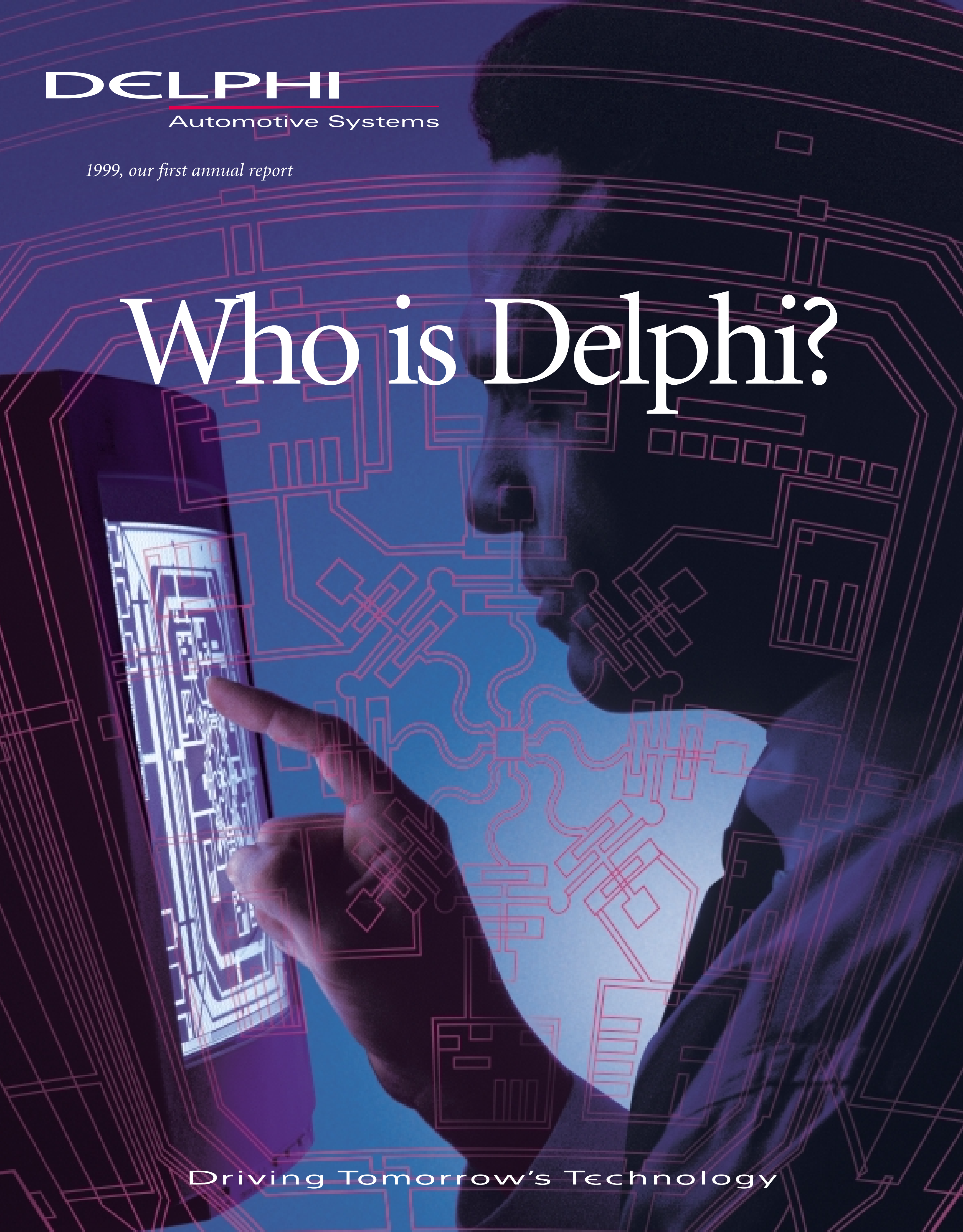
DELPHI
Automotive Systems

1999, our first annual report

Who is Delphi?



Driving Tomorrow's Technology

29,192,000,000 dollars in revenue
1,000,000 integrated circuits produced daily
203,000 employees worldwide
15,000+ dedicated engineers
168 product lines
166 global manufacturing sites
120 quality awards (last two years)
104 IRL and 29 CART wins
90+ years of experience
51 union partnerships
51 customer service centers
40 joint ventures
37 countries
27 technical centers
25 customer teams
4 hours between innovations
3 business sectors
1 company
DPH

Contents

Dear Delphi Shareholder:

Welcome to Delphi.

Thank you for your confidence in the people of Delphi. The year 1999 was memorable for Delphi, not only because we became a fully independent company, but also because we exceeded our earnings, growth, product innovation and employee relations commitments.

As I'm sure you are aware, we were fully separated from General Motors Corporation (GM) on May 28, 1999. This separation allowed Delphi to focus on designing and building components, modules and systems for global vehicle manufacturers, as well as customers in the aerospace, transportation, telecommunications and heavy equipment industries. We provided all employees worldwide a stake in the company by granting stock options – linking them to you, our shareholders. Additionally, our executive compensation system was designed to place increased emphasis on stock-based compensation and pay-for-performance. In fact, in 1999, about 80 percent of targeted compensation for our senior executives was at risk, and the vast majority of it was tied to company performance and our stock. Our focus is clear.

Record Earnings

For the year, we earned a record $1.1 billion on revenue of $29.2 billion – $1.91 per pro forma share. Our net margin improved to 3.7 percent in 1999. Earnings per share grew by more than 22 percent year-over-year pro forma. Cash flow was very strong, setting a new record – more than $2.5 billion. We took advantage of that cash flow to execute 11 strategic acquisitions or joint ventures, the largest of which was the acquisition of Lucas Diesel Systems (completed in January 2000). We improved the status of our pension programs, pre-funding an additional $1.8 billion between June 1999 and January 2000. We believe these investments should enhance earnings for Delphi in 2000 and beyond. We also continued our implementation of "lean enterprise" around the world – a systematic

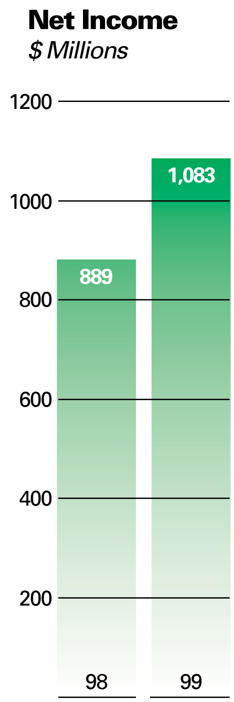
J.T. Battenberg III
Chairman, CEO and President

Financial Highlights

(Dollars in Millions)	For the years ended December 31		
	1999	1998	Percent Change
Sales	**$ 29,192**	$ 28,479	3%
Net Income	**1,083***	889**	22%
Operating Cash Flow	**2,500****	849	194%

*Net margin was 3.7% in 1999.
**Amounts on a pro forma basis, before special items. See Financial review.

approach for reducing costs by eliminating waste in our factories, offices, technical centers and supply chain.



Sales Increase

During 1999, we booked $9 billion in new business with non-GM customers to help diversify our customer base – a record for Delphi. Bookings with GM were also strong – more than $24 billion. These new business wins represent estimated revenue over an average five year contract life. I believe this new business and the 120 quality and service awards given to Delphi in the last two years are indications of customer confidence in the value of Delphi's products and services. Customers want technological solutions to address their needs, help meet their challenges and distinguish their products. We are uniquely positioned to provide those solutions with more than 15,000 engineers and technicians, 27 technical centers and facilities in 37 countries. We provide virtually one-stop shopping for our customers.

Technology and Innovation

Our products continue to improve, to be more responsive to our customers and to be more technologically advanced. On average in 1999, we created a new product or process innovation every four hours.
We have been awarded more than 5,000 patents in the last five years. High-tech products like Forewarn® Collision Warning Systems and Gold Dot™ Connection Systems are now in production. Products like Communiport® Mobile MultiMedia Systems, Back-up-Aid and "X-by-Wire" Systems described in this report are expected to be in production soon. Further, the acquisition of Lucas Diesel Systems will add

800 technical professionals to Delphi and expand our product offerings in the growing diesel systems market.

Employee Relations

During 1999, our employees handled the change to a stand-alone company with excitement and a can-do attitude. In the most recent independent study, a majority of our hourly and salaried employees said they believe Delphi is headed in the right direction – a strong indication of support from the workforce.

2000 Outlook

We will intensify our focus on the customer with the entire worldwide salaried workforce participating again in a concentrated training program (Team Delphi) designed to instill excellence in everything we do. We believe that leaders must teach, so for the fourth consecutive year, every executive will teach a specific class designed to further educate the workforce about our business, our products, our strategies and our responsibilities.

The Vision is Clear

All in all, the year 2000 looks like it should be another strong year for Delphi. Our vision is clear: ***be recognized by our customers as their best supplier.*** Our financial goals are designed to grow shareholder value: by 2002 we are targeting 12.5 percent return on net assets, 5 percent net margin and 10 percent sales growth every year with customers other than GM, which will help to diversify our customer base. We also want Delphi's stock to continue to outperform stocks in our sector and to become an industry leader. The management team and I are committed to providing high returns to you. I am confident we have the people, the products and the strategies to do it.

Please take the time to review this annual report. I am confident you'll share my optimism and excitement about our company.

Regards,

J.T. Battenberg III
Chairman, CEO and President

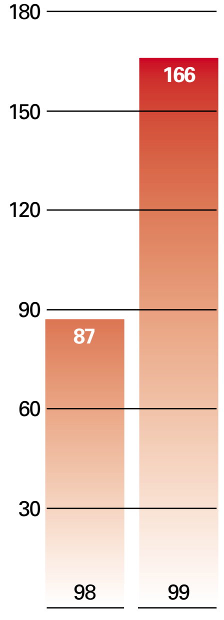
February 28, 2000

1999: Exceeding Our Commitments

	Commitment	*Results*
Non-GM Revenue Growth	10%	13%
Net Income Growth	10%	22%
Net Margin	3.5%	3.7%
Operating Cash Flow	$1.5B-$2.0B*	$2.5B*

*Amounts on a pro forma basis, before special items. See Financial review.

New Products Introduced




NEW MAIL!
CLEAR
SET
NIGHT PANEL
ESC
SEL
MENU
SINGAPORE OFFICE
4
E-mail
MENU SELECT
15°C
ECON
15°C
AUTO
ECON
OFF
S
P
W

What does Delphi make?

Delphi delivers the broadest range of high-technology solutions worldwide for our customers in the areas of safety, performance, comfort and aesthetics. It is through the implementation of an organization-wide approach to new technology and product development that Delphi has established a leadership position while maintaining the tradition of individual product excellence. Today, Delphi's product offering is organized into three synergistic business sectors including an aftermarket division.

Electronics & Mobile Communication Sector

Products from the Electronics & Mobile Communication sector enable many of the technologies in other Delphi sectors. Its electronics integration capabilities are driving our next-generation product offerings. As Delphi's fastest-growing sector, Electronics & Mobile Communication designs products to enhance safety, comfort and security, as well as bring entertainment, information and connectivity to the vehicle. Communiport Mobile MultiMedia (MMM) Systems and Forewarn Collision Warning Systems are just two of the many product innovations in this sector.

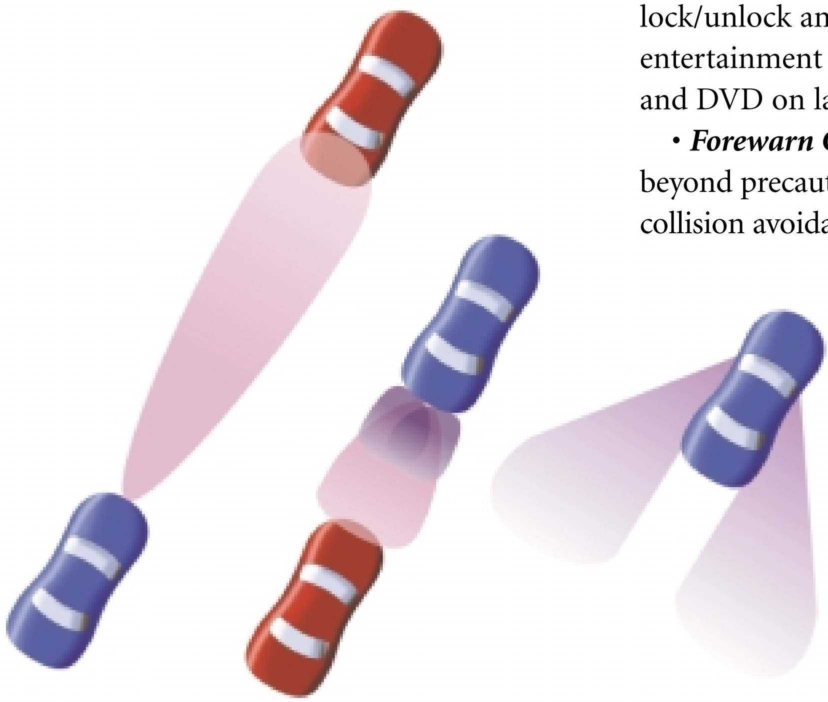
• ***Communiport MMM Systems.*** Communiport MMM Systems make drive time more productive, convenient and enjoyable for 21st-century motorists. Center console "smart" receivers integrate radio and audio controls, navigation, cell phone access and

Communiport MMM Systems integrate premium audio with voice prompts and navigation displays.

Over the last 18 months, Delphi has booked more than $2.5 billion in business for its Communiport MMM technologies.

internet browser functions through advanced user interfaces such as large full-color flat-panel displays, voice recognition and text-to-speech technology. Telematics systems combine global positioning satellite functions with cell phone modules. The result: hands-free cell phone use, direct communication with a service center for travel directions, remote vehicle lock/unlock and emergency services. Rear-seat entertainment systems provide video games, TV and DVD on large rear displays.

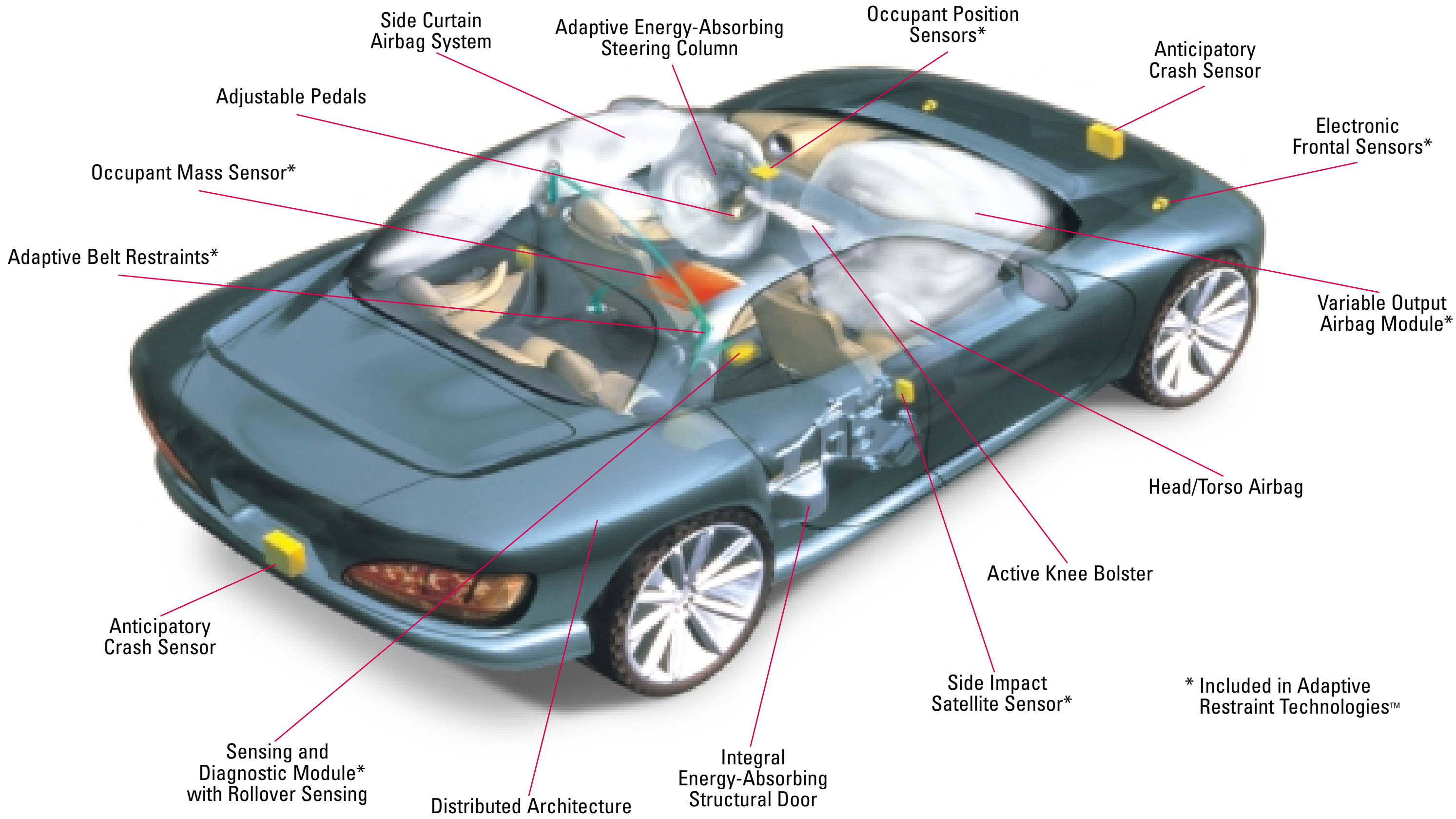
• ***Forewarn Collision Warning Systems.*** Looking beyond precaution to prevention, Delphi's vision of collision avoidance in 21st-century travel includes the Forewarn family of forward-, side- and rear-detection systems. These collision warning technologies include Delphi's adaptive cruise control that allows drivers to use cruise control even in congested traffic and Delphi's Back-up-Aid that helps drivers detect objects behind them. In the future, this detection capability should help drivers avoid accidents.



Delphi's Forewarn technology is featured on a current European Ford Motor Company vehicle.

