TESTIMONY OF

KEVIN M. KENNEDY

EXECUTIVE VICE PRESIDENT OF NORTH AMERICA
TK HOLDINGS INC. ("TAKATA")

BEFORE THE

HOUSE COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE

HEARING ON

"AN UPDATE ON THE TAKATA AIRBAG RUPTURES AND RECALLS"

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Chairman Burgess, Ranking Member Schakowsky, and distinguished Members of the Subcommittee, I am honored to be here today on behalf of Takata and our employees in Michigan, Texas, across the United States, and around the world who are dedicated to making products that save lives.

For Takata, safety is more than an obligation; it is the core of who we are and what we do. We are proud that millions of Takata airbags have inflated properly, preventing thousands of deaths and avoiding serious injuries in hundreds of thousands of accidents. We are also proud of our seatbelts that save lives, the spacesuit materials we make to protect our astronauts, and all the other high-quality products Takata manufactures.

It is unacceptable to us and incompatible with our safety mission for even one of our products to fail to perform as intended and to put people at risk. We deeply regret each instance in which a Takata airbag inflator has ruptured, especially in those cases where someone has been injured or killed.

We understand how important it is to the driving public, Congress, the National Highway Traffic Safety Administration ("NHTSA"), and our automaker partners to address and resolve the safety concerns raised by the airbag ruptures, and we are committed to doing everything in our power to help achieve that goal.

So let me tell you what we are doing.

TAKATA'S AGREEMENT WITH NHTSA

After months of testing and analysis of returned inflators and extensive discussions and collaboration, we voluntarily agreed with NHTSA to take broad actions, in conjunction with the automakers, to respond to the public safety concerns.

This agreement contemplates dramatically expanded recalls—including in several instances ***nationwide*** recalls—encompassing various types of airbag inflators.

The proposed recalls and the related commitments we have made go well beyond the scope of the safety risk suggested by the current science and testing data.

There are two categories of airbags designed to protect vehicle occupants against front-end collisions: ***driver airbags***, located in the center of the steering wheel, and ***passenger airbags***, located in the dashboard. The agreement we reached with NHTSA

contemplates actions to replace several types of both driver and passenger airbag inflators.

I will describe how the agreement addresses each in turn.

Driver Airbag Inflators.

Most of the ruptures that have occurred in vehicles on the road have involved older versions of our driver airbag inflators. These are the driver inflators with the original "batwing-shaped" propellant wafers.

Our proposal is to replace all of these inflators through a national recall.

To date, there have been a total of 67 reported instances in the U.S. of such "field ruptures" involving these "batwing" driver inflators. Fifty-eight (58) of those ruptures occurred in vehicles that were already subject to previous recalls involving identified issues with the pressing of the propellant wafers in some of these inflators.

All of the fatalities and most of the injuries that have occurred in accidents with ruptured airbag inflators in the United States have involved batwing inflators.

To put these incidents in perspective, the 67 reported cases of field ruptures involving the older batwing driver inflators represent approximately 0.0087 percent of estimated total deployments of these airbags, or fewer than 9 failures out of every 100,000 deployments. In addition, most of these field ruptures occurred in regions of the country with high heat and high levels of absolute humidity.

In the past several months, Takata has conducted ballistic tests of more than 12,500 of these driver inflators, and 9 of them have ruptured during testing, or approximately 0.07 percent of the tested inflators. The inflators selected for this ballistic testing include a disproportionate number of older inflators returned from areas of high absolute humidity, so the percentage of failures seen in the testing results is likely to overstate the overall potential for rupture.

Whatever the precise probabilities, these figures show that the fraction of these inflators likely to experience a problem is extremely small. That is not meant in any way to minimize the issue. Even one rupture is too many. And six of the reported field ruptures of these driver inflators have involved fatalities. But these figures do help to put in perspective why Takata's Defect Information Reports ("DIRs") state that a safety-related defect ***"may arise"*** in ***"some"*** of these inflators. ***It is not the case that all of the inflators covered by the DIRs are "defective."***

The pattern of ruptures in areas of high heat and humidity is also consistent with the findings of the scientists that have spent years studying these issues. Takata has

engaged world-renowned experts in energetic systems from Germany's Fraunhofer Institute to conduct research into the root cause of the inflator ruptures and has also consulted with various engineering experts in the United States. We have shared all of that research with NHTSA and the automakers.

Based on this research and our ongoing testing and analysis of returned inflators, Takata's best current judgment is that the potential for rupture is related to long-term exposure, over a period of several years, to persistent conditions of high heat and high absolute humidity. In certain circumstances, these conditions can result in an alteration in the propellant wafers in the inflators that could potentially lead to over-aggressive combustion.

The research of our experts suggests that the potential for this long-term phenomenon to occur was not within the scope of the testing specifications prescribed by automakers or comprehended within the industry's inflator validation practice when the inflators were originally made.

The potential for rupturing may also be influenced by other factors, including the possibility of manufacturing issues, like those identified in earlier recalls.

Notwithstanding the science and testing data suggesting that the problem is focused on a small number of older inflators that have spent years in regions of high heat and absolute humidity, Takata has taken broader action. We have recommended that ***all*** of the batwing driver inflators ***in any vehicle registered anywhere in the United States*** be replaced in national recalls to be conducted by the affected automakers.

The national recalls recommended for these driver inflators will proceed in four stages. In order to prioritize the replacement of inflators where the safety need is greatest, the first stage will target older vehicles that have ever been registered in the Southern States, Hawaii, and territories where the levels of absolute humidity are higher than anywhere else in the country.

