DELPHI AUTOMOTIVE SYSTEMS CORP
Form 10-K405
February 08, 2001
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549-1004

FORM 10-K

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

For the Fiscal Year Ended December 31, 2000

OR

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

For the Transition Period From _____ to _____ .

Commission File No. 1-14787

DELPHI AUTOMOTIVE SYSTEMS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

5725 Delphi Drive, Troy, Michigan
(Address of Principal Executive Offices)

38-3430473
(IRS Employer
Identification Number)

48098
(Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share (including the associated Preferred Share Purchase Rights)	New York Stock Exchange
6 1/8% notes due May 1, 2004	New York Stock Exchange
6 1/2% notes due May 1, 2009	New York Stock Exchange
7 1/8% debentures due May 1, 2029	New York Stock Exchange

The notes and debentures identified above are also listed for trading on the Luxembourg Stock Exchange.

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

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

As of January 31, 2001, 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 $8.3 billion. The closing price of the Common Stock on January 31, 2001 as reported on the New York Stock Exchange was $14.76 per share. As of January 31, 2001, the number of shares outstanding of the registrant s Common Stock was 559,790,288 shares.

Documents Incorporated by Reference

Certain portions, as expressly described in this report, of the registrant s Proxy Statement for the 2001 Annual Meeting of the Stockholders, to be filed within 120 days of December 31, 2000, are incorporated by reference into Part III, Items 10-13.

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DELPHI AUTOMOTIVE SYSTEMS CORPORATION

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PART I

DELPHI AUTOMOTIVE SYSTEMS CORPORATION

ITEM 1. BUSINESS

Overview Delphi Automotive Systems Corporation (Delphi) is a world leading supplier of vehicle electronics, transportation components, integrated systems and modules, with 2000 net sales of $29.1 billion. We have extensive technical expertise in a broad range of product lines and strong systems integration skills, which enable us to provide comprehensive, systems-based solutions to vehicle manufacturers (VMs). We have established an expansive global presence, with a network of manufacturing sites, technical centers, sales offices and joint ventures located in every major region of the world. We sell our products to the major VMs around the world. We operate our business along three major product sectors, which work closely together to coordinate product development and marketing efforts. Our three product sectors are: Electronics & Mobile Communication, which includes our automotive electronics and audio and communication systems; Safety, Thermal & Electrical Architecture, which includes our safety, thermal and power and signal distribution products; and Dynamics & Propulsion, which includes our energy and engine management, chassis and steering products. See Note 13 to our consolidated financial statements included elsewhere in this report for additional product sector and geographical information.

We also sell our products to the worldwide aftermarket for replacement parts. Our select portfolio of high-quality aftermarket products falls under five key categories: under car, thermal systems, energy/engine management systems, electronics and remanufactured parts. By leveraging our strong electronics competency, technical knowledge, product portfolio and distribution network, we are able to offer a diversified line of aftermarket products.

We are increasingly selling our products to non-VM customers. The growth in non-VM markets, which includes communications, military, aerospace, agriculture and construction, is fueled by our ability to leverage existing automotive technologies. We will continue to look for opportunities to use our base competencies beyond the automotive industry.

History Delphi was incorporated in Delaware in late 1998, as a wholly owned subsidiary of General Motors (GM). Prior to January 1, 1999, GM conducted the business through various divisions and subsidiaries. Effective January 1, 1999, the assets and liabilities of the Delphi business sector were transferred to Delphi and its subsidiaries in accordance with the terms of a Master Separation Agreement to which Delphi and GM are parties (the Separation Agreement). We became an independent company during 1999 through a series of transactions (the Separation). The Separation occurred in two stages, the first of which involved an initial public offering (the IPO) on February 5, 1999, and the second of which involved the distribution of Delphi s remaining shares owned by GM (the Spin-Off) on May 28, 1999.

Acquisitions and Divestitures On January 7, 2000, Delphi completed the purchase of Lucas Diesel Systems from TRW Inc. for $0.8 billion, net of cash acquired. Lucas Diesel Systems, now Delphi Diesel Systems, is the world s second largest producer of diesel fuel-injection systems for light, medium and heavy-duty vehicles. This acquisition supports our key initiatives by adding new high-growth diesel product lines, increasing our European sales by more than 18%, complementing our gasoline engine management systems capabilities and increasing our non-GM sales by 10% to approximately $8.5 billion during 2000.

On February 28, 2000, Delphi completed the acquisition of Automotive Products Distribution Services (APDS). APDS, now Delphi Lockheed Automotive, is a leading European distributor of automotive aftermarket products for passenger cars and commercial vehicles. We believe this acquisition strengthens our portfolio and distribution in the global aftermarket, providing distribution networks for our existing product lines as well as existing APDS products.

We have recently completed an evaluation of our portfolio and are actively reviewing portfolio management options for our global generator business. Including generators, we are reviewing

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approximately $4 billion to $5 billion of businesses for near term portfolio management action. We have identified business lines across all sectors that require portfolio management solutions and expect to find portfolio solutions for these business lines in 2001, with likely near term actions in the Safety, Thermal and Electrical Architecture business sector.

Industry

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

Increasing Electronic and Technological Content The electronic and technological content of vehicles continues to expand, largely driven by increasingly stringent regulatory standards for automotive emissions and safety, as well as consumer demand for greater vehicle performance, functionality and convenience options with improved affordability. Electronics integration, which generally refers to products which combine computer chips, software algorithms, sensor technologies and mechanical components within the vehicle, allows VMs to achieve substantial reductions in weight and mechanical complexity, resulting in easier assembly, enhanced fuel economy, improved emissions control and better vehicle performance. The technology content of vehicles is also increasing, as consumers demand greater productivity, convenience and safety while driving. Mobile Multimedia, the technology that offers mobile voice and data communication coupled with global positioning sensors and in-vehicle entertainment, is making major inroads into the transportation industry. A high-growth product within Mobile Multimedia, telematics establishes links between the vehicle and a service center to enhance consumers safety, security and convenience.