Safety, Thermal & Electrical Architecture Sector

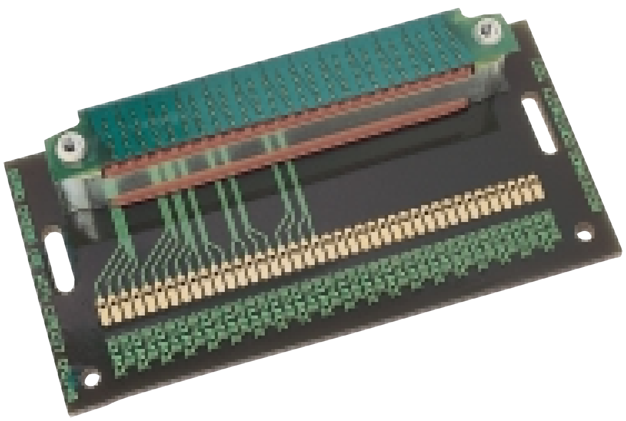
The Safety, Thermal & Electrical Architecture sector offers a comprehensive portfolio of vehicle interior, safety and occupant protection products; heating and cooling systems to manage vehicle compartment temperatures; and power and signal distribution systems for advanced electronic management of power, signal and data communications. The sector coordinates product development in the rapidly expanding cockpit and interior modules market. The sector's Advanced Safety Interior Systems, Gold Dot Connection Systems and Advanced Thermal Management Systems featured on the following pages are just a few of Delphi's high-tech products.



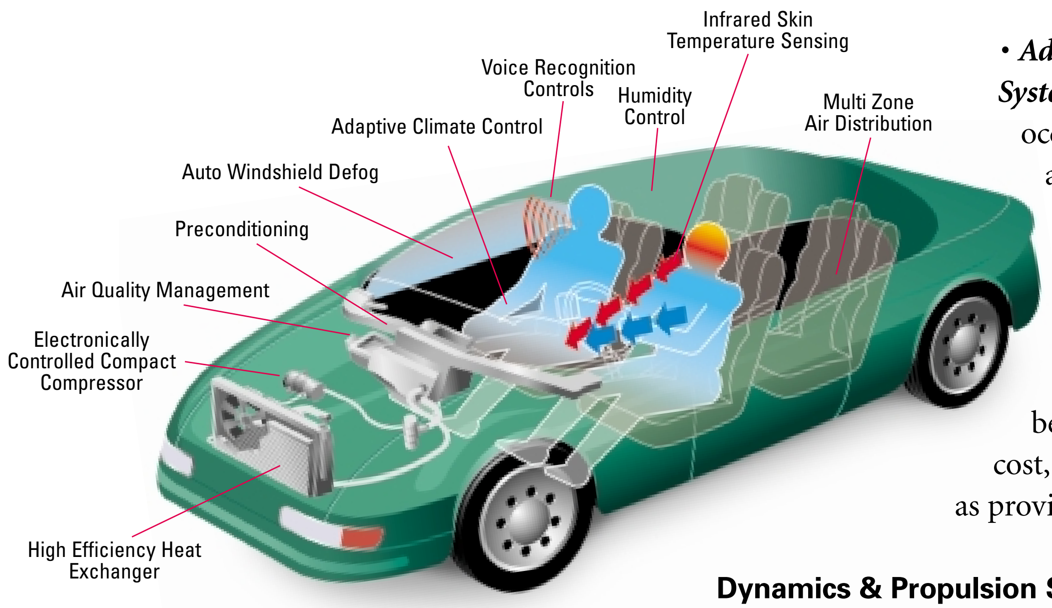
The wide variety of products featured here illustrates the breadth of Delphi's Advanced Safety Interior Systems.

• ***Advanced Safety Interior Systems.*** To help improve safety, Delphi has developed its Advanced Safety Interior suite of products. This evolving portfolio of technologies is designed to provide unparalleled protection in front, side and rear collisions, as well as in vehicle rollover situations. Technologies include: anticipatory crash, rollover and occupant-characteristic sensing systems; head and side airbags; variable airbag inflation; adaptive seatbelt restraints; active knee bolster; adaptive force-limiting pedals; and an energy-absorbing steering column.

• ***Gold Dot Connection Systems.*** Gold Dot Connection Systems are flexible printed materials with shaped planar contacts that simplify high-speed, high-density data connections. The technology can be used in a wide variety of applications, including computer instrumentation and emulation, automotive and military uses. Current applications include telecommunication applications from cellular phones to network switches and routers.



Ericsson cellular phones employ Delphi's Gold Dot technology.



Delphi’s Advanced Thermal Management Systems improve occupant comfort in the vehicle compartment.

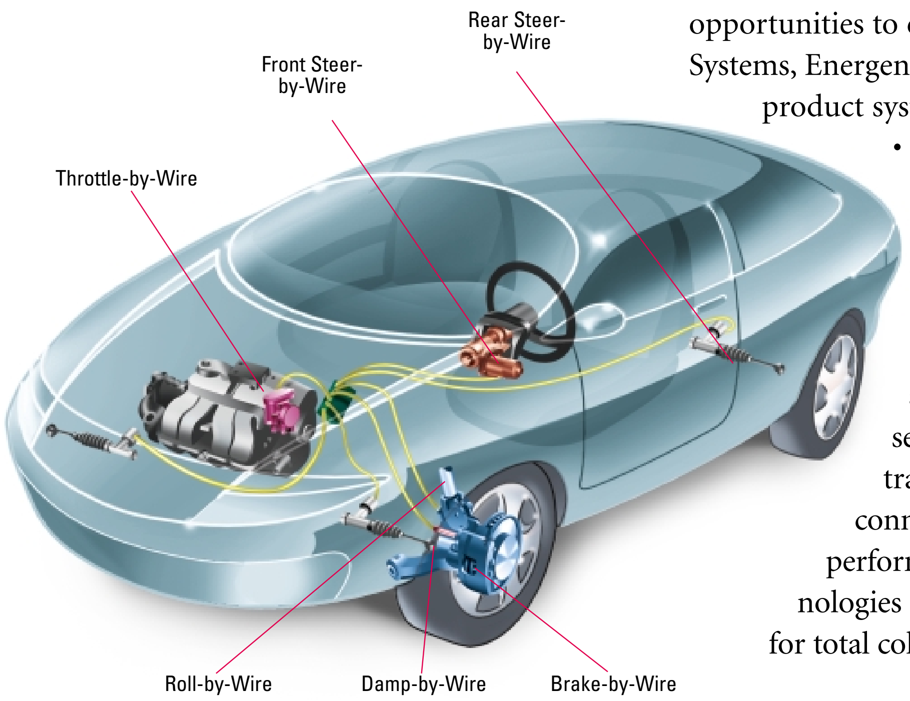
• ***Advanced Thermal Management Systems.*** These systems enhance an occupant’s whole body comfort and improve energy efficiency while decreasing environmental impacts. Innovations in integrated, structural cockpits that include heating and cooling systems are being developed to improve cost, quality and assembly as well as provide weight and space savings.

Dynamics & Propulsion Sector

The Dynamics & Propulsion sector provides technologies for superior ride and handling performance, including advanced suspension, brake, drive line and steering products. It also offers complete gas and diesel engine management systems to improve fuel efficiency and increase environmental responsiveness, including air and fuel systems, ignition systems, sensors and exhaust aftertreatment. This sector is rapidly transforming its product portfolio from traditional mechanical systems to electronically enhanced systems. The infusion of electronics and the implementation of lean manufacturing principles in this sector provide great opportunities to enhance our margins. “X-by-Wire” Systems, Energen™ and MagneRide™ are just three product systems in this sector.

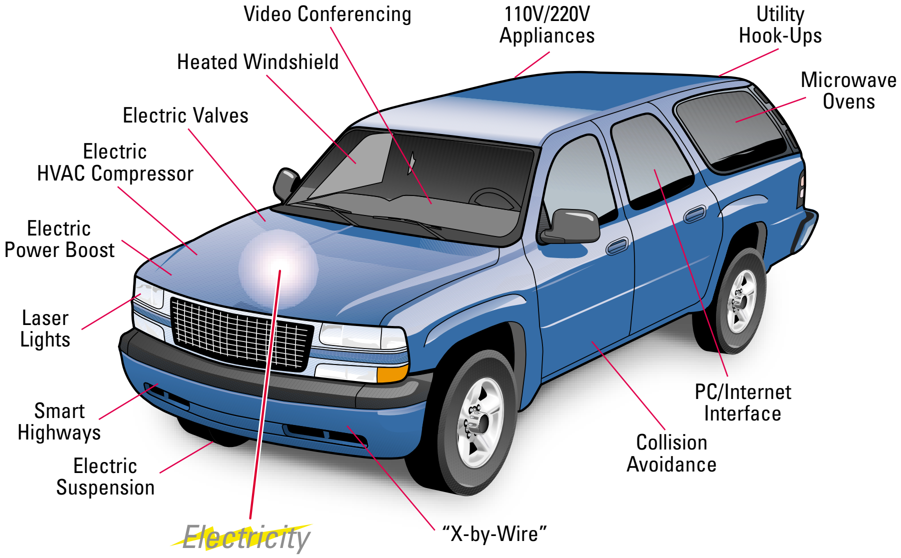
• ***“X-by-Wire” Systems.*** Delphi is leading the development and integration of multiple “X-by-Wire” Systems, including steer-, brake-, damp-, roll- and throttle-by-wire. These advanced systems function through a highly organized network of wires, sensors and actuators, replacing the traditional system’s mechanical hardware connections while improving quality and performance. In the future, “X-by-Wire” technologies are expected to serve as a foundation for total collision avoidance systems.

“X-by-Wire,” a wire network, replaces traditional mechanical hardware and improves quality and performance.



• ***Energen***. This family of energy management systems offers solutions to powering vehicles with lower emissions, improved fuel economy and increased consumer features, such as electric valve trains, satellite communications, on-board computers, and multi-zoned climate control systems and electric steering.

• ***MagneRide***. MagneRide represents the first vehicle application of a fluid material technology referred to as "Magnetic Rheological Fluid." This technology enables a vehicle suspension to adjust instantaneously to road conditions, giving a driver precise handling and an exceptionally good ride. It is activated by an on-board sensor that alerts a controller to apply a magnetic field. This increases the mineral oil consistency of the fluid to a peanut butter thickness within a few milliseconds. The first systems will be appearing on passenger vehicles in 2003.



The Energen family of energy management systems will help power future vehicle systems.

Aftermarket Division

One exciting area that should double its sales in the next five years is Delphi's Aftermarket Operations.

Launched in 1999, Delphi's newest division is enhancing its brand and sales in the aftermarket. With aftermarket activities on four continents, Delphi is set to deliver the same quality and technological expertise that go into its original equipment products under the new Delphi Aftermarket brand.

Delphi produces a wide variety of aftermarket products, which fall under five key categories: under car (such as shocks/struts), thermal systems (such as air conditioning systems), energy/engine management systems (such as alternators and batteries), electronics (such as audio and security systems) and remanufactured products.

Delphi's global identity as a leader in quality and technology offers tremendous aftermarket sales potential with long-term value creation for the company and shareholders.

DELPHI™

FORD MOTOR COMPANY HARLEY-DAVIDSON
GENERAL MOTORS CORPORATION SUZUKI
MITSUBISHI DAIMLERCHRYSLER ERICSSON
HONDA RENAULT TOYOTA NAVISTAR FIAT
CATERPILLAR HYUNDAI/KIA VOLKSWAGEN
PSA PEUGEOT CITROËN BMW GROUP ISUZU
MACK TRUCKS, INC. DAEWOO BOEING FIAT
FORD MOTOR COMPANY HARLEY-DAVIDSON
GENERAL MOTORS CORPORATION BMW GROUP
DAIMLERCHRYSLER ERICSSON HONDA RENAULT
DAEWOO MITSUBISHI TOYOTA NAVISTAR FIAT
HYUNDAI/KIA PSA PEUGEOT CITROËN ISUZU
VOLKSWAGEN BOEING MACK TRUCKS, INC.
FORD MOTOR COMPANY HARLEY-DAVIDSON
GENERAL MOTORS CORPORATION SUZUKI
MITSUBISHI DAIMLERCHRYSLER ERICSSON
FIAT CATERPILLAR HYUNDAI/KIA VOLKSWAGEN
BOEING HONDA RENAULT TOYOTA NAVISTAR

Who are Delphi's customers?

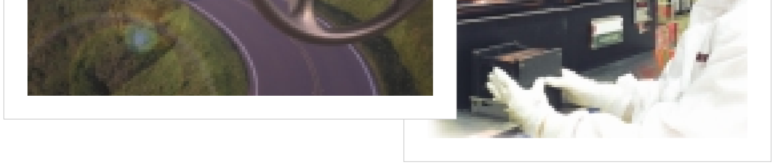
Delphi's customers are among the world's leading transportation, telecommunication, aerospace and heavy equipment manufacturers.

While Delphi has "automotive" in its name, our customers are not limited to automobile manufacturers. Delphi provides full-service component and systems technologies to a broad range of customers from the transportation, telecommunication, aerospace and heavy equipment industries. They have come to know us as suppliers of products and services that exceed their expectations for innovation, value, quality and high technology.

What makes Delphi special?

Delphi's "History of Firsts"

1888	1897	1908	1911	1930	1936	1939	1950	1954	1956	1957	1960
First Doorbell Ringing Device	First Bicycle Coaster Brake	Introduction of Champion Spark Plugs; First Electric Headlamp	First Self-Starter Ignition	First Ring Terminal for Electrical Power Distribution	First In-Dash Radio	First Multi-Button Radio Tuner	First Power Steering	First Automobile Air Conditioner Enclosed Under Hood	First Multi-Wire Connection System	First Multi-Circuit Protection Fuse Block	First Child Restraint System



Delphi technology "firsts" have improved safety, comfort, convenience and performance – changing the face of transportation over the last 100 years.

Our Heritage. Our Technology. Our People.

Imagine the youthful energy and exuberance of a one-year-old, empowered by a century of knowledge and innovation. Delphi's family tree has set the standard for innovation with powerful, lifestyle-changing inventions like the electric self-starter, the first car in-dash radio and the first production airbag. This history of excellence is brought to new life every day through the focused efforts of more than 15,000 engineers, scientists and technicians in 27 technical centers around the world.

Delphi innovators add to our list of "firsts" daily. Delphi has been awarded more than 5,000 product or process patents during the last five years improving automotive transportation through technological innovations and vehicle enhancements in the areas of occupant safety, engine management, wireless communication and more.

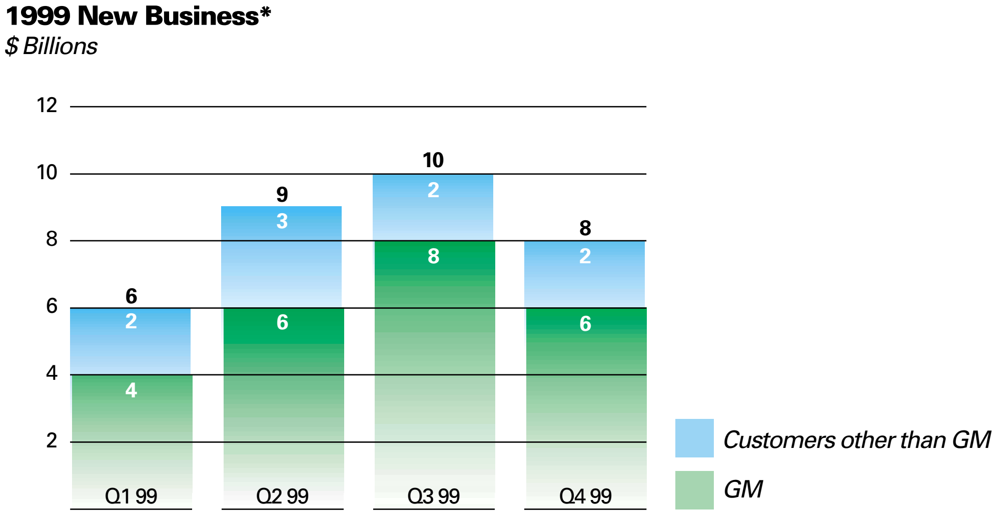
Throughout the organization, Delphi fosters an environment of creativity, actively recognizing and rewarding outstanding innovative accomplishments. In addition to the many forms of professional recognition earned by our engineers, scientists and technicians, Delphi celebrates and honors its innovators in our "Innovation Hall of Fame." The 250 inductees represent some of the industry's brightest and best, whose efforts in developing patents, trade secrets and defensive publications have paved the way for Delphi's emergence as a leader in technological innovation.

1963	1965	1966	1973	1975	1979	1993	1995	1996	1997	1998	1999
First Cruise Control	First Auto Load Leveling Suspension System	First Energy Absorbing Steering Column	First Production Airbag	First Catalytic Converter	First Environmentally Sealed Connection System	First "Forewarn" Collision Warning System Installed on School Bus	First Routed Wire Electrical Center	First Integral Steering Wheel with Airbag; Introduction of Vehicle Satellite Positioning and Communications Unit	First Infrared-Based Comfort Control System	First Dual Power Sliding Doors	First Automotive Demonstration of Wireless Application Protocol (WAP); First High-Volume Production Electric Power Steering

Members of a global cross-functional Delphi team illustrate the creativity and ingenuity that are fostered through teamwork.

Business highlights from Delphi's first year of independent operation.

Our first year.



*Represents estimated sales over an average five year contract life.

Growth

November 5, 1999
Delphi formalizes supply agreement with Harley-Davidson Motor Company. Demonstrating growth in non-automotive sales, Delphi and Harley-Davidson sign a master supply agreement.

October 26, 1999
Delphi to supply connection system for Ericsson Cellular Phone. Delphi subsidiary Packard Hughes Interconnect wins a contract to supply Gold Dot Connection Systems for Ericsson cellular phones. This is the first use of Gold Dot technology in a consumer product.

October 13, 1999
Delphi creates global aftermarket division. Delphi establishes Delphi Aftermarket Operations to bolster its brand and sales in the aftermarket. The division will expand product lines and increase sales.

October 12, 1999
Delphi awarded contract with Caterpillar to develop and manufacture electronic systems. Delphi will supply engine electronics and hydraulic control modules to Caterpillar, increasing growth in a non-traditional market.

September 15, 1999
Delphi to design and supply wiring for future Peugeot vehicle. With a contract to design and supply wiring harnesses for a 2001 model, Delphi triples its electrical systems business with PSA Peugeot Citroën.

September 8, 1999
Delphi wins Volkswagen and Opel airbag business. Major airbag programs with prominent European auto manufacturers further establish Delphi as a leader in the occupant protection systems market.

August 18, 1999
Delphi's electric power steering debuts on Fiat's new Punto. Delphi and Fiat introduce the first use of electric power steering in a mass-market vehicle.

June 11, 1999
Delphi wins new business with Daewoo in Poland to supply complete thermal management systems. Delphi wins a contract to design and manufacture the powertrain cooling and climate control systems for Daewoo Motor Polska supporting eastern European market expansion.

