of the attrition programs encompassed in the U.S. workforce transition program of $32 million, lower SG&A expenses of $31 million, and $20 million due to an increase in environmental expenses recorded in 2006. Operating loss was unfavorably impacted by an increase in expense for employee termination benefits and other exit costs of $212 million, including $161 million related to the closure of the Puerto Real site in Cadiz, Spain, and reductions in volume of $212 million. Additionally, operating loss was unfavorably impacted by contractual price reductions of $24 million.

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Corporate and Other

Corporate and Other 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. workforce transition programs (Refer to Note 15. U.S. Employee Workforce Transition Programs to the consolidated financial statements). Additionally, Corporate and Other includes the Product and Service Solutions business, which is comprised of independent aftermarket, diesel aftermarket, original equipment service, and consumer electronics. The Corporate and Other segment had sales and operating results for the years ended December 31, 2007 and 2006 as follows:

	Years Ended December 31,		
	2007	2006	Favorable/ (Unfavorable)
	(dollars in millions)		
Net sales	$ 259	$ 469	$ (210)
Operating income (loss)	$ (1,274)	$ (3,834)	$ 2,560

Net Sales Corporate and Other sales in 2007 were $259 million, a decrease of $210 million compared to 2006, primarily as a result of lower sales in our GM service parts organization, the consumer electronics business and a softening in the U.S. retail satellite radio market.

Operating Income/Loss The decreased operating loss was primarily due to a reduction in U.S. employee workforce transition program charges. During 2007, Delphi recorded $212 million of U.S. employee workforce transition program charges as compared to $2,706 million in 2006. Operating loss was also favorably impacted by $36 million due to the change in pension excise tax expenses. Offsetting these improvements are charges of $343 million resulting from the settlement agreement reached with respect to the securities and ERISA litigation (Refer to Note 17. Commitments and Contingencies to the consolidated financial statements), and a reduction to cost of sales of $108 million as a result of the reduction in previously recorded postretirement benefit accruals recorded in 2006. Additionally, one of the components of SG&A expenses is costs related to information technology of $474 million for 2007 and $389 million for 2006. The increase of $85 million is primarily due to costs necessary to implement information technology systems to support finance, manufacturing and product development initiatives.

2006 versus 2005

Consolidated Results of Operations

The Company s sales and operating results for the years ended December 31, 2006 and 2005 were as follows:

	Year Ended December 31, 2006		Year Ended December 31, 2005		Favorable/ (Unfavorable)
	(dollars in millions)				
Net sales:					
General Motors and affiliates	$ 9,344	41%	$ 10,496	45%	$ (1,152)
Other customers	13,393	59%	12,898	55%	495
Total net sales	$ 22,737		$ 23,394		$ (657)
Cost of sales	21,966		22,265		299
Gross margin (a)	$ 771	3.4%	$ 1,129	4.8%	$ (358)
U.S. employee workforce transition program charges	2,706				(2,706)
Depreciation and amortization	954		1,010		56
Long-lived asset impairment charges	172		172		
Goodwill impairment charges			390		390
Selling, general and administrative	1,481		1,534		53
Operating loss	$ (4,542)		$ (1,977)		$ (2,565)
Interest expense	(427)		(318)		(109)
Other income, net	40		55		(15)
Reorganization items	(92)		(3)		(89)
Loss from continuing operations before income taxes, minority interest and equity income	$ (5,021)		$ (2,243)		$ (2,778)
Income tax (expense) benefit	(130)		63		(193)
Loss from continuing operations before minority interest and equity income	$ (5,151)		$ (2,180)		$ (2,971)
Minority interest, net of tax	(34)		(20)		(14)
Equity income, net of tax	44		70		(26)
Loss from continuing operations	$ (5,141)		$ (2,130)		$ (3,011)
Loss from discontinued operations, net of tax	(326)		(210)		(116)
Cumulative effect of accounting change, net of tax	3		(17)		20
Net loss	$ (5,464)		$ (2,357)		$ (3,107)

(a) 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).

Net Sales

Net Sales from continuing operations for the year ended December 31, 2006 versus December 31, 2005. Total sales for 2006 decreased $657 million. Below is a summary of Delphi s sales for this period.

	Years Ended December 31,					Variance Due To:				
	2006		2005		Favorable/ (Unfavorable)	Price Reductions and Volume	FX	Commodity Pass-Through	Other	Total
	(dollars in millions)					(dollars in millions)				
Net sales:										
General Motors and affiliates	$ 9,344	41%	$ 10,496	45%	$ (1,152)	$ (1,232)	$ 41	$ 136	$ (97)	$ (1,152)
Other customers	13,393	59%	12,898	55%	495	99	140	138	118	495
Total net sales	$ 22,737		$ 23,394		$ (657)	$ (1,133)	$ 181	$ 274	$ 21	$ (657)

Total sales for 2006 decreased primarily due to lower volume and contractual price reductions, partially offset by increased prices attributable to escalation clauses in our supply contracts for recovery of increased commodity pass-through, and favorable foreign currency exchange impacts primarily driven by the Euro, Brazilian Real, Korean Won and Chinese Renminbi. Included in this increase is $96 million of additional sales from our acquisition of a controlling interest in our joint venture, SDAAC, in the Thermal Systems product segment.

GM sales for 2006 decreased $1,152 million to 41% of sales, primarily due to production volumes for GM North America, which declined by approximately 4% compared to 2005, the wind-down of certain GM volume, as well as the migration during the period of certain product programs from sales to GM to sales to Tier I customers as well as design changes of $77 million. Sales were further decreased due to contractual price reductions and the sale of the battery product line. The GM sales decrease was partially offset by GM s buildup of inventory for certain parts in the first half of 2006, commodity pass-through, particularly copper, as well as favorable foreign currency exchange impacts primarily driven by the Euro, Brazilian Real, Korean Won and Chinese Renminbi.

Other customer sales for 2006 increased by $495 million to 59% of total sales, primarily due to increased volume from diversifying our global customer base, particularly in Asia Pacific, favorable foreign exchange impacts and commodity pass-through. Other customer sales in Asia Pacific increased by approximately 52%, including impacts of foreign currency exchange rates, compared to 2005. To a lesser extent, the other customer sales increase was affected by the migration of certain chassis component product programs from sales to GM to sales to Tier I customers of approximately $124 million. Offsetting these increases in other customer sales were contractual price reductions.

Operating Results

Operating loss increased by $2.6 billion in 2006. Below is a summary of the variances in Delphi s operating results for 2006 compared to 2005.

Gross Margin. Our gross margin decreased to $771 million, or 3.4%, in 2006 compared to gross margin of $1,129 million, or 4.8%, in 2005. Below is a summary of Delphi s gross margin for this period.

	Years Ended December 31,			Variance Due To:				
	2006	2005	Favorable/ (Unfavorable)	Price Reductions and Volume	Operational Performance	Employee Termination Benefits	Other	Total
	(dollars in millions)			(dollars in millions)				
Gross Margin	$ 771	$ 1,129	$ (358)	$ (991)	$ 570	$ (110)	$ 173	$ (358)
Percentage of Sales	3.4%	4.8%						

The gross margin decrease was primarily due to lower volume, partially attributable to an approximate 4% reduction in GM North America vehicle production, and contractual price reductions, as noted in the table above. Offsetting these decreases were improvements in operational efficiencies, in both material and manufacturing efficiencies, and reduced employee termination benefits and other exit costs, as noted in the table above, as well as the following items:

$108 million as a result of the reduction in accruals for postemployment benefits, as 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;

Approximately $87 million due to an increase in postemployment benefit accruals for other than temporarily idled employees in 2005 that was not repeated in 2006.

U.S. Employee Workforce Transition Program Charges. Delphi recorded postretirement wage and benefit charges of approximately $2.7 billion during 2006 for the pre-retirement and buyout portions of 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, 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.

Selling, General and Administrative Expenses. SG&A expenses of $1.5 billion, or 6.5% of total net sales for 2006 were essentially flat compared to $1.5 billion, or 6.6% of total net sales for 2005. The slight decrease as a percentage of total net sales in 2006 was primarily due to a reduction in information technology expense, a reduction in Corporate and Other expense attributable to a 9% year-over-year headcount reduction in the U.S. in 2006, as well as a reduction of expenses due to the sale of the battery product line.

