

PART I

ITEM 1. BUSINESS

Company Description

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. The Company conducts substantially all of its 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), and 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). The Company is primarily a “Tier 1” supplier, with over 85% of our sales in 2004 made directly to OEMs. The Company’s 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 on December 11, 2002.

Change in Ownership. Old TRW entered into an Agreement and Plan of Merger with Northrop Grumman Corporation (“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. In connection with our initial public offering, we effected a 100 for one stock split of our 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 holds approximately 56.7%, an affiliate of Northrop holds approximately 17.2% and our management group holds approximately 1.7% of our common stock.

Financial and Operating 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 geographic breakdown of our 2004 sales is 55% derived from Europe, 37% from North America and 8% from the rest of the world. The table below summarizes certain financial information for our operating segments.

	Successor		Predecessor	
	Year Ended December 31, 2004	Ten Months Ended December 31, 2003	Two Months Ended February 28, 2003	Year Ended December 31, 2002
	(Dollars in millions)			
Sales to external customers:				
Chassis Systems	\$ 6,950	\$5,424	\$1,110	\$ 6,078
Occupant Safety Systems	3,438	2,751	555	3,143
Automotive Components	1,623	1,260	251	1,409
Total Sales	<u>\$12,011</u>	<u>\$9,435</u>	<u>\$1,916</u>	<u>\$10,630</u>
Segment profit before taxes:				
Chassis Systems	\$ 285	\$ 129	\$ 46	\$ 256
Occupant Safety Systems	328	216	53	224
Automotive Components	103	90	26	148
Segment profit before taxes	716	435	125	628
Corporate expense and other	(130)	(81)	(44)	(189)
Financing costs	(252)	(312)	(47)	(316)
Loss on retirement of debt	(167)	(31)	—	—
Net employee benefits income (expense)	(3)	(14)	16	179
Earnings (losses) before income taxes	<u>\$ 164</u>	<u>\$ (3)</u>	<u>\$ 50</u>	<u>\$ 302</u>

See “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 22 to the consolidated and combined financial statements for a discussion of segment profit before taxes.

Sales by product line. Our 2004 sales by product line are as follows:

Product Line	Percentage of Sales
Steering gears and systems	16.5%
Air bags	13.9%
Foundation brakes	13.3%
ABS and other brake control	8.9%
Seat belts	8.2%
Aftermarket	7.2%
Chassis modules	5.3%
Linkage and suspension	5.2%
Engine valves	4.8%
Body controls	4.7%
Crash sensors and other safety and security electronics	4.6%
Engineered fasteners and plastic components	3.3%
Steering wheels	2.8%
Other	1.3%

See Note 22 to our consolidated and combined financial statements included in this report for additional product sector and geographical information.

Business Developments, Industry Trends and Competition

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 (“VSC”), 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 broad range of product lines and strong systems integration skills, which enable us to provide comprehensive, systems-based solutions for our OEM customers. We have a broad and established global presence and sell to all major OEMs across the world’s major vehicle producing regions. We believe our diversified business limits our exposure to the risks of any one geographic economy, product line or major customer.

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):

- *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, on December 4, 2003, the Alliance of Automobile Manufacturers and the Insurance Institute for Highway Safety announced a new voluntary industry safety commitment to meet new performance criteria designed to enhance occupant protection in front- and side-impact crashes. The announcement indicated that the new performance criteria would 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.

More recently, in September 2004, the National Highway Safety Traffic Administration (“NHTSA”) released its latest proposal under the Tread Act that mandates the assembly onto vehicles of a direct tire pressure monitoring system, capable of detecting when one or more tires are significantly under-inflated. Under the present proposal, 50% of light vehicles are required to comply in the first year beginning September 2005, with 100% compliance by September 2007. In September 2004, NHTSA also 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.
- *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, which generally refers to replacing mechanical with electronic components and integration of mechanical and electrical functions within the vehicle, 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.
- *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. Suppliers have been forced to reduce prices in both the initial bidding process and during the terms of contractual 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.
- *Inflationary Pressures and Supply Base.* The automotive supply industry has recently experienced significant inflationary pressures, primarily in the ferrous metals and resin/yarn markets. These inflationary pressures placed significant operational and financial burdens on suppliers, and are expected to continue in 2005. We continuously work with our raw material and purchased component suppliers, as well as our customers, to mitigate the impact of increasing costs of ferrous metals and other commodities. However, it is generally difficult to pass increased prices for manufactured components and raw materials through to our customers in the form of price increases.