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

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

Ongoing Industry Consolidation The worldwide automotive parts industry is consolidating as suppliers seek to achieve operating synergies through business combinations, build stronger customer relationships and follow their customers as they expand globally, acquire complementary technologies and shift production to locations with more flexible local work rules and practices. The need for suppliers to provide VMs with single-point sourcing of integrated systems and modules on a global basis has also fueled industry consolidation. Additionally, VMs are also experiencing rapid consolidation which impacts customer/supplier relationships and provides opportunities and risks as suppliers attempt to secure global supply contracts across broader vehicle platforms.

Shorter Product Development Cycles Suppliers are under pressure from VMs to respond more quickly with new designs and product innovations to support rapidly changing consumer tastes and regulatory requirements. For example, vehicle demand in North America has shifted from cars to light trucks and vans over the last several years,

requiring suppliers to modify their operations to focus on parts for these vehicles. In developing countries, broad economic improvements have been and continue to be made, increasing demand for smaller, less expensive vehicles that satisfy basic transportation needs. In addition,

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increasingly stringent government regulations regarding vehicle safety and environmental standards are driving new product development.

Growth of e-Business The growth of the Internet is transforming the marketplace for all industries, including the automotive industry. Many companies are using Internet based technology to speed the flow of material through the supply-chain, increase response to consumer demand and deliver new products to the market quickly. Increasingly, VMs are establishing Internet-based business-to-business integrated exchanges to facilitate their transactions with suppliers. The goal of these exchanges is to improve supply-chain management, support the e-business efforts of VMs and suppliers through collaborative solutions, improve competitive advantage by increasing speed and responsiveness and reduce costs at all levels of the value chain. These exchanges have the potential to allow VMs to work more effectively with their suppliers to satisfy consumer demands quickly and profitably.

Delphi management believes that the Company is positioned to capitalize on these industry dynamics through our diversified product portfolio, our commitment to exceed customer expectations, our lean manufacturing practices and our global presence. While we believe that we can successfully execute business strategies to address the aforementioned industry trends, we cannot assure you in this regard.

Research and Development

Delphi maintains technical engineering centers in every major region of the world to develop and provide advanced products, processes and manufacturing support for all of our manufacturing sites and to provide our customers with local engineering capabilities and design development on a global basis. As of December 31, 2000, we employed more than 16,000 engineers, scientists and technicians around the world with over one-third focused on electronic and high technology products, including software algorithm development. We introduced 103 new products and processes this year. We believe that our engineering and technical expertise, together with our emphasis on continuing research and development, allows us to use the latest technologies, materials and processes to solve problems for our customers and to bring new, innovative products to market.

We believe that continued research and development activities (including engineering) are critical to maintaining our pipeline of technologically advanced products. Our total expenditures for research and development activities (including engineering) were approximately $1.7 billion in each of the years ended December 31, 2000 and 1999 and $1.4 billion in 1998.

Intellectual Property

We have generated a large number of patents in the operation of our business. At present, we own full or partial interest in more than 5,000 patents and 4,000 patent applications worldwide. We expect this portfolio will continue to grow as we are actively pursuing additional technological innovation. The average age of our patents is less than 10 years. While we believe that these patents and patent applications are, in the aggregate, important to the conduct of our business, none is individually considered material to our business. 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, none is individually considered material to our business. We are actively pursuing marketing opportunities

to license our technology to both automotive and non-automotive industries. This leveraging activity is expected to further enhance the value of our intellectual property portfolio.

Products and Competition

The global automotive parts industry principally involves the supply of components, systems and modules to VMs for the manufacture of new vehicles, to other suppliers for use in their product offerings and to the aftermarket for use as replacement parts for older vehicles. 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

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development capability, new product innovation, leanness of facilities, operational flexibility, customer service and overall management. Some of our competitors have substantial size and scale and some have lower cost structures, including in some cases lower hourly wage structures, than our company.

Our product offerings are organized in three product sectors: Electronics & Mobile Communication; Safety, Thermal & Electrical Architecture; and Dynamics & Propulsion. To our knowledge, very few other Tier 1 suppliers compete across the full range of our product areas within the automotive industry and other transportation markets. Our product sector offerings and principal competitors are summarized below:

Electronics & Mobile Communication Our Electronics & Mobile Communication product sector accounted for $5.3 billion of our 2000 sales (16.7% excluding inter-sector sales). This sector is one of the leading global providers of automotive electronics products. The sector also offers a wide variety of audio and communication systems for vehicles. The automotive electronics capabilities of this sector are utilized in connection with some of the product offerings of our two other product sectors to produce systems, subsystems and modules designed to enhance vehicle safety, comfort, security and efficiency. Our principal competitors in the Electronics & Mobile Communication product sector include the following: Robert Bosch GmbH, Denso Inc., Motorola, Inc. and Siemens AG. Our principal Electronics & Mobile Communication product lines include the following:

Product Line	Description
Audio Systems	A complete range of advanced audio components from AM/ FM and satellite reception systems for vehicles, to custom-equalized acoustic systems like Monsoon® premium radio. Delphi provides fully integrated audio systems tailored to the requirements of specific customers.
COMMUNIPORT® Infotainment Systems COMMUNIPORT® systems meet the growing market demand for mobile connectivity, entertainment and information. The mobile multimedia systems integrate audio, digital, display, voice recognition and wireless technologies within the vehicle. Products include advanced features such as GPS, MP-3 playback, satellite radio programming, rear seat entertainment systems, in-car integrated vehicle communication systems and the Mobile Productivity Center. The Mobile Productivity Center is an electronic device that provides drivers hands-free	

access to data in their Palm V or Vx handheld computer and allows them to make hands-free phone calls through voice commands and text-to-speech software.	
Powertrain and Engine Control Modules Engine and powertrain control modules incorporate state-of-the-art computer technology to measure engine and transmission performance and enable real-time adjustment of fuel, air, and spark to help optimize vehicle performance.	
Security Systems Sophisticated security system electronics designed to protect the vehicle, its owner and its contents. Products include remote keyless entry, vehicle immobilization systems, security alarms, ultrasonic interior protection, glass breakage sensors and vehicle inclination sensors.	
Safety Systems Electronics Advanced electronic sensors included in occupant safety systems. These sensors are designed to monitor occupant characteristics, such as height and weight, and to evaluate crash severity for the appropriate deployment of vehicle occupant restraint devices.	

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Product Line	Description
FUBA® Reception Systems	Antenna systems for vehicle entertainment, communication, and information system solutions. Integrated into the vehicle s surface for maximum performance and design flexibility, FUBA® Advanced Reception Systems offer exceptional reception while enhancing vehicle styling.
FOREWARN® Collision Warning Systems Forward, side and rear detection systems that help the driver to more closely monitor the road. Using laser, infrared, ultrasonic, vision and global positioning sensors, FOREWARN® alerts drivers to hazards within its detection zone and communicates to the driver when intervention is necessary. FOREWARN® adaptive cruise control detects vehicles ahead of the driver and uses throttle control and limited braking to maintain a preset distance between vehicles.	

Safety, Thermal & Electrical Architecture Our Safety, Thermal & Electrical Architecture product sector accounted for $10.0 billion of our 2000 sales (33.9% excluding inter-sector sales). This sector offers a wide range of products relating to the vehicle interior as well as the expertise to integrate them into individual vehicle designs to simplify manufacturer assembly and enhance vehicle marketability. The sector also offers thermal products, including powertrain cooling systems and climate control systems that meet global mandates for alternative refrigerant capabilities. The sector is also a global leader in the production of connectors, wiring harnesses, switches and sensors for electrical power and signal distribution. Our principal competitors in the Safety, Thermal & Electrical Architecture product sector include the following: Autoliv Inc., Denso Inc., TRW Inc., Valeo SA and Yazaki Corp. Our principal Safety, Thermal & Electrical Architecture product lines include the following:

Product Line	Description

Connection Systems (Automotive)	A connection system that allows wiring to be attached to devices or to other wires within a vehicle. Systems integrate wiring, flexible circuits, switches, connectors and electronic products.
Connection Systems (Non-Automotive) Products including high-speed, high-density, solderless Gold Dot™ connection systems, harsh environment fiber optics for extreme temperature applications, flexible circuit assemblies, rugged electrical connectors and cable assemblies. Market applications include telecommunications, data communications, industrial, military and aerospace.	
Switch Products Products that complete or break connections in an electrical circuit. Product family includes system-activated or driver-controlled switch products including power window and headlamp switches, brake pedal and doorjamb switches, as well as smart switches which contain integrated electronics. These products can meet strict packaging, styling, performance and ergonomic requirements while providing improved reliability and reduced mass and cost.	
Sensors Intellek® sensors measure variables such as temperature and humidity and provide input to the vehicle s computer control system. Applications include automatic control of passenger comfort systems such as air conditioning to improve occupant comfort and a vehicle s fuel efficiency.	

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Product Line	Description
Electrical Centers	Products that reduce the complexity of a vehicle s Power and Signal Distribution System, and provide a convenient centralized location for fuses, relays and other electrical/electronic devices. The internal design can eliminate a significant number of wires, connectors and splices from the rest of the vehicle resulting in lower cost and weight while improving reliability. Electrical centers can utilize Delphi s patented routed wire technology or stamped metal technology.
Fiber Optic Data Communications Fiber optic systems that transmit information and data throughout the vehicle for signaling and communication. This optical fiber technology is engineered to support large and rapid data transmission requirements such as mobile multimedia applications. These innovations accommodate large bandwidth, assure electromagnetic compatibility, reduce weight and provide speed, signal clarity and cost improvements over copper wire-based technologies.	
Power and Signal Distribution Systems Systems consisting of wiring assemblies and related products that distribute electrical power to the	

electrical devices in a vehicle including dashboard instruments, engine controls and audio equipment.

Modular Products

An interior vehicle module which unifies several systems and sub-systems into one simple-to-assemble piece for the manufacturer. An example of a modular product is a cockpit module which includes dashboard instrumentation, a steering wheel, cooling and heating systems, occupant protection systems, audio, lighting, electrical wiring and electronics. These systems and components can also be functionally integrated to further enhance efficiencies.

Heating, Ventilation and Air Conditioning (HVAC) Modules

A climate control subsystem that regulates the flow, temperature and humidity of the air in the vehicle cabin. Modules include high efficiency, compact and lightweight evaporators, heater cores and blower motor assemblies.

Powertrain Cooling Systems

A system designed to optimize powertrain cooling for various driving conditions which supports increased fuel economy and emissions control. Systems include low mass, highly efficient radiators, oil coolers, condensers and under-hood cooling fan assemblies.

