PART I

ITEM 1. *BUSINESS*

The Company

TRW Automotive Holdings Corp. (the "Company") is among the world's largest and most diversified suppliers of automotive systems, modules and components to global automotive original equipment manufacturers, or OEMs, and related aftermarkets. We conduct substantially all of our operations through subsidiaries. These operations primarily encompass the design, manufacture and sale of active and passive safety related products. Active safety related products principally refer to vehicle dynamic controls (primarily braking and steering). Passive safety related products principally refer to occupant restraints (primarily air bags and seat belts) and safety electronics (electronic control units and crash and occupant weight sensors). We are primarily a "Tier 1" supplier (a supplier which sells to OEMs). In 2005, approximately 85% of our end-customer sales were to major OEMs. Our history in the automotive supply business dates back to the early 1900s.

Predecessor and Successor Company. As a result of the acquisition on February 28, 2003 (as defined and further discussed below), all references in this report to "TRW Automotive," the "Company," "we," "our" and "us" mean, unless the context indicates otherwise, (i) our predecessor, which is the former TRW Automotive Inc. (which we did not acquire and was renamed Richmond TAI Corp.) and its subsidiaries and the other subsidiaries, divisions and affiliates of TRW Inc. ("Old TRW") that together constituted the automotive business of Old TRW, for the periods prior to February 28, 2003, the date the Acquisition was consummated, and (ii) the successor and registrant, TRW Automotive Holdings Corp. and its subsidiaries, that own and operate the automotive business of Old TRW as a result of the Acquisition. Our predecessor's 51% interest in the joint venture, TRW Koyo Steering Systems Company ("TKS"), was not transferred to us as part of the Acquisition. In addition, when the context so requires, we use the term "Predecessor" to refer to the historical operations of our predecessor prior to the Acquisition and "Successor" to refer to our historical operations following the Acquisition, and we use the terms "we," "our" and "us" to refer to the Predecessor and the Successor collectively. The historical financial statements for the periods prior to the Acquisition and summaries thereof appearing in this report are those of our predecessor and represent the combined financial statements of Old TRW's automotive business. Prior to the Acquisition, our predecessor operated as a segment of Old TRW, which was acquired by Northrop Grumman Corporation ("Northrop") on December 11, 2002.

Change in Ownership. Old TRW entered into an Agreement and Plan of Merger with Northrop, dated June 30, 2002, whereby Northrop would acquire all of the outstanding common stock of Old TRW, including Old TRW's automotive business, in exchange for Northrop shares. The acquisition of Old TRW by Northrop was completed on December 11, 2002 (the "Merger").

Additionally, on November 18, 2002, an entity controlled by affiliates of The Blackstone Group, L.P. ("Blackstone"), entered into a master purchase agreement, as amended, (the "Master Purchase Agreement") pursuant to which the Company, a newly-formed entity, would cause its indirect wholly-owned subsidiary, TRW Automotive Acquisition Corp., to purchase the shares of the subsidiaries of Old TRW engaged in the automotive business from Northrop (the "Acquisition"). The Acquisition was completed on February 28, 2003. Subsequent to the Acquisition, TRW Automotive Acquisition Corp. changed its name to TRW Automotive Inc. (referred to herein as "TRW Automotive"). As a result of the Acquisition, Automotive Investors L.L.C., or AIL, an affiliate of Blackstone, held approximately 78.4%, an affiliate of Northrop held approximately 19.6% and our management group held approximately 2.0% of our common stock.

Initial Public Offering. On February 6, 2004, we completed an initial public offering of 24,137,931 shares of our common stock (the "Common Stock"). In connection with our initial public offering, we effected a 100 for one stock split of the outstanding shares of Common Stock on January 27, 2004. After our initial public offering, including the use of a portion of the net proceeds from our initial public offering to repurchase a portion of the shares held by AIL, AIL held approximately 56.7%, an affiliate of

Northrop held approximately 17.2% and our management group held approximately 1.7% of our Common Stock.

Share Repurchases and Issuances in 2005. On March 11, 2005, we repurchased from an affiliate of Northrop 7,256,500 shares of Common Stock for approximately $143 million in cash. These shares were immediately retired following the repurchase. As a result of the repurchase and after considering the share issuance referenced below, the Northrop affiliate held 9.9% of the outstanding Common Stock, down from 17.2%.

Separately, on March 11, 2005, we sold to T. Rowe Price Group, Inc., as investment adviser to certain mutual funds and institutional accounts, 5,256,500 newly issued shares of Common Stock for approximately $103 million in cash. On March 11, 2005, we also sold to certain investment advisory clients of Wellington Management Company, llp., 2,000,000 newly issued shares of Common Stock for approximately $40 million in cash. We filed a registration statement with the Securities and Exchange Commission for the registration of the resale of these newly issued shares. Pursuant to the registration statement, the holders of those shares are able to sell their shares of Common Stock into the market from time to time.

We used the $143 million of proceeds we received from these share issuances initially to return cash and/or reduce liquidity line balances to the levels that existed immediately prior to the time the share purchase from an affiliate of Northrop referenced above took place. On May 3, 2005, a portion of the proceeds from these share issuances was then used to repurchase €48 million principal amount of the Company's 10⅛% Senior Notes.

Financial and Operating Information

Segment Information. We conduct substantially all of our operations through our subsidiaries and along three operating segments: Chassis Systems, Occupant Safety Systems and Automotive Components. The table below summarizes certain financial information for our operating segments.