The inflationary environment surrounding ferrous metals and certain other commodities has resulted in concern about the viability of the Tier 2 and Tier 3 supply base as they face these inflationary pressures. Because we purchase various types of equipment, raw materials and component parts from suppliers, we may be materially and adversely affected by the failure of those suppliers to perform as expected. This non-performance may consist of delivery delays or failures caused by production issues or delivery of non-conforming products. The risk of non-performance may also result from the insolvency or bankruptcy of one or more of our suppliers. We have seen the number of these bankruptcies or insolvencies increase, due in part to the recent inflationary pressures in the ferrous metals markets. Consequently, our efforts to continue to mitigate the effects of this inflationary pressure may be insufficient and the pressures may worsen, thus potentially having a negative impact on our financial results.

- *Declining Big Three Market Share.* In recent years, the Big Three (Ford Motor Company, General Motors Corporation and the Chrysler unit of DaimlerChrysler AG) have seen a decline in their market share for vehicle sales in North America and Europe, with Asian OEMs especially increasing their

share in such markets. Although we do have business with the Asian OEMs, our customer base is more heavily weighted towards the Big Three. We believe that suppliers currently serving Asian OEMs and those suppliers that are able to increase their sales with such customers will be well positioned in the North American and European markets.

- *Recalls.* Based on tighter federal requirements for reporting defects, as well as the growing re-use of parts across platforms, OEMs have experienced increasing recall campaigns in recent years, including a record number of such recalls in 2004. OEMs often require suppliers to share in the cost of recalls. Suppliers able to minimize recall expenses through the delivery of high quality products should be well positioned in the marketplace. Therefore, we utilize Six Sigma and Operational Excellence as leading quality improvement programs throughout our operations.

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 Delphi, Bosch, Continental-Teves, Visteon, Koyo Seiko, ZF, and Advics in the Chassis Systems segment; Autoliv, Delphi, Takata, Key Safety, and Bosch in the Occupant Safety Systems segment; and ITW, Raymond, Nifco, Textron, Kostal, Delphi, Valeo, Tokai Rika and Eaton in the Automotive Components segment.

Sales and Products by Segment

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

	Year Ended December 31,			
	2004		2003(1)	
	Sales	%	Sales	%
	(Dollars in millions)			
Chassis Systems	\$ 6,950	57.9%	\$ 6,534	57.6%
Occupant Safety Systems	3,438	28.6%	3,306	29.1%
Automotive Components	<u>1,623</u>	<u>13.5%</u>	<u>1,511</u>	<u>13.3%</u>
Total Sales	<u>\$12,011</u>	<u>100.0%</u>	<u>\$11,351</u>	<u>100.0%</u>

(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 2004 sales:

Chassis Systems

<u>Product Line</u>	<u>Description</u>
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	Two-wheel and four-wheel ABS, electronic vehicle stability control systems, active cruise control systems, actuation boosters and master cylinders, electronically controlled actuation
Modules	Brake modules, corner modules, pedal box modules, strut modules, front cross-member modules, rear axle modules
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

Occupant Safety Systems

<u>Product Line</u>	<u>Description</u>
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

<u>Product Line</u>	<u>Description</u>
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
Engine valves	Engine valves, valve train components, electro-magnetic valve actuation
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, modules and suspension. 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 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.

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 toward 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.

Automotive Components. Our Automotive Components segment focuses on the design, manufacture and sale of body controls, engine valves 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 the world’s entire 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.

Customers (by OEM group) that constitute 10% or more of our sales for the years ended December 31, 2004 and 2003 were:

<u>OEM Group</u>	<u>OEMs</u>	<u>Percentage of Sales</u>	
		<u>2004</u>	<u>2003</u>
Ford	Ford, Land Rover, Jaguar, Aston-Martin, Volvo, Mazda	17.2%	18.4%
DaimlerChrysler . .	Chrysler, Mercedes, Smart, Mitsubishi	15.3%	16.3%
Volkswagen	Volkswagen, Audi, Seat, Skoda, Bentley	14.2%	15.0%
General Motors . . .	General Motors, Opel, Saab, Isuzu, Subaru	11.1%	13.2%
All Other		42.2%	37.1%

We also sell products to the global aftermarket as replacement parts for current production and older vehicles. For the years ended December 31, 2004 and 2003, our sales to the aftermarket represented approximately 7% of our total sales in each year. 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 and joint ventures.