June 3, 1999
Delphi wins design/development contract for future Ford vehicle. Showing a strengthening relationship with Ford Motor Company, Delphi wins a contract to serve as the electrical/electronic vehicle architecture system integrator for a future Ford vehicle.

May 3, 1999
Delphi earns new wiring business with Mack Trucks, Inc. Delphi announces a contract to provide wiring for Mack Trucks' entire fleet of Class 8 heavy-duty trucks. The contract increases Delphi's market share for power and signal distribution systems in commercial trucks.

April 26, 1999
Delphi and BMW announce development of fuel cell auxiliary power unit. Delphi and BMW sign a partnership agreement to develop and produce vehicles that use a solid-oxide fuel cell, demonstrating their commitment to develop clean, high-power generation vehicles.

April 21, 1999
Delphi wins $750M in occupant protection systems contracts. Delphi announces it has won 21 contracts over the previous eight months with North American, European and Asian auto manufacturers for various occupant protection products.

Meeting Financial Objectives

April 15, July 19, October 13, 1999 and January 19, 2000
Delphi reports solid quarterly earnings and strong cash flow throughout the year. A strong North American market coupled with aggressive product portfolio management, cost reduction measures and strong cash flow drive Delphi's ability to report quarterly earnings that exceed expectations.

June 9, September 8 and December 7, 1999
Delphi shows commitment to shareholders; Board declares regular quarterly dividends. In line with the company's prospectus, Delphi declares second, third and fourth quarter dividends of $0.07 per share.

February 5, 1999
Delphi debuts on New York Stock Exchange with Initial Public Offering. Delphi moves closer to independence from General Motors Corporation with an Initial Public Offering of 100 million shares of stock initially priced at $17 per share.

Partnerships/Acquisitions

December 22, 1999
Delphi and Global Thermoelectric successfully test integrated, gasoline-fueled, solid-oxide fuel cell power generation system. The successful test is a significant step in the progress toward an economically viable fuel cell system.

November 23, 1999
Delphi agrees to buy Lucas Diesel Systems. The acquisition makes Delphi the second largest producer of diesel fuel-injection systems and boosts annual revenue by $1.1 billion.

October 29, 1999
Delphi acquires 100 percent interest in Baicheng joint venture. Acquisition of Baicheng Automobile Wiring Factory gives Delphi more flexibility and strengthens the Asia Pacific manufacturing footprint.

August 2, 1999
Delphi and Ashimori announce teaming agreement. Delphi and Ashimori Industry Co. Ltd. sign a teaming agreement focusing their technical, production and marketing capabilities on developing new business opportunities in automotive seat belts.

August 2, 1999
Delphi teams with Calsonic on Hungary compressor venture. Delphi and Calsonic announce a joint venture expansion in Hungary to accommodate production and export of a next-generation automotive air conditioning compressor.

July 26, 1999
Delphi acquires equity interest in Akebono. In an effort to continue growth in the Asia Pacific region, Delphi purchases 5.5 million shares (5.9 percent interest) of the Tokyo-based Akebono Brake Industry Company, the number-one supplier of wheel brakes to Japanese vehicle manufacturers.

March 23, 1999
Delphi and AlliedSignal team up to provide heavy-duty truck brake system. Delphi announces a strategic alliance with AlliedSignal Truck Brake Systems to develop and manufacture the Bendix Anti-lock Braking System for the heavy-duty truck market.

January 8, 1999
Delphi and Daesung form Korean joint venture. The venture enables Delphi to continue growing in the Korean domestic and global markets.

The face of Delphi.

Encouraging the Spirit of Ownership

To align employees' interests with those of our shareholders, Delphi delivered a total of more than 15 million stock options or stock appreciation rights through the Founder's Grant Program to employees worldwide, making it one of the largest such employee grant programs in history. Delphi's top 100 executives have 65% to 82% of their compensation tied directly to the company's performance. Furthermore, the non-employee members of Delphi's board of directors also have elected to defer all of their compensation into Delphi common stock units – a vote of confidence for our continued and increased success. Clearly, the Delphi team understands that the decisions we make and the actions we take each day impact Delphi, our shareholders and ourselves. Employees see the relationship between personal improvement, customer satisfaction and company performance at the heart of Delphi's success.

Building Strong Relationships with Our Employees

Delphi has established solid working relationships with its employees worldwide. Delphi's management team and the unions are striving to build positive relationships and are continuing to work together to improve everything we do. This better enables us to utilize our employees' diverse backgrounds, skills and expertise to support the business. Delphi provides programs and activities designed to meet the educational, training and developmental needs of our employees throughout the world, including programs that address personal, family and community resource issues affecting these employees on and off the job. Delphi conducts global employee research to understand issues that impact employees and uses this information to formulate policies, programs and total compensation packages, while also seeking suggestions for better conducting Delphi's business.

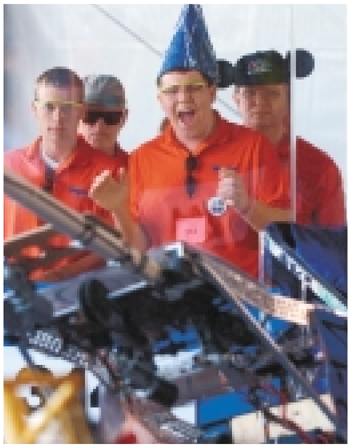
Investing in the Future

Underscoring our commitment to corporate citizenship, the Delphi Foundation focuses on our support for education, particularly in the areas of science and technology. These activities link directly to Delphi's vision and are based on input from our employees and other key stakeholders. Opportunities are created on a regular basis for Delphi employees to interact with students in the classroom to encourage both lifelong learning and a spirit of volunteerism. In combination with other efforts, these programs help prepare young people for the future and create interest in math and the sciences.

To celebrate Delphi's initial public offering, employee delegates from around the world join J.T. Battenberg III in ringing the bell on the New York Stock Exchange on February 5, 1999.

Working with Future Engineers

Delphi is actively involved in FIRST (For Inspiration and Recognition of Science and Technology), an international student robotics competition that combines technology with the excitement of an athletic event. Delphi engineers are teamed with high school students to build enthusiasm for science, innovation and technology.



Delphi FIRST won both the 1998 and the 1999 U.S. National FIRST Championships.

Members of the Delphi FIRST team watch as their robot shows off for the crowd.

A new clinic named "Delphi Building" by the Guang'an County, China government was opened by a mile-long welcome line.

Being a Part of the World – One Community at a Time

Delphi's community relations program is designed to make us an integral part of the communities in which we operate. We recognize that by improving the lives of our employees and their families wherever they live and work, we are improving the company, too. Our recent community relations activities included a donation to the international relief arm of the American Red Cross to assist victims of the damaging 1999 earthquake in Turkey, where Delphi operates three plants. Additionally, Delphi sponsored the building of a new clinic in Guang'an County, Sichuan Province, China, where we have an important business presence. In the United States, the core of Delphi's annual charitable contribution campaign is the United Way and its supported agencies.

Protecting the Environment

Delphi is committed to protecting human health, natural resources and the global environment. Our dedication in our manufacturing and office sites reaches beyond compliance with national and local laws. The integration of environmental management into our business strategy is reinforced through our Design for the Environment (DfE) process. DfE requires Delphi teams to evaluate the environmental impacts of new and existing product design, material and manufacturing process selections before those processes begin. In fact, Delphi is currently a leading producer of products that reduce emissions and improve vehicle fuel efficiency. Delphi is also working to achieve ISO 14001 certification, a global standard that recognizes facilities with systems to proactively manage and reduce environmental impact.

Richard J. Emanuel, manager of Delphi's manufacturing engineering modular cockpit group, helps sixth graders at Avondale Meadows, Michigan, Upper Elementary build a winning mousetrap car.

Delphi management.

Delphi Automotive Systems Corporation Strategy Board

J.T. Battenberg III
Chairman of the Board, Chief Executive Officer and President

José Maria Alapont
Vice President and President, Delphi Europe

John P. Arle
Vice President, Mergers and Acquisitions

Volker J. Barth
Vice President and President, Delphi South America

James A. Bertrand
Vice President and President, Delphi Interior Systems

John G. Blahnik
Vice President and Treasurer

Kevin M. Butler
Vice President, Human Resources Management

Ray C. Campbell
Vice President, Global Purchasing

Alan S. Dawes
Executive Vice President and Chief Financial Officer

William A. Ebbert
Vice President and President, Delphi Asia Pacific
(retires effective 4/1/00)

Guy C. Hachey
Vice President and President, Delphi Energy and Chassis Systems

Karen L. Healy
Vice President, Corporate Affairs and Facilities

David R. Heilman
Vice President and President, Delphi Packard Electric Systems

Peter H. Janak
Vice President and Chief Information Officer

Mark C. Lorenz
Vice President, Operations and Logistics

Rodney O'Neal
Executive Vice President and President, Safety, Thermal & Electrical Architecture Sector

Ronald M. Pirtle
Vice President and President, Delphi Harrison Thermal Systems

Logan G. Robinson
Vice President and General Counsel

Donald L. Runkle
Executive Vice President and President, Dynamics & Propulsion Sector

James A. Spencer
Vice President and President, Delphi Asia Pacific
(effective 2/1/00)

Paul J. Tosch
Vice President and President, Delphi Saginaw Steering Systems

Mark R. Weber
Executive Vice President, Operations, Human Resources Management and Corporate Affairs

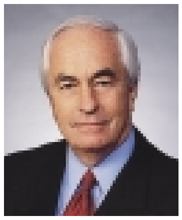
David B. Wohleen
Executive Vice President, President, Electronics & Mobile Communication Sector and President, Delphi Delco Electronic Systems

Front row, left to right: James A. Spencer, Ronald M. Pirtle, James A. Bertrand, José Maria Alapont, J.T. Battenberg III, Logan G. Robinson, Karen L. Healy, Alan S. Dawes and Kevin M. Butler; second row, left to right: Ray C. Campbell, Mark C. Lorenz, Mark R. Weber, Donald L. Runkle, John P. Arle, Rodney O'Neal and William A. Ebbert; third row, left to right: David B. Wohleen, Paul J. Tosch, Guy C. Hachey, David R. Heilman, John G. Blahnik, Peter H. Janak and Volker J. Barth.

Delphi Automotive Systems Corporation Board of Directors

J.T. Battenberg III,
56, Chairman, Chief Executive Officer and President, Delphi Automotive Systems Corporation

Shoichiro Irimajiri,
60, President and Representative Director, Sega Enterprises, Ltd.



Roger S. Penske,
62, Founder and Chairman, Penske Corporation

Oscar de Paula Bernardes Neto,
53, Chairman of the Board, Santista Alimentos S/A and Seara Alimentos S/A

Thomas G. Labrecque,
61, Former Chairman, The Chase Manhattan Corporation

Donald L. Runkle,
54, Executive Vice President and President, Dynamics & Propulsion Sector, Delphi Automotive Systems Corporation

Virgis W. Colbert,
60, Executive Vice President, Miller Brewing Company

Susan A. McLaughlin,
47, President-Consumer Services, BellSouth Telecommunications, Inc.

Thomas Wyman,
70, Lead Director, Delphi Automotive Systems Corporation; Former Chairman, Chief Executive Officer and President, CBS, Inc.

Alan S. Dawes,
45, Executive Vice President and Chief Financial Officer, Delphi Automotive Systems Corporation

John D. Opie,
62, Vice Chairman of the Board and Executive Officer, General Electric Company

For detailed biographies of Delphi's Board of Directors, please see the current Delphi proxy statement or go to www.delphiauto.com.

Financial review.

Financial Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

1999 was a very exciting year for Delphi. Highlights from the year included our initial public offering ("IPO") of 100 million shares of common stock, the completion of our separation from GM, the successful negotiation of our initial U.S. labor agreements and continued progress in reducing our structural costs and restructuring our product portfolio. In addition, we posted strong operating results and generated significant operating cash flow. On a comparable basis, our net income increased 22% to $1.1 billion. Similarly, sales to customers other than GM grew 13% and we generated $2.5 billion of operating cash flow after adjusting for the one-time effects associated with our separation from GM. Our strong operating cash flows enabled us to make voluntary pension contributions of $1.8 billion, including $575 million contributed in January 2000, and acquire Lucas Diesel Systems, a producer of diesel fuel-injection systems for light, medium and heavy-duty vehicles for approximately $871 million, subject to adjustments for certain post-closing events.

Overall, our 1999 operating results validate the Delphi business model and demonstrate our ability to meet expectations established at the time of our IPO. While there is still much to be accomplished, we believe we are solidly on track to meet our long-term targets for non-GM sales growth, earnings growth and margin improvement.

History

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 our IPO of 100 million shares of Delphi's $0.01 par value common stock in February 1999. The second stage involved the distribution of Delphi's remaining shares owned by GM (the "Spin-Off") to holders of record of GM $1-2/3 par value common stock in May 1999. The dividend resulted in a distribution of approximately 452.6 million shares, or 80.1%, of Delphi's outstanding common stock. The remaining 12.4 million shares owned by GM were contributed on May 28, 1999 to a voluntary employees' beneficiary association trust for GM's U.S. hourly employees.

The financial information for December 31, 1998 and 1997 reflected the historical results of operations and cash flows of the businesses that were considered part of the Delphi business sector of GM and the assets and liabilities transferred to Delphi in accordance with the terms of the Separation. We believe the assumptions underlying the 1998 and 1997 financial information are reasonable, although such financial information may not necessarily be indicative of the results of operations, financial position and cash flows of the company had we been a separate, independent company during 1998 and 1997.

In order to better evaluate our underlying operating performance, our financial results for 1998 and 1997 have been adjusted for certain special items that management views as non-recurring. Such special items included charges for divestitures, asset impairments and postemployment benefits payable under contractual agreements, as well as the impact of work stoppages at certain GM and Delphi locations. For additional information, see "1998 versus 1997 Special Items and Work Stoppages" and "Adjusted Pro forma 1998."

Results of Operations

Certain 1998 financial information included in the section titled "1999 versus 1998" has been adjusted to reflect the impact of our separation from GM and exclude charges for special items and the impact of work stoppages. See "Adjusted Pro forma 1998" for additional information.

1999 versus 1998

Net Sales. Consolidated net sales and changes in net sales by product sector and in total for the years ended December 31, 1999 and 1998 were:

	Year Ended December 31,		
Product Sector	**1999**	1998	Change
	(in millions)		
Electronics & Mobile Communication	**$ 5,296**	$ 4,823	$ 473
Safety, Thermal & Electrical Architecture	**10,512**	11,226	(714)
Dynamics & Propulsion	**13,975**	12,862	1,113
Eliminations	**(591)**	(432)	(159)
Consolidated net sales	**$29,192**	$28,479	$ 713

Net sales for 1998 included approximately $1.2 billion of sales by businesses divested in late 1998. After adjusting for 1998 sales of divested business (primarily seating and lighting businesses previously included in our Safety, Thermal, and Electrical Architecture product sector), our consolidated net sales increased 7% over 1998. This increase in net sales reflects continued growth in non-GM sales and strong North American and European sales volumes, partially offset by continued price pressures, soft demand in South America and some Asia Pacific markets and weakness in European currencies versus the U.S. dollar. Sales to non-GM customers increased 13% on a comparable basis, while sales to GM increased 6%, partially due to the fact that 1998 sales included the unfavorable impact of work stoppages at certain GM and Delphi locations. As for ongoing price pressures, each of our product sectors were impacted by price reductions associated with customer competitive sourcing initiatives and global vehicle platforms. Overall, price reductions decreased net sales by 1.6% in 1999.

We expect consolidated net sales in 2000 to exceed 1999 sales, provided automotive production levels in North America and Europe remain relatively stable. Sales growth is expected from new business awarded to Delphi and the integration of the Delphi Diesel Systems business acquired in January 2000, partially offset by continued sales price reductions required by vehicle manufacturers. In addition, the impact of price reductions is expected to be mitigated by our ongoing cost reduction efforts and lean manufacturing initiatives. Although the foregoing describes our expectations regarding net sales and profitability in 2000, we cannot assure you that these expectations will be realized.

Gross Margin. Our gross margin was 14.2% in 1999 compared to 8.2% in 1998. After giving effect to the terms of the Separation Agreement and excluding charges related to special items, our adjusted pro forma gross margin was 11.0% for 1998. The increased gross margin for 1999 primarily reflects our company-wide cost reduction initiatives through the implementation of lean manufacturing strategies and product line rationalization.

Selling, General and Administrative and Depreciation and Amortization. Selling, general and administrative expenses increased by $19 million during 1999 on an adjusted pro forma basis. Increased selling, general and administrative expenses are primarily due to our efforts to expand our non-GM sales and increase awareness of our brands and technological capabilities. Depreciation and amortization decreased by $246 million during 1999. The decrease in depreciation and amortization reflects reductions in expense due to the asset impairment charges recognized in 1998, businesses divested in 1998, and the timing of various capital projects.

Operating Income (Loss). Our operating income was $1.7 billion for 1999 compared to an operating loss of $221 million in 1998. Our operating income by product sector, with 1998 on an adjusted pro forma basis and excluding the impact of work stoppages, was:

	Year Ended December 31,	
Product Sector	**1999**	1998
	(in millions)	
Electronics & Mobile Communication	**$ 577**	$ 466
Safety, Thermal & Electrical Architecture	**687**	702
Dynamics & Propulsion	**563**	408
Other	**(145)**	(220)
Total	**$1,682**	$ 1,356

The improvement in 1999 operating income reflects increased sales as discussed above, including the favorable impact of greater sales penetration of non-GM customers during 1999. The improvement also reflects the results of our continuing cost reduction efforts and lean manufacturing initiatives that are being implemented around the world.

Interest Expense. Interest expense decreased by $145 million, as 1999 debt levels were lower than 1998 due to strong current year cash flows.

Other Income, Net. Other income, net totaled $171 million for 1999 compared to $232 million for 1998. The decrease is primarily due to Delphi's receipt of certain duty tax refunds during 1998.

Taxes. Our effective income tax rate for 1999 was 37.1% compared to 25.0% in 1998 on an adjusted pro forma basis. The increased effective income tax rate primarily reflects changes in our tax environment resulting from our separation from GM.

Net Income (Loss). Net income for 1999 totaled $1.1 billion compared to a historical net loss of $93 million for 1998. Our adjusted pro forma net income, excluding the impact of work stoppages, for 1998 was $889 million.

Earnings (Loss) per Share. Diluted earnings per share for 1999 were $1.95 compared to a historical diluted loss per share of $(.20) for 1998. If the shares issued in our IPO were outstanding since January 1, 1998, our 1999 earnings per share would have been $1.91 per share and our 1998 adjusted pro forma earnings per share, excluding the impact of work stoppages, would have been $1.57, which we believe is the most relevant comparison.