Depreciation and Amortization. Depreciation and amortization was $1.0 billion for both 2006 and 2005. The consistent balance primarily reflects the impact of certain assets that were impaired in the fourth quarter of 2005, thereby reducing 2006 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 2005. In addition, total capital spending is down by approximately 39% versus 2005, also contributing to reduced depreciation and amortization expense.

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 $172 million during 2006 and 2005, respectively. In accordance with SFAS 144, 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 2006 charges primarily related to our Automotive Holdings Group and the 2005 charges primarily related to our Automotive Holdings Group, Electrical/Electronic Architecture and Thermal Systems segments. Refer to Note 9. Property, Net to the consolidated financial statements.

Goodwill Impairment Charges. Goodwill impairment charges of approximately $390 million were recorded in 2005. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, (SFAS 142) Delphi evaluates the recoverability of goodwill at least annually and any time business conditions indicate a potential change in recoverability. The 2005 charges primarily related to our Powertrain Systems segment. There were no goodwill impairment charges for 2006.

Interest Expense. Interest expense increased for 2006 to $427 million as compared to $318 million for 2005. The increase was generally attributable to higher levels of debt as well as an increase in our overall financing costs. Approximately $148 million and $38 million of contractual interest expense related to outstanding debt, including debt subject to compromise, were not recognized in accordance with the provisions of SOP 90-7 in 2006 and 2005, respectively.

Other Income and Expense. Other income for 2006 was $40 million as compared to other income of $55 million for 2005. The 2006 amount included increased non-Debtor interest income associated with additional cash and cash equivalents on hand, while the 2005 amount includes an $18 million gain on the sale of our investment in Akebono Brake Industry Company.

Reorganization Items. Bankruptcy-related reorganization expense was $92 million and $3 million for 2006 and 2005, respectively. Delphi incurred professional fees, primarily legal, directly related to the reorganization of $150 million during 2006. These costs were partially offset by interest income of $55 million from accumulated cash from the reorganization and $3 million of gains on the settlement of prepetition liabilities during 2006.

Income Taxes. We recorded income tax expense for 2006 of $130 million as compared to $63 million of income tax benefit for 2005. Given the effect of the mix of earnings by jurisdiction and withholding tax, the annual effective tax rate changed year-over-year from 2.8% to (2.6%). We do not recognize income tax benefits on losses in our U.S. and certain other non-U.S. operations as, 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. In 2006, we also recorded valuation allowances of $40 million for additional non-U.S. operations for which it is no longer more likely than not that these tax benefits will be realized.

Minority Interest. Minority interest was $34 million and $20 million for 2006 and 2005, respectively. Minority interest reflects the results of ongoing operations within Delphi s consolidated investments.

Equity Income. Equity income was $44 million and $70 million for 2006 and 2005, respectively. Equity income reflects the results of ongoing operations within Delphi s equity-method investments. The decrease in equity income during 2006 was primarily due to the sale of our ownership in four ventures during 2005. Additionally, Delphi acquired a controlling interest in SDAAC during 2006, and therefore began consolidating the operating results of SDAAC.

Loss from Discontinued Operations. Loss from discontinued operations was $326 million and $210 million for 2006 and 2005, respectively. Included in loss from discontinued operations for 2006 are 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. The loss from discontinued operations for 2005 included long-lived asset impairment charges of $61 million and employee termination benefits and other exit costs of $11 million.

Cumulative Effect of Accounting Change. During 2006 Delphi recorded a benefit of $3 million as a cumulative effect of accounting change (net of tax) resulting from the adoption of SFAS 123(R). During 2005 Delphi recorded a charge of $17 million as a cumulative effect of accounting change (net of tax) resulting from the adoption of Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS No. 143* (FIN 47).

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Results of Operations by Segment

Electronics and Safety

The Electronics and Safety segment, 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, had sales and operating results for the years ended December 31, 2006 and 2005 as follows:

	Years Ended December 31,				
	2006		2005		Favorable/ (Unfavorable)
	(dollars in millions)				
Net sales:					
General Motors and affiliates	$ 1,587	31%	$ 1,790	34%	$ (203)
Other customers	3,278	64%	3,249	61%	29
Inter-segment	228	5%	280	5%	(52)
Total Other and Inter-segment	3,506	69%	3,529	66%	(23)
Total net sales	$ 5,093		$ 5,319		$ (226)
Operating income (loss)	$ 188		$ 154		$ 34
Gross margin	14.7%		13.5.%		

Net Sales Total sales for 2006 decreased $226 million from 2005 primarily due to lower volume of $70 million, contractual price reductions of $125 million, and design changes of $26 million. These decreases were partially offset by the favorable impact of foreign currency exchange rates of $32 million, primarily due to movements in the Euro and Korean Won.

The GM sales decrease for 2006 as compared to 2005 was primarily due to a decline in GM North America volume, including design changes that reduced costs and corresponding sales by $183 million, as well as contractual price reductions. GM sales included a slight impact from favorable currency exchange rates, primarily related to the Euro.

The other customers and inter-segment sales decreased slightly for 2006 as compared to 2005 due to contractual price reductions and design changes of $26 million. Offsetting this decrease were increased volume, primarily in Europe and Asia Pacific, of $112 million, and a favorable impact from currency exchange rates of $27 million, primarily the Euro and the Korean Won.

Operating Income/Loss The increased operating income for 2006 as compared to 2005 was impacted by material savings and improved manufacturing and engineering operations performance, which increased operating results by $164 million. Operating income for 2006 also included a gain on the sale of MobileAria assets of approximately $7 million. In addition, 2006 operating income was favorably impacted by reduced warranty and depreciation and amortization expense. Offsetting the increase was a reduction in volume of $98 million as well as contractual price reductions of $123 million.

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Powertrain Systems

The Powertrain Systems segment, 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, had sales and operating results for the years ended December 31, 2006 and 2005 as follows:

	Years Ended December 31,				
	2006		2005		Favorable/ (Unfavorable)
	(dollars in millions)				
Net sales:					
General Motors and affiliates	$ 1,745	31%	$ 2,022	36%	$ (277)
Other customers	3,399	61%	3,152	55%	247
Inter-segment	421	8%	523	9%	(102)
Total Other and Inter-segment	3,820	69%	3,675	64%	145
Total net sales	$ 5,565		$ 5,697		$ (132)
Operating income (loss)	$ (128)		$ (514)		$ 386
Gross margin	7.9%		8.0%		

Net Sales Total sales for 2006 decreased $132 million from 2005 primarily due to the sale of our battery product line in 2005 of $179 million, contractual price reductions of $127 million and design changes that reduced cost and corresponding sales of $52 million. The decrease in sales was partially offset by a $124 million increase in volume, the favorable impact of foreign currency exchange of $53 million, related to the Brazilian Real, Chinese Renminbi and Euro, as well as commodity pass-through of $49 million.

The GM sales decrease for 2006 as compared to 2005 was primarily due to a decline in GM volume of $192 million, as well as contractual price reductions. Included in the GM sales decrease during 2006 was the sale of our battery product line in the third quarter of 2005 of $40 million. Offsetting these sales decreases was a slightly favorable impact from currency exchange rates, primarily the Brazilian Real, and commodity pass-through of $17 million.

The other customers and inter-segment sales increase for 2006 as compared to 2005 was due to customer production schedule increases, sales mix, and the net of new and lost business of $276 million, primarily in Europe and Asia Pacific, as well as commodity pass-through of $32 million and a favorable $48 million impact from currency exchange rates, primarily driven by the Brazilian Real and the Chinese Renminbi. Included in the net volume increases was a partial reduction to other customer and inter-segment sales from the sale of our battery product line in the third quarter of 2005 of $139 million. Other customers and inter-segment sales were also unfavorably impacted by contractual price reductions.

Operating Income/Loss The operating loss decrease for 2006 as compared to 2005 was primarily attributable to a $368 million goodwill impairment charge recorded in 2005 and operational performance improvements of $229 million, primarily manufacturing and material improvements. Offsetting these decreases were contractual price reductions of $123 million, reductions in volume, primarily GM, offset by other customers, of $55 million, a $37 million gain on the sale of the battery product line recognized in 2005, increased employee termination benefits and other exit costs of $27 million related to the consolidation of our U.S. locations, and the establishment of additional environmental reserves.