Front End Modules

An integrated front-end thermal management module featuring a single-part concept including condensers, radiators and fans, plus other front end components such as windshield fluid and coolant reservoirs, wiring, horns and sensors. The modular approach results in reduced product weight and size and higher system performance at lower cost.

Climate Control Systems

A heating and cooling system designed to provide occupant comfort and convenience while enhancing vehicle performance. Systems include HVAC modules, fixed and variable-displacement compressors, electronic temperature and pressure sensors, condensers, heater cores, evaporators and control heads. Includes dual climate control zones for independent passenger and driver settings as well as voice activated climate control mechanisms.

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Product Line	Description
Thermal Management Systems	A system designed to optimize total vehicle thermal management functions including passenger comfort and powertrain cooling. These systems create energy efficient solutions, reduce emissions, and maintain passenger comfort and convenience while lowering total systems cost, improving quality and simplifying assembly.
Safety/ Airbag Systems A wide range of innovative airbag systems and modules and adaptive restraint technologies. Products include driver, passenger, side curtain and head/torso airbag systems, as well as adaptive knee bolsters,	

variable output airbag modules, adaptive seat belt systems and power adjustable pedals.	
Door Modules An integrated door system which combines door hardware with subsystems for HVAC, electronics, occupant protection, security, electrical and interior trim. This modular approach reduces the part count, simplifies the assembly, and lowers the total systems cost.	
Power Products Convenient, remote electronic locking systems for car passengers. These include power sliding doors, power liftgates, power hatches, power trunk lids, and powered sliding windows.	
Ignition Related Products Products designed to provide energy for vehicle ignition while providing protection from fluids, temperature extremes, and radiated energy. Products include ignition cables, terminals, and insulators for connections to spark plugs, distributors and coils, engineered insulating compounds, wiring sets for conventional systems, leads for coil-near-plug and connection assemblies for coil-at-plug.	

Dynamics & Propulsion Our Dynamics & Propulsion product sector accounted for $14.3 billion of our 2000 sales (49.4% excluding inter-sector sales). This sector offers a wide range of electronic energy and engine management systems designed to optimize engine performance and emissions control through management of vehicle air intake, fuel delivery, combustion and exhaust after-treatment. The sector also offers all major electronic chassis control systems steering, braking, suspension and engine, with a focus on providing superior ride and handling performance, high reliability, reduced mass and improved fuel efficiency. Our principal competitors in the Dynamics & Propulsion product sector include the following: Robert Bosch GmbH, NSK Ltd., Siemens AG, Continental Teves and TRW Inc. Our principal Dynamics & Propulsion product lines include the following:

Product Line	Description
Gasoline Engine Management Systems	Gasoline systems that electronically optimize gasoline engine performance through controlling air/ fuel mixture, combustion and exhaust. Systems assist in reducing emissions and improving fuel economy.
Diesel Engine Management Systems Diesel systems that electronically optimize diesel engine performance through controlling air/ fuel mixture, combustion and exhaust. Systems assist in reducing emissions and improving fuel economy.	
Sensors and Actuators INTELLEK® sensors, actuators, and modules provide essential data and control for integrated vehicle systems. Examples of sensor applications include monitoring speed, position, temperature, and pressure. Actuators control mechanical movement and the flow of fluids within the vehicle.	

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Product Line	Description
Air/ Fuel Management	An engine management subsystem that delivers a precise mixture of air and fuel to the combustion chamber and balances cylinder air flow to reduce emissions and improve fuel economy.
Emission Control	Systems that greatly reduce exhaust gas emissions such as harmful chemical compounds through catalytic reaction of contaminants in the catalytic converter.
Batteries/ Energy Storage	The principal source of electrical power storage in the vehicle. The Delphi FREEDOM® battery with Intelli-Guard™ includes integrated electronics that enables starting power protection, enhanced theft protection and extended storage features.
Valve Train Systems	Systems that manage engine valve timing and performance in order to improve fuel economy, reduce emissions, and increase torque and power.
Ignition Products	Products providing spark energy for combustion initiation of the air/ fuel mixture. These products return diagnostic data to the engine management system for optimum performance, improving fuel economy and reducing emissions.
Fuel Handling	A system that manages pressure and flow to deliver optimum fuel quantity to a vehicle s engine and aids in controlling evaporative emissions.
ENERGEN™ Hybrids	A family of hybrid and fuel cell energy management systems that enable hybrid optimization of internal composition and electric power for improved emission and performance of a vehicle. Applications include stop-start functionality in small vehicles resulting in increased fuel economy, lower emissions and reduced noise in city driving.
Generators	A generator, both air-cooled and liquid-cooled, is the principal electrical power generation source in the vehicle. Delphi s liquid-cooled generators provide superior output performance, while conforming to small packaging size and weight requirements.
Modules	Complete dynamic and propulsion modules ranging from integrated air fuel modules through suspension corner modules.
TRAXXAR™ Chassis Control Systems	A vehicle stability enhancement system which integrates antilock braking, traction control, steering, suspension and throttle control. The integration of these systems, through advanced sensor and control technologies, yields improved stability and directional control of a vehicle in a variety of driving conditions.
Galileo® Antilock Brakes	A family of intelligent brake-by-wire control systems, which combine power assist, anti-lock braking functions, traction control and tunable pedal feel in a modular design. This single control unit is

designed to optimize performance while reducing cost, mass, and packaging size.