1998 versus 1997

The financial information in this section has not been adjusted for the terms of our separation from GM. Given that both 1998 and 1997 reflect our historical results as a product sector of GM, such financial information is presented on a comparable basis.

Special Items and Work Stoppages

The following is a summary of the special items that impacted our operating results during 1998 and 1997:

1998

- During 1998, we recorded a $310 million charge, or $192 million after-tax, related to underperforming assets and postemployment benefits payable under contractual agreements. Overall, the charge had the effect of increasing cost of sales and depreciation and amortization by $154 million and $156 million, respectively.
- During 1998, we recorded a loss of $430 million, or $271 million after-tax, related to divestitures involving our seating, lighting, and coil spring businesses. The charge had the effect of increasing cost of sales and depreciation and amortization by $382 million and $48 million, respectively.
- Work stoppages at GM and Delphi during 1998 reduced operating income by approximately $726 million, or $450 million after-tax, after considering partial recovery of lost production.

1997

- During 1997, we recorded a $1.4 billion charge, or $870 million after-tax, related to underperforming assets, assets held for disposal and postemployment benefits payable under contractual agreements. Overall, the charge had the effect of increasing 1997 cost of sales and depreciation and amortization by $262 million and $1.1 billion, respectively.

- Work stoppages during 1997 reduced operating income by approximately $148 million, or $92 million after-tax, after considering partial recovery of lost production.
- During 1997, we recorded an $80 million charge, or $50 million after-tax, relating primarily to the cost of supplemental unemployment compensation under contractual agreements offered at a facility in Trenton, New Jersey. This charge had the effect of increasing cost of sales by $80 million.
- Other special items included gains aggregating $97 million, or $60 million after-tax. These gains primarily related to the sale of certain businesses and investments, none of which were material on an individual basis.

Net Sales. Consolidated net sales and changes in net sales by product sector and in total for the years ended December 31, 1998 and 1997 were:

	Year Ended December 31,		
Product Sector	1998	1997	Change
		(in millions)	
Electronics & Mobile Communication	$ 4,823	$ 5,539	$ (716)
Safety, Thermal & Electrical Architecture	11,226	12,728	(1,502)
Dynamics & Propulsion	12,862	13,733	(871)
Eliminations	(432)	(553)	121
Consolidated net sales	$28,479	$31,447	$ (2,968)

The decrease in consolidated net sales reflects unfavorable volume associated with work stoppages, after considering partial recovery of lost production, divested businesses (primarily in our Safety, Thermal and Electrical Architecture product sector) and economic conditions in Asia and Latin America. In addition, our net sales continued to be impacted by pricing pressures as vehicle manufacturers reduced their cost structures through competitive sourcing initiatives and global vehicle platforms. Specifically, all of our product sectors were impacted by price reductions required by GM and other customers which totaled $465 million (or 1.6% of net sales). Overall, price reductions had the largest impact on our Electronics & Mobile Communication product sector (2.7% of net sales) due to the impact of GM-North America's continued implementation of its global sourcing strategy and reflecting the overall price declines throughout the electronics industry. The unfavorable impact of lower volumes, as discussed above, and price reductions was partially offset by an increase in sales to customers other than GM. Sales to customers other than GM during 1998 increased approximately $620 million or 11% compared to 1997.

Gross Margin. Gross margin represented 8.2% of consolidated net sales for 1998 compared to 11.9% for 1997. The decrease reflects the impact of special items and work stoppages along with other factors which are described in greater detail in the operating (loss) income discussion below.

Selling, General and Administrative and Depreciation and Amortization. Selling, general and administrative expenses increased by $48 million during 1998 compared to 1997. Depreciation and amortization increased by $28 million during 1998 excluding the impact of special charges during 1998 and 1997 totaling $204 million and $1.1 billion, respectively. The increase in depreciation and amortization, excluding the impact of special charges, reflected incremental depreciation associated with a larger fixed asset base.

Operating (Loss) Income. Our operating loss was $221 million for 1998 compared to operating income of $352 million in 1997. Excluding the impact of special items and work stoppages, operating income totaled $1.2 billion and $1.9 billion for the years ended December 31, 1998 and 1997, respectively.

Operating income by product sector and in total, excluding the impact of special items and work stoppages, was:

	Year Ended December 31,	
Product Sector	1998	1997
	(in millions)	
Electronics & Mobile Communication	$ 511	$ 612
Safety, Thermal & Electrical Architecture	707	1,060
Dynamics & Propulsion	314	400
Other	(287)	(130)
Total	$1,245	$1,942

Operating income, excluding the impact of special items and work stoppages, was unfavorably impacted by continuing price pressures, the economic downturn in Latin America and unfavorable design costs and product mix. These unfavorable items were offset by our aggressive cost reduction efforts as we have implemented several strategies to reduce our cost structure and maintain our desired level of profitability. Specifically, each of our product sectors achieved material and manufacturing cost savings which totaled approximately $945 million during 1998, exceeding price reductions and unrecovered design change costs by $110 million. Cost savings achieved primarily reflect the results of our global sourcing initiatives and continued implementation of lean manufacturing strategies. In addition, operating income was favorably impacted by greater sales penetration of non-GM customers during 1998.

Interest Expense. Interest expense totaled $277 million and $287 million for the years ended December 31, 1998 and 1997, respectively. The decrease in interest expense reflects lower interest rates during 1998 in comparison to 1997 rates.

Other Income, Net. Other income, net totaled $232 million for 1998, compared to $194 million in 1997. The increase primarily reflects improved profitability for certain non-consolidated ventures during 1998.

Taxes. The effective income tax rate for 1998 was a 65.0% credit compared to an effective income tax rate of 17.0% for 1997. During 1998, certain deductions and tax credits remained constant while income decreased substantially, resulting in a greater effective tax benefit as a percentage of pretax income.

Net (Loss) Income. Our historical net loss totaled $93 million in 1998 compared to net income of $215 million during 1997. Excluding special items and work stoppages, our income was $820 million and $1.2 billion for the years ended December 31, 1998 and 1997, respectively, reflecting the impact of items discussed above.

Adjusted Pro forma 1998

The following unaudited pro forma condensed consolidated statement of operations data has been prepared as if the Separation had taken place on January 1, 1998. The unaudited pro forma condensed consolidated balance sheet and statement of operations data are intended to represent Delphi's financial position and results of operations as if the IPO and certain other transactions occurred on the dates indicated. The unaudited pro forma condensed consolidated balance sheet and statement of operations data do not, however, purport to project Delphi's financial position or results of operations for any future date. The unaudited pro forma adjustments were based upon available information and certain assumptions that Delphi believes to be reasonable.

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Year Ended December 31, 1998
(in millions, except per share amounts)

	Actual	Adjustments	Pro Forma	Special Items	Adjusted Pro Forma
Net sales	$ 28,479		$ 28,479		$ 28,479
Operating expenses:					
Cost of sales, excluding items listed below	26,135	$ (248) (1)	25,887	$ (382) (4) (154) (5)	25,351
Selling, general and administrative	1,463	(15) (1) 152 (2)	1,600		1,600
Depreciation and amortization	1,102		1,102	(48) (4) (156) (5)	898
Total operating expenses	28,700	(111)	28,589	(740)	27,849
Operating (loss) income	(221)	111	(110)	740	630
Interest expense	(277)		(277)		(277)
Other income, net	232		232		232
(Loss) income before income taxes	(266)	111	(155)	740	585
Income tax (benefit) expense	(173)	42 (3)	(131)	159 (4) 118 (5)	146
Net (loss) income	$ (93)	$ 69	$ (24)	$ 463	$ 439
Basic and diluted (loss) earnings per share:					
Actual – 465 million shares outstanding	$ (0.20)				
Pro forma – 565 million shares outstanding			$ (0.04)		$ 0.78

After considering partial recovery of lost production, the impact of work stoppages at GM and Delphi during 1998 was as follows:

	Operating Income	Net Income
Adjusted pro forma	$ 630	$ 439
Work stoppage impact	726	450
Total	$ 1,356	$ 889
Earnings per share, based on 565 million shares outstanding	N/A	$ 1.57

Unaudited Pro Forma Condensed Consolidated Balance Sheet as of December 31, 1998
(in millions)

	Historical	Adjustments	Pro Forma
ASSETS			
Current assets:			
Cash and marketable securities	$ 1,000	$ 1,621 (6)	
		(2,100) (7)	
		3,141 (8)	
		(1,600) (9)	$ 2,062
Accounts receivable, net:			
General Motors and affiliates	2,236	2,100 (7)	
		(1,600) (8)	
		1,600 (9)	4,336
Other customers	977		977
Inventories, net	1,770		1,770
Deferred income taxes	285		285
Prepaid expenses and other assets	137		137
Total current assets	6,405	3,162	9,567
Property, net	4,965		4,965
Deferred income taxes	2,813		2,813
Other assets	1,323		1,323
Total assets	$15,506	$ 3,162	$18,668
LIABILITIES AND EQUITY			
Current liabilities:			
Notes payable and current portion of long-term debt	$ 359		$ 359
Accounts payable:			
General Motors and affiliates	89		89
Other suppliers	2,171		2,171
Accrued liabilities	1,438		1,438
Total current liabilities	4,057		4,057
Long-term debt, including intracompany note payable to General Motors	3,141	$ (3,141) (8)	
		3,141 (8)	3,141
Pension benefits	2,180		2,180
Postretirement benefits other than pensions	4,573		4,573
Other liabilities	1,546		1,546
Total liabilities	15,497	–	15,497
Equity:			
Common stock	–	1 (6)	
		5 (10)	6
Additional paid-in capital	–	1,620 (6)	
		1,613 (10)	3,233
General Motors' net investment	77	1,541 (8)	
		(1,618) (10)	–
Accumulated translation adjustments	(68)		(68)
Total equity	9	3,162	3,171
Total liabilities and equity	$15,506	$ 3,162	$18,668

The following pro forma adjustments were made to reflect the terms of the Separation Agreement, the IPO and the impact of special items:

(1) Delphi and General Motors have entered into agreements regarding certain employee benefit obligations. The pro forma adjustment for the year ended December 31, 1998, $248 million of which relates to cost of sales and $15 million of which relates to selling, general and administrative expense, is summarized as follows (in millions):

Pension related costs	$ 210
Postretirement benefits other than pension	(475)
Other employee benefits	2
Total	$(263)

(2) Reflects the estimated incremental selling, general and administrative costs associated with operating Delphi as a stand-alone publicly traded company. The pro forma adjustment for the year ended December 31, 1998 is as follows (in millions):

Incremental insurance and risk management	$ 36
Incremental corporate costs*	48
Taxes other than income	52
Other	16
Total	$ 152

* Incremental corporate costs include additional personnel and systems costs required to operate independently and reflect transitional service arrangements with General Motors at terms provided in the Separation Agreement. Other costs include certain sales tax expenses associated with the Separation.

(3) Income taxes were determined in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes." For purposes of this pro forma presentation only, adjustments necessary to record the income tax effect of the pro forma adjustments assume a combined federal and state income tax rate of 38%.

(4) Adjusted to exclude a loss of $430 million, or $271 million after-tax, related to divestitures involving our seating, lighting and coil spring businesses. The charge had the effect of increasing cost of sales and depreciation and amortization by $382 million and $48 million, respectively.

(5) Adjusted to exclude charges of approximately $310 million, or $192 million after-tax, related to underperforming assets and postemployment benefits payable under contractual agreements. These charges had the effect of increasing cost of sales and depreciation and amortization by $154 million and $156 million, respectively.

(6) Reflects the net proceeds from the sale of 100 million common stock shares in the IPO at a price of $17.00 per share. The IPO proceeds were used for general corporate purposes, including working capital requirements that were impacted by the change in General Motors accounts receivable payment terms described in note (7) below.

(7) Reflects the change in payment terms for intracompany accounts receivable from General Motors in accordance with the terms of the Separation Agreement. Such payment terms, which generally called for payment in the month following shipment by Delphi, were modified to require payment by General Motors on the second day of the second month following shipment by Delphi.

(8) Reflects the settlement of certain intracompany accounts receivable from General Motors with the intracompany note payable to General Motors. On January 1, 1999, immediately prior to the transactions contemplated by the Separation Agreement, certain intracompany accounts receivable from General Motors, of approximately $1.6 billion, were settled with the $3.1 billion outstanding intracompany note payable to General Motors with the difference resulting in an increase in General Motors' net investment in Delphi.

(9) Reflects the required adjustment, subsequent to the settlement of intracompany accounts receivable described in note (8) above, to adjust cash and accounts receivable balances to levels that are indicative of amounts associated with ongoing operations.

(10) Reflects the adjustment to equity to reclassify General Motors' net investment as common stock and additional paid-in capital.

Liquidity and Capital Resources

Strong cash flows generated during 1999 resulted in improvements in our net liquidity and the ratio of total debt to total capital. Our net liquidity, measured as cash and marketable securities less total debt, was $(201) million at December 31, 1999 compared to $(2.5) billion at December 31, 1998. The ratio of total debt to total capital, which consists of total debt plus stockholders' equity, was 35.4% at December 31, 1999 and 100% at December 31, 1998. If our Separation from GM and the IPO had occurred on December 31, 1998, our pro forma net liquidity and ratio of total debt to total capital would have been $(1.4) billion and 52.5%, respectively, at December 31, 1998. See "Liquidity and Capital Resources – Cash Flows."

Extension of Payment Terms

In accordance with the Separation Agreement, effective January 1, 1999, payment terms for our accounts receivable from GM were modified such that payments are generally due to us on the second day of the second month following the date of shipment by Delphi. Previous payment terms generally required GM to make accounts receivable payments in the month following shipment by Delphi. When the change in payment terms was implemented, our accounts receivable increased by approximately $2.1 billion. In order to mitigate the impact of the change in accounts receivable payment terms, we have successfully extended payment terms with many of our suppliers. Over time, we expect to negotiate similar extended terms with our remaining suppliers.

Debt Capitalization and Available Financing Sources

Immediately prior to the transactions contemplated by the Separation Agreement, approximately $1.6 billion of certain intracompany accounts receivable from GM were settled against the $3.1 billion outstanding intracompany note payable to GM, with the difference resulting in an increase in GM's net investment in Delphi.

Our total debt outstanding includes amounts related to our 1999 public offering of unsecured term debt securities totaling $1.5 billion. The offering consisted of $500 million of securities bearing interest at 6.125% and maturing on May 1, 2004, $500 million of securities bearing interest at 6.50% and maturing on May 1, 2009, and $500 million of securities bearing interest at 7.125% and maturing on May 1, 2029. Other amounts outstanding primarily relate to local borrowings by certain of our international subsidiaries.

During 1999, Delphi entered into two financing arrangements with a syndicate of lenders providing for an aggregate of $3.0 billion in available revolving credit facilities (the "Credit Facilities"). The terms of the Credit Facilities provide for a five-year revolving credit line in the amount of $1.5 billion, which expires January 2004, and a 364-day revolving credit line, which expires December 2000. Also during 1999, we entered into a commercial paper program providing up to $1.5 billion of borrowing ability. As of December 31, 1999, we had no amounts outstanding under our Credit Facilities or commercial paper program.

Delphi's cash flows during the year are impacted by the volume and timing of vehicle production, which includes a halt in most operations of our North American customers for approximately two weeks in July and one week in December, and reduced production in Europe during the month of August. We believe that our company has sufficient financial flexibility to fund these fluctuations, although there can be no assurance that this will be the case. In addition, we believe that our capital resources and liquidity position are sufficient to satisfy our funding needs during our three-year business planning cycle. Requirements for working capital, capital expenditures, dividends and debt maturities are expected to be funded from operations, supplemented as needed by short-term or long-term borrowings available under our Credit Facilities or the commercial paper program, if required.

Cash Flows

Operating Activities. Net cash used in operating activities was $1.2 billion for the year ended December 31, 1999 compared to net cash provided by operating activities of $849 million and $2.9 billion in 1998 and 1997, respectively. The use of cash during 1999 primarily reflects the impact of the non-cash settlement of certain accounts receivable with GM and the change in accounts receivable payment terms in accordance with the terms of the Separation Agreement. Net cash provided by operating activities during 1999, excluding the impact of the settlement of accounts receivable and change in payment terms, was $2.5 billion. Cash generated during the year reflects the high cash content of our strong earnings and the timing of payments for accounts payable and certain accrued expenses. These favorable cash flows were partially offset by $1.2 billion in voluntary pension contributions made during 1999.

Investing Activities. Cash flows used in investing activities totaled $1.1 billion, $1.2 billion and $1.3 billion for the years ended December 31, 1999, 1998 and 1997, respectively. Overall, cash flows used in investing activities primarily relate to our capital expenditure program. Our capital expenditure program promotes our growth-oriented business strategy by investing in existing core areas, where efficiencies and profitability can be enhanced, and by targeting funds for new innovative technologies, where long-term growth opportunities can be realized. Capital expenditures by product sector and geographic region for the periods presented were:

	Year Ended December 31,		
	1999	1998	1997
	(in millions)		
Electronics & Mobile Communication	**$ 236**	$ 180	$ 122
Safety, Thermal & Electrical Architecture	**412**	449	464
Dynamics & Propulsion	**535**	741	778
Other	**17**	11	19
Total capital expenditures	**$1,200**	$1,381	$1,383
United States	**$ 717**	$ 888	$ 930
Canada & Mexico	**112**	127	88
Other International	**371**	366	365
Total capital expenditures	**$1,200**	$1,381	$1,383

The decrease in cash used in investing activities primarily reflects the improved efficiency of our capital investment program.

We expect capital expenditures to be approximately $1.3 billion in 2000, before considering the incremental capital requirements of Delphi Diesel Systems. Such expenditures will primarily be utilized for equipment, tooling and other spending associated with new product programs, including increasing sales to non-GM customers. Expenditures will also be used for expansion into new markets outside the United States and the continued implementation of lean manufacturing strategies. We currently expect approximately 30% to 40% of our 2000 capital expenditures to occur outside the United States.

Financing Activities. Net cash provided by financing activities was $2.9 billion and $384 million for the years ended December 31, 1999 and 1998, respectively. Net cash used in financing activities was $1.5 billion in 1997. Cash provided by financing activities for 1999 includes the proceeds from the IPO and the proceeds from our public offering of unsecured term debt securities. The proceeds from the IPO were used for general corporate purposes, including working capital requirements, which were initially impacted by the change in General Motors accounts receivable payment terms described above. The proceeds from our debt offering were used to refinance amounts previously borrowed under our Credit Facilities. Separately, during 1999, we acquired approximately 4 million shares of Delphi common stock, for approximately $67 million, in the open market to be reissued under stock option and other employee benefit plans. Approximately 1 million of the treasury shares were reissued during 1999.