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 international trade shows in Paris, Frankfurt and Detroit. 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 24 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:

<u>Country</u>	<u>Name</u>	<u>Our % Ownership</u>	<u>Products</u>	<u>2004 Sales</u> <u>(Dollars in millions)</u>
Brazil	SM-Sistemas Modulares Ltd.	50%	Brake modules	\$28
China	Shanghai TRW Automotive Safety Systems Co., Ltd.	50%	Seat belt systems, air bags and steering wheels	33
India	Brakes India Limited	49%	Foundation brakes, actuation brakes, valves and hoses	196
	Rane TRW Steering Systems Limited	50%	Steering gears, systems and components and seat belt systems	71
United States	Methode Lucas Controls, Inc.	50%	Multi-functional column-mounted controls (pressed parts and key moldings for column switchgear)	21
	EnTire Solutions, LLC	50%	Direct tire pressure monitoring systems	18

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” (which has been transferred to us as part of the Acquisition) 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 patent portfolio of over 10,000 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 several hundred 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 have 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. In addition, third quarter automotive production traditionally is lower as new models are introduced. 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 4,800 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 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:

	Successor		Predecessor	
	Year Ended December 31, 2004	Ten Months Ended December 31, 2003	Two Months Ended February 28, 2003	Year Ended December 31, 2002
	(Dollars in millions)			
Research and Development	\$174	\$137	\$27	\$151
Engineering	<u>474</u>	<u>365</u>	<u>71</u>	<u>388</u>
Total	<u>\$648</u>	<u>\$502</u>	<u>\$98</u>	<u>\$539</u>

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.

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 have recently seen significant inflationary pressures in the ferrous metals and resin/yarn markets. 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 this will not have a material adverse effect. 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.

Employees

As of December 31, 2004, we had approximately 59,900 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 20,200 were employed in North America, approximately 32,200 were employed in Europe, approximately 4,200 were employed in South America and approximately 3,300 were employed in Asia. Approximately 16,000 of our employees are salaried and approximately 43,900 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, 2004, we had reserves for environmental matters of \$72 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 2004, we received approximately \$2 million under such 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 2005 and 2006 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 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 23 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, Turkey, and the United Kingdom. Approximately 56% of our principal facilities are used by the Chassis Systems segment, 19% are used by the Occupant Safety Systems segment and 25% 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 56% of such facilities are owned, 40% are leased, and 4% 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 February 3, 2005 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.

Chassis Systems

<u>Principal Use of Facility</u>	<u>North America</u>	<u>Europe</u>	<u>Asia Pacific(2)</u>	<u>Other</u>	<u>Total</u>
Research and Development	4	4	2	1	11
Manufacturing(1)	23	34	12	5	74
Warehouse	1	6	1	1	9
Office	<u>5</u>	<u>8</u>	<u>8</u>	<u>—</u>	<u>21</u>
Total	<u>33</u>	<u>52</u>	<u>23</u>	<u>7</u>	<u>115</u>

Occupant Safety Systems

<u>Principal Use of Facility</u>	<u>North America</u>	<u>Europe</u>	<u>Asia Pacific(2)</u>	<u>Other</u>	<u>Total</u>
Research and Development	3	2	—	—	5
Manufacturing(1)	8	17	—	3	28
Warehouse	1	3	—	—	4
Office	<u>2</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>
Total	<u>14</u>	<u>22</u>	<u>—</u>	<u>3</u>	<u>39</u>

Automotive Components

<u>Principal Use of Facility</u>	<u>North America</u>	<u>Europe</u>	<u>Asia Pacific</u>	<u>Other</u>	<u>Total</u>
Research and Development	1	—	—	—	1
Manufacturing (1)	8	25	8	3	44
Warehouse	2	1	—	—	3
Office	<u>2</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>
Total	<u>13</u>	<u>26</u>	<u>8</u>	<u>3</u>	<u>50</u>

- (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 us or 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 and environmental matters.

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 Varsity in 1999 and became our wholly-owned subsidiary in connection with the Acquisition. We have cooperated with the investigation and are unable to predict the outcome of the investigation at this time.

On May 6, 2002, ArvinMeritor Inc. filed suit against Old TRW in the United States District Court for the Eastern District of Michigan, claiming breach of contract and breach of warranty in connection with certain tie rod ends that Old TRW supplied to ArvinMeritor and the voluntary recall of some of these tie rod ends. ArvinMeritor subsequently recalled all of the tie rod ends, claiming that it was entitled to reimbursement from Old TRW for the costs associated with both the products recalled by Old TRW and those recalled by ArvinMeritor on its own. On December 15, 2004, the parties reached an agreement to settle this dispute with no material effect on our financial condition, results of operations or cash flows.

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 average 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