	Successor			Predecessor
	Years Ended December 31,		Ten Months Ended December 31,	Two Months Ended February 28,
	2005	2004	2003	2003
	(Dollars in millions)			
Sales to external customers:				
Chassis Systems	$ 7,197	$ 6,950	$5,424	$1,110
Occupant Safety Systems	3,755	3,438	2,751	555
Automotive Components	1,691	1,623	1,260	251
Total sales	$12,643	$12,011	$9,435	$1,916
Segment earnings before taxes:				
Chassis Systems	$ 258	$ 258	$ 127	$ 46
Occupant Safety Systems	314	327	216	53
Automotive Components	88	102	90	26
Segment earnings before taxes	660	687	433	125
Corporate expense and other	(94)	(104)	(93)	(28)
Financing costs	(231)	(252)	(312)	(47)
Loss on retirement of debt	(7)	(167)	(31)	—
Earnings (losses) before income taxes	$ 328	$ 164	$ (3)	$ 50

See "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 21 to the consolidated and combined financial statements for a discussion of segment earnings before taxes.

Sales by Product Line. Our 2005 sales by product line are as follows:

Product Line	Percentage of Sales
Steering gears and systems	16.3%
Air bags	14.2%
Foundation brakes	14.1%
ABS and other brake control	9.3%
Seat belts	7.4%
Aftermarket	7.2%
Crash sensors and other safety and security electronics	5.8%
Engine valves	4.9%
Linkage and suspension	4.7%
Body controls	4.4%
Chassis modules	3.9%
Engineered fasteners and plastic components	3.4%
Steering wheels	3.2%
Other	1.2%

Sales by Geography. Our 2005 sales by geographic region are as follows:

Geographic Region	Percentage of Sales
Europe	55.1%
North America	36.2%
Rest of the World	8.7%

See Note 21 to our consolidated and combined financial statements included in this report for additional product sector and geographical information.

Business Developments and Industry Trends

Business Development and Strategy. We have become a leader in the global automotive parts industry by capitalizing on the strength of our products, technological capabilities and systems integration skills. Over the last decade, we have experienced sales growth in many of our product lines due to an increasing focus by both governments and consumers on safety and fuel efficiency. We believe that this trend is continuing as evidenced by ongoing regulatory activities and escalating fuel costs, and will enable us to experience growth in the most recent generation of advanced safety and fuel efficient products, such as vehicle stability control systems, curtain and side air bags, occupant sensing systems, electrically assisted power steering systems and tire pressure monitoring systems.

Throughout our long history as a leading supplier to major OEMs, we have focused on products where we have a technological advantage. We have extensive technical experience in a focused range of safety-related product lines and strong systems integration skills. These traits enable us to provide comprehensive, systems-based solutions for our OEM customers. We have a broad and established global presence and sell to major OEMs across all of the world's major vehicle producing regions. We believe our diversified business mitigates our exposure to the risks of any one geographic economy, product line or major customer concentration. It also enables us to extend our portfolio of products and new technologies across our customer base and geographic regions, and provides us the necessary scale to optimize our cost structure.

Industry Trends. The following key trends have been affecting the automotive parts industry over the past several years. *(The statements regarding industry outlook, trends, the future development of certain automotive systems and other non-historical statements contained in this section are forward-looking statements.)*:

- *Asian OEM Market Share.* In recent years, Ford Motor Company, General Motors Corporation and, to a lesser extent, the Chrysler unit of DaimlerChrysler AG (the "Big Three") have seen a steady

decline in their market share for vehicle sales in North America and Europe, with Asian OEMs increasing their share in such markets. Although we do have business with the Asian OEMs, our customer base is more heavily weighted toward the Big Three.

- *Inflationary Pressures and Supply Base.* Our industry continues to experience increases in costs of resins, yarns and other petroleum-based products, as well as higher energy costs. Costs of other commodities such as ferrous metals also remain a worry despite declines in costs from recent highs. Therefore, overall commodity inflation pressures remain a significant concern for our industry and business and have placed a considerable operational and financial burden on us and the industry. We expect such inflationary pressures to continue.

  In addition, the inflationary environment surrounding resins, yarns, petroleum-based products and ferrous metals has resulted in concern about the viability of the Tier 2 and Tier 3 supply base as they face these inflationary pressures.

- *Restructuring Initiatives.* As a result of the market share losses and inflationary pressures discussed above, most major OEMs and Tier 1 suppliers have embarked upon multi-year restructuring programs in order to realign their cost structures in the face of these issues. Some of these restructuring programs have involved reorganizations in bankruptcy.

- *Escalating Pricing Pressures on Automotive Suppliers.* Pricing pressure from customers has been a characteristic of the automotive supply industry in recent years. This pressure has been substantial and is likely to continue. Virtually all OEMs have policies of seeking price reductions each year. We and other suppliers have been forced to reduce prices in both the initial bidding process and throughout long-term supply arrangements. We have taken steps to reduce costs and resist price reductions; however, price reductions have impacted our sales and profit margins and are expected to do so in the future.

- *Consumer and Regulatory Focus on Safety.* Consumers, and therefore OEMs, are increasingly focused on, and governments are increasingly requiring, improved safety in vehicles. For example, the Alliance of Automobile Manufacturers and the Insurance Institute for Highway Safety announced voluntary performance criteria which encompass a wide range of occupant protection technologies and designs, including enhanced matching of vehicle front structural components and enhanced side-impact protection through the use of features such as side air bags, air bag curtains and revised side-impact structures. By September 1, 2007, at least 50% of all vehicles offered in the United States by participating manufacturers are expected to meet the front-to-side performance criteria, and by September 2009, 100% of the vehicles of participating manufacturers are expected to meet the criteria.

  In October 2005, the National Highway Safety Traffic Administration (“NHTSA”) updated its mandate for the assembly onto vehicles of a direct tire pressure monitoring system, capable of detecting when one or more tires are significantly under-inflated. The phase-in period for compliance is as follows: 20% of light vehicles are required to comply with the standard during the period from October 5, 2005 to August 31, 2006; 70% during the period from September 1, 2006 to August 21, 2007; and all light vehicles thereafter. In September 2004, NHTSA released preliminary results of a study on the effectiveness of electronic stability control that indicated a dramatic reduction in single-vehicle crashes for vehicles equipped with these systems.