Dividends. The Delphi Board of Directors declared dividends on Delphi common stock of $0.07 per share on June 9, September 8, and December 7, 1999, payable on July 20, 1999, October 18, 1999 and January 13, 2000, respectively.

Pension and Other Postretirement Benefits

Under the terms of the Separation Agreement, pension plan assets and liabilities and other postretirement benefit liabilities related to Delphi's U.S. salaried active and inactive employees retiring after January 1, 1999 were assumed by Delphi. The Delphi salaried pension and other postretirement benefit plans were established and are being administered under the same terms that existed for the GM plans at the time of the Separation. Delphi's consolidated financial statements as of December 31, 1999 and 1998 reflect the assets and liabilities related to U.S. salaried employees that Delphi assumed pursuant to the Separation Agreement, and exclude employee benefit obligations and any assets related to employees retired prior to the effective date of the Separation Agreement.

In accordance with the terms of the Separation Agreement, Delphi's consolidated balance sheet at December 31, 1998 reflected an obligation to GM equal to the projected benefit obligation for U.S. hourly employees, using applicable pension actuarial assumptions, less an amount equal to the level of plan assets that would be received by Delphi under applicable laws and regulations, had the plan transfer occurred on January 1, 1999. Under the Separation Agreement, this obligation was subject to a contingency provision to the extent certain terms negotiated with hourly represented employees, and the actual number of Delphi hourly employees who retired differed from the terms and the number of retirements assumed by the parties at the time of Separation.

Until May 28, 1999, Delphi's U.S. hourly employees continued to participate in the defined benefit pension plan and other postretirement benefit plans administered by GM, on a multi-employer plan basis. Effective May 28, 1999, pension and other postretirement benefit obligations relating to certain U.S. hourly employees were assumed by Delphi. However, under the terms of the Separation Agreement, including the effects resulting from the completion of required labor negotiations, Delphi hourly employees who retire on or before January 1, 2000 are treated as GM retirees for purposes of pension and other postretirement benefit obligations.

An adjustment to GM's initial investment in Delphi of $0.6 billion was recorded in 1999, based on an actuarial estimate of the effect on the pension and other postretirement obligations of the known negotiated terms and an updated estimate of the Delphi employees who will retire under benefit plans administered by GM. Retirements above the estimate used in generating the initial allocation of pension and other postretirement benefits could also result in cash payments to GM, the amount and timing of which have not yet been determined and agreed upon by Delphi and GM. At December 31, 1999, Delphi estimated such payments could total $1.6 billion.

As part of our capital planning process, we may make voluntary contributions to our pension plans in excess of federal regulatory minimum requirements to improve the funded status of our pension plans. In this regard, we made total voluntary cash contributions of $1.8 billion through January 2000. Our intent continues to be to fully fund our current hourly pension benefits over the next few years on an economic basis.

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.

Year 2000

We experienced no significant disruptions to our business as a result of the conversion to the year 2000. The cost of our Year 2000 program was expensed as incurred with the exception of capitalizable replacement hardware and computer software costs developed for internal use. We incurred approximately $53 million of Year 2000 costs during 1999, which were funded from operations. Year 2000 program costs incurred during 2000 are not expected to be significant and will be funded from operations.

European Monetary Union

Within Europe, the European Economic and Monetary Union (the "EMU") introduced a new currency, the Euro, on January 1, 1999. The existing local currencies, or legacy currencies, will remain legal tender through January 1, 2002. We have not experienced any significant operational disruptions to date and do not expect the continued implementation of the Euro to cause any significant operational disruptions. In addition, we have not incurred and do not expect to incur any significant costs from the continued implementation of the Euro, including any currency risk, which could materially affect our liquidity or capital resources.

Deferred Income Taxes

At December 31, 1999, Delphi's consolidated balance sheet included a net deferred tax asset of approximately $2.9 billion. This net deferred tax asset relates to temporary differences between amounts of assets and liabilities for financial reporting purposes and the basis of such assets and liabilities as measured by tax laws. For more information, see Note 4 to our consolidated financial statements included elsewhere in this report. Approximately $2.3 billion of the net deferred tax asset balance is related to our obligations for postretirement and pension benefits. Realization of the net deferred tax asset is dependent upon profitable operations in the United States and future reversals of existing taxable temporary differences. Although realization is not assured, we believe that it is more likely than not that such benefits will be realized through the reduction of future taxable income. Management has considered various factors in assessing the probability of realizing these deferred tax assets including:

- Delphi's operating results, excluding the impact of special items and work stoppages, over the most recent three-year period and overall financial forecasts of book and taxable income for the 2000-2002 period.
- The ability to utilize tax planning, such as capitalization of research and experimentation costs for tax purposes, so that Delphi does not generate any significant U.S. federal tax net operating losses.
- The extended period of time over which the tax assets can be utilized. Postretirement benefits become tax deductions over periods up to 50 years.

Environmental Matters

Delphi is subject to various laws governing the protection of the environment including laws regulating air emissions, water discharges and waste management. Delphi has made and will continue to make capital and other expenditures to comply with environmental requirements. However, such expenditures were not material during the years ended December 31, 1999, 1998 and 1997 and are not expected to be material in 2000 or 2001. 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 in a manner that could have a material adverse effect on our business.

Delphi is also subject to environmental laws requiring investigation and cleanup of environmental contamination and is in various stages of investigation and cleanup at its manufacturing sites where contamination has been alleged. At December 31, 1999, our reserve for such environmental investigation and cleanup was approximately $20 million.

The process of estimating environmental cleanup liabilities is complex and dependent primarily on the nature and extent of historical information and physical data relating to a contaminated site, the complexity of the site, the uncertainty as to what remedy and technology will be required, the outcome of discussions with regulatory agencies and, at multi-party sites, other potentially responsible parties. In future periods, new laws or regulations, advances in cleanup technologies and additional information about the ultimate cleanup remedy that is used could significantly change our estimates. Accordingly, we cannot assure you that our eventual environmental cleanup costs and liabilities will not exceed the amount of our current reserve.

Recently Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires recognition of all derivative financial instruments as either assets or liabilities in consolidated balance sheets at fair value and determines the method(s) of gain/loss recognition. The FASB issued

SFAS No. 137, "Deferral of the Effective Date of FASB Statement No. 133" in June 1999 to defer the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. We will adopt SFAS No. 133 on January 1, 2001 and we are currently assessing the effect that it may have on our consolidated financial statements.

In September 1999, the Emerging Issues Task Force ("EITF") of the FASB reached a consensus on Issue No. 99-5 "Accounting for Pre-Production Costs Related to Long-Term Supply Agreements." The consensus addresses the accounting for pre-production costs relating to design and development of production parts and tooling. We do not believe that the implementation of EITF Issue No. 99-5 on a prospective basis as of January 1, 2000 will have a significant impact on our financial position or results of operations.

Forward-Looking Statements

This report contains statements which, to the extent they are not historical fact, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Safe Harbor Act"). All forward-looking statements involve risks and uncertainties. The forward-looking statements in this report are intended to be subject to the safe harbor protection provided by the Safe Harbor Act. Delphi is subject to various factors, risks and uncertainties, many of which are outside of our control, that could cause actual results to differ from those expressed in forward-looking statements made by us throughout this report and elsewhere. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future, including statements relating to volume growth, share of sales and earnings per share growth or statements expressing general optimism about future operating results, are forward-looking statements. Principal important factors, risks and uncertainties, which may cause actual results to differ from those expressed in such forward-looking statements, include, but are not limited to:

- The ability of our company to increase sales to customers other than GM and to achieve the labor benefits we expect from our separation from GM.
- Changes in the operations, financial condition, results of operations or market share of our customers, including our largest customer, GM.
- Changes in economic conditions, currency exchange rates, or political stability in the major 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 (i.e., North America, Europe, Latin America and Asia-Pacific), including the effects of current economic problems in Asia, Brazil and other regions of Latin America, including Mexico.
- Shortages of materials or interruptions in transportation systems, labor strikes, work stoppages, or other interruptions to or difficulties in the employment of labor in the major markets where our company purchases material, components and supplies for the production of our products or where our products are produced, distributed or sold.
- Significant changes in the competitive environment in the major markets where our company purchases material, components and supplies for the production of our products or where our products are produced, distributed or sold.
- 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.
- The ability of our company to generate cost savings and operational improvements in the future sufficient to offset contractually or competitively required price reductions, price reductions necessary to win additional business and increases in raw material costs.
- The ability of our company to maintain financial flexibility to make payments for pensions and other postretirement employee benefits and to implement capital expenditures, all at the levels and times planned by management.
- The ability of our company to successfully identify, complete and integrate acquisitions.
- Additional risk factors include our ability to provide high quality products at competitive prices, to sustain technological competitiveness, to develop new products that meet changing consumer preferences, to meet changing vehicle manufacturer supply requirements on a timely, cost effective basis, and the ability to respond to competitive pressures and react quickly to other major changes in the marketplace.
- Other factors, risks and uncertainties detailed from time to time in our Securities and Exchange Commission filings.

Quantitative and Qualitative Disclosures About Market Risks

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

A discussion of our accounting policies for derivative instruments is included in Note 2 to our consolidated financial statements included elsewhere in this report, and further disclosure is provided in Note 14 to those 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 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.

Currency Exchange Rate Risk

We have currency exposures related to buying, selling and financing in currencies other than the local currency in which we operate. More specifically, we are exposed to currency risk related to uncertainty to which future earnings or assets and liability values are exposed due to operating cash flows and various financial instruments that are denominated in currencies other than the U.S. dollar. Currently, our most significant currency exposures relate to Brazil, Mexico, Canada, France, Germany and Japan. As of December 31, 1999, the net fair value asset of financial instruments with exposure to currency risk was approximately $76 million. The potential loss in fair value for such financial instruments from a hypothetical 10% adverse change in quoted currency exchange rates would be approximately $8 million. The model assumes a parallel shift in currency exchange rates; however, exchange rates rarely move in the same direction. The assumption that exchange rates change in a parallel fashion may overstate the impact of changing exchange rates on assets and liabilities denominated in currencies other than the U.S. dollar.

Commodity Price Risk

Commodity swaps and option contracts are executed to offset our exposure to the potential change in prices mainly for various non-ferrous metals used in the manufacturing of automotive components. The net fair value asset of such contracts, excluding the underlying exposures, as of December 31, 1999 was approximately $17 million. The potential change in the fair value of commodity swap and option contracts, assuming a 10% change in the underlying commodity price, would be approximately $18 million at December 31, 1999. This amount excludes the offsetting impact of the price risk inherent in the physical purchase of the underlying commodities.

Interest Rate Risk

Our borrowings from third party credit sources are primarily comprised of fixed rate term debt maturing in five, ten and thirty years. As such, we are not exposed to movements in interest rates and have not entered into any derivative instruments to manage interest rate risk or minimize interest expense.

Responsibility for Consolidated Financial Statements

The following consolidated financial statements of Delphi Automotive Systems Corporation ("Delphi") were prepared by management, which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments of management.

Management is further responsible for maintaining internal control designed to provide reasonable assurance that the books and records reflect the transactions of Delphi, and that established policies and procedures are carefully followed. From a stockholder's point of view, perhaps the most important feature in internal control is that it is continually reviewed for effectiveness and is augmented by written policies and guidelines, the careful selection and training of qualified personnel, and a strong program of internal audit.

Deloitte & Touche LLP, an independent audit firm, is engaged to audit the consolidated financial statements of Delphi and issue reports thereon. The audit is conducted in accordance with generally accepted auditing standards that comprehend the consideration of internal control and tests of transactions to the extent necessary to form an independent opinion on the financial statements prepared by management.

The Board of Directors, through the Audit Committee (composed entirely of independent Directors) is responsible for assuring that management fulfills its responsibilities in the preparation of the consolidated financial statements. The Audit Committee selects the independent auditors and reviews the scope of the audits and the accounting principles being applied in financial reporting. The independent auditors, representatives of management, and the General Auditor meet regularly (separately and jointly) with the Audit Committee to review the activities of each, to ensure that each is properly discharging its responsibilities, and to assess the effectiveness of internal control. It is management's conclusion that internal control at December 31, 1999 provides reasonable assurance that the books and records reflect the transactions of Delphi and that the businesses comply with established policies and procedures. To ensure complete independence, Deloitte & Touche LLP has full and free access to meet with the Audit Committee, without management representatives present, to discuss the results of the audit, the adequacy of internal control, and the quality of financial reporting.

J.T. Battenberg III
Chairman,
Chief Executive Officer
and President

Alan S. Dawes
Chief Financial Officer
and Executive
Vice President

Paul R. Free
Chief Accounting Officer
and Controller

Independent Auditors' Report

Deloitte & Touche

Delphi Automotive Systems Corporation:

We have audited the accompanying consolidated balance sheets of Delphi Automotive Systems Corporation ("Delphi"), as of December 31, 1999 and 1998, and the related consolidated statements of operations, of stockholders' equity (deficit), and of cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the management of Delphi. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Delphi as of December 31, 1999 and 1998 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Detroit, Michigan
January 18, 2000

Consolidated Statements of Operations

	Year Ended December 31, 1999	1998	1997
	(in millions, except per share amounts)		
Net sales:			
General Motors and affiliates	**$22,302**	$ 22,322	$ 25,907
Other customers	**6,890**	6,157	5,540
Total net sales	**29,192**	28,479	31,447
Operating expenses:			
Cost of sales, excluding items listed below	**25,035**	26,135	27,710
Selling, general and administrative	**1,619**	1,463	1,415
Depreciation and amortization	**856**	1,102	1,970
Total operating expenses	**27,510**	28,700	31,095
Operating income (loss)	**1,682**	(221)	352
Less interest expense	**(132)**	(277)	(287)
Other income, net (Note 10)	**171**	232	194
Income (loss) before income taxes	**1,721**	(266)	259
Income tax expense (benefit) (Note 4)	**638**	(173)	44
Net income (loss)	**$ 1,083**	$ (93)	$ 215
Earnings (loss) per share (Note 2)			
Basic	**$ 1.96**	$ (0.20)	$ 0.46
Diluted	**$ 1.95**	$ (0.20)	$ 0.46

See notes to consolidated financial statements.

Consolidated Balance Sheets

	December 31, 1999	1998
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,546**	$ 995
Other marketable securities	**10**	5
Total cash and marketable securities	**1,556**	1,000
Accounts receivable, net:		
General Motors and affiliates	**3,817**	2,236
Other customers	**1,555**	977
Inventories, net (Note 3)	**1,749**	1,770
Deferred income taxes (Note 4)	**1,071**	285
Prepaid expenses and other	**63**	137
Total current assets	**9,811**	6,405
Long-term assets:		
Property, net (Note 5)	**5,106**	4,965
Deferred income taxes (Note 4)	**1,930**	2,813
Other	**1,503**	1,323
Total assets	**$ 18,350**	$ 15,506
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and current portion of long-term debt (Note 7)	**$ 117**	$ 359
Accounts payable	**3,096**	2,260
Pension benefits (Note 8)	**1,091**	–
Postretirement benefits other than pensions (Note 8)	**1,012**	–
Accrued liabilities (Note 6)	**1,421**	1,438
Total current liabilities	**6,737**	4,057
Long-term liabilities:		
Long-term debt (Note 7)	**1,640**	3,141
Pension benefits (Note 8)	**858**	2,180
Postretirement benefits other than pensions (Note 8)	**4,339**	4,573
Other	**1,576**	1,546
Total liabilities	**15,150**	15,497
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, $0.01 par value, 1,350 million shares authorized, 565 million and 465 million shares issued in 1999 and 1998, respectively	**6**	–
Additional paid-in capital	**2,601**	–
Retained earnings	**964**	–
General Motors' net investment	**–**	77
Accumulated translation adjustments	**(324)**	(68)
Treasury stock, at cost (3 million shares in 1999)	**(47)**	–
Total stockholders' equity	**3,200**	9
Total liabilities and stockholders' equity	**$ 18,350**	$ 15,506

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year Ended December 31, 1999	1998	1997
		(in millions)	
Cash flows from operating activities:			
Net income (loss)	**$ 1,083**	$ (93)	$ 215
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	**856**	1,102	1,970
Changes in operating assets and liabilities:			
Accounts receivable, net	**(3,759)**	37	(557)
Inventories, net	**21**	218	92
Prepaid expenses and other	**(27)**	(59)	95
Deferred income taxes	**(55)**	123	196
Accounts payable	**836**	(92)	149
Accrued liabilities	**2,090**	(150)	618
Other long-term liabilities	**(2,117)**	(175)	458
Other	**(142)**	(62)	(318)
Net cash (used in) provided by operating activities	**(1,214)**	849	2,918
Cash flows from investing activities:			
Capital expenditures	**(1,200)**	(1,381)	(1,383)
Acquisition of marketable securities	**(158)**	(695)	(303)
Liquidation of marketable securities	**153**	701	321
Other	**150**	159	45
Net cash used in investing activities	**(1,055)**	(1,216)	(1,320)
Cash flows from financing activities:			
Proceeds from issuance of common stock	**1,621**	–	–
Proceeds from issuance of debt securities	**1,484**	–	–
Net payments of credit facilities and other debt	**(81)**	–	–
Dividend payments	**(79)**	–	–
Purchase of treasury stock	**(67)**	–	–
Cash effect of assets and liabilities transferred to General Motors	**–**	384	(1,549)
Net cash provided by (used in) financing activities	**2,878**	384	(1,549)
Effect of exchange rate fluctuations on cash and cash equivalents	**(58)**	(11)	(31)
Increase in cash and cash equivalents	**551**	6	18
Cash and cash equivalents at beginning of year	**995**	989	971
Cash and cash equivalents at end of year	**$ 1,546**	$ 995	$ 989

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity (Deficit)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income	Treasury Stock	General Motors' Net Investment	Total Stockholders' Equity (Deficit)
					(in millions)			
Balance at January 1, 1997					$ 5		$ 917	$ 922
Net income							215	215
Foreign currency translation adjustments					(83)			(83)
Total comprehensive income								132
Net effect of assets and liabilities transferred to General Motors							(1,467)	(1,467)
Balance at December 31, 1997					(78)		(335)	(413)
Net loss							(93)	(93)
Foreign currency translation adjustments					10			10
Total comprehensive loss								(83)
Net effect of assets and liabilities transferred from General Motors							505	505
Balance at December 31, 1998					(68)		77	9
Net income				$1,083				1,083
Foreign currency translation adjustments					(256)			(256)
Total comprehensive income								827
Settlement of intracompany balances							1,541	1,541
Reclassification of General Motors' net investment	465	$ 5	$1,613				(1,618)	–
Issuance of common shares	100	1	1,620					1,621
Estimated employee benefit contingency adjustment (Note 8)			(629)					(629)
Shares reacquired for employee benefit plans			(3)			$ (47)		(50)
Dividends				(119)				(119)
Balance at December 31, 1999	565	$ 6	$ 2,601	$ 964	$ (324)	$ (47)	$ –	$ 3,200

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Background and Basis of Presentation

Background. Delphi Automotive Systems Corporation ("Delphi") is the world's largest and most diversified supplier of automotive components, integrated systems and modules to the automotive industry. We became an independent company during 1999 through a series of transactions (the "Separation") which are described in further detail below. We were incorporated in late 1998 as a wholly owned subsidiary of General Motors Corporation ("General Motors" or "GM"). Prior to our incorporation, we operated our business as a division of GM. The Separation occurred in two stages, the first of which involved an offering to the public of 100 million shares of Delphi's $0.01 par value common stock in February 1999 (the "IPO"). The second stage involved the distribution of Delphi's remaining shares owned by GM (the "Spin-Off"), through a dividend on GM $1⅔ par value common stock in May 1999. The dividend resulted in a distribution of approximately 452.6 million shares, or 80.1%, of Delphi's outstanding common stock. The remaining 12.4 million shares owned by GM were contributed to a voluntary employees' beneficiary association trust for GM's U.S. hourly employees.