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Electrical/Electronic Architecture

The Electrical/Electronic Architecture segment, which includes complete electrical architecture and component products, had sales and operating results for the years ended December 31, 2006 and 2005 as follows:

	Years Ended December 31,				Favorable/
	2006		**2005**		**(Unfavorable)**
	(dollars in millions)				
Net sales:					
General Motors and affiliates	$ 1,772	33%	$ 1,910	36%	$ (138)
Other customers	3,420	64%	3,195	60%	225
Inter-segment	173	3%	205	4%	(32)
Total Other and Inter-segment	3,593	67%	3,400	64%	193
Total net sales	$ 5,365		$ 5,310		$ 55
Operating income (loss)	$ (110)		$ 248		$ (358)
Gross margin	8.0%		14.9%		

Net Sales The total sales increase of $55 million for 2006 as compared to 2005 was primarily due to commodity pass-through, primarily copper, of $187 million, as well as favorable foreign currency exchange impacts of $63 million, primarily related to the Euro and the Brazilian Real. These increases in sales were partially offset by contractual price reductions of $147 million and volume of $30 million.

The GM sales decrease for 2006 as compared to 2005 was primarily due to a decline in GM North America volume of $198 million, as well as contractual price reductions. The decrease was offset by the impact of favorable currency exchange rates of $20 million, primarily related to the Brazilian Real, and commodity pass-through of $100 million.

The other customers and inter-segment sales increase for 2006 as compared to 2005 was due to customer production schedule increases, sales mix, the net of new and lost business of $168 million, primarily in Europe and Asia Pacific, and commodity pass-through. Further driving the increase was the impact of favorable currency exchange rates of $43 million, primarily related to the Euro and the Brazilian Real. Offsetting the favorable volume, commodity pass-through of $87 million and currency impacts were contractual price reductions.

Operating Income/Loss The operating loss for 2006 as compared to operating income for 2005 was the result of reductions in volume of $136 million and contractual price reductions of $144 million. Results in 2006 were impacted by a challenging environment for the North American business which included a reduction in GM North America volume and the absence of a competitive labor agreement in our U.S. operations to allow us to adjust our cost structure to the lower volume requirements, as well as a $39 million increase in employee termination benefits and other exit costs related to our U.S. and selected western European operations. Results were also negatively impacted by global commodities markets and pricing, especially for copper. Partially offsetting these decreases was minimal long-lived asset impairment charges recorded in 2006 versus $35 million recorded in 2005.

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Thermal Systems

The Thermal Systems segment, which includes Heating, Ventilating and Air Conditioning (HVAC) systems, components for multiple transportation and other adjacent markets, commercial/industry applications, and powertrain cooling and related technologies, had sales and operating results for the year ended December 31, 2006 and 2005 as follows:

	Years Ended December 31,						
	2006		2005 (dollars in millions)		Favorable/ (Unfavorable)		
Net sales:							
General Motors and affiliates	$	1,600	61%	$	1,700	66%	$ (100)
Other customers		849	33%		725	28%	124
Inter-segment		158	6%		151	6%	7
Total Other and Inter-segment		1,007	39%		876	34%	131
Total net sales	$	2,607		$	2,576		$ 31
Operating income (loss)	$	(170)		$	(160)		$ (10)
Gross margin		1.8%			3.8%		

Net Sales Total sales for 2006 increased $31 million from 2005 primarily due to the acquisition of a controlling position in SDAAC. SDAAC is a Chinese entity specializing in HVAC and powertrain cooling supply to the Chinese market. SDAAC s revenue included in Thermal Systems operating results beginning in the third quarter of 2006 was $96 million related to other customers. Additionally, sales increased due to a favorable impact from commodity pass-through of $21 million and favorable foreign currency exchange impacts of $18 million, mostly offset by volume of $83 million and contractual price reductions of $26 million.

The GM sales decrease for 2006 as compared to 2005 was primarily due to a decline in GM North America volume of $116 million, as well as contractual price reductions. The decrease was partially offset by commodity pass-through of $18 million, related to aluminum and copper, and the slightly favorable impact of currency exchange rates related to the Brazilian Real and Euro.

The other customer and inter-segment sales increase for 2006 as compared to 2005 was primarily driven by the acquisition of a controlling position in SDAAC discussed above. In addition to the SDAAC acquisition, other customers and inter-segment sales were favorably impacted by increased volume of $33 million, primarily in North and South America. Additionally, favorable foreign exchange impacts, related to the Brazilian Real and Euro, and favorable commodity pass-through were offset by contractual price reductions.

Operating Income/Loss The increase in operating loss for 2006 as compared to 2005 was impacted by a reduction in volume of $34 million and contractual price reductions of $27 million. As Thermal Systems continues to transform operations, it incurred increased costs related to employee termination benefit and other exit costs of $58 million, as well as increases to environmental reserves in the U.S. Additionally, in 2006 Thermal Systems began experiencing quality issues regarding parts that were purchased from one of Delphi s suppliers and subsequently established warranty reserves to cover the cost of various repairs that may be implemented. Delphi is actively negotiating with the customer most affected by the issue to determine our ultimate cost as well as the supplier to determine if any portion of the liability is recoverable. Operating income in 2006 was also adversely affected by Thermal System s ongoing investments in new markets. Favorable operating performance, primarily in material and manufacturing, of $69 million and reduced depreciation and amortization expense of $38 million offset the increased costs related to warranty and new market investment.

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Automotive Holdings Group

The Automotive Holdings Group segment, which includes non-core product lines and plant sites that do not fit Delphi s future strategic framework, had sales and operating results for the years ended December 31, 2006 and 2005 as follows:

	Years Ended December 31,				
	2006		**2005**		**Favorable/ (Unfavorable)**
	(dollars in millions)				
Net sales:					
General Motors and affiliates	$ 2,031	56%	$ 2,264	60%	$ (233)
Other customers	1,376	38%	1,206	32%	170
Inter-segment	231	6%	307	8%	(76)
Total Other and Inter-segment	1,607	44%	1,513	40%	94
Total net sales	$ 3,638		$ 3,777		$ (139)
Operating income (loss)	$ (488)		$ (696)		$ 208
Gross margin	(0.1%)		(5.7%)		

Net Sales Total sales for 2006 decreased $139 million from 2005 primarily due to volume, the exit of certain plants and products and contractual price reductions of $177 million. The decrease in total sales was partially offset by the impacts from favorable currency exchange rates of $14 million.

GM sales decreased for 2006 as compared to 2005 primarily due to the migration of certain product programs from direct sales to GM to sales to Tier 1 customers and contractual price reductions. The increase in other customer and inter-segment sales in 2006 was substantially impacted by the migration of certain product programs from sales to GM to sales to Tier I customers.

Operating Income/Loss The operating loss improvement for 2006 as compared to 2005 was impacted by operational performance improvements, primarily in manufacturing, of $272 million, partially offset by volume reductions, and the establishment of additional environmental reserves.

Corporate and Other

Corporate and Other 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. workforce transition programs (Refer to Note 15. U.S. Employee Workforce Transition Programs to the consolidated financial statements). Additionally, Corporate and Other includes the Product and Service Solutions business, which is comprised of independent aftermarket, diesel aftermarket, original equipment service, and consumer electronics. The Corporate and Other segment had sales and operating results for the years ended December 31, 2006 and 2005 as follows:

	Years Ended December 31,		
	2006	2005	Favorable/ (Unfavorable)
	(dollars in millions)		
Net sales	$ 469	$ 715	$ (246)
Operating income (loss)	$ (3,834)	$ (1,009)	$ (2,825)

Net Sales Corporate and Other sales for 2006 were $469 million, a decrease of $246 million compared from 2005. The decrease is primarily related to the divestiture of our battery product line, lower sales in our GM service parts organization, the consumer electronics business and a softening in the U.S. retail satellite radio market.

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Operating Income/Loss The operating loss for 2006 for Corporate and Other was $3.8 billion compared to $1.0 billion for 2005. The increased loss was primarily due to U.S. employee workforce transition program charges of $2.7 billion in 2006.

Liquidity and Capital Resources

Overview of Current Capital Structure

On January 5, 2007, the Court granted Delphi s motion to obtain replacement postpetition financing of approximately $4.5 billion. On January 9, 2007, Delphi successfully refinanced its prepetition and postpetition credit facilities obligations 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. The Refinanced DIP Credit Facility consists of a $1.75 billion first priority revolving credit facility (Tranche A or the Revolving Facility), a $250 million first priority term loan (Tranche B or the Tranche B Term Loan and, together with the Revolving Facility, the First Priority Facilities), and an approximate $2.5 billion second priority term loan (Tranche C or the Tranche C Term Loan). The Refinanced DIP Credit Facility was obtained to refinance both the $2.0 billion Amended and Restated Revolving Credit, Term Loan and Guaranty Agreement, dated as of November 21, 2005 (as amended, the Amended DIP Credit Facility) and the approximate $2.5 billion outstanding on its $2.8 billion Five Year Third Amended and Restated Credit Agreement, dated as of June 14, 2005 (as amended, the Prepetition Facility). As of January 9, 2007, both the Refinanced DIP Credit Facility $250 million Tranche B Term Loan and approximately $2.5 billion Tranche C Term Loan were funded.