  Advances in technology by us and others have led to a number of innovations in our product portfolio, which will allow us to benefit from this trend. Such innovations include electronic vehicle stability control systems, tire pressure monitoring systems, occupant sensing systems, rollover sensing and curtain air bag systems.

- *Globalization of Suppliers.* To serve multiple markets more cost effectively, many OEMs are manufacturing global vehicle platforms, which typically are designed in one location but are produced and sold in many different geographic markets around the world. Having operations in the geographic markets in which OEMs produce global platforms enables suppliers to meet OEMs’ needs more

economically and efficiently. Few suppliers have this global coverage, and it is a source of significant competitive advantage for those suppliers that do.

- *Shift of Engineering to Suppliers.* Increasingly, OEMs are focusing their efforts on consumer brand development and overall vehicle design, as opposed to the design of individual vehicle systems. In order to simplify the vehicle design and assembly processes and reduce their costs, OEMs increasingly look to their suppliers to provide fully engineered, combinations of components in systems and modules rather than individual components. Systems and modules increase the importance of Tier 1 suppliers because they generally increase the Tier 1 suppliers' percentage of vehicle content.

  We have also seen certain vehicle manufacturers shift away from their funding of development contracts for new technology. We expect this trend to continue in 2006, thereby causing our engineering and research and development expenses to increase.

- *Increased Electronic Content and Electronics Integration.* The electronic content of vehicles has been increasing and, we believe, will continue to increase in the future. Consumer and regulatory requirements in Europe and the United States for improved automotive safety and environmental performance, as well as consumer demand for increased vehicle performance and functionality at lower cost largely drive the increase in electronic content. Electronics integration generally refers to replacing mechanical with electronic components and integration of mechanical and electrical functions within the vehicle. This allows OEMs to achieve a reduction in the weight of vehicles and the number of mechanical parts, resulting in easier assembly, enhanced fuel economy, improved emissions control, increased safety and better vehicle performance. As consumers seek more competitively-priced ride and handling performance, safety, security and convenience options in vehicles, such as electronic stability control, active cruise control, air bags, keyless entry and tire pressure monitoring, we believe that electronic content per vehicle will continue to increase.

- *Increased Emphasis on Speed to Market.* As OEMs are under increasing pressure to adjust to changing consumer preferences and to incorporate technological advances, they are shortening product development times. Shorter product development times also generally reduce product development costs. We believe suppliers that are able to deliver new products to OEMs in a timely fashion to accommodate the OEMs' needs will be well-positioned to succeed in this evolving marketplace.

Competition

The automotive parts industry is extremely competitive. OEMs rigorously evaluate us and other suppliers based on many criteria such as quality, price/cost competitiveness, system and product performance, reliability and timeliness of delivery, new product and technology development capability, excellence and flexibility in operations, degree of global and local presence, effectiveness of customer service and overall management capability. We believe we compete effectively with leading automotive suppliers on all of these criteria. For example, we generally follow manufacturing practices designed to improve efficiency, including but not limited to, one-piece-flow machining and assembly, and just-in-time scheduling of our manufacturing plants, all of which enable us to manage inventory so that we can deliver components and systems to our customers in the quantities and at the times ordered. Our resulting delivery performance, as measured by our customers, generally meets or exceeds our customers' expectations.

Within each of our product segments, we face significant competition. Our principal competitors include Advics, Bosch, Continental-Teves, Delphi, Koyo Seiko, Visteon, and ZF in the Chassis Systems segment; Autoliv, Bosch, Delphi, Key Safety, and Takata, in the Occupant Safety Systems segment; and Delphi, Eaton, ITW, Kostal, Nifco, Raymond, Textron, Tokai Rika, and Valeo in the Automotive Components segment.

Sales and Products by Segment

Sales. The following table provides sales for each of our operating segments:

	Years Ended December 31,					
	2005		2004		2003(1)	
	Sales	%	Sales	%	Sales	%
	(Dollars in millions)					
Chassis Systems	$ 7,197	57.0%	$ 6,950	57.9%	$ 6,534	57.6%
Occupant Safety Systems	3,755	29.7%	3,438	28.6%	3,306	29.1%
Automotive Components	1,691	13.3%	1,623	13.5%	1,511	13.3%
Total Sales	$12,643	100.0%	$12,011	100.0%	$11,351	100.0%

(1) Sales of our predecessor for the two months ended February 28, 2003 prior to the Acquisition, and our results of operations for the ten months ended December 31, 2003, have been combined for convenience of discussion and are collectively referred to as "year ended December 31, 2003."

Products. The following tables describe the principal product lines by segment in order of 2005 sales:

Chassis Systems

Product Line	Description
Steering	Electrically assisted power steering systems (column-drive, rack-drive type), electrically powered hydraulic steering systems, hydraulic power and manual rack and pinion steering gears, hydraulic steering pumps, fully integral commercial steering systems, commercial steering columns and pumps
Foundation brakes	Front and rear disc brake calipers, drum brake and drum-in-hat parking brake assemblies, rotors, drums and electric park brake
Brake control	Four-wheel ABS, electronic vehicle stability control systems, active cruise control systems, actuation boosters and master cylinders, electronically controlled actuation
Linkage and Suspension	Forged steel and aluminum control arms, suspension ball joints, rack and pinion linkage assemblies, conventional linkages, commercial steering linkages and suspension ball joints, active roll control systems
Modules	Brake modules, corner modules, pedal box modules, strut modules, front cross-member modules, rear axle modules

Occupant Safety Systems

Product Line	Description
Air Bags	Driver air bag modules, passenger air bag modules, side air bag modules, curtain air bag modules, single-and dual-stage air bag inflators
Seatbelts	Retractor and buckle assemblies, pretensioning systems, height adjusters, active control retractor systems
Safety electronics	Front and side crash sensors, vehicle rollover sensors, air bag diagnostic modules, weight sensing and vision systems for occupant detection
Steering wheels	Full range of steering wheels from base designs to leather, wood, heated designs, including multifunctional switches and integral air bag modules
Security electronics	Remote keyless entry systems, advanced theft deterrent systems, direct tire pressure monitoring systems