MAGNERIDE® Ride & Handling System

A controlled suspension system, which electronically adjusts magnetically controlled damping fluid to deliver exceptional ride and handling. This technology increases wheel contact with the road and reduces wheel bounce, providing improved handling and a more comfortable ride. With no moving parts, MAGNERIDE® offers quiet operation in contrast to valve- based systems.

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Product Line	Description
Dynamic Body Control	This system automatically changes the vehicle s suspension dynamics, stabilizing the vehicle at highway speeds and during heavy cornering while keeping the vehicle relaxed during normal driving or intense rough road activity.
Virtuoso™ A chassis system including modular shock absorbers and struts, coil and leaf springs, knuckles and brake corner modules, as well as control arms. This system is designed for individual vehicle specifications in order to optimize packaging, size, mass, and performance requirements.	
Suspension and Brake Components A portfolio of components including calipers, rotors, drums, master cylinders, boosters, drum brake assemblies, shock absorbers, friction materials, struts, airlift dampers and leveling height sensors.	
MAGNASTEER™ A magnetic assist steering system which combines conventional hydraulics with patented Delphi electro-magnetic control technology. This technology provides the widest range of steering effort variation and tunability, which can be easily reconfigured to meet specific vehicle steering feel and handling needs.	
E-STEER™ A fully electric high efficiency power steering system. By eliminating the need for a power steering pump, hoses and hydraulic fluid, and belt and pulley on the engine, this high performance system improves fuel economy, acceleration and safety, and is environmentally friendly.	
QUADRASTEER™ A four wheel steering system which combines a front-wheel steering system with an electrically powered rear-wheel steering system using electronics and sensors to control the direction of the rear wheels for large wheel-base vehicles. Using four wheels to steer provides increased high-speed stability and trailering capability, as well as a shorter turning radius for excellent low speed maneuverability.	
Driveline Systems	

A halfshaft transmits the power of the vehicle s engine to the wheels. Delphi s integrated halfshaft designs are provided in a wide variety of joint sizes and are custom engineered for each vehicle application supporting a full range of vehicles from mini-compact to full-size vehicles.

Other Steering Components

Delphi s complete line of lightweight steering components includes steering columns, power steering pumps, and integral gears. These products offer mass reduction and improved fuel economy advantages. Advanced energy absorbing steering columns also provide safety enhancement.

Customers

We primarily sell our products to the major global VMs. While we expect our business with customers other than GM to increase over time, we also expect that GM will remain our largest customer for a significant period of time due to the long-term nature of sales contracts in our industry, our strong customer-supplier relationship with GM and the supply agreement we entered into with GM in January 1999, in connection with our separation from GM (the Supply Agreement), as more fully described elsewhere in this report. However, GM has stated that it intends to increase competition for its business among its suppliers, thus reducing its reliance on any one supplier. While we expect to continue to compete effectively for GM business, our sales to GM have declined since our separation from GM and we expect our sales to GM to further decline over time. We currently supply parts to each regional sector

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of GM s Automotive Operations, including its automotive operations in the United States, Canada and Mexico (GM-North America), and GM s automotive operations throughout the rest of the world (GM-International). In addition, we sell our products to the worldwide aftermarket for replacement parts, including GM s Service Parts Operations (GM-SPO).

The following table shows from where our total net sales were derived for each of the last three years. The amounts for 1998 were affected by work stoppages at certain GM and Delphi locations in the United States during June and July 1998.

	Total Net Sales Year Ended December 31,					
Customer	2000		1999		1998	
	(dollars in millions)					
	$	%	$	%	$	%
GM-North America	$17,264	$59.2%	$18,328	62.8%	$17,861	62.7%
GM-International	1,918	6.6	2,364	8.1	2,839	10.0
GM-SPO	1,483	5.1	1,610	5.5	1,622	5.7

Total GM	20,665	70.9	22,302	76.4	22,322	78.4
Other Customers	8,474	29.1	6,890	23.6	6,157	21.6
Total net sales	$29,139	100.0%	$29,192	100.0%	$28,479	100.0%

Included in sales to other customers in the foregoing table, are sales to customers other than automotive and heavy duty truck (non-automotive). We are continuing our efforts to diversify our business by supplying certain products, including connection systems, flex-circuits wiring, instrumentation and pressure sensors, and engine controllers, to non-automotive customers within the recreational vehicles (e.g. boats), aerospace, motorcycle, construction, cellular phone and computer industries. Our non-automotive customers include Case New Holland, Caterpillar, Inc., Deere and Company, Ericsson, Harley-Davidson Inc., Lockheed Martin Corporation, Lucent Technologies, Nokia Corporation, and Silicon Graphics Inc. While growing rapidly, these non-automotive sales accounted for approximately $460 million, or 2%, of our total 2000 net sales.

Variability in Delphi s Business

A significant portion of our business is directly related to automotive sales and production by our customers, which is highly cyclical and depends on general economic conditions, consumer spending and preferences. Any significant reduction in automotive production and sales by our customers would have a material adverse effect on our business. The North American automotive market, our largest market, has recently experienced a downturn in new vehicle sales, a build-up in inventories and a reduction in production volumes. As such, our sales have declined in line with reduced volumes. To offset the reduction in production volumes, we are accelerating our structural cost reduction efforts and increasing our portfolio management initiatives.

We have substantial operations in every major region of the world and economic conditions in these regions often differ, which may have varying effects on our business. The recent downward trend of the euro relative to the U.S. dollar may continue to negatively impact Delphi s operations. The escalation of the value of the Mexican peso over the past eighteen months, coupled with economic cost increases in Mexico, may continue to lead to higher costs for Delphi s Mexican operations.