Through a series of amendments over the course of the loan, the latest of which was entered into on November 20, 2007 (the Third Amendment), the Refinanced DIP Credit Facility now has a maturity date of July 1, 2008, Global EBITDAR covenants for the extension period, revised interest rates, and an amended definition of Global EBITDAR (as detailed below). In connection with the Third Amendment, Delphi paid amendment fees of 100 basis points or approximately $45 million, to the lenders.

The Refinanced DIP Credit Facility now carries an interest rate at the option of Delphi of either the Administrative Agent s Alternate Base Rate plus (i) with respect to Tranche A borrowings, 2.50%, (ii) with respect to Tranche B borrowings, 2.50%, (iii) with respect to Tranche C borrowings, 3.00%, or LIBOR plus (x) with respect to Tranche A borrowings, 3.50%, (y) with respect to Tranche B borrowings 3.50%, and (z) with respect to Tranche C borrowings 4.00%. The interest rate period can be set at a two-week or one-, three-, or six-month period as selected by Delphi in accordance with the terms of the Refinanced DIP Credit Facility. Accordingly, the interest rate will fluctuate based on the movement of the Alternate Base Rate or LIBOR through the term of the Refinanced DIP Credit Facility. Borrowings under the Refinanced DIP Credit Facility are prepayable at Delphi s option without premium or penalty. As of December 31, 2007, total available liquidity under the Refinanced DIP Credit Facility was approximately $1.2 billion. Also as of December 31, 2007, there were no amounts outstanding under the Revolving Facility and the Company had $255 million in letters of credit outstanding under the Revolving Facility as of that date, including $150 million related to the letters of credit provided to the PBGC discussed further in Note 2. Transformation Plan and Chapter 11 Bankruptcy to the consolidated financial statements.

The Refinanced DIP Credit Facility provides the lenders with a perfected first lien (with the relative priority of each tranche as set forth above) on substantially all material tangible and intangible assets of Delphi and its wholly-owned domestic subsidiaries (however, Delphi is only pledging 65% of the stock of its first-tier non-U.S. subsidiaries) and further provides that amounts borrowed under the Refinanced DIP Credit Facility will be guaranteed by substantially all of Delphi s affiliated Debtors, each as debtor and debtor-in-possession.

The amount outstanding at any one time under the First Priority Facilities is limited by a borrowing base computation as described in the Refinanced DIP Credit Facility. While the borrowing base computation excluded outstanding borrowings, it was less than the Refinanced DIP Credit Facility commitment at December 31, 2007. Borrowing base standards may be fixed and revised from time to time by the Administrative Agent in its reasonable discretion, with any changes in such standards to be effective ten days after delivery of a written notice thereof to Delphi (or immediately, without prior written notice, during the continuance of an event of default).

The Refinanced DIP Credit Facility includes affirmative, negative and financial covenants that impose restrictions on Delphi s financial and business operations, including Delphi s ability to, among other things, incur or secure other debt, make investments, sell assets and pay dividends or repurchase stock. The Company does not expect to pay dividends prior to emergence from chapter 11. So long as the Facility Availability Amount (as defined in the Refinanced DIP Credit Facility) is equal or greater than $500 million, compliance with the restrictions on investments, mergers and disposition of assets do not apply (except in respect of investments in, and dispositions to, direct or indirect domestic subsidiaries of Delphi that are not guarantors).

The covenants require Delphi, among other things, to maintain a rolling 12-month cumulative Global EBITDAR for Delphi and its direct and indirect subsidiaries, on a consolidated basis, at the levels set forth in the Refinanced DIP Credit Facility. The definition of Global EBITDAR provides for the exclusion of expenses arising out of, or in relation to, the MDL Settlements recorded in the second and third quarters of 2007.

The Refinanced 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 Refinanced DIP Credit Facility, interest on all outstanding amounts is payable on demand at 2% above the then applicable rate. Delphi was in compliance with the Refinanced DIP Credit Facility covenants as of December 31, 2007.

The foregoing description of the Refinanced DIP Credit Facility and the amendments thereto is a general description only and is qualified in its entirety by reference to the underlying agreements, copies of which were previously filed with the SEC. Refer also to Note 14. Debt, to the consolidated financial statements for additional information on the Refinanced DIP Credit Facility.

Concurrently with the entry into the Refinanced DIP Credit Facility, the Amended DIP Credit Facility (defined below) and the Prepetition Facility were terminated. The proceeds of the Tranche B Term Loan and Tranche C Term Loan were used to extinguish amounts outstanding under the Amended DIP Credit Facility and the Prepetition Facility. Delphi incurred no early termination penalties in connection with the termination of these agreements. However, as a result of changes in the debt structure and corresponding cash flows related to the refinancing, Delphi expensed $25 million of unamortized debt issuance and discount costs related to the Amended DIP Credit Facility and Prepetition Facility 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.

On November 6, 2007, the Debtors filed a motion requesting that the Court authorize the Debtors to enter into a best efforts engagement letter and fee letter with JPMorgan Securities Inc., JPMorgan Chase Bank, N.A., and Citigroup Global Markets Inc. in connection with an exit financing arrangement comprised of: (i) a senior secured first lien asset-based revolving credit facility in an aggregate principal amount of $1.6 billion; (ii) a senior secured first-lien term facility in an aggregate amount of $3.7 billion; and (iii) a senior secured second-lien term facility in the amount of $1.5 billion. On November 16, 2007, the Court entered an order authorizing the Debtors to enter into and perform all obligations under the engagement and fee letters.

On January 9, 2008, Delphi announced that primarily as a result of improved operating performance and lower capital expenditures for the 2007 fiscal year than the forecast in the 2007 business plan projection included in the plan of reorganization, Delphi s year-end cash position for consolidated Delphi was preliminarily estimated to be approximately $850 million favorable to the 2007 business plan projection. After adjusting anticipated cash flows in

2008 to reflect retiming of certain payments previously forecast for 2007 and lower projections for certain forecasted emergence cash payments in 2008, Delphi reduced its planned exit facilities from the previously announced $6.8 billion authorized by the Court to approximately $6.1 billion. The facilities are anticipated to be comprised of $1.6 billion in an asset-based revolving credit facility, $3.7 billion in a first-lien term facility, and $825 million in a second-lien term facility. Once a lending

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syndicate has been assembled, and as soon as practicable, the Debtors intend to negotiate and enter into definitive credit documents with respect to the exit financing arrangements.

We also maintain various accounts receivable factoring facilities in Europe that are accounted for as short-term debt. These uncommitted factoring facilities are available through various financial institutions. As of December 31, 2007 and 2006, we had $384 million and $375 million, respectively, outstanding under these accounts receivable factoring facilities.

In addition, Delphi continues to use its European accounts receivable securitization program, which has an availability of 178 million ($262 million at December 31, 2007 foreign currency exchange rates) and £12 million ($24 million at December 31, 2007 foreign currency exchange rates). Accounts receivable transferred under this program are also accounted for as short-term debt. As of December 31, 2007 and 2006, outstanding borrowings under this program were approximately $205 million and $122 million, respectively.

As of December 31, 2007 and 2006, we had $219 million and $173 million, respectively, of other debt, primarily consisting of overseas bank facilities, and less than $1 million and $70 million, respectively, of other debt classified as Liabilities Subject to Compromise.

As of December 31, 2007, substantially all of our unsecured prepetition long-term debt was in default and is subject to compromise. Pursuant to the terms of our confirmed Amended 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, 2007	December 31, 2006
	(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
Other debt (a)		70
Total long-term debt subject to compromise	2,375	2,445
Short-term, other, and long-term debt not subject to compromise:		
Refinanced DIP term loan	2,746	
Prepetition revolving credit facility		1,507
Prepetition term loan, due 2011		985
Accounts receivable factoring	384	375
DIP term loan		250
European securitization	205	122
Other debt (a)	160	56
Total short-term and other debt not subject to compromise	3,495	3,295
Other long-term debt	59	47
Total debt not subject to compromise	3,554	3,342

Total outstanding debt	$ 5,929	$ 5,787

(a) During 2007, Delphi determined that capital lease and industrial development bond obligations were determined to be settled in the ordinary course of business and are no longer subject to compromise.