Automotive Components

Product Line	Description
Engine Valves	Engine Valves, valve train components, electro-magnetic valve actuation
Body controls	Display and heating, ventilating and air conditioning electronics, controls and actuators; motors, power management controls; man/machine interface controls and switches, including a wide array of automotive ergonomic applications such as steering column and wheel switches, rotary connectors, climate controls, seat controls, window lift switches, air bag disable switches; and rain sensors
Engineered fasteners and components	Engineered and plastic fasteners and precision plastic moldings and assemblies

Chassis Systems. Our Chassis Systems segment focuses on the design, manufacture and sale of product lines relating to steering, foundation brakes, brake control, linkage and suspension, and modules. We sell our Chassis Systems products primarily to OEMs and other Tier 1 suppliers. We also sell these products to OEM service organizations and in the independent aftermarket, through a licensee in North America, and in the rest of the world, to independent distributors. We believe our Chassis Systems segment is well positioned to capitalize on growth trends towards (1) increasing active safety systems, particularly in the areas of electric steering, electronic vehicle stability control and other advanced braking systems and integrated vehicle control systems; and (2) integration of active and passive safety systems.

Occupant Safety Systems. Our Occupant Safety Systems segment focuses on the design, manufacture and sale of air bags, seat belts, safety electronics, steering wheels and security electronic systems. We sell our Occupant Safety Systems products primarily to OEMs and also to other Tier 1 suppliers. We also sell these products to OEM service organizations for service parts. We believe our Occupant Safety Systems segment is well positioned to capitalize on growth trends towards (1) increasing passive safety systems, particularly in the areas of side and curtain air bag systems, occupant sensing systems, active seat belt pretensioning and retractor systems, and tire pressure monitoring systems; and (2) integration of active and passive safety systems.

Automotive Components. Our Automotive Components segment focuses on the design, manufacture and sale of engine valves, body controls, and engineered fasteners and components. We sell our Automotive Components products primarily to OEMs and also to other Tier 1 suppliers. We also sell these products to OEM service organizations. In addition, we sell some engine valve and body control products to independent distributors for the automotive aftermarket. We believe our Automotive Components segment is well

positioned to capitalize on growth trends toward multi-valve engines and increasing electronic content per vehicle.

Customers

We sell to all the major OEM customers across all of the world's major vehicle producing regions. Our long-standing relationships with our customers have enabled us to understand global customers' needs and business opportunities. We believe that we will continue to be able to compete effectively for our customers' business because of the high quality of our products, our ongoing cost reduction efforts, our strong global presence and our product and technology innovations. Although business with any given customer is typically split among numerous contracts, the loss of or a significant reduction in purchases by, one or more of those major customers could materially and adversely affect our business, results of operations and financial condition.

End-customer sales (by OEM group) that constitute 10% or more of our sales for the years ended December 31, 2005 and 2004 were:

		Percentage of Sales	
OEM Group	OEMs	2005	2004
Ford	Ford, Land Rover, Jaguar, Aston-Martin, Volvo, Mazda	16.1%	17.2%
DaimlerChrysler	Chrysler, Mercedes, Smart, Mitsubishi	14.4%	15.3%
Volkswagen	Volkswagen, Audi, Seat, Skoda, Bentley	14.3%	14.2%
General Motors	General Motors, Opel, Saab, Isuzu, Subaru	11.3%	11.1%
All Other		43.9%	42.2%

We also sell products to the global aftermarket as replacement parts for current production and older vehicles. For each of the years ended December 31, 2005 and 2004, our sales to the aftermarket represented approximately 7% of our total sales. We sell these products through both OEM service organizations and independent distribution networks.

Sales and Marketing

We have a sales and marketing organization of dedicated customer teams that provide a consistent interface with our key customers. These teams are located in all major vehicle-producing regions to best represent their respective customers' interests within our organization, to promote customer programs and to coordinate global customer strategies with the goal of enhancing overall customer service and satisfaction. Our ability to support our customers globally is further enhanced by our broad global presence in terms of sales offices, manufacturing facilities, engineering/technical centers, joint ventures and licensees.

Our sales and marketing organization and activities are designed to create overall awareness and consideration of, and to increase purchases of, our systems, modules and components. To further this objective, we participate in an international trade show in Frankfurt. We also provide on-site technology demonstrations at our major OEM customers on a regular basis.

Customer Support

Our engineering, sales and production facilities are located in 25 countries. With hundreds of dedicated sales/customer development employees, we provide effective customer solutions, products and service in any region in which these facilities operate or manufacture.

Joint Ventures

Joint ventures represent an important part of our business, both operationally and strategically. We have often used joint ventures to enter into new geographic markets such as China and India, or to acquire new customers or to develop new technologies such as direct tire pressure monitoring systems.

In the case of entering new geographic markets where we have not previously established substantial local experience and infrastructure, teaming with a local partner can reduce capital investment by leveraging pre-existing infrastructure. In addition, local partners in these markets can provide knowledge and insight into local customs and practices and access to local suppliers of raw materials and components. All of these advantages can reduce the risk, and thereby enhance the prospects for the success, of an entry into a new geographic market.

Joint ventures can also be an effective means to acquire new customers. Joint venture arrangements can allow partners access to technology they would otherwise have to develop independently, thereby reducing the time and cost of development. More importantly, they can provide the opportunity to create synergies and applications of the technology that would not otherwise be possible.