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 and our European customers generally reduce production during the month of August. In addition, third quarter automotive production is traditionally lower as new models enter production. Accordingly, third and fourth quarter results may reflect this cyclicality.

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Raw Materials

We purchase various raw materials for use in our manufacturing processes. The principal raw materials we purchase include platinum group metals, copper, aluminum, steel, lead and resins. All of these raw materials, except the platinum group metals which we use primarily to produce our catalytic converters, are available from numerous sources. Currently, most of the platinum group metals used by Delphi for catalytic converters produced for GM are procured directly from GM. Delphi purchases the platinum group metals it uses in products manufactured for its customers other than GM directly from Delphi s suppliers, which are principally located in Russia and South Africa. We have not experienced any significant shortages of other 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.

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. We cannot assure you, however, that we are at all times in compliance with all such requirements. Although we have made and will continue to make capital and other expenditures to comply with environmental requirements, we do not expect such expenditures to be material in 2001 or 2002. Environmental requirements are complex, change frequently and have tended to become more stringent over time. Accordingly, we cannot assure you that these requirements will not change or become more stringent in the future.

We are also subject to environmental laws requiring the investigation and cleanup of environmental contamination. We are in various stages of investigation and cleanup at our manufacturing sites where contamination has been alleged. As of December 31, 2000, Delphi had recorded a reserve of approximately $20 million for such environmental investigation and cleanup. Although we believe our reserves are adequate, we cannot assure you that our eventual environmental cleanup costs and liabilities will not exceed the amount of our current reserve.

Arrangements Between Delphi and GM

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

Before the Separation, we depended upon other business sectors of GM and some of GM s affiliates and suppliers for certain services. GM continues to temporarily provide a number of services to us, including information technology services, under various transition services agreements.

The Spin-Off was structured to qualify as a tax-free distribution under Section 355 of the Internal Revenue Code (the Code) to GM and its stockholders. On January 13, 1999, GM received from the IRS a private letter ruling (the IRS Ruling) to such effect. In connection with GM s request for the IRS Ruling, we made certain representations and warranties to GM regarding our company and our business. We also agreed to certain covenants intended to preserve the tax-free status of the Spin-Off. We may take any action otherwise prohibited by these covenants only if GM has determined, in its sole and absolute discretion, that such action would not jeopardize the tax-free status of the Spin-Off or the

qualification of our separation as a reorganization under Section 368 (a)(1)(D) of the Code (a D Reorganization). Some of these covenants are described in greater detail below:

Acquisition Transactions Until May 28, 2001, we have agreed not to enter into or permit any transaction or series of transactions which would result in a person or persons acquiring or having the right to acquire shares of our capital stock that would comprise 50% or more of either the value of all outstanding shares of our capital stock or the total combined voting power of our outstanding voting stock.

Continuation of Active Trade or Business Until May 28, 2001, we have agreed to continue to conduct the active trade or business, within the meaning of Section 355 of the Code, of our company as we conducted it immediately before the Spin-Off. During such time, we have agreed not to:

liquidate, dispose of or otherwise discontinue the conduct of any portion of our active trade or business with a value in excess of $2.0 billion; or

dispose of any business or assets that would cause our company to be operated in a manner inconsistent in any material respect with the business purposes for the Spin-Off as described to the IRS or tax counsel in connection with GM s request for the IRS Ruling; or

except in the ordinary course of business, sell, transfer, or otherwise dispose of or agree to dispose of assets, including any shares of capital stock of our subsidiaries, that, in the aggregate, constitute more than 60% of our gross assets; or 60% of the consolidated gross assets of us and our subsidiaries.

Cooperation on Tax Matters We and GM have agreed to certain procedures with respect to the tax-related covenants described above. We are required to notify GM if we desire to take any action prohibited by the tax-related covenants described above. Upon such notification, if GM determines that such action might jeopardize the tax-free

status of the Spin-Off or the qualification of our separation as a D Reorganization, GM has agreed to:

use all commercially reasonable efforts to obtain a private letter ruling from the IRS or a tax opinion that would permit us to take the desired action, and we have agreed to cooperate in connection with such efforts; or

provide all reasonable cooperation to us in connection with our obtaining such an IRS ruling or tax opinion.

We agreed at the time of the Separation that we would not have any indebtedness to GM until May 28, 2001. On May 9, 2000, GM received a supplemental private letter ruling from the IRS. The ruling held that the existence of certain indebtedness of Delphi to GM would not impact the tax-free status of the Spin-Off or the qualification of our separation as a D Reorganization.

Supply Agreement Our Supply Agreement with GM is intended to provide us the opportunity to capture future GM business. Through December 31, 2001, we will have the ability to secure under competitive purchase order terms the first replacement cycle of all product programs in the United States and Canada which we were providing to GM as of January 1, 1999, and certain other product programs as described below. Thus, we will have the opportunity to match competitive bids from other suppliers on the next generation of the product programs we provided to GM in the United States and Canada as of January 1, 1999, provided those programs are sourced by GM before January 1, 2002. However, in order to utilize this ability to secure next generation business, we must be competitive in terms of design, quality, price, service and technology. Other suppliers bids to provide particular products may include offers of price reductions to GM on other current or future products, and GM may under the Supply Agreement consider the economic effect of such package proposals in assessing our competitiveness.

Our ability to secure next generation business as described above, which is sometimes referred to as a right of last refusal, includes production in the United States and Canada of common global vehicle

platforms to the extent that we can provide or execute designs that comply with the required form and function specifications determined by GM, as well as production in Mexico of vehicles intended for sale in the United States or Canada; provided that in all cases such programs must meet all of the other necessary criteria, including that such programs were programs in the United States and Canada which we were providing to GM as of January 1, 1999. Other than as described immediately above, our ability to secure next generation business will not apply to any programs of GM s international automotive operations or to GM vehicle production in Mexico.