But the recalls will not stop there. Subsequent stages of the recalls will target the driver inflators manufactured in later years and vehicles registered in other States outside the areas of high humidity. The recalls will continue until we have replaced all of these driver inflators, from start of production to end of production, and they will include vehicles manufactured by five different automakers—Honda, BMW, Chrysler, Ford, and Mazda. The final stage of the recalls will include the replacement of batwing driver inflators that were previously installed as remedy parts in prior recalls.

Takata has also committed to cease producing these types of driver inflators. And we are working with our automaker partners to transition to newer versions of driver

inflators in our replacement kits or inflators made by other suppliers that do not contain ammonium nitrate propellant.

Passenger Airbag Inflators.

There have been far fewer field ruptures involving passenger airbags: 21 total reported instances in the U.S. to date (of which most occurred in vehicles subject to prior recalls), and none has involved a fatality. Nevertheless, our agreement with NHTSA also contemplates significantly expanded recalls covering several types of passenger airbag inflators.

One of these proposed recalls will be ***nationwide*** in scope. The other two will focus initially on high humidity States, but with the ***potential to expand*** to a nationwide recall if ordered by NHTSA after consideration of additional testing and consultations with Takata and the affected automakers. Specifically:

For one type of passenger inflator, we have recommended a nationwide recall that will proceed in four stages, according to the year the inflator was made. This recall will encompass all of the inflators of this type from start of production through vehicle model year 2008, and it will involve vehicles manufactured by eight different automakers.

The root cause assessment for the potential issue with these inflators includes the long-term exposure to high heat and absolute humidity discussed above, but it also includes the possibility of a manufacturing issue.

This type of passenger inflator has been involved in eight (8) reported field ruptures in the U.S., which represents approximately 0.004 percent of estimated deployments. While it has ruptured at a higher rate in Takata's ballistic testing (approximately 0.9 percent out of more than 5,900 tested), all but two of the test ruptures to date have involved inflators returned from high absolute humidity States. The two exceptions were inflators manufactured on the same day, which suggests the possibility of a discrete manufacturing issue.

Takata has committed to continue testing this type of inflator from later model years and to share this test data with NHTSA, in order to monitor whether additional action may be appropriate.

For two other types of passenger inflators, Takata has recommended recalls focused on particular models and model years of vehicles manufactured by certain automakers. The recalls will initially cover the relevant makes and models of these vehicles in Florida, Texas, and the other high absolute humidity States and territories. But there will be the potential for these recalls to expand later to other States and

potentially nationwide if NHTSA finds that the results of further testing show the need for an expansion, after consultation with Takata and the affected automakers.

The scope of the recalls recommended for these last two types of passenger inflators tracks the results of Takata's testing and analysis. While there have been 13 reported field ruptures of these inflators, representing approximately 0.0055 percent of estimated deployments, all have involved vehicles of the specific makes and models covered by our DIR and all were in vehicles that had spent years in the areas of high absolute humidity.

In addition, Takata's ballistic testing of these two inflator types has shown elevated rates of test ruptures for these inflators when returned from the areas of high absolute humidity and from the particular models covered in the DIR, and no test ruptures for the same types of inflators in other circumstances. These results show the clear importance of long-term exposure to an environment of high heat and absolute humidity. But they also indicate that something about the particular makes and models of these cars appears to be correlated with the potential for these inflators to rupture.

Takata has committed to NHTSA that we will continue to test these types of passenger inflators from other vehicles and from other States to help determine whether the scope of these recalls should be expanded.

IMPLEMENTING THE RECALLS

The Consent Order that we have agreed to with NHTSA makes clear that NHTSA will play a central role in overseeing the organization and implementation of these proposed recalls. NHTSA will convene meetings involving Takata and all of the affected automakers to organize and coordinate the staging of the recalls, so as to ensure that the remedy is appropriately prioritized to those vehicles where the public safety need is most immediate.

The Consent Order also requires Takata, after consulting with the automakers, to prepare a plan for NHTSA's approval that outlines the steps Takata will take, both on its own and in conjunction with the affected automakers, to maximize recall completion rates and to carry out further testing of inflators to help determine the safety and appropriate service life of the remedy inflators.

Because the recalls will only succeed if consumers bring their cars in for repair, we have committed to working with NHTSA and our customers to help inform consumers about the risks associated with some inflators, and to urge them to respond in a timely fashion to the recalls that are being implemented.

To this end, we are in the process of developing a proactive advertising campaign for NHTSA's approval that would be designed for implementation in conjunction with the automakers, in order to reach greater numbers of vehicle owners and help to ensure that the recall fulfillment rates will be as high as possible.

ADDITIONAL MEASURES

Let me say a bit more about Takata's extensive testing program and our ramped up production of replacement kits to address the needs of these recalls.

Since the hearing in December, we have continued to advance our investigation into the root cause factors associated with the inflator ruptures. We have performed ballistic tests on close to 50,000 inflators since September of last year, and that testing and analysis is ongoing. We also have performed live dissections, propellant analysis for moisture, chemical analysis, leak testing, and CT scanning.

We continue to fully support efforts by David Kelly and the automakers to do additional testing and analysis. And we welcome NHTSA's decision to do its own testing, as well as to coordinate with us on our testing.

In addition to supporting these ongoing testing efforts, we are continuing to support the work of the independent Quality Assurance Panel, led by former Secretary of Transportation Samuel K. Skinner, to ensure that best practices are in place for the production of safe inflators. We are committed to adopting the recommendations his panel puts forth, and sharing the findings of the report with you and with the public.

Since December, we also have substantially ramped up our production of replacement kits to fulfill automaker orders. In December, we were producing approximately 350,000 kits per month. In May, we produced approximately 700,000 units. By September, we expect to be producing 1 million per month. That is the capacity that is primarily directed to production for the U.S. market.

And we continue to work with other inflator suppliers to further increase production of replacement inflators to meet anticipated demand. In fact, half of the replacement kits we shipped