The following table shows our unconsolidated joint ventures in which we have a 49% or greater interest that are accounted for under the equity method:

Country	Name	Our Ownership Percentage	Products	2005 Sales (Dollars in millions)
Brazil	SM-Sistemas Modulares Ltda.	50%	Brake modules	$ 16.6
China	Shanghai TRW Automotive Safety Systems Co., Ltd.	50%	Seat belt systems, air bags and steering wheels	24.1
	CSG TRW Chassis Systems Co., Ltd.	50%	Foundation brakes	19.4
India	Brakes India Limited	49%	Foundation brakes, actuation brakes, valves and hoses	236.2
	Rane TRW Steering Systems Limited	50%	Steering gears, systems and components and seat belt systems	78.2
Spain	Mediterranea de Volantes SL	50%	Steering wheels	0.2(1)
United States	Methode Lucas Controls, Inc.	50%	Multi-functional column-mounted controls (pressed parts and key moldings for column switchgear)	15.2
	EnTire Solutions, LLC	50%	Direct tire pressure monitoring systems	42.6

(1) Sales for Mediterranea de Volantes SL are for the two months following our recently completed acquisition of Dalphi Metal Espana, S.A.

Intellectual Property

We own significant intellectual property, including a large number of patents, trademarks, copyrights and trade secrets, and are involved in numerous licensing arrangements. Although our intellectual property plays an important role in maintaining our competitive position in a number of the markets that we serve, no single patent, copyright, trade secret or license, or group of related patents, copyrights, trade secrets or licenses, is, in our opinion, of such value to us that our business would be materially affected by the expiration or termination thereof. However, we view the name TRW Automotive and primary mark "TRW" as material to our business as a whole. Our general policy is to apply for patents on an ongoing basis in the United States, Germany and appropriate other countries to protect our patentable developments.

Our portfolio of patents and pending patent applications reflects our commitment to invest in technology and covers many aspects of our products and the processes for making those products. In addition, we have developed a substantial body of manufacturing know-how that we believe provides a significant competitive advantage in the marketplace.

We have entered into numerous technology license agreements that either strategically exploit our intellectual property rights or provide a conduit for us into third party intellectual property rights useful in our businesses. In many of these agreements, we license technology to our suppliers, joint venture companies and other local manufacturers in support of product production for our customers and us. In other agreements, we license the technology to other companies to obtain royalty income.

We own a number of secondary trade names and marks applicable to certain of our businesses and products that we view as important to such businesses and products as well.

As part of the Acquisition, we entered into intellectual property license agreements with Old TRW.

Seasonality

Our business is moderately seasonal because our largest North American customers typically halt operations for approximately two weeks in July and one week in December. Additionally, customers in Europe historically shut down vehicle production during portions of August and one week in December. As new models are typically introduced during the third quarter, automotive production traditionally is lower during that period. Accordingly, our third and fourth quarter results may reflect these trends.

Research, Development and Engineering

We operate a global network of technical centers worldwide where we employ approximately 5,000 engineers, researchers, designers, technicians and their supporting functions. This global network allows us to develop automotive active and passive technologies while improving existing products and systems. We utilize sophisticated testing and computer simulation equipment, including computer-aided engineering, noise-vibration-harshness, crash sled, math modeling and vehicle simulations. We have advanced engineering and research and development programs for next-generation components and systems in our chassis, occupant safety and automotive component product areas. We are disciplined and innovative in our approach to research and development, employing various tools to improve efficiency and reduce cost, such as Six Sigma, "follow-the-sun" (a 24-hour a day engineering program that utilizes our global network) and other e-Engineering programs, and outsourcing non-core activities.

Company-funded research, development and engineering costs totaled:

	Years Ended December 31,	
	2005	2004
	(Dollars in millions)	
Research and development	$203	$174
Engineering	576	540
Total	$779	$714

Total research, development and engineering costs as a percentage of sales were 6.2% for the year ended December 31, 2005 as compared to 5.9% for the year ended December 31, 2004.

We believe that continued research, development and engineering activities are critical to maintaining our leadership position in the industry and will provide us with a competitive advantage as we seek additional business with new and existing customers. Recently, we have seen certain vehicle manufacturers shift away from their funding of development contracts for new technology. We expect this trend to continue, thereby causing our engineering and research and development expenses to increase.

Manufactured Components and Raw Materials

We purchase various manufactured components and raw materials for use in our manufacturing processes. The principal components and raw materials we purchase include castings, electronic parts, molded plastic parts, finished subcomponents, fabricated metal, aluminum, steel, resins, textiles, leather and wood. All

of these components and raw materials are available from numerous sources. We continue to see significant inflationary pressures in the cost of ferrous metals, resin/yarn and other petroleum-based products, as well as higher energy costs. At this time, we are working with our suppliers and customers to attempt to mitigate the impact that this inflation may have on our financial results, but there can be no assurance that such continued inflation will not have a material adverse effect. Although we have not, in recent years, experienced any significant shortages of manufactured components or raw materials, and normally do not carry inventories of these items in excess of those reasonably required to meet our production and shipping schedule, the possibility of shortages exist especially in light of the weakened state of the supply base described above.

Employees

As of December 31, 2005, we had approximately 63,100 employees (including employees of our majority-owned joint ventures but excluding temporary employees and employees who are on approved forms of leave), of whom approximately 21,300 were employed in North America, approximately 33,800 were employed in Europe, approximately 4,400 were employed in South America and approximately 3,600 were employed in Asia. Approximately 16,900 of our employees are salaried and approximately 46,200 are hourly.

Environmental Matters

Governmental requirements relating to the discharge of materials into the environment, or otherwise relating to the protection of the environment, have had, and will continue to have, an effect on our operations and us. We have made and continue to make expenditures for projects relating to the environment, including pollution control devices for new and existing facilities. We are conducting a number of environmental investigations and remedial actions at current and former locations to comply with applicable requirements and, along with other companies, have been named a potentially responsible party for certain waste management sites. Each of these matters is subject to various uncertainties, and some of these matters may be resolved unfavorably to us.