Our cash flows from operations during a year are impacted by the volume and timing of vehicle production, which includes a halt in certain operations of our North American customers for approximately two weeks in July and one week in December and reduced production in July and August for certain European customers. We have varying needs for short-term working capital financing as a result of the nature of our business. We financed our working capital through a mix of committed facilities, including revolving credit facilities and receivables securitization programs, and uncommitted facilities, including bank lines and factoring lines.

Indebtedness Throughout 2006

The Refinanced DIP Credit Facility s terms and conditions are relatively consistent with the terms and conditions in the Amended DIP Credit Facility. The following paragraphs describe the capital structure throughout 2006.

On October 14, 2005, Delphi entered into a Revolving Credit, Term Loan and Guaranty Agreement (the DIP Credit Facility), as amended through November 13, 2006 (the Amended DIP Credit Facility), to borrow up to $2.0 billion from a syndicate of lenders arranged by J.P. Morgan Securities Inc. and Citigroup Global Markets, Inc., for which JPMorgan Chase Bank, N.A. was the administrative agent (the Administrative Agent) and Citicorp USA, Inc., was syndication agent (together with the Administrative Agent, the Agents). The Amended DIP Credit Facility consisted of a $1.75 billion revolving facility and a $250 million term loan facility (collectively, the Amended DIP Loans). The Amended DIP Credit Facility carried an interest rate at the option of Delphi of either (i) the Administrative Agent s Alternate Base Rate (as defined in the Amended DIP Credit Facility) plus 1.75% or (ii) 2.75% above the Eurodollar base rate, which is LIBOR. Accordingly, the interest rate would fluctuate based on the movement of the Alternate Base Rate or LIBOR through the term of the Amended DIP Loans. The Amended DIP Credit Facility was to expire on the earlier of October 8, 2007 or the date of the substantial consummation of a reorganization plan that is confirmed pursuant to an order of the Court. Borrowings under the Amended DIP Credit Facility were prepayable at Delphi s option without premium or penalty.

On October 28, 2005, the Court granted the Debtors motion for approval of the DIP financing order. The DIP financing order granted final approval of the DIP Credit Facility, as amended at the time, final approval of an adequate protection package for the prepetition credit facilities (as described below) and the Debtors access to $2 billion in DIP financing subject to the terms and conditions set forth in the DIP financing documents, as amended. The adequate protection package for the prepetition credit facilities included, among other things: (i) an agreement by Delphi to pay accrued interest on the loans under the prepetition credit facilities on a monthly basis, (ii) the right of Delphi to pay this interest based on LIBOR, although any lender could require that interest on its loans be based on the alternative base rate if such lender waives all claims for interest at the default rate and any prepayment penalties that may arise under the prepetition credit facilities and (iii) an agreement by Delphi to replace approximately $90 million of letters of credit outstanding under the prepetition credit facilities with letters of credit to be issued under the Amended DIP Credit Facility.

The Amended DIP Credit Facility provided the lenders with a first lien on substantially all material tangible and intangible assets of Delphi and its wholly-owned domestic subsidiaries (however, Delphi only pledged 65% of the stock of its first-tier non-U.S. subsidiaries) and further provided that amounts borrowed under the Amended DIP Credit Facility would be guaranteed by substantially all of Delphi s affiliated Debtors, each as debtor and debtor-in-possession. The amount outstanding at any one time was limited by a borrowing base computation as described in the Amended DIP Credit Facility. The borrowing base computation exceeded the Amended DIP Credit Facility availability at December 31, 2006. Borrowing base standards could be fixed and revised from time to time by the Administrative Agent in its reasonable discretion. The Amended DIP Credit Facility included affirmative, negative and financial covenants that impose restrictions on Delphi s financial and business operations, including Delphi s ability to, among other things, incur or secure other debt, make investments, sell assets and pay dividends or repurchase stock. So long as the Facility Availability Amount (as defined in the Amended DIP Credit Facility) was equal to or greater than $500 million, the restrictions on investments, mergers and disposition of assets did not apply (except in respect of investments in, and dispositions to, direct or indirect domestic subsidiaries of Delphi that are not guarantors to the Amended DIP Credit Facility).

The covenants required Delphi to, among other things, (i) maintain a monthly cumulative minimum global earnings before interest, taxes, depreciation, amortization, reorganization and restructuring costs (Global EBITDAR), as defined, for each period beginning on January 1, 2006 and ending on the last day of each fiscal month through

November 30, 2006, as described in the Amended DIP Credit Facility, and (ii) maintain a rolling 12-month cumulative Global EBITDAR for Delphi and its direct and indirect subsidiaries, on a consolidated basis, beginning on December 31, 2006 and ending on October 31, 2007, at the levels set forth in the Amended DIP Credit Facility. The Amended DIP Credit Facility contained certain defaults and events of default customary for debtor-in-possession financings of this type. Upon the occurrence and during the continuance of any default in payment of principal, interest or other amounts due under the Amended DIP Credit Facility, interest on all outstanding amounts was payable on demand at 2% above the then applicable rate. Delphi was in compliance with the Amended DIP Credit Facility covenants as of December 31, 2006.

As of November 21, 2005, the Amended DIP Credit Facility $250 million term loan was funded. As of December 31, 2006, there were no amounts outstanding under the Amended DIP Credit Facility revolving facility, but the Company had approximately $92 million in letters of credit outstanding under the Amended DIP Credit Facility revolving facility as of that date.

The Chapter 11 Filings also triggered early termination events under the European accounts receivables securitization program. On October 28, 2005, Delphi and the institutions sponsoring the European program entered into a preliminary agreement, which was then finalized on November 18, 2005, permitting continued use of the European program despite the occurrence of early termination events but with revised financial covenants and pricing. The program was extended on December 21, 2006 with a revised expiration date of December 20, 2007 and further extended on November 30, 2007 with a revised expiration date of December 18, 2008 with substantially the same terms and conditions.

Prepetition Indebtedness

The following should be read in conjunction with Note 14. Debt to the consolidated financial statements in this Annual Report.

Senior Unsecured Debt. Delphi had approximately $2.0 billion of senior unsecured debt at December 31, 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, 2007 and 2006. 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 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

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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 are $2.5 billion over the next two years. Our minimum statutory funding requirements after 2007 are dependent on several factors as discussed in Note 16. Pension and Other Postretirement Benefits.

(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 in this Annual Report.

(c) Estimated interest costs of $406 million, $460 million, $460 million, $460 million and $460 million, respectively, for 2008, 2009, 2010, 2011, and 2012. There are no material estimated interest costs after 2012.

(d) As of December 31, 2007, the gross liability for uncertain tax positions under FIN 48 is $63 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 in this Annual Report.

	Payments due by Period				
	Total	**2008**	**2009 & 2010**	**2011 & 2012**	**Thereafter**
			(in millions)		
Debt and capital lease obligations (1)	$ 3,554	$ 3,495	$ 25	$ 10	$ 24

Operating lease obligations	414	103	132	102	77
Contractual commitments for capital expenditures	344	344			
Other contractual purchase commitments, including information technology	921	260	423	219	19
Total	$ 5,233	$ 4,202	$ 580	$ 331	$ 120

(1) These amounts include the $2.75 billion outstanding under the Refinanced DIP Credit Facility

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The Chapter 11 Filings triggered defaults on substantially all debt obligations of the Debtors. However, the stay of proceedings provisions of section 362 of the Bankruptcy Code 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 Amended Plan. Therefore, all liabilities, including debt, classified as subject to compromise have been excluded from the above table. Refer to Note 13. Liabilities Subject to Compromise and Note 14. Debt to the consolidated financial statements in this Annual Report 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 confirmed Amended 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

Until 2005 Delphi and its issues were rated by Standard & Poor s, Moody s, and Fitch Ratings. Primarily 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. Standard & Poor s, Moody s, and Fitch Ratings assigned point-in-time ratings of BBB-/ B1/ BB-, respectively, to the Amended DIP Credit Facility. 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-.