Basis of Presentation. The consolidated financial statements as of and for the year ended December 31, 1999 include the accounts of Delphi and its wholly owned and majority owned subsidiaries. The consolidated financial statements of Delphi for the years ended December 31, 1998 and 1997 reflect the historical results of operations and cash flows of the businesses that were considered part of the Delphi business sector of GM. The historical consolidated balance sheet as of December 31, 1998 reflects the assets and liabilities transferred to Delphi in accordance with the terms of a master separation agreement to which Delphi and GM are parties (the "Separation Agreement"). Operating costs and expenses for the years 1998 and 1997 include allocations of general corporate overhead expenses related to GM's corporate headquarters and common support activities, including payroll administration, employee medical coverage and property and casualty insurance, financial, legal, tax and human resources. These allocated costs amounted to $135 million and $130 million in 1998 and 1997, respectively, and were allocated to Delphi based on usage or allocation methodologies primarily based on total net sales, certain tangible assets and payroll expenses. Although Delphi believes the allocations and charges for such services are reasonable, the costs of these services charged to Delphi may not be indicative of the costs that would have been incurred if Delphi had been a stand-alone entity. The financial information included herein for 1998 and 1997 may not necessarily reflect the consolidated results of operations, financial position, changes in stockholders' equity and cash flows of Delphi had Delphi been a separate, stand-alone entity during these years.

2. Significant Accounting Policies

Consolidation. The consolidated financial statements include the accounts of Delphi and domestic and foreign subsidiaries that are majority-owned. Delphi's share of the earnings or losses of affiliates, in which at least 20% of the voting securities is owned, is included in the consolidated operating results using the equity method of accounting. All significant intercompany transactions and balances between the Delphi businesses have been eliminated.

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

Revenue Recognition. Sales are recorded upon shipment of product to customers and transfer of title under standard commercial terms.

Research and Development. Delphi incurs costs in connection with research and development programs that are expected to contribute to future earnings. Such costs are charged against income as incurred. Research and development expenses were $1.7 billion, $1.4 billion and $1.5 billion for the years ended December 31, 1999, 1998 and 1997, respectively.

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

Marketable Securities. Delphi generally holds marketable securities with maturities of 90 days or less, which are classified as cash and cash equivalents for financial statement purposes. A small portion of the portfolio represents securities that are held for a period longer than 90 days. These securities are classified as held-to-maturity, and accordingly are recorded at cost in Delphi's consolidated financial statements.

Allowance for Doubtful Accounts. The allowance for doubtful accounts was $51 million and $19 million as of December 31, 1999 and 1998, respectively.

Inventories. Inventories in the U.S. are stated at the lower of cost or market, as determined substantially by the last-in, first-out (LIFO) method, while inventories in countries other than the U.S., and at Delphi Delco Electronics, are stated under the first-in, first-out (FIFO) method. Inventories valued at LIFO amounted to approximately $1.0 billion and $988 million at December 31, 1999 and 1998, respectively. The effect of the LIFO method of accounting was to decrease Delphi's operating income by $19 million in 1999, and to increase operating income by $38 million and $73 million in 1998 and 1997, respectively.

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

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

Foreign Currency Translation. Assets and liabilities of foreign subsidiaries generally are translated to U.S. dollars at end-of-period exchange rates. The effect of translation for most foreign subsidiaries is reported in a separate component of stockholders' equity. The effect of remeasurement of assets and liabilities of foreign subsidiaries that use the U.S. dollar as their functional currency is included in income. Income statement elements of all foreign subsidiaries are translated to U.S. dollars at average-period exchange rates and are recognized as a part of sales, costs and expenses. Also included in income are gains and losses arising from transactions denominated in a currency other than the functional currency of a particular entity. Net transaction gains and losses, as described above, decreased net income by $7 million and $25 million during 1999 and 1998, respectively, and increased net income by $68 million during 1997.

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

Stock-based Compensation. Delphi has elected to follow the accounting provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," for stock-based compensation and to furnish the pro forma disclosures required under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." For additional information, see Note 11.

Accrued Commitments Under Loss Contracts. Management periodically evaluates the profitability of contractual commitments on a customer basis, and establishes a reserve when expected costs exceed related revenues, based upon a reasonable estimate of the costs and product pricing expected to exist over the course of the contract period. Such reserves are recorded only to the extent the total estimated losses exceeded any related impairment reserves separately recognized on related long-lived assets.

Derivative Financial Instruments. During 1999, Delphi managed its exposure to fluctuations in foreign exchange rates, interest rates and certain commodity prices by entering into a variety of forward contracts, options and swaps with a variety of counterparties. Prior to 1999, Delphi's exposures were managed by GM. The financial exposures described above were managed in accordance with Delphi's corporate policies and procedures. Delphi does not enter into derivative transactions for trading purposes.

As part of the hedging program approval process, Delphi management representatives are required to identify the specific financial risk which the derivative transaction will minimize, the appropriate hedging instrument to be used to reduce the risk and the correlation between the financial risk and the hedging instrument. Purchase orders, letters of intent, capital planning forecasts and historical data are used as the basis for determining the anticipated values of the transactions to be hedged. Generally, Delphi does not enter into derivative transactions that do not have a high correlation with the underlying financial risk. The hedge positions related to Delphi, as well as the correlation between the transaction risks and the hedging instruments, are reviewed by Delphi management on an ongoing basis.

Foreign exchange forward and option contracts are accounted for as hedges to the extent they are designated, and are effective, as hedges of firm foreign currency commitments. All other foreign exchange contracts are marked to market on a current basis. Commodity swaps and options are accounted for as hedges to the extent they are designated, and are effective, as hedges of firm or anticipated commodity purchase contracts. All other commodity derivative contracts are marked to market on a current basis. Since Delphi has the discretion to settle these transactions either in cash or by taking physical delivery, these contracts are not considered financial instruments for accounting purposes. At December 31, 1999, Delphi had no interest rate derivative contracts outstanding. During the year, interest rate derivative contracts that were entered into were not significant.

Postemployment Benefits and Employee Termination Benefits. Delphi's postemployment benefits primarily relate to Delphi's extended-disability benefit program in the United States, supplemental unemployment compensation benefits and employee termination benefits, mainly pursuant to union or other contractual agreements. Extended-disability benefits are accrued on a service-driven basis and supplemental unemployment compensation benefits are accrued on an event-driven basis. Accruals for postemployment benefits represent the discounted 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. Voluntary termination benefits are accrued when an employee accepts the related offer. Involuntary termination benefits are accrued when management has committed to a termination plan and the benefit arrangement is communicated to affected employees.

Earnings Per Share. The historical basic earnings per share amounts were computed using weighted average shares outstanding for each respective year. Diluted earnings per share also reflects the weighted average impact from the date of issuance of all potentially dilutive securities during the years presented unless the inclusion would have an antidilutive effect. Diluted shares outstanding include the impact of dilutive securities issued concurrent with the IPO in February 1999 and stock options issued in connection with the concurrent cancellation of GM stock options held by Delphi employees at the date of the Spin-Off.

For historical computations, dilutive securities are only considered in the weighted average shares outstanding from the date of issuance. Weighted average shares outstanding used in calculating historical basic and diluted earnings per share were:

	Year Ended December 31,		
	1999	1998	1997
	(in thousands)		
Weighted average shares outstanding	**552,771**	465,000	465,000
Effect of dilutive securities	**1,862**	–	–
Diluted shares outstanding	**554,633**	465,000	465,000

Recently Issued Accounting Pronouncements. In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires recognition of all derivative financial instruments as either assets or liabilities at fair value and determines the method(s) of gain/loss recognition. The FASB issued SFAS No. 137, "Deferral of the Effective Date of FASB Statement No. 133" in June 1999 to defer the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. Delphi will adopt SFAS No. 133 on January 1, 2001 and we are currently assessing the effect that it may have on our consolidated financial statements.

In September 1999, the Emerging Issues Task Force ("EITF") of the FASB reached a consensus on Issue No. 99-5 "Accounting for Pre-Production Costs Related to Long-Term Supply Agreements." The consensus addresses the accounting for pre-production costs relating to design and development of production parts and tooling. We do not believe that the implementation of EITF Issue No. 99-5 on a prospective basis as of January 1, 2000 will have a significant impact on our financial position or results of operations.

Reclassifications. Certain prior year amounts have been reclassified to conform with 1999 presentation.

3. Inventories, Net

Inventories, net consisted of:

	December 31,	
	1999	1998
	(in millions)	
Productive material, work-in-process and supplies	**$1,878**	$1,890
Finished goods	**263**	253
Total inventories at FIFO	**2,141**	2,143
Less allowance to adjust the carrying value of certain inventories to LIFO	**(392)**	(373)
Total inventories, net	**$1,749**	$1,770

4. Income Taxes

Income (loss) before income taxes for U.S. and non-U.S. operations was:

	Year Ended December 31,		
	1999	1998	1997
	(in millions)		
U.S. income (loss)	**$1,349**	$ (501)	$ (99)
Non-U.S. income	**372**	235	358
Total	**$1,721**	$ (266)	$ 259

The provision for income taxes was:

	Year Ended December 31,		
	1999	1998	1997
	(in millions)		
Current income tax expense (benefit)			
U.S. federal	**$ 43**	$ (47)	$ 849
Non-U.S.	**112**	134	203
U.S. state and local	**10**	(19)	32
Total current income tax expense	**165**	68	1,084
Deferred income tax expense (benefit), net			
U.S. federal	**434**	(228)	(915)
Non-U.S.	**12**	8	(47)
U.S. state and local	**33**	(11)	(71)
Total deferred	**479**	(231)	(1,033)
Investment tax credits	**(6)**	(10)	(7)
Total income tax provision	**$638**	$ (173)	$ 44

A reconciliation of the provision for income taxes compared with the amounts at the U.S. federal statutory rate was:

	Year Ended December 31,		
	1999	1998	1997
	(in millions)		
Tax at U.S. federal statutory income tax rate	**$602**	$ (93)	$ 91
U.S. state and local income taxes	**43**	(27)	(39)
Non-U.S. income taxed at other rates	**(6)**	59	31
Research and experimentation credits	**(61)**	(58)	(50)
Other adjustments	**60**	(54)	11
Total income tax provision	**$638**	$ (173)	$ 44

Deferred income tax assets and liabilities for 1999 and 1998 reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and the bases of such assets and liabilities as measured by tax laws.

Temporary differences that gave rise to deferred tax assets and liabilities included:

	Year Ended December 31,			
	1999		1998	
	(in millions)			
	Deferred Tax Assets	**Deferred Tax Liabilities**	**Deferred Tax Assets**	**Deferred Tax Liabilities**
Other postretirement benefits	**$1,985**	**$ –**	$ 1,742	$ –
Pension benefits	**339**	**–**	536	–
Other employee benefits	**266**	**–**	405	–
Depreciation	**102**	**–**	8	–
U.S. state and local taxes	**260**	**–**	268	–
Other U.S.	**135**	**–**	106	68
Other non-U.S.	**14**	**111**	98	98
Total	**3,101**	**111**	3,163	166
Valuation allowances	**(100)**	**–**	(65)	–
Total deferred taxes	**$3,001**	**$ 111**	$ 3,098	$166

Realization of the net deferred tax assets is dependent on future reversals of existing taxable temporary differences and adequate future taxable income, exclusive of reversing temporary differences and carryforwards. Although realization is not assured, management believes that it is more likely than not that the net deferred tax assets will be realized.

Annual tax provisions include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns; however, income tax accruals in the consolidated balance sheets reflect that, as part of the Separation Agreement, GM agreed to indemnify Delphi, excluding Delphi Delco Electronics, for assessments related to tax returns for years prior to 1999.

Provisions are made for estimated U.S. and non-U.S. income taxes, less available tax credits and deductions, which may be incurred on the remittance of Delphi's share of subsidiaries' undistributed earnings not deemed to be permanently reinvested. Cash paid for income taxes was $173 million and $741 million in 1999 and 1998, respectively. Income taxes paid during 1997 were not significant.

5. Property, Net

Property, net consisted of:

		December 31,	
	Estimated Useful Lives (Years)	**1999**	1998
		(in millions)	
Land	–	**$ 68**	$ 60
Land and leasehold improvements	3-30	**217**	212
Buildings	29-45	**1,919**	1,975
Machinery, equipment and tooling	3-30	**9,908**	9,990
Furniture and office equipment	3-20	**268**	164
Construction in progress	–	**796**	752
Total		**13,176**	13,153
Less accumulated depreciation and amortization		**(8,070)**	(8,188)
Total property, net		**$ 5,106**	$ 4,965

Losses related to the valuation of long-lived assets held for use were $28 million, $176 million and $791 million in 1999, 1998 and 1997, respectively. These losses had the effect of increasing depreciation and amortization by $28 million, $156 million and $791 million in 1999, 1998 and 1997, respectively, and increased cost of sales by $20 million in 1998.

During 1997, Delphi announced that its seating, lighting and coil spring businesses were for sale. In conjunction with that announcement, Delphi recognized impairment and certain other losses totaling $516 million on the assets subject to disposal. Delphi sold its seating, lighting and coil springs businesses during 1998, resulting in an additional loss of $430 million. The 1997 losses had the effect of increasing cost of sales and depreciation and amortization by $207 million and $309 million, respectively. The additional loss had the effect of increasing cost of sales and depreciation and amortization by $382 million and $48 million, respectively. Delphi's results of operations included total operating losses related to these businesses of $107 million and $488 million for the years ended December 31, 1998 and 1997, respectively.

6. Accrued Liabilities

Accrued liabilities consisted of:

	December 31,	
	1999	1998
	(in millions)	
Payroll related obligations	**$ 486**	$ 617
Income taxes payable	**98**	81
Taxes other than income	**152**	138
Other	**685**	602
Total	**$1,421**	$1,438

During 1999, Delphi recognized a pre-tax charge of approximately $13 million related to involuntary termination benefits payable to approximately 300 employees at a plant in France. These costs, which are expected to be paid during 2000, had the effect of increasing cost of goods sold.

During 1998 and 1997, Delphi recognized charges to cost of sales of approximately $134 million and $55 million, respectively, representing postemployment benefits payable to employees, pursuant to contractual agreements. These postemployment benefits related to approximately 5,700 persons and 2,000 persons in 1998 and 1997, respectively. Also, during 1997, Delphi recognized a charge to cost of sales of approximately $80 million related to supplemental unemployment compensation benefits payable in connection with a decision to cease production at its Trenton, New Jersey plant.

7. Long-Term Debt

Long-term debt as of December 31, 1999 is summarized as follows (in millions):

6⅛%, unsecured notes, due 2004	$ 499
6½%, unsecured notes, due 2009	497
7⅛%, debentures due 2029	496
Other	265
Total debt	$1,757
Less: current portion	117
Long-term debt	$1,640

During 1999, Delphi entered into two financing arrangements with a syndicate of lenders providing for an aggregate of $3.0 billion in available revolving credit facilities (the "Credit Facilities"). The terms of the Credit Facilities provide for a five-year revolving credit facility in the amount of $1.5 billion, which expires January 2004, and a 364-day revolving credit facility, which expires December 2000. The Credit Facilities provide that the interest rate is based, at Delphi's option, on either an Alternate Base Rate (higher of prime, federal funds or certificate of deposit based rates) or a Eurodollar rate, plus a margin. In addition to interest payments, Delphi is obligated to pay certain facility fees ranging from .125% to .300% of the unused amount throughout the term of the facilities. The Credit Facilities also contain certain affirmative and negative covenants including, among others, requirements for maintaining certain leverage and indebtedness ratios. As of December 31, 1999, there were no outstanding amounts under the Credit Facilities, and in the opinion of management, Delphi was in compliance with all covenant arrangements throughout the year.

During 1999, Delphi entered into a commercial paper program providing up to $1.5 billion of borrowing ability. As of December 31, 1999, there were no amounts outstanding under the commercial paper program.

In May 1999, Delphi completed a public offering of unsecured term debt securities totaling $1.5 billion. The offering consisted of $500 million of securities bearing interest at 6.125% and maturing on May 1, 2004, $500 million of securities bearing interest at 6.50% and maturing on May 1, 2009, and $500 million of securities bearing interest at 7.125% and maturing on May 1, 2029. Interest on these debt securities is payable semi-annually on May 1 and November 1. The debt securities have no sinking fund requirement and are redeemable, in whole or in part, at the option of Delphi. Cash paid for interest totaled $114 million, $286 million and $299 million in 1999, 1998 and 1997, respectively.

Pursuant to certain agreements between Delphi and GM, Delphi's consolidated financial statements as of December 31, 1998 reflected an outstanding intracompany note payable with the automotive and corporate sectors of GM of approximately $3.1 billion, which accrued interest at 6.7% and 7.2% in 1998 and 1997, respectively. In January 1999, immediately prior to the Separation, approximately $1.6 billion of certain intracompany accounts receivable from GM were settled against the $3.1 billion outstanding intracompany note payable to GM, with the difference resulting in an increase in GM's net investment in Delphi.