A reserve estimate for each matter is established using standard engineering cost estimating techniques on an undiscounted basis. In the determination of such costs, consideration is given to the professional judgment of our environmental engineers, in consultation with outside environmental specialists, when necessary. At multi-party sites, the reserve estimate also reflects the expected allocation of total project costs among the various potentially responsible parties. As of December 31, 2005, we had reserves for environmental matters of $64 million. In addition, the Company has established a receivable from Northrop for a portion of this environmental liability as a result of the indemnification provided for in the Master Purchase Agreement under which Northrop has agreed to indemnify us for 50% of any environmental liabilities associated with the operation or ownership of Old TRW's automotive business existing at or prior to the Acquisition, subject to certain exceptions. During 2005, we received approximately $4 million under such environmental indemnification from Northrop.

We do not believe that compliance with environmental protection laws and regulations will have a material effect upon our capital expenditures, results of operations or competitive position. Our capital expenditures for environmental control facilities during 2006 and 2007 are not expected to be material to us. We believe that any liability that may result from the resolution of environmental matters for which sufficient information is available to support cost estimates will not have a material adverse effect on our financial position or results of operations. However, we cannot predict the effect on our financial position of expenditures for aspects of certain matters for which there is insufficient information. In addition, we cannot predict the effect of compliance with environmental laws and regulations with respect to unknown environmental matters on our financial position or results of operations or the possible effect of compliance with environmental requirements imposed in the future.

ITEM 1A. *RISK FACTORS*

Deteriorating financial condition of certain of our customers may adversely affect our business.

Certain of our customers are facing structural issues and negative industry trends resulting in deteriorating financial conditions. Some of these customers are addressing these problems through restructuring their businesses. In some cases, this restructuring includes significant capacity reductions and/or reorganization under bankruptcy laws. Substantial restructuring initiatives by our major customers could have a ripple effect throughout our industry and may impact our business and our common suppliers.

Loss of market share by the Big Three may adversely affect our results in the future.

Recently, the Big Three have been losing market share for vehicle sales in North America and Europe. At the same time, Asian vehicle manufacturers have increased their share in such markets. Although we do have business with the Asian vehicle manufacturers, our customer base is more heavily weighted towards the Big Three. Accordingly, if this trend of Big Three loss in market share continues and our share of business with other vehicle manufacturers does not increase, our results could be adversely affected.

Escalating pricing pressures from our customers may adversely affect our business.

Pricing pressure in the automotive supply industry has been substantial and is likely to continue. Virtually all vehicle manufacturers seek price reductions in both the initial bidding process and during the term of the contract. We have taken steps to reduce costs and resist price reductions; however, price reductions have impacted our sales and profit margins and are expected to do so in the future. If we are not able to offset continued price reductions through improved operating efficiencies and reduced expenditures, those price reductions may have a material adverse effect on our results of operations.

Commodity inflationary pressures may adversely affect our profitability and the viability of our Tier 2 and Tier 3 supply base.

The cost of some of the commodities we use in our business has increased. Ferrous metals, resins, yarns and other petroleum-based products have become more expensive. This put significant operational and financial burdens on us and our suppliers in both 2004 and 2005. We expect this pressure to continue in 2006. We are working with our suppliers and customers to lessen the impact of increasing commodity costs. However, it is usually difficult to pass increased prices for manufactured components and raw materials through to our customers in the form of price increases. Furthermore, our suppliers may not be able to handle the commodity cost increases and still perform as we expect. In fact, we have seen the number of bankruptcies or insolvencies increase due in part to the recent inflationary pressures. While the unstable condition of some of our suppliers has not led to any significant disruptions so far, it could lead to delivery delays, production issues or delivery of non-conforming products by our suppliers in the future.

Our business would be materially and adversely affected if we lost any of our largest customers.

For the year ended December 31, 2005, sales to our four largest customers on a worldwide basis were approximately 56% of our total sales. Although business with each customer is typically split among numerous contracts, if we lost a major customer or that customer significantly reduced its purchases of our products, there could be a material adverse affect on our business, results of operations and financial condition.

Work stoppages or other labor issues at the facilities of our customers or other suppliers could adversely affect our operations.

The turbulence in the automotive industry and actions taken by our customers and other suppliers to address negative industry trends may have the side effect of exacerbating labor relations problems at those companies. If any of our customers experience a material work stoppage, that customer may halt or limit the purchase of our products. Similarly, a work stoppage at another supplier could interrupt production at our customer which would have the same effect. This could cause us to shut down production facilities relating to

those products, which could have a material adverse effect on our business, results of operations and financial condition.

Our variable rate indebtedness exposes us to interest rate risk, which could cause our debt costs to increase significantly.

A majority of our borrowings, including borrowings under TRW Automotive Inc.'s senior credit facilities, are at variable rates of interest and expose us to interest rate risk. As of December 31, 2005, approximately 60% of our total debt was at variable interest rates. If interest rates increase, the amount we are required to pay on our variable rate indebtedness would increase even though the amount borrowed remained the same.

Continued strengthening of the U.S. dollar could materially impact our results of operations.

In 2005, over half of our sales originated outside the United States. We translate sales and other results denominated in foreign currencies into U.S. dollars for our consolidated financial statements. This translation is based on average exchange rates during a reporting period. During times of a strengthening U.S. dollar, our reported international sales and earnings would be reduced because foreign currencies may translate into fewer U.S. dollars.

Our available cash and access to additional capital may be limited by our substantial debt.

We have a significant amount of debt. This amount of debt may limit our ability to obtain additional financing for our business. It may also limit our ability to adjust to changing market conditions because of the covenants and restrictions in the debt. In addition, we have to devote substantial cash to the payment of interest and principal on the debt, which means that cash may not be used for other of our business needs. We may be more vulnerable to an economic or industry downturn than a company with less debt.