On October 11, 2005, the NYSE announced the suspension of trading of Delphi s common stock (DPH), 61/2% Notes due May 1, 2009 (DPH 09), and its 71/8% debentures due May 1, 2029 (DPH 29), as well as the 8.25% Cumulative Trust Preferred Securities of Delphi Trust I (DPH PR A). This action followed the NYSE s announcement on October 10, 2005, that it was reviewing Delphi s continued listing status in light of Delphi s announcements involving the filing of voluntary petitions for reorganization relief under chapter 11 of the Bankruptcy Code. The NYSE subsequently determined to suspend trading based on the trading price for the common stock, which closed at $0.33 on October 10, 2005 and completed delisting proceedings on November 11, 2005. 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, 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 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 over the counter (OTC) securities in real-time. Delphi s listing status on the Pink Sheets is dependent on market makers willingness to provide the service of accepting trades to buyers and sellers of the stock. Unlike securities traded on a stock exchange, such as the NYSE, issuers of securities traded on the Pink Sheets do not have to meet any specific quantitative and qualitative listing and maintenance standards. As of the date of filing this Annual Report on Form 10-K with the SEC, Delphi s 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, 2007, Delphi had approximately $344 million in outstanding cancelable and non-cancelable capital commitments.

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We expect capital expenditures to be approximately $1.0 billion in 2008 consistent with prior years, based on the current organizational structure as a going concern**.** Capital expenditures by operating segment and geographic region for the periods presented were:

	Year Ended December 31,		
	2007	2006	2005
	(in millions)		
Electronics and Safety	$ 161	$ 180	$ 282
Powertrain Systems	149	157	227
Electrical/Electronic Architecture	182	182	206
Thermal Systems	66	25	37
Automotive Holdings Group	3	53	126
Corporate and Other	19	25	147
Continuing operations capital expenditures	580	622	1,025
Discontinued operations	66	99	158
Total capital expenditures	$ 646	$ 721	$ 1,183
North America	$ 255	$ 253	$ 572(1)
Europe, Middle East & Africa	217	275	331
Asia-Pacific	85	72	100
South America	23	22	22
Continuing operations capital expenditures	580	622	1,025
Discontinued operations	66	99	158
Total capital expenditures	$ 646	$ 721	$ 1,183

(1) Includes $129 million for purchase of facilities previously leased, primarily within the Corporate and Other segment. Prior to the purchase, these leases were accounted for as operating leases.

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 used in operating activities totaled $289 million for the year ended December 31, 2007, compared to net cash provided by operating activities of $9 million in 2006 and $183 million in 2005. Cash flow from operating activities was reduced for all periods by contributions to our U.S. pension plans of $304 million,

$305 million, and $691 million and OPEB payments of $207 million, $262 million, and $186 million for the years ended December 31, 2007, 2006 and 2005, respectively. Cash flow from operating activities in 2007 and 2006 was reduced for cash paid to employees in conjunction with the U.S. Employee Workforce Transition Programs of $793 million and $654 million, respectively, less amounts reimbursed to Delphi from GM of $265 million and $405 million, respectively. During 2007 and 2006 our cash flows from operating activities were negatively impacted by payments of $377 million and $424 million, respectively, of interest, $142 million and $70 million, respectively, of reorganization related costs and $155 million and $100 million, respectively, of incentive compensation to executives and U.S. salaried employees. 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. Cash flow from operations in 2007 and 2006 was positively impacted by extended supplier payment terms compared to 2005 and 2006 where certain suppliers, principally in the U.S., demanded shorter supplier payment terms or prepayments as a result of the Chapter 11 Filings.

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Investing Activities. Cash flows used in investing activities totaled $339 million for the year ended December 31, 2007, compared to $554 million and $794 million for the years ended December 31, 2006 and 2005, respectively. The principal use of cash in 2007, 2006 and 2005 reflected capital expenditures related to ongoing operations and, in 2007 and 2006, $82 million and $24 million, respectively, of proceeds from divestitures offset by an increase in restricted cash related to the U.S. employee workforce transition programs of approximately $22 million and $105 million, respectively. Cash flows from investing activities in 2005 included approximately $129 million for the purchase of certain previously leased properties and $245 million of proceeds from divestitures of product lines and joint ventures. Other cash flows from investing activities principally consist of 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, in return for sales of product.

Financing Activities. Net cash used in financing activities was $58 million for the year ended December 31, 2007, compared to $122 million in 2006 and net cash provided by financing activities of $1,952 million in 2005. Net cash provided by financing activities during 2007 primarily reflected borrowings under the Refinanced DIP Credit Facility offset by repayments of the Amended DIP Credit Facility and the Prepetition Facility. Net cash used in financing activities during 2006 consisted primarily of repayments of credit facilities and other debt. Net cash provided by financing activities in 2005 primarily reflected borrowings under the Amended DIP Credit Facility offset by repayment of U.S. securitization borrowings. The payment of dividends is reflected for 2005.

Dividends. On September 8, 2005, the Board of Directors announced the elimination of Delphi s quarterly dividend on Delphi common stock. In addition, the Company s debtor-in-possession credit facilities (both the one in effect during 2006 and the refinanced facility currently in effect) include negative covenants, which prohibit the payment of dividends by the Company. The Company does not expect to pay dividends in the foreseeable future. Refer to Note 14. Debt to the consolidated financial statements in this Annual Report on Form 10-K.

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.

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, 2007, the projected benefit obligation (PBO) of the U.S. defined benefit pension plans exceeded the market value of the plan assets by $3.3 billion, compared to $4.2 billion at December 31, 2006; the change is explained as follows:

	Underfunded Status (PBO basis) (in millions)
December 31, 2006	$ (4,188)
Pension contributions	209
2007 actual asset returns 9%	857
Impact of weighted-average discount rate increase by 45 basis points to 6.35%	589
Interest and service cost	(1,021)
Impact of prospective plan amendments, divestitures and U.S employee workforce transition program	248

December 31, 2007	$	(3,306)

As permitted under chapter 11 of the Bankruptcy Code, Delphi made only the portion of the contribution attributable to service after the Chapter 11 Filings. During 2007, Delphi contributed $0.2 billion to its U.S. pension plans. Although Delphi s 2008 minimum funding requirement is approximately $2.5 billion under current legislation and plan design, Delphi is in chapter 11, and due to our favorable pension waivers, our 2008 contributions will be limited to approximately $0.2 billion, representing the normal service cost earned during the year. Upon emergence from chapter 11, we will be required to meet our past due funding obligations. These obligations will be the amount of the minimum funding requirement contributions that would have been due, less the amount of the normal service cost contributions actually paid to the pensions plus interest. Assuming we make such funding upon emergence from chapter 11 and related plan design changes, we will be required by employee benefit and tax laws to make contributions of approximately $2.5 billion in 2008, none in 2009 and $0.4 billion in 2010.

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 has reached agreements with GM and its U.S. hourly employees to freeze accrued benefits under the existing pension plan at bankruptcy emergence and transition employees not covered by benefit guarantees between GM and the UAW, IUE-CWA and USW to a cash balance pension plan or a defined contribution plan. Similarly, accrued benefits under the U.S. salaried pension plan will be frozen at bankruptcy emergence and covered employees will be transitioned to a defined contribution plan.

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, 2007 and 2006, the accumulated postretirement benefit obligation (APBO) was $8.7 billion and $9.1 billion, respectively. These plans do not have minimum funding requirements, but rather are pay as you go. During 2007 and 2006, net other postretirement benefit payments totaled $243 million and $229 million, respectively. As part of Delphi s plan of reorganization and transformation plan, Delphi has reached agreements with GM and the unions representing its U.S. hourly employees to transfer to GM certain retiree medical and employer-paid retiree life insurance benefit obligations at bankruptcy emergence and otherwise transition hourly employees to defined benefit retiree medical accounts or a defined contribution plan.

Delphi selected discount rates for our U.S. pension and other postretirement benefit plans by analyzing the results of matching each plan s projected benefit obligations with a portfolio of high quality fixed income investments rated AA- or higher by Standard and Poor s and with the Citigroup Pension Discount Curve. Because high quality bonds in sufficient quantity and with appropriate maturities are not available for all years when cash benefit payments 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. The weighted-average pension discount rate determined on that basis increased from 5.90% for 2006 to 6.35% for 2007. This 45 basis point increase in the weighted-average discount rate decreased the underfunded status of the U.S. pension plans by approximately $0.6 billion. The weighted-average other postretirement benefits discount rate determined on that basis increased from 6.10% for 2006 to 6.40% for 2007. This 30 basis point increase in the weighted average discount rate decreased the underfunded status of the U.S. postretirement plans by approximately $0.5 billion. Delphi selected discount rates for its non-U.S. plans by analyzing the yields of high quality fixed income investments.

Agreements relating to union matters allow for some of Delphi s hourly employees in the U.S. to transfer to GM as appropriate job openings become available at GM, while GM employees in the U.S. had similar opportunities to transfer to the Company, those opportunities are currently suspended. Pursuant to the Amended Plan, certain of these provisions have been changed with agreement of GM and the unions. If such a transfer occurs, in general, both Delphi and GM will be responsible for pension payments, which in total reflect such employee s entire eligible years of service. Allocation of responsibility between Delphi and GM will be on a pro-rata basis depending on the length of service at each company (although service at Delphi includes service with GM prior to Delphi s separation from GM). There will be no transfer of pension assets or liabilities between GM and us with respect to such employees that transfer between our companies. The company to which the employee transfers will be responsible for the related other postretirement obligation. An agreement with GM provides for a mechanism for determining a cash settlement amount for other postretirement obligations associated with employees that transfer between GM and Delphi. The consolidated balance sheets include approximately $3.1 billion as of December 31, 2007 and December 31, 2006, of

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postretirement obligations classified as liabilities subject to compromise reflecting an APBO for benefits payable to GM for employees that transferred from Delphi to GM. Additionally, a $0.1 billion receivable for the cash settlement amount due from GM for postretirement obligations associated with employees transferring from GM to Delphi has been classified as an other long-term asset. Based on the terms of the GSA, GM will assume certain of Delphi s hourly medical postretirement benefits, including the cancellation of amounts payable to GM related to Delphi employees that have transferred to GM.

	Other Postretirement Benefits			
	Delphi Hourly	Delphi Salaried	Payable to GM	Total
	(in millions)			
Benefit obligation at December 31, 2006	$ 4,908	$ 1,026	$ 3,121	$ 9,055
Service cost	65	16		81
Interest cost	293	61	188	542
Plan participants contributions		3		3
Actuarial gains	(313)	73	(231)	(471)
Benefits paid	(198)	(45)		(243)
Special termination benefits	3			3
Impact of curtailment	(133)		33	(100)
Plan amendments and other	(138)			(138)
Benefit obligation at December 31, 2007	$ 4,487	$ 1,134	$ 3,111	$ 8,732

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. Through mediated settlement discussions, on August 31, 2007, representatives of Delphi, Delphi s insurance carriers, certain current and former directors and officers of Delphi, and certain other defendants involved in the securities actions, ERISA actions, and shareholder derivative actions in consolidated proceedings (the Multidistrict Litigation or MDL) reached an agreement with the lead plaintiffs in the Securities Actions as defined below (the Lead Plaintiffs) and named plaintiffs in the Amended ERISA Action as defined below (the ERISA Plaintiffs) resulting in a settlement of the Multidistrict Litigation (the MDL Settlements). Pursuant to the MDL Settlements, the class claimants will receive cash and allowed claims in the chapter 11 proceedings that, when valued at the face amount of the allowed claims, is equivalent to approximately $351 million. The MDL Settlements were approved by the District Court in which the actions are pending, and by the Court on January 25, 2008.

On September 5, 2007 the U.S. District Court for the Eastern District of Michigan (the District Court) entered an order preliminarily certifying the class and approving the settlement and scheduled the matter for a fairness hearing on November 13, 2007. On November 13, the District Court conducted the fairness hearing and took the matter under advisement. 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 MDL Settlements (the Modified MDL Settlements), and tentatively approved the Modified MDL Settlements, after determining that the modifications were at least neutral to the Lead

Plaintiffs and potentially provide a net benefit to the Lead Plaintiffs. The District Court approved the MDL Settlements in an opinion and order issued on January 10, 2008 and amended on January 11, 2008, and the District Court entered final orders and judgments dated January 23, 2008 with respect to the securities and ERISA actions. On January 25, 2008, the Court approved the MDL Settlements. As provided in the confirmation order, the MDL Settlements are contingent upon the effective date of the Amended Plan occurring, and if, for any reason, we cannot emerge as contemplated, the MDL Settlements will become null and void. A copy of an addendum

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setting forth the modification is attached as Exhibit 99(f) to the Company s Current Report on Form 8-K filed with the SEC on January 30, 2008.

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 (the ERISA Actions). Plaintiffs in the ERISA Actions allege, among other things, that the plans suffered losses as a result of alleged breaches of fiduciary duties under ERISA. The ERISA Actions were subsequently transferred to the Multidistrict Litigation. On March 3, 2006, plaintiffs filed a consolidated class action complaint (the Amended ERISA Action) with a class period of May 28, 1999 to November 1, 2005. The Company, which was previously named as a defendant in the ERISA Actions, was not named as a defendant in the Amended ERISA Action due to the Chapter 11 Filings, but the plaintiffs stated that they intended to proceed with claims against the Company in the ongoing bankruptcy cases, and will seek to name the Company as a defendant in the Amended ERISA Action if the bankruptcy stay 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 is providing certain discovery to the Lead Plaintiffs 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 Actions) 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 Actions name several additional defendants, including Delphi Trust II, certain former directors, and underwriters and other third parties, and includes securities claims regarding additional offerings of Delphi securities. The Securities Actions consolidated in the United States District Court for Southern District of New York (and a related securities action filed in the United States District Court for the Southern District of Florida concerning Delphi Trust I) were subsequently transferred to the District Court as part of the Multidistrict Litigation. The action is stayed against the Company pursuant to the Bankruptcy Code, but is continuing against the other defendants. On February 15, 2007, the District Court partially granted the plaintiffs motion to lift the stay of discovery provided by the Private Securities Litigation Reform Act of 1995, thereby allowing the 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 is providing 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 (Oakland County Circuit Court in Pontiac, Michigan). 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 consolidated with the securities and ERISA class actions in the U.S. District Court. Following the filing on October 8, 2005 of the Debtors petitions for reorganization relief under chapter 11 of the Bankruptcy Code, all the derivative cases were administratively closed.

The following is a summary of the principal terms of the MDL Settlements as they relate to the Company and its affiliates and related parties and is qualified in its entirety by reference to the complete agreements submitted to the Court for approval and which were filed as exhibits to the Company s Current Report on Form 8-K dated September 5, 2007.

Under the terms of the Modified MDL Settlements, the Lead Plaintiffs and the ERISA Plaintiffs will receive claims that will be satisfied through Delphi s Amended Plan as confirmed by the Court pursuant to the confirmation order described under Item 1.03 of the Company s Current Report on Form 8-K filed with the SEC on January 30, 2008. 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 Amended Plan. Additionally, the Lead Plaintiffs will receive $15 million to be provided by a third party. Delphi has also agreed to provide the Lead Plaintiffs, on behalf of the class members, the ability to exercise their rights in the anticipated discount rights offering in connection with the Amended Plan through a notice mechanism and a pledge of cash collateral. 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 settlement reached with the Lead Plaintiffs. Delphi will object to any claims filed by opt-out plaintiffs in the Court, and will seek to have such claims expunged. The settlement with the ERISA Plaintiffs is structured similarly to the settlement reached with the Lead Plaintiffs. The ERISA Plaintiffs claim 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. Unlike the settlement reached with the Lead Plaintiffs, the ERISA Plaintiffs will not be able to opt out of their settlement.

In addition to the amounts to be provided by Delphi from the above described claims in its chapter 11 cases, the Lead Plaintiffs will also receive 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. The ERISA Plaintiffs will also receive a distribution of insurance proceeds in the amount of approximately $22 million. Settlement amounts from insurers and underwriters were paid and placed in escrow by September 25, 2007 pending Court approval.

The MDL Settlements include a dismissal with prejudice of the ERISA and Securities Actions and a full release as to 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. 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, 2007, Delphi has a liability of $351 million recorded for this matter. The expense incurred for this matter was $343 million during 2007. 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. Delphi had previously recorded an initial reserve in the amount of its $10 million insurance deductible, and net of related payments, had an $8 million liability recorded as of December 31, 2006. Based on the modifications to the MDL Settlements discussed above, Delphi reduced its liability by approximately $10 million during December 2007. As discussed above, in conjunction with the MDL Settlements, Delphi expects to record recoveries of $148 million for the settlement amounts provided to the plaintiffs from insurers, underwriters, and third-party reimbursements and will record such recoveries upon Delphi s emergence from chapter 11.

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 the past three years, Delphi expects to spend $11 million over the course of the next year 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 has received notices that it is a 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 concerning a portion of the Site. The Remedial Investigation and Alternatives Array Document were finalized in 2007. A Feasibility Study and Record of Decision are expected to be completed in 2008. Although Delphi believes that capping and future monitoring is a reasonably possible outcome, 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, 2007, Delphi has recorded its best estimate of its share of the remediation based on the remedy described above. However, if that remedy is not accepted, Delphi s expenditures for remediation could increase by $20 million in excess of its existing reserves. Delphi will continue to re-assess any potential remediation costs and, as appropriate, its environmental reserve as the investigation proceeds.

As of December 31, 2007 and 2006, Delphi s reserve for environmental investigation and remediation was approximately $112 million and $118 million, respectively, including approximately $3 million within liabilities subject to compromise at December 31, 2006. The amounts recorded take into account the fact that GM retained the environmental liability for certain sites as part of the Separation. Delphi completed a number of environmental investigations during 2006 in conjunction with our transformation plan, which contemplates 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 Delphi s environmental reserve of approximately $70 million in 2006. The additional reserves are primarily related to 35 facilities and are comprised of investigation, remediation and operation and maintenance of the remedy, including postremediation monitoring costs.

Addressing contamination at these sites 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, 2007 accruals will be adequate to cover the estimated liability for its exposure in respect to such matters and that these costs will be incurred over the next 20 years. However, as Delphi continues 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. Delphi cannot ensure that environmental requirements will not change or become more stringent over time or that its 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, 2007, the difference between the recorded liabilities and the reasonably possible maximum estimate for these liabilities was approximately $105 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 2007.

Significant Accounting Policies and Critical Accounting Estimates

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

We consider an accounting estimate to be critical if:

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

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

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 (i) 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 are (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 16. 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.

Valuation of Long-lived Assets, 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.

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.

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

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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, anticip believes, estimates, predicts, potential or continue, the negative of these terms and other comparable terminolog 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 and to obtain an extension of term or other amendments as necessary to maintain access to such facility; the Company s ability to obtain Court approval with respect to motions in the chapter 11 cases prosecuted by it from time to time; the ability of the Company to consummate its Amended Plan which was confirmed by the Court on January 25, 2008; the Company s ability to satisfy the terms and conditions of the EPCA; risks associated with third parties seeking and obtaining Court approval to terminate or shorten the exclusivity period for the Company to propose and confirm one or more plans of reorganization, for the appointment of a chapter 11 trustee or to convert the cases to chapter 7 cases; the ability of the Company to obtain and maintain normal terms with vendors and service providers; the Company s ability to maintain contracts that are critical to its operations; the potential adverse impact of the chapter 11 cases on the Company s liquidity or results of operations; the ability of the Company to fund and execute its business plan (including the transformation plan described in Item 1. Business Plan of Reorganization and Transformation Plan) 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, 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.

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 our consolidated financial statements and further disclosure is provided in Note 22. 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.

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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, Chinese Yuan (Renminbi), Euro, Polish Zloty, and Turkish New Lira. As of December 31, 2007 and 2006, the net fair value asset of all financial instruments (hedges and underlying transactions) with exposure to currency risk was approximately $189 million and $411 million, respectively. 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 $115 million and $51 million at December 31, 2007 and 2006, 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 $10 million and approximately $16 million at December 31, 2007 and 2006, 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 $47 million and $39 million at December 31, 2007 and 2006, 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 Refinanced DIP Credit Facility includes a first priority term loan (Tranche B Term Loan) which carries an interest rate of the Administrative Agent s Alternate Base Rate plus 2.50% or LIBOR plus 3.50% and a second priority term loan (Tranche C Term Loan) which carries an interest rate at the option of Delphi of either the Administrative Agent s Alternate Base Rate plus 3.00% or LIBOR plus 4.00%. Accordingly, the interest rate will fluctuate based on the movement of the Alternate Base Rate or LIBOR through the term of the Refinanced DIP Credit Facility.

The table below indicates interest rate sensitivity to floating rate debt based on amounts outstanding as of December 31, 2007.

Change in Rate	Tranche B Term Loan	Tranche C Term Loan (in millions)	Other (1)

25 bps decrease	$ 0.6	$ 6.2	$ 2.0
25 bps increase	$ (0.6)	$ (6.2)	$ (2.0)

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Under the supervision and with the participation of our management, including our Chief Executive Officer (the CEO) and Chief Financial Officer (the CFO), we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of December 31, 2007. The basis for this determination was that, as discussed below, we have identified a material weakness in our internal control over financial reporting, which we view as an integral part of our disclosure controls and procedures.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) includes those policies and procedures that: (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (c) 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.

Management assessed our internal control over financial reporting as of December 31, 2007, the end of our fiscal year. Management based its assessment on the criteria set forth in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management s 2007 assessment identified a material weakness related to its inventory accounting adjustments. Ongoing remediation plans to address this material weakness are described below in the section Ongoing Remediation Activities of Item 9A. Controls and Procedures .

Inventory Accounting Adjustments Controls to determine that adjustments to inventory quantities are made in the appropriate period and to capture, analyze and record inventory manufacturing variances did not operate with sufficient timeliness and precision to enable recognition of material adjustments to inventory balances in the proper period. Specifically, we did not fully implement the new enterprise software solution as intended within our Electrical/Electronic Architecture segment. Therefore a significant portion of the segment s inventory continued to be processed in our legacy inventory system which lacks a timely perpetual inventory record. Additionally, in those locations where we implemented our new enterprise software solution, the implementation controls related to data and process conversion and end user readiness have not functioned as designed. As a result of these situations, it is possible that material misstatements related to the carrying value of inventories, cost of goods sold and related disclosures could occur and not be prevented or detected on a timely basis.

Management has discussed the material weakness described above and related corrective actions with the Company s Audit Committee. Ernst & Young has issued an attestation report, which follows this report which is included under Item 8. Financial Statements and Supplementary Data Report of Independent Registered Public Accounting Firm.

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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, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Delphi Corporations 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.

A material weakness is a deficiency, or 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. Management has identified a material weakness in controls related to inventory in its Electrical/Electronic Architecture segment. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2007 financial statements, and this report does not affect our report dated February 14, 2008 on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Delphi Corporation has not maintained effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

/s/ Ernst & Young LLP
Ernst & Young LLP

Detroit, Michigan
February 14, 2008

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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, 2007 and 2006, and the related consolidated statements of operations, stockholders equity (deficit) and comprehensive loss, and cash flows for each of the two years in the period ended December 31, 2007. Our audits also include the financial statement schedule for the years ended December 31, 2007 and 2006, 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, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the years ended December 31, 2007 and 2006, when considered in relation to the basic financial statements taken as a whole, present 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 8 to the consolidated financial statements, in 2007, the Company changed its method of accounting for uncertainties in income taxes.

As discussed in Note 20 to the consolidated financial statements, in 2006, the Company changed its method of accounting for stock compensation.

As discussed in Note 16 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.

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, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2008 expressed an adverse opinion on the effectiveness of the Company s internal control over financial reporting because of the effect of a material weakness.

/s/ Ernst & Young LLP
Ernst & Young LLP

Detroit, Michigan
February 14, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Delphi Corporation:

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

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

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

As discussed in Note 1 to the financial statements, the Company has filed for reorganization under chapter 11 of the United States Bankruptcy Code. The accompanying 2005 financial statements do not purport to reflect or provide for the consequences of the bankruptcy proceedings. In particular, such financial statements do not purport to show (a) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (b) as to prepetition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (c) as to stockholder accounts, the effect of any changes that may be made in the capitalization of the Company; or (d) as to operations, the effect of any changes that may be made in its business.

The accompanying 2005 financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company s ability to comply with the terms and conditions of the debtor-in-possession financing agreement; to obtain confirmation of a plan of reorganization under chapter 11 of the United States Bankruptcy Code; to reduce wage and benefit costs and liabilities through the bankruptcy process; to return to profitability; to generate sufficient cash flow from operations and; to obtain financing sources to meet the Company s future obligations raise substantial doubt about its ability to continue as a going concern. Management s plans concerning these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Deloitte & Touche LLP
Detroit, Michigan

July 11, 2006, except for the effects of the pending dispositions discussed in Note 5, the addition of the investments in affiliates disclosure in Note 18, and the segment realignment discussed in Note 21 as to which the date is February 19, 2008

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DELPHI CORPORATION
(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF OPERATIONS