As of December 31, 1999 and 1998, Delphi also had certain other long-term debt outstanding of approximately $265 million and $346 million, respectively, principally at certain international subsidiaries.

The principal maturities, net of applicable discount and issuance costs, for the five years subsequent to 1999 are as follows:

Year	Maturities
	(in millions)
2000	$ 117
2001	27
2002	44
2003	23
2004	543
Thereafter	1,003
Total	$1,757

8. Pension and Other Postretirement Benefits

Under the terms of the Separation Agreement, pension plan assets and liabilities and other postretirement benefit liabilities related to Delphi's U.S. salaried employees retiring after January 1, 1999 were assumed by Delphi. The Delphi salaried pension and other postretirement benefit plans were established and are being administered under the same terms that existed for the GM plans at the time of the Separation. Delphi's consolidated financial statements as of December 31, 1999 and 1998 reflect the assets and liabilities related to U.S. salaried employees that Delphi assumed pursuant to the Separation Agreement, and exclude employee benefit obligations and any assets related to employees who retired on or before January 1, 1999.

In accordance with the terms of the Separation Agreement, Delphi's consolidated balance sheet at December 31, 1998 reflected an obligation to GM equal to the projected benefit obligation for U.S. hourly employees, using applicable pension actuarial assumptions, less an amount equal to the level of plan assets that would be received by Delphi under applicable laws and regulations, had the plan transfer occurred on January 1, 1999. Under the Separation Agreement, this obligation was subject to a contingency provision to the extent certain terms negotiated with hourly represented employees, and the actual number of Delphi hourly employees who retired differed from the terms and the number of retirements assumed by the parties at the time of Separation.

Until May 28, 1999, Delphi's U.S. hourly employees continued to participate in the defined benefit pension plan and other postretirement benefit plans administered by GM, on a multi-employer plan basis. Effective May 28, 1999, pension and other postretirement benefit obligations relating to certain U.S. hourly employees were assumed by Delphi. However, under the terms of the Separation Agreement, including the effects resulting from the completion of required labor negotiations, Delphi hourly employees who retire on or before January 1, 2000 are treated as GM retirees for purposes of pension and other postretirement benefit obligations.

An adjustment to GM's initial investment in Delphi of $0.6 billion was recorded in 1999, based on an actuarial estimate of the effect on the pension and other postretirement obligations of the known negotiated terms and an updated estimate of the Delphi employees who will retire under benefit plans administered by GM.

Pension plans covering unionized employees in the U.S. generally provide benefits of negotiated stated amounts for each year of service, as well as supplemental benefits for employees who qualify for retirement before normal retirement age. The benefits provided by the plans covering U.S. salaried employees are generally based on years of service and salary history. Certain Delphi employees also participate in nonqualified pension plans covering executives, which are unfunded. Such plans are based on targeted wage replacement percentages, and are generally not significant to Delphi. Delphi's funding policy with respect to its qualified plans is to contribute annually, not less than the minimum required by applicable laws and regulations.

The 1999 net liabilities shown below reflect the defined benefit pension and other postretirement benefit obligations for U.S. salaried and hourly employees. The 1998 net assets (liabilities) shown below reflect the defined benefit pension obligation for U.S. salaried employees and the other postretirement benefit obligation for U.S. salaried and hourly employees.

	Pension Benefits		**Other Postretirement Benefits**	
	1999	1998	**1999**	1998
	(in millions)			
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 2,384**	$ 2,511	**$ 4,603**	$ 4,610
Service cost	**212**	95	**180**	180
Interest cost	**342**	178	**310**	901
Actuarial (gains) losses	**(995)**	148	**(508)**	186
Plan amendments and other	**707**	19	**(3)**	(17)
Formation of Delphi hourly plan	**6,198**	–	**–**	–
Impact of Separation Agreement	**(2,652)**	(567)	**(803)**	(1,257)
Benefit obligation at end of year	**6,196**	2,384	**3,779**	4,603
Change in plan assets:				
Fair value of plan assets at beginning of year	**2,473**	2,500	**–**	–
Actual return on plan assets	**1,058**	392	**–**	–
Contributions	**1,225**	7	**–**	–
Formation of Delphi hourly plan	**4,039**	–	**–**	–
Impact of Separation Agreement	**(3,499)**	(426)	**–**	–
Fair value of plan assets at end of year	**5,296**	2,473	**–**	–
Funded (unfunded) status	**(900)**	89	**(3,779)**	(4,603)
Unamortized actuarial loss (gain)	**(802)**	284	**(475)**	81
Unamortized prior service cost	**885**	122	**3**	(51)
Unrecognized transition asset	**(11)**	(22)	**–**	–
Net amount recognized in consolidated balance sheets	**$ (828)**	$ 473	**$ (4,251)**	$ (4,573)
Amounts recognized in the consolidated balance sheets consist of:				
Long-term prepaid benefit cost	**$ 517**	$ 545	**$ –**	$ –
Accrued benefit liability	**(1,345)**	(72)	**(4,251)**	(4,573)
Net amount recognized	**$ (828)**	$ 473	**$ (4,251)**	$ (4,573)

The pension and other postretirement benefit obligations on the consolidated balance sheet at December 31, 1999 include $1.6 billion for the estimated amounts which Delphi may be required to pay to GM pursuant to the contingency provision. Such estimates are subject to change, based upon actuarial calculations required under the Separation Agreement, which will be completed in 2000. Any change in this estimate of the payments required under the contingency provision, which are determinable within one year of the Spin-Off, will be recorded as an adjustment to GM's initial investment in Delphi. In January 2000, Delphi transferred approximately $700 million to GM related to the estimated amounts due. In addition, during January 2000, Delphi made a voluntary contribution of $575 million to the U.S. hourly pension plan.

During 1998, Delphi contributed $677 million to a Voluntary Employees' Beneficiary Association ("VEBA") trust. The contribution was made in connection with GM's pre-funding of a portion of its other postretirement employee benefit liability. In accordance with the terms of the Separation Agreement, GM retained 100% of the pre-funding and accordingly, Delphi's other postretirement employee benefit liability does not reflect an allocation of the VEBA trust assets.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for employee pension plans with accumulated benefit obligations in excess of plan assets were $4.2 billion, $4.1 billion and $2.8 billion, respectively, as of December 31, 1999, and $124 million, $74 million and $16 million, respectively, as of December 31, 1998.

Certain of Delphi's non-U.S. subsidiaries also sponsor defined benefit pension plans, which generally provide benefits based on negotiated amounts for each year of service, and other postretirement benefit plans. The unfunded non-U.S. pension plans had projected benefit obligations in excess of plan assets of $67 million and $76 million at December 31, 1999 and 1998, respectively. The funded non-U.S. pension plans had assets in excess of projected benefit obligations of $33 million and $21 million at December 31, 1999 and 1998, respectively. Certain of Delphi's non-U.S. subsidiaries have other postretirement benefit plans, although most participants are covered by government sponsored or administered programs. The annual cost of such pension and other postretirement benefit plans is generally not significant to Delphi.

Benefit costs presented below were determined based on actuarial methods and included the following components:

	Pension Benefits			Other Postretirement Benefits		
	1999	1998	1997	**1999**	1998	1997
	(in millions)					
Service cost	**$ 212**	$ 95	$ 82	**$180**	$180	$ 175
Interest cost	**342**	178	175	**310**	901	896
Expected return on plan assets	**(439)**	(341)	(287)	**–**	(88)	–
Net amortization and other	**38**	17	19	**(12)**	(27)	(24)
Net periodic benefit cost	**$ 153**	$ (51)	$ (11)	**$478**	$966	$1,047

Also, during the periods presented through the Spin-Off, Delphi participated in GM's U.S. defined benefit pension plans for U.S. hourly employees. GM charged Delphi approximately $98 million, $330 million and $433 million, in 1999, 1998 and 1997, respectively, related to Delphi U.S. hourly employees.

The principal assumptions used to determine the pension and other postretirement expense and the actuarial value of the projected benefit obligation for the U.S. pension plan and postretirement plans were:

	Pension Benefits			Other Postretirement Benefits		
	1999	1998	1997	**1999**	1998	1997
Weighted-average discount rate	**7.75%**	6.75%	7.00%	**7.75%**	6.75%	7.25%
Weighted-average rate of increase in compensation levels	**5.00%**	5.00%	5.00%	**4.40%**	4.40%	4.40%
Expected long-term rate of return on plan assets	**10.00%**	10.00%	10.00%	**N/A**	10.00%	N/A

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease on a linear basis through 2004, to the ultimate weighted-average trend rate of 5.0%.

A one percentage point increase in the assumed health care trend rate would have increased the aggregate service and interest cost components of other postretirement benefit expense for 1999 by $93 million, and would have increased the related accumulated postretirement benefit obligation by $609 million.

Delphi has disclosed herein certain amounts associated with estimated future postretirement benefits other than pensions and characterized such amounts as "costs" or "obligations." Notwithstanding the recording of such amounts and the use of these terms, Delphi does not conclude or otherwise acknowledge that such amounts or its existing postretirement benefit plans, other than pensions, represent legally enforceable liabilities of Delphi.

9. Commitments and Contingencies

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, employment-related matters and environmental matters. 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 management 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.

In the normal course of business, we extend credit on open account to our customers. From time to time, we also invest in joint ventures with a variety of business partners. Although Delphi is affected by the financial well-being of the automotive industry as a whole, we believe that the credit risk associated with trade receivables and investments in our joint ventures is mitigated by our customer base and ongoing control procedures to monitor the credit worthiness of customers and business partners. As of December 31, 1999, one customer/business partner was experiencing financial difficulties. Delphi's balance sheet as of December 31, 1999 includes accounts receivable of $35 million as well as amounts related to investments in joint ventures relating to this customer/business partner, the value of which may be impacted by the future performance of this customer/business partner.

On a worldwide basis, Delphi has a concentration of employees working under union collective bargaining agreements representing approximately 95% of its hourly workforce. Certain suppliers and customers of Delphi also have union-represented work forces. Future work stoppages by Delphi employees or employees of Delphi's suppliers or customers could disrupt Delphi's production of automotive components and systems.

During 1998 and 1997, work stoppages at certain GM and Delphi locations had an estimated unfavorable impact on net income of $450 million and $92 million, respectively. Delphi generally estimated the impact of work stoppages by multiplying standard contribution margins by the estimated decline in vehicle production that was directly attributable to the work stoppages, after considering partial recovery of lost production.

Rental expense totaled $134 million, $104 million and $99 million for the years ended December 31, 1999, 1998 and 1997, respectively. Delphi had minimum lease commitments under noncancelable operating leases at December 31, 1999 totaling $427 million, which become due as follows (in millions):

2000	$ 88
2001	77
2002	66
2003	60
2004	56
Thereafter	80
Total	$427

10. Other Income, Net

Other income, net included:

	Year Ended December 31,		
	1999	1998	1997
	(in millions)		
Claims and commissions	**$ 80**	$ 86	$ 80
Gain (loss) on disposition of assets, net	**(16)**	36	52
Interest income	**96**	57	57
Earnings of non-consolidated affiliates	**44**	55	27
Other expense	**(33)**	(2)	(22)
Other income, net	**$ 171**	$232	$194

11. Stock Incentive Plans

Delphi has several plans under which it issues stock options and restricted stock units. There were 85 million shares available for future grants under the terms of Delphi's stock option and incentive plans at December 31, 1999. Options generally vest over two to three years and expire ten years from the grant date. Stock options granted during 1999 are exercisable at prices equal to the fair market value of Delphi common stock on the dates the options were granted; accordingly, no compensation expense has been recognized for the stock options granted. During 1999, Delphi awarded approximately 3 million restricted stock units to employees at a weighted average fair market value of $17. Compensation expense related to restricted stock unit awards is being recognized over the vesting period. Certain Delphi employees participated in the GM 1997 Stock Incentive Plan ("GMSIP") prior to the Separation. Concurrent with the Spin-Off, all outstanding options under the GMSIP previously granted to Delphi employees were converted to equivalent stock options on Delphi common stock, subject to the terms of the Separation Agreement.

The following summarizes information relative to stock options:

	Stock Options	Weighted Average Exercise Price
	(in thousands)	
Conversion of GM options	14,736	$12.89
Granted	26,349	$19.03
Exercised	(112)	$11.92
Canceled	(466)	$18.25
Outstanding as of December 31, 1999	40,507	$16.82

The following is a summary of the range of exercise prices for stock options that are outstanding and exercisable at December 31, 1999:

Range of Exercise Prices	Outstanding Stock Options	Weighted Average Remaining Life	Weighted Average Exercise Price	Number of Stock Options Exercisable	Weighted Average Exercise Price
	(in thousands)			(in thousands)	
$ 4.00 – $10.00	1,055	4.3	$ 8.75	1,055	$ 8.75
$10.01 – $20.00	34,737	8.4	$16.55	4,862	$12.91
$20.01 – $30.00	4,715	9.0	$20.64	–	N/A
	40,507		$16.82	5,917	$12.17

If Delphi accounted for stock-based compensation using the fair value method consistent with SFAS 123, "Accounting for Stock-Based Compensation," Delphi's net income and net income per share for 1999 would have been reduced to the pro forma amounts indicated below:

As reported:	
Net income (in millions)	$ 1,083
Earnings per share	1.95
Pro forma:	
Net income (in millions)	$ 1,038
Earnings per share	1.87

The weighted average fair value of stock options granted during 1999 was $6.14. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Expected volatility	29.88%
Risk-free interest rate	6.48%
Expected life (years)	5
Dividend yield	1.59%

12. Segment Reporting

Delphi's operating segments ("product sectors") are Electronics & Mobile Communication; Safety, Thermal & Electrical Architecture; and Dynamics & Propulsion. The Electronics & Mobile Communication product sector supplies various electronic products, as well as audio and communication systems for vehicles. The Safety, Thermal & Electrical Architecture product sector offers a wide range of products relating to the vehicle interior, powertrain cooling systems and climate control systems. In addition, this sector produces wiring harnesses and connectors for electrical power and signal distribution. The Dynamics & Propulsion product sector offers a wide range of energy and engine management systems, chassis control systems and steering products.

The accounting policies of the product sectors are the same as those described in the summary of significant accounting policies except that the disaggregated financial results for the product sectors have been prepared using a management approach, which is consistent with the basis and manner in which management internally disaggregates financial information for the purposes of assisting in making internal operating decisions. Generally, Delphi evaluates performance based on stand-alone product sector operating income and accounts for intersegment sales and transfers as if the sales or transfers were to third parties, at current market prices. Net sales are attributed to geographic areas based on the location of the assets producing the revenues. Financial information by product sector is as follows:

1999	**Electronics & Mobile Communication**	**Safety, Thermal & Electrical Architecture**	**Dynamics & Propulsion**	**Other[a]**	**Total**
		(in millions)			
Net sales to GM and affiliates	**$ 4,107**	**$ 7,222**	**$10,973**	**$ –**	**$22,302**
Net sales to other customers	**820**	**3,092**	**2,978**	**–**	**6,890**
Inter-sector net sales	**369**	**198**	**24**	**(591)**	**–**
Total net sales	**$ 5,296**	**$ 10,512**	**$13,975**	**$ (591)**	**$29,192**
Depreciation and amortization	**$ 152**	**$ 313**	**$ 391**	**$ –**	**$ 856**
Operating income (loss)	**$ 577**	**$ 687**	**$ 563**	**$ (145)**	**$ 1,682**
Sector assets	**$ 2,915**	**$ 6,977**	**$ 7,706**	**$ 752**	**$18,350**
Capital expenditures	**$ 236**	**$ 412**	**$ 535**	**$ 17**	**$ 1,200**

1998	**Electronics & Mobile Communication**	**Safety, Thermal & Electrical Architecture**	**Dynamics & Propulsion**	**Other[a]**	**Total**
		(in millions)			
Net sales to GM and affiliates	$ 3,917	$ 8,059	$10,346	$ –	$22,322
Net sales to other customers	649	3,000	2,508	–	6,157
Inter-sector net sales	257	167	8	(432)	–
Total net sales	$ 4,823	$ 11,226	$12,862	$ (432)	$28,479
Depreciation and amortization	$ 181	$ 290	$ 631	$ –	$ 1,102
Operating income (loss)[b]	$ 367	$ (59)	$ (256)	$ (273)	$ (221)
Sector assets	$ 2,099	$ 5,855	$ 6,882	$ 670	$15,506
Capital expenditures	$ 180	$ 449	$ 741	$ 11	$ 1,381

1997	Electronics & Mobile Commun-ication	Safety, Thermal & Electrical Architecture	Dynamics & Propulsion	Other(a)	Total
			(in millions)		
Net sales to GM and affiliates	$ 4,652	$ 9,756	$11,499	$ –	$25,907
Net sales to other customers	539	2,776	2,225	–	5,540
Inter-sector net sales	348	196	9	(553)	–
Total net sales	$ 5,539	$ 12,728	$13,733	$ (553)	$31,447
Depreciation and amortization	$ 481	$ 539	$ 950	$ –	$ 1,970
Operating income (loss)(b)	$ 242	$ 622	$ (382)	$ (130)	$ 352
Sector assets	$ 2,063	$ 5,749	$ 6,328	$ 886	$15,026
Capital expenditures	$ 122	$ 464	$ 778	$ 19	$ 1,383

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

(b) Our operating results for the years ended December 31, 1998 and 1997 were impacted by a number of special items, including asset impairment charges, divestitures and plant closings, as well as work stoppages at certain GM and Delphi locations. The net unfavorable impact on operating income for each product sector was as follows:

Year Ended December 31,	Electronics & Mobile Communication	Safety, Thermal & Electrical Architecture	Dynamics & Propulsion	Other	Total
		(in millions)			
1998	$ 144	$ 766	$ 570	$ (14)	$1,466
1997	370	438	782	–	1,590

A reconciliation between operating income (loss) and income (loss) before income taxes for each of the years presented is as follows:

	1999	1998	1997
		(in millions)	
Operating income (loss)	**$1,682**	$ (221)	$ 352
Interest expense	**(132)**	(277)	(287)
Other income, net	**171**	232	194
Income (loss) before income taxes	**$1,721**	$ (266)	$ 259

Information concerning principal geographic areas is set forth below. Net sales data is for the years ended December 31 and net property data is as of December 31.