The cyclicality of automotive production and sales could adversely affect our business.

Automotive production and sales are highly cyclical and depend on general economic conditions, consumer spending and preferences, labor relations issues, regulatory requirements, trade agreements and other factors. The volume of automotive production has fluctuated from year to year, which leads to fluctuations in the demand for our products. Any significant economic decline that results in a reduction in automotive production and sales by vehicle manufacturers could have a material adverse effect on our results of operations.

We may incur material losses and costs as a result of product liability, warranty and recall claims that may be brought against us.

In our business, we are exposed to product liability and warranty claims. In addition, we may be required to participate in a recall of a product. Vehicle manufacturers are increasingly looking to their suppliers for contribution when faced with product liability, warranty and recall claims. In addition, vehicle manufacturers have experienced increasing recall campaigns in recent years. Product liability, warranty and recall costs may have a material adverse effect on our financial condition.

Our pension and other post-retirement benefits expense and the funding requirements of our pension plans could materially increase.

Most of our employees participate in defined benefit pension plans or retirement/termination indemnity plans. The rate at which we are required to fund these plans depends on certain assumptions which depend in part on market conditions. As market conditions change, these assumptions may change, resulting in a decline in pension asset values. Future declines could materially increase the necessary funding status of our plans, and may require us to contribute more to these plans earlier than we anticipated. Also, this could significantly increase our pension expenses and reduce our profitability.

We also sponsor other post-retirement benefit ("OPEB") plans for most of our U.S. and some of our non-U.S. employees. We fund our OPEB obligations on a pay-as-you-go basis and have no plan assets. If health care costs in the future increase more than we anticipated, our actuarially determined liability and our related OPEB expense could increase along with future cash outlays.

We are subject to risks associated with our non-U.S. operations.

We have significant manufacturing operations outside the United States, including joint ventures and other alliances. International operations involve risks, including exchange controls and currency restrictions, currency fluctuations and devaluations, changes in local economic conditions, changes in laws and regulations and unsettled political conditions and possible terrorist attacks against United States' or other interests.

These and other factors may have a material adverse effect on our international operations or on our business, results of operations and financial condition.

We have recorded a significant amount of goodwill and other identifiable intangible assets, which may become impaired in the future.

We have recorded a significant amount of goodwill and other identifiable intangible assets, including customer relationships, trademarks and developed technologies. Goodwill and other net identifiable intangible assets were approximately $3.1 billion as of December 31, 2005, or 30% of our total assets. Goodwill, which represents the excess of cost over the fair value of the net assets of the businesses acquired, was approximately $2.3 billion as of December 31, 2005, or 22% of our total assets.

Impairment of goodwill and other identifiable intangible assets may result from, among other things, deterioration in our performance, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the products sold by our business, and a variety of other factors. The amount of any quantified impairment must be expensed immediately as a charge that is included in operating income. We are subject to financial statement risk in the event that goodwill or other identifiable intangible assets become impaired.

Our expected annual effective tax rate could be volatile and materially change as a result of changes in mix of earnings and other factors.

The overall effective tax rate is equal to our total tax expense as a percentage of our total earnings before tax. However, tax expense and benefits are not recognized on a global basis but rather on a jurisdictional or legal entity basis. Losses in certain jurisdictions provide no current financial statement tax benefit. In addition, certain taxing jurisdictions have statutory rates greater than or less than the United States. As a result, changes in the mix of projected earnings between jurisdictions, among other factors, could have a significant impact on our overall effective tax rate.

We may be adversely affected by environmental and safety regulations or concerns.

Laws and regulations governing environmental and occupational safety and health are complicated, change frequently and have tended to become stricter over time. As a manufacturing company, we are subject to these laws and regulations both inside and outside the United States. We may not be in complete compliance with such laws and regulations at all times. Our costs or liabilities relating to them may be more than the amount we have reserved, which difference may be material. We have spent money to comply with environmental requirements. In addition, certain of our subsidiaries are subject to pending litigation raising various environmental and human health and safety claims, including certain asbestos-related claims. While our annual costs to defend and settle these claims in the past have not been material, we cannot assure you that this will remain so in the future.

Developments or assertions by or against us relating to intellectual property rights could materially impact our business.

We own significant intellectual property, including a large number of patents, trademarks, copyrights and trade secrets, and are involved in numerous licensing arrangements. Our intellectual property plays an important role in maintaining our competitive position in a number of the markets that we serve. Developments or assertions by or against us relating to intellectual property rights could materially impact our business.

Because Blackstone controls us, the influence of our public shareholders over significant corporate actions will be limited, and conflicts of interest between Blackstone and us or our public shareholders could arise in the future.

Currently an affiliate of Blackstone beneficially owns approximately 57% of our outstanding shares of common stock and has reached an agreement with Northrop pursuant to which Northrop will vote its 9.9% interest in us in accordance with Blackstone's instructions. As a result, Blackstone has the power to control all matters submitted to our stockholders, elect our directors and exercise control over our decisions to enter into any corporate transaction and has the ability to prevent any transaction that requires the approval of stockholders regardless of whether or not other stockholders believe that any such transactions are in their own best interests.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

Our principal executive offices are located in Livonia, Michigan. Our operations include numerous manufacturing, research and development, warehousing facilities and offices. We own or lease principal facilities located in 14 states in the United States and in 24 other countries as follows: Austria, Brazil, Canada, China, the Czech Republic, France, Germany, Italy, Japan, Malaysia, Mexico, Poland, Portugal, Romania, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Thailand, Tunisia, Turkey, and the United Kingdom. Approximately 50% of our principal facilities are used by the Chassis Systems segment, 26% are used by the Occupant Safety Systems segment and 24% are used by the Automotive Components segment. Our corporate headquarters are contained within the Chassis Systems numbers below.

Of the total number of principal facilities operated by us, approximately 57% of such facilities are owned, 38% are leased, and 5% are held by joint ventures in which we have a majority interest.