Consistent with GM s contracts with other suppliers, the Supply Agreement provides GM the right to re-source its business with us if we are not competitive in terms of quality, service, design and technology. Competitiveness is defined by demonstrable product and performance levels available to GM from other suppliers. The term re-sourcing refers to the process of moving existing business from Delphi to another supplier. However, if we are non-competitive with respect to a particular product, GM is required to notify us of any such non-competitiveness and provide us with a reasonable period of time during which to correct any such non-competitiveness before GM may re-source the business.

GM is at all times permitted to adopt new technology, whether or not any such new technology is available through us. If GM wishes to introduce a technological change to a product covered by a then existing contract with us, we have a right of last refusal to implement the new technology or an equivalent technology acceptable to GM and continue production through the remaining term of the existing contractual commitment. If we are unable to provide the new technology or equivalent technology on a competitive basis, GM is free to re-source the business to another

supplier.

If we propose to close a plant or eliminate a product line, we must keep GM informed of our decision-making process and in good faith reasonably consider GM s concerns. Also, if we propose to divest a business, we must keep GM informed of our decision-making process and in good faith reasonably consider GM s concerns. Upon our selection of a qualified buyer, existing contracts with GM relating to the business being sold may be assigned to the buyer upon GM s consent, which will not be unreasonably withheld. In such cases, GM will negotiate a new supply agreement with the buyer, which will contain substantially the same terms as our existing arrangements with GM with respect to the business being sold.

The Supply Agreement also applies to service parts we provide to GM for sale to GM-authorized dealers worldwide. In general, unless otherwise provided in our existing contracts with GM, the unit pricing on service parts that are not past model will continue at the prices charged to GM until three years after such service parts go past model. The term past model refers to parts which are used on vehicle models which are no longer in production. Thereafter, unit prices for such service parts will be negotiated between the parties.

Our underlying supply contracts with GM may be terminated by GM for a variety of factors, such as our non-competitiveness, cause, expiration and, in some cases, termination for convenience. Termination for convenience means GM can terminate the contract at any time for any reason. The majority of underlying contracts having termination for convenience provisions are shorter-term purchase orders. This right to terminate for convenience could be exercised by GM in connection with any change in control of Delphi. Certain change in control transactions could also give GM the right to terminate the Supply Agreement or the underlying contracts. Termination of the Supply Agreement would be likely to have a material adverse effect on our company.

Aftermarket Sales Service parts provided to GM pursuant to the Supply Agreement for sale to GM authorized dealers and distributors are covered by our purchase agreements for the production parts. Prior to January 1, 2001, we were party to a Business Relationship Agreement (as modified and as amended from time to time, the Business Relationship Agreement) with GM-SPO regarding aftermarket sales in the United States. We and GM-SPO entered into a Memorandum of Understanding which provided that the Business Relationship Agreement expired December 31, 2000. As a result, starting January 1, 2001, Delphi is entitled to directly sell and distribute our products to the aftermarket in the United States. In addition, the Memorandum of Understanding provides that we will continue to supply current volumes of

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aftermarket products to GM-SPO in the United States pursuant to separate supply agreements (each, an Aftermarket Supply Agreement). Unless otherwise agreed, each Aftermarket Supply Agreement will be for an initial term of three calendar years (2001-2003) and will continue thereafter until either party gives twelve-(12) months prior written notice. Pricing under the Aftermarket Supply Agreements is based on the pricing in effect during calendar year 2000, subject to mutually agreeable market based adjustments from time to time. Under each Aftermarket Supply Agreement, if we can meet the market price for a particular aftermarket product, GM-SPO must buy such aftermarket product from us. Alternatively, we may choose not to meet the market price for a particular aftermarket product and cease supplying such product in the aftermarket in the United States.

Employee Matters We entered into several agreements with GM upon separation to allocate responsibility and liability for certain employee related matters. These arrangements made certain assumptions regarding negotiations with our unions. During 1999, we finalized national labor negotiations with our major unions and amended certain agreements with GM. These agreements generally provide for the following:

Employee Transfers As of January 1, 1999, all GM salaried and hourly employees, active and inactive, who were employees in our operations, were transferred to Delphi. However, the transfer of salaried and hourly employees at certain of our international operations, and of certain related pension and employee benefits plans, did not take place until the receipt of consents or approvals or the satisfaction of other applicable requirements. For all U.S. salaried employees who retired on or before January 1, 1999, GM retained responsibility for pension obligations and for other postretirement employee benefits (OPEB) obligations, consisting primarily of retiree medical obligations. With regard to our U.S. hourly employees, GM generally retained postretirement obligations for employees who retired on or before January 1, 2000. We have assumed pension and OPEB obligations for U.S. hourly employees who retire after January 1, 2000.

In accordance with the terms of the Separation Agreement, Delphi also assumed an obligation to GM for pension and other postretirement benefits for U.S. hourly employees who retired after the Separation but on or before a specified retirement date and accordingly, were treated as GM retirees. Under the Separation Agreement, this obligation was subject to a contingency provision to the extent certain terms negotiated on behalf of U.S. hourly represented employees and the actual number of Delphi U.S. hourly employees who retired, differed from the terms and number of retirements assumed at the time of Separation. Certain changes in assumptions, primarily as a result of both an extension of the specified retirement date to January 1, 2000 and a higher than anticipated number of retirements, did subsequently occur. Accordingly, an adjustment to GM s initial investment in Delphi of $0.8 billion was recorded in 1999 and 2000. This adjustment was based upon Delphi s best estimate of the ultimate resolution of this contingency given the facts available within one year of the Separation.