	1999		1998		1997	
	Net Sales	**Net Property**	**Net Sales**	**Net Property**	**Net Sales**	**Net Property**
			(in millions)			
North America:						
U.S. and Canada	**$20,614**	**$3,442**	$19,889	$ 3,375	$22,731	$3,200
Mexico	**3,667**	**274**	3,235	268	3,448	263
Total North America	**24,281**	**3,716**	23,124	3,643	26,179	3,463
Europe	**4,159**	**934**	4,331	914	4,220	820
South America	**362**	**153**	543	128	662	117
All other	**390**	**303**	481	280	386	200
Total	**$29,192**	**$5,106**	$28,479	$ 4,965	$31,447	$4,600

Historically, Delphi has relied on GM for a substantial portion of its total revenues. Delphi expects that a significant portion of its future revenues will continue to be generated by GM. Any substantial reduction in orders by GM could have a materially adverse impact on Delphi's operating results.

13. Fair Value of Financial Instruments

The fair value of derivative financial instruments reflects the estimated amounts which Delphi would receive or pay to terminate our contracts; such estimated amounts take into account the current unrealized gains or losses on open contracts that are deferred and recognized when the offsetting gains or losses are recognized on the related hedged items. The fair value of foreign exchange forward contracts is estimated based on foreign exchange rate quotes at the reporting date. At December 31, 1999 and 1998, the total estimated fair value of open contracts were not significant to Delphi.

The fair value of long-term debt is based on quoted market prices for the same or similar issues or the current rates offered to Delphi for debt with the same or similar maturities and terms. As of December 31, 1999 and 1998, long-term debt was recorded at $1.6 billion and $346 million, respectively, and had estimated fair values of $1.5 billion and $337 million, respectively. For all other financial instruments recorded at December 31, 1999 and 1998, fair value approximates book value.

14. Derivative Instruments

Delphi is a party to financial instruments with off-balance sheet risk, which are used in the normal course of business to manage exposure principally to foreign exchange rate and commodity price fluctuations. The types of derivatives used to manage the risk of fluctuations in foreign exchange rates and commodity prices are forwards, options and swaps. At the time of Separation, Delphi was assigned a portion of GM's portfolio of such derivatives consistent with Delphi's exposures. Since Separation, Delphi has entered into derivative contracts to supplement the portfolio assigned to it by GM. Derivative transactions are entered into in order to hedge underlying business exposures. The market risk in these instruments is offset by opposite movements in the underlying exposure. Cash receipts and payments on these contracts normally occur at maturity or settlement.

Delphi has foreign currency exchange exposure related to buying and selling in currencies other than the local currencies of our operating units. Delphi's most significant foreign exposures relate to Brazil, Mexico, Canada, France, Germany and Japan. The magnitude of these exposures varies over time, depending on the strength of the local automotive markets. Delphi enters into agreements by which it seeks to manage certain of its foreign exchange exposures in accordance with established policy guidelines. These agreements primarily hedge cash flows such as firm commitments and anticipated transactions involving component materials and fixed asset purchases.

Delphi uses foreign exchange forward contracts as well as purchased and complex foreign exchange options to manage such foreign exchange transaction exposures. Foreign exchange forward contracts are legal agreements between two parties to purchase or sell a foreign currency for a price specified at the contract date, with delivery and settlement in the future.

Deferred hedging gains and losses on outstanding foreign exchange forward and option contracts were not significant at December 31, 1999 and 1998. Such deferred amounts will be included in the cost of the underlying assets when purchased if related to firm commitments or recognized in income upon maturity if related to anticipated transactions. In the event a hedged firm commitment or anticipated transaction is terminated early, the related derivative contract is marked to market through the income statement until its maturity.

Delphi has exposure to the prices of commodities, primarily non-ferrous metals, in its procurement of certain raw materials. The magnitude of these exposures is fairly steady in that production is reliant on a steady supply of non-ferrous metal-based raw materials. In order to manage this ongoing exposure, Delphi enters into swaps and options with various counterparties in accordance with established policy guidelines. Since Delphi can settle these contracts either in cash or by taking physical delivery, commodity contracts are not considered financial instruments.

Deferred hedging gains and losses on outstanding commodity swap and option contracts were a gain of $17 million and a loss of $57 million at December 31, 1999 and 1998, respectively. Such deferred amounts will be recorded to the balance sheet until the related derivative is settled. Upon settlement, the gain or loss is recorded as an adjustment to inventoriable cost of non-ferrous metals, and subsequently recognized in operations as cost of goods sold. At December 31, 1999, Delphi held foreign exchange forward and option contracts with a notional value of $973 million and $139 million, respectively. At December 31, 1998, Delphi's foreign exchange forward and option contracts allocated from GM's risk management program had a notional value of $18 million. In the event an underlying material purchase is no longer anticipated, the related derivative contract is marked to market through the income statement until its settlement or maturity.

The derivative instruments previously discussed contain an element of risk that counterparties may be unable to meet the terms of the agreements. However, such risk is minimized by limiting the counterparties to major international banks or financial institutions that meet established credit guidelines, and by limiting the risk exposure to any one bank or financial institution. Delphi generally does not require or place collateral for these financial instruments. Management does not expect to incur any losses as a result of counterparty default.

Delphi has business activities with customers and affiliates around the world. Although Delphi does have large volumes of its receivables from a limited number of vehicle manufacturer customers, particularly GM, such receivables are managed under standard commercial terms. Consequently, in management's opinion, any concentration of credit risk relating to these customers is appropriately managed.

15. Quarterly Data (Unaudited)

	Three Months Ended				
	March 31,	June 30,	Sept. 30,	Dec. 31,	Total
	(in millions, except per share amounts)				
1999					
Net sales	$7,469	$7,683	$6,790	$7,250	$ 29,192
Cost of sales	$6,391	$6,453	$5,980	$6,211	$ 25,035
Net income	$ 284	$ 394	$ 136	$ 269	$ 1,083
Basic earnings per share	$ 0.55	$ 0.70	$ 0.24	$ 0.48	$ 1.96
Diluted earnings per share	$ 0.55	$ 0.69	$ 0.24	$ 0.48	$ 1.95
Cash dividends declared per share	$ –	$ 0.07	$ 0.07	$ 0.07	$ 0.21
Common stock price					
High	$18.81	$21.69	$19.94	$17.19	$ 21.69
Low	$17.75	$16.56	$16.06	$14.38	$ 14.38
Memo: IPO Price February 5, 1999	$17.00				
1998(1), (2)					
Net sales	$7,623	$7,041	$6,015	$7,800	$ 28,479
Cost of sales	$6,789	$6,280	$6,151	$6,915	$ 26,135
Net income (loss)	$ 236	$ 83	$ (500)	$ 88	$ (93)
Basic and diluted earnings (loss) per share	$ 0.51	$ 0.18	$ (1.08)	$ 0.19	$ (0.20)

(1) As we became a public company on February 5, 1999, dividend and stock price data for 1998 is not applicable.

(2) The quarterly data for 1998 was impacted by:

- Work stoppages at GM and Delphi locations in the United States reduced operating income by approximately $468 million, or $290 million after-tax, and $435 million, or $270 million after-tax, during the second and third quarters of 1998, respectively. The estimated full year impact of work stoppages was $726 million, or $450 million after-tax, after considering partial recovery of lost production in the fourth quarter.
- During the third quarter of 1998, Delphi recorded an operating loss of $430 million, or $271 million after-tax, related to divestitures involving its seating, lighting and coil spring businesses.
- Charges associated with underperforming assets and postemployment benefits payable under contractual agreements reduced operating income by $310 million, or $192 million after-tax, during the fourth quarter of 1998.

16. Subsequent Event

On January 7, 2000, Delphi completed the acquisition for approximately $871 million, subject to adjustment for certain post-closing events, of substantially all the assets of Lucas Diesel Systems and its related aftermarket activities from TRW Inc. Lucas Diesel Systems, a Paris-based company with fiscal 1999 sales of approximately $1.1 billion, is a worldwide producer of diesel fuel-injection systems for light-, medium- and heavy-duty vehicles.

Selected Financial Data

The following selected financial data reflects the 1999 results of operations and cash flows. Selected financial data for periods prior to 1999 reflect the historical results of operations and cash flows of the businesses that were considered part of the Delphi business sector of GM during each respective period. In addition, the data for all periods include amounts relating to Delco Electronics, the electronics and mobile communication business that was transferred by GM to Delphi in December 1997. The historical consolidated statement of operations data set forth for the years 1995-1998 do not reflect many significant changes that have occurred in the operations and funding of our company as a result of our separation from GM and the IPO. The historical consolidated balance sheet data set forth below reflects the assets and liabilities transferred to our company in accordance with the Separation Agreement. In order to better evaluate our underlying operating performance, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section includes 1998 results of operations on a pro forma basis.

The selected financial data of Delphi should be read in conjunction with, and are qualified by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included elsewhere in this report. Our consolidated statement of operations and cash flows for the years ended December 31, 1999, 1998, 1997, 1996 and 1995 and the consolidated balance sheets as of December 31, 1999, 1998, 1997 and 1996 have been audited. The consolidated balance sheet as of December 31, 1995 is unaudited; however, in our opinion, it includes all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the results for the period.

The financial information presented below may not be indicative of our future performance and does not necessarily reflect what our financial position and results of operations would have been had we operated as a separate, stand-alone entity during the years 1995-1998. You should read the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section, which describes a number of factors which have affected our financial results, including significant price reductions as GM implemented its global sourcing initiative, labor disruptions at both GM and Delphi and charges associated with certain competitiveness initiatives.

	Year Ended December 31,				
	1999	1998	1997	1996	1995
	(in millions, except per share amounts)				
Statement of Operations Data:[1]					
Net sales	**$29,192**	$28,479	$31,447	$31,032	$31,661
Operating expenses:					
Cost of sales, excluding items listed below	**25,035**	26,135	27,710	27,471	27,384
Selling, general and administrative	**1,619**	1,463	1,415	1,445	1,366
Depreciation and amortization	**856**	1,102	1,970	843	773
Operating income (loss)	**1,682**	(221)	352	1,273	2,138
Interest expense	**(132)**	(277)	(287)	(276)	(293)
Other income, net	**171**	232	194	115	101
Income (loss) before income taxes	**1,721**	(266)	259	1,112	1,946
Income tax expense (benefit)	**638**	(173)	44	259	639
Net income (loss)	**$ 1,083**	$ (93)	$ 215	$ 853	$ 1,307
Basic earnings (loss) per share	**$ 1.96**	$ (0.20)	$ 0.46	$ 1.83	$ 2.81
Diluted earnings (loss) per share	**$ 1.95**	$ (0.20)	$ 0.46	$ 1.83	$ 2.81
Cash dividends declared per share[2]	**$ 0.21**	$ –	$ –	$ –	$ –
Statement of Cash Flows Data:					
Cash (used in) provided by operating activities	**$ (1,214)**	$ 849	$ 2,918	$ 2,701	$ 1,370
Cash used in investing activities	**(1,055)**	(1,216)	(1,320)	(995)	(1,141)
Cash provided by (used in) financing activities	**2,878**	384	(1,549)	(1,686)	(263)
Other Financial Data:					
EBITDA[3]	**$ 2,613**	$ 1,056	$ 2,459	$ 2,182	$ 2,959
Balance Sheet Data:					
Total assets	**$18,350**	$15,506	$15,026	$15,390	$15,635
Total debt	**1,757**	3,500	3,500	3,500	3,500
Stockholders' equity (deficit)	**3,200**	9	(413)	922	1,354

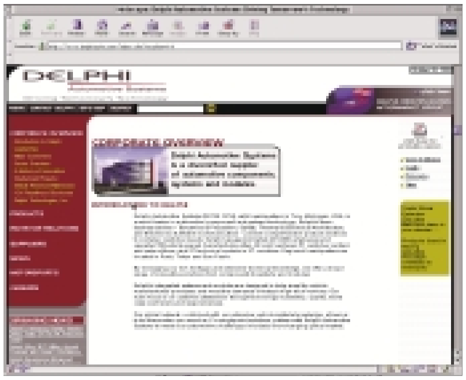
(1) Delphi became a separate company in 1999. The data for 1995-1998 represents results when Delphi was an operating sector within GM.

(2) As we became a public company on February 5, 1999, dividend data for the years ending before our IPO is not applicable.

(3) "EBITDA" is defined as income before provision for interest expense and interest income, income taxes, depreciation and amortization. EBITDA is not presented as an alternative measure of operating results or cash flow from operations, as determined in accordance with generally accepted accounting principles, but because we believe it is a widely accepted indicator of our ability to incur and service debt. EBITDA does not give effect to cash used for debt service requirements and thus does not reflect funds available for dividends, reinvestment or other discretionary uses. In addition, EBITDA as presented herein may not be comparable to similarly titled measures reported by other companies.

How can we get in touch?

www.delphiauto.com



Addresses

World Headquarters & Customer Center
5725 Delphi Drive
Troy, MI 48098-2815
USA
Tel: [1] 248.813.2000
Fax: [1] 248.813.2670

Asia Pacific Regional Headquarters
1-1-110 Tsutsujigaoka
Akishima-shi, Tokyo 196
Japan
Tel: [81] 425.49.7200
Fax: [81] 425.42.3018

European Regional Headquarters
117, Avenue des Nations
Zac Paris Nord II, BP 60059
95972 Roissy Charles de Gaulle
Cedex, France
Tel: [33] 1.4990.4990
Fax: [33] 1.4990.4949

South American Regional Headquarters
Av. Goiás, 1860
São Caetano do Sul
São Paulo 09550-050
Brazil
Tel: [55] 11.4234.9500
Fax: [55] 11.4234.9415

Investor information

Common Stock Symbol
New York Stock Exchange: DPH

Stockholder Assistance
For information about accounts, direct deposit of dividends or other dividend check issues, stock transfers, duplicate mailings and address changes:
Bank Boston
EquiServe Trust Company
Stock Holder Services
Delphi Automotive Systems
P.O. Box 9450
Boston, MA 02205-9450
Tel: [1] 800.818.6599
Tel: [1] 781.575.3990
(outside continental U.S.A. and Canada)
www.equiserve.com

EquiServe representatives are available Monday through Friday from 9:00 a.m. to 5:00 p.m. ET. Automated touch-tone service is available 24 hours a day.

Stock Purchase and Dividend Reinvestment Plan
For information, please call
[1] 800.818.6599

Securities Analyst and Institutional Investor Queries
Delphi Investor Relations
Delphi Automotive Systems
M/C 483-400-621
5725 Delphi Drive
Troy, MI 48098-2815
www.delphiauto.com
Tel: [1] 877.SEEK.DPH
([1] 877.733.5374)

Individual Shareholders
Delphi Shareholder Relations
Delphi Automotive Systems
M/C 483-400-641
5725 Delphi Drive
Troy, MI 48098-2815
www.delphiauto.com
Tel: [1] 877.SEEK.DPH
([1] 877.733.5374)

Delphi Employee Savings Plans
Participants in the Savings-Stock Purchase Program or Personal Savings Plan should contact the Delphi Investment Service Center at:
Fidelity Investments
Tel: [1] 800.489.4646
Hearing/Speech Impaired:
Tel: [1] 800.655.0969
Participants calling from outside the U.S.A. or Canada may call collect:
Tel: [1] 606.491.8257

Delphi at a glance.

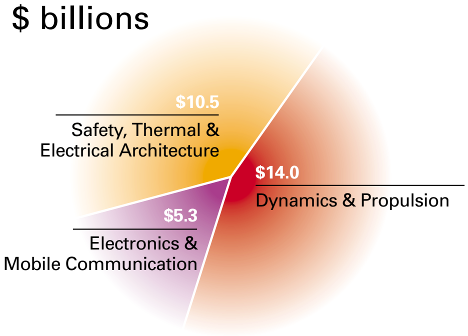
Profile
Delphi Automotive Systems Corporation is a world leader in component and systems technology for transportation, telecommunications, aerospace and heavy equipment industries.

Our Vision
To be recognized by our customers as their best supplier.

Revenues
1999 revenues of $29.2 billion

Shareholders of Record
(as of 1/31/00)
462,357

1999 Sales by Product Sector
$ billions



Delphi's Product Sectors
- Safety, Thermal & Electrical Architecture
- Dynamics & Propulsion
- Electronics & Mobile Communication

Common Stock Symbol
New York Stock Exchange: DPH

Worldwide Headquarters & Customer Center
Troy, Michigan
USA

Regional Headquarters
Paris, France; Tokyo, Japan; and São Paulo, Brazil

Employees
Approximately 203,000 people globally

Facilities
- 166 manufacturing sites worldwide
- 27 technical centers
- 51 customer service centers and sales activity offices
- 40 joint ventures or other strategic alliances
- Located in 37 countries

Delphi at a glance.

Headquarters Addresses

World Headquarters & Customer Center
5725 Delphi Drive
Troy, MI 48098-2815
USA
Tel: [1] 248.813.2000
Fax: [1] 248.813.2670

Asia Pacific Regional Headquarters
1-1-110 Tsutsujigaoka
Akishima-shi, Tokyo 196
Japan
Tel: [81] 425.49.7200
Fax: [81] 425.42.3018

European Regional Headquarters
117, Avenue des Nations
Zac Paris Nord II, BP 60059
95972 Roissy Charles de Gaulle
Cedex, France
Tel: [33] 1.4990.4990
Fax: [33] 1.4990.4949

South American Regional Headquarters
Av. Goiás, 1860
São Caetano do Sul
São Paulo 09550-050
Brazil
Tel: [55] 11.4234.9500
Fax: [55] 11.4234.9415

Stock Purchase and Dividend Reinvestment Program
The plan features include dividend reinvestment, optional cash investment and safekeeping of stock certificates. Contact EquiServe at [1] 800.818.6599 for a program brochure and enrollment information.

Investor Contacts

Stockholder Assistance
For information about accounts, direct deposit of dividends or other dividend check issues, stock transfers, duplicate mailings and address changes:

Bank Boston
EquiServe Trust Company
Stock Holder Services
Delphi Automotive Systems
P.O. Box 9450
Boston, MA 02205-9450
Tel: [1] 800.818.6599
Tel: [1] 781.575.3990
(outside continental U.S.A. and Canada)
www.equiserve.com

EquiServe representatives are available Monday through Friday from 9:00 a.m. to 5:00 p.m. ET. Automated touch-tone service is available 24 hours a day.

Securities Analyst and Institutional Investor Queries
Delphi Investor Relations
Delphi Automotive Systems
M/C 483-400-621
5725 Delphi Drive
Troy, MI 48098-2815
www.delphiauto.com
[1] 877.SEEK.DPH

Individual Shareholders
Delphi Shareholder Relations
Delphi Automotive Systems
M/C 483-400-641
5725 Delphi Drive
Troy, MI 48098-2815
www.delphiauto.com
[1] 877.SEEK.DPH

Automotive Systems