A summary of our principal facilities, by segment, type of facility and geographic region, as of January 31, 2006 is set forth in the following tables. Additionally, where more than one segment utilizes a single facility, that facility is categorized by the purposes for which it is primarily used. This chart includes facilities related to our recently completed acquisition of Dalphi Metal Espana, S.A. ("Dalphimetal").

Chassis Systems

Principal Use of Facility	North America	Europe	Asia Pacific(2)	Other	Total
Research and Development	4	4	2	1	11
Manufacturing(1)	21	31	12	3	67
Warehouse	1	6	1	1	9
Office	3	8	7	—	18
Total	29	49	22	5	105

Occupant Safety Systems

Principal Use of Facility	North America	Europe	Asia Pacific(2)	Other	Total
Research and Development	3	5	—	—	8
Manufacturing(1)	10	23	—	2	35
Warehouse	1	5	—	—	6
Office	1	5	—	—	6
Total	15	38	—	2	55

Automotive Components

Principal Use of Facility	North America	Europe	Asia Pacific	Other	Total
Research and Development	1	—	—	—	1
Manufacturing(1)	9	23	8	3	43
Warehouse	2	1	—	—	3
Office	2	—	—	—	2
Total	14	24	8	3	49

(1) Although primarily classified as Manufacturing locations, several Occupant Safety Systems — Europe sites, amongst others, maintain a large Research and Development presence located within the same facility as well.

(2) For management reporting purposes Chassis Systems — Asia Pacific contains several primarily Occupant Safety Systems facilities including a Research and Development Technical Center and three Manufacturing locations.

ITEM 3. *LEGAL PROCEEDINGS*

Various claims, lawsuits and administrative proceedings are pending or threatened against our subsidiaries, covering a wide range of matters that arise in the ordinary course of our business activities with respect to commercial, patent, product liability, environmental and occupational safety and health law matters. We face an inherent business risk of exposure to product liability and warranty claims in the event that our products actually or allegedly fail to perform as expected or the use of our products results, or is alleged to result, in bodily injury and/or property damage. Accordingly, we could experience material warranty or product liability losses in the future. In addition, our costs to defend the product liability claims have increased over time.

In October 2000, Kelsey-Hayes Company (formerly known as Fruehauf Corporation) was served with a grand jury subpoena relating to a criminal investigation being conducted by the U.S. Attorney for the Southern District of Illinois. The U.S. attorney has informed us that the investigation relates to possible wrongdoing by Kelsey-Hayes Company and others involving certain loans made by Kelsey-Hayes Company's then-parent corporation to Fruehauf Trailer Corporation, the handling of the trailing liabilities of Fruehauf Corporation and actions in connection with the 1996 bankruptcy of Fruehauf Trailer Corporation. Kelsey-Hayes Company became a wholly-owned subsidiary of Old TRW upon Old TRW's acquisition of Lucas Varity in 1999 and became our wholly owned subsidiary in connection with the Acquisition. The Company has cooperated with this investigation, but is not aware of any activity on this investigation since the fall of 2002. Due to this inactivity, the Company no longer believes that this investigation is ongoing or will have a financial impact on the Company.

TRW Safety Systems Inc., a subsidiary of the Company ("TSSI"), received a letter from the Federal Aviation Administration (the "FAA") dated June 28, 2005 alleging that it violated the federal Hazardous Material Regulations and/or the International Civil Aviation Organization Technical Instructions by allegedly offering undeclared hazardous materials for shipment on May 5, 2005, from its El Paso, Texas warehouse to the TSSI facility in Romeo, Michigan. The Company received a letter from the FAA dated September 30,

2005 proposing a civil penalty of an aggregate of $20,000 in total for these alleged violations. This matter was settled with a total payment from the Company of $8,500 on January 9, 2006.

While certain of our subsidiaries have been subject in recent years to asbestos-related claims, we believe that such claims will not have a material adverse effect on our financial condition or results of operations. In general, these claims seek damages for illnesses alleged to have resulted from exposure to asbestos used in certain components sold by our subsidiaries. We believe that the majority of the claimants were assembly workers at the major U.S. automobile manufacturers. The vast majority of these claims name as defendants numerous manufacturers and suppliers of a wide variety of products allegedly containing asbestos. We believe that, to the extent any of the products sold by our subsidiaries and at issue in these cases contained asbestos, the asbestos was encapsulated. Based upon several years of experience with such claims, we believe that only a small proportion of the claimants has or will ever develop any asbestos-related impairment.

Neither our settlement costs in connection with asbestos claims nor our annual legal fees to defend these claims have been material in the past. These claims are strongly disputed by us and it has been our policy to defend against them aggressively. We have been successful in obtaining the dismissal of many cases without any payment whatsoever. Moreover, there is significant insurance coverage with solvent carriers with respect to these claims. However, while our costs to defend and settle these claims in the past have not been material, we cannot assure you that this will remain so in the future.

We believe that the ultimate resolution of the foregoing matters will not have a material effect on our financial condition or results of operations.

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

During the fourth quarter of the year covered by this report, no matters were submitted to a vote of security holders.

PART II

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

Our common stock is listed on the New York Stock Exchange under the symbol "TRW". As of February 8, 2006, we had 99,343,692 shares of common stock, $.01 par value, outstanding (99,348,360 shares issued less 4,668 shares held as treasury stock) and 226 holders of record of such common stock. The transfer agent and registrar for our common stock is National City Bank.

The tables below show the high and low sales prices for our common stock as reported by the New York Stock Exchange, for each quarter in 2005 and 2004.

	Price Range of Common Stock	
Year Ended December 31, 2005	**High**	**Low**
4th Quarter	$29.49	$23.52
3rd Quarter	$30.00	$24.14
2nd Quarter	$24.74	$17.64
1st Quarter	$21.70	$18.75