Separately, we entered into an agreement with GM in September 2000, resolving certain issues, related primarily to changes in assumptions for employee benefit obligations, as well as certain pre-Separation warranty claims. The portion of such settlement related to employee benefit assumptions was accounted for as a change in actuarial assumptions. Such agreement increased our separation related obligation to GM by approximately $0.2 billion.

Our separation related obligation to GM is currently estimated at $1.9 billion in total, of which $1.5 billion was paid in 2000. We expect to pay $0.2 billion of our remaining separation related obligation in June 2001, and the balance in June 2002 and 2003.

In connection with GM s disposition of certain businesses (including Delphi), GM granted the UAW guarantees covering benefits to be provided to certain former U.S. hourly employees who became our employees. We have entered into an agreement with GM that requires us to indemnify GM if GM is called on under this guarantee. As a means of mitigating the risk that the guarantee will be called upon, we have also agreed to consult with GM before taking certain fundamental corporate actions and obtain GM s consent (not to be unreasonably withheld) before entering into transactions which might significantly adversely affect our ability to meet our pension and postretirement benefits (such as would

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cause our credit rating to be downgraded below B1 from Moody s or B+ from Standard & Poor s). We are currently rated Baa.2 by Moody s and BBB by Standard & Poor s.

Certain Flow-Back Rights National union negotiations also resulted in some of our hourly employees in the United States being provided with certain opportunities to transfer to GM as appropriate job openings become available at GM and GM employees in the United States having similar opportunities to transfer to our company to the extent job openings become available at our company. If such a transfer occurs, in general, both our company and GM will be responsible for pension payments, which in total reflect such employee s entire 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 our separation from GM). The company to which the employee transfers, however, will be responsible for OPEB obligations. There will be no transfer of pension assets or liabilities between us and GM with respect to such employees that transfer between our companies. An agreement with GM provides for a mechanism for determining a cash settlement amount for OPEB obligations associated with employees that transfer between our company and GM during any year. The settlement obligation for OPEB since the Separation is approximately $16 million, payable in 2001.

All of the agreements that we entered into in connection with our separation from GM were made in the context of our parent-subsidiary relationship. The terms of these agreements may be more or less favorable to us than if they had been negotiated with unaffiliated third parties.

Employees Union Representation

As of December 31, 2000, excluding our joint ventures and other investments, we employed approximately 211,000 people, of which approximately 38,000 were salaried employees and approximately 173,000 were hourly employees. Of our hourly employees, approximately 163,000 or 94% are represented by approximately 56 unions, including the United Automobile Workers (UAW), the IUE-CWA-AFL-CIO-CLC (IUE) and the United Steel Workers (USWA). Our union representation by major region as of December 31, 2000 is indicated in the table below:

Union Representation

Region	Number of Unions	Number of Employees
United States		
UAW	1	37,218
IUE	1	13,839
USWA	1	2,099
Other unions	4	245
Total United States	7	53,401
Canada	1	693
Mexico	2	67,549
Europe	38	33,609
South America	6	6,256
Asia/ Pacific	2	1,322

Total	56	162,830

The Delphi-UAW National Labor Agreement expires in September 2003. The Delphi-IUE National Labor Agreement expires in November 2003. We assumed the terms of existing collective bargaining agreements for our employees represented by other unions, including those represented by the USWA, in connection with the Separation. GM s national agreement with the USWA expires in September 2007.

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ITEM 2. PROPERTIES

Our world headquarters is located in Troy, Michigan and occupies approximately 264,000 square feet. We occupy this facility, as well as certain other facilities, under lease agreements with General Motors. We also maintain regional headquarters for our Asia/ Pacific region in Tokyo, Japan, for our Europe/ Middle East/ Africa region in Paris, France and for our Mexico/ South America region in São Paulo, Brazil. Excluding our joint ventures and other investments, we currently maintain approximately 351 sites in 42 countries throughout the world, including 190 manufacturing facilities, 15 technical centers and 31 customer centers and sales offices. The remaining facilities are primarily warehouses and administrative offices. In addition, we have certain technical centers, customer centers and sales offices that are housed in our manufacturing facilities. Of the 351 sites, 47 are owned and 77 are leased in the United States and Canada, 67 are owned and 44 are leased in Europe/ Middle East/ Africa, 50 are owned and 16 are leased in Mexico/ South America and 17 are owned and 33 are leased in Asia/ Pacific.

Our Electronics & Mobile Communication sector has 12 manufacturing facilities, 3 technical centers and 2 customer centers and sales offices. Our Safety, Thermal & Electrical Architecture sector has 107 manufacturing facilities, 3 technical centers and 16 customer centers and sales offices. Our Dynamics & Propulsion sector has 68 manufacturing facilities, 3 technical centers and 4 customer centers and sales offices. The remaining manufacturing facilities, technical centers, customer centers and sales offices are sites that support multiple sectors.

We are currently evaluating long-term plans to consolidate our worldwide engineering and technical resources, including our technical centers, into a more efficient, customer-focused global engineering support network. While we believe that this consolidation will enhance our ability to provide engineering and technical support to our customers around the world, we also expect that it will have the effect of reducing the overall number of our technical centers.

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

ITEM 3. LEGAL PROCEEDINGS

We are involved in routine litigation incidental to the conduct of our business. We do not believe that any of the litigation to which we are currently a party will have a material adverse effect on our business or financial condition.

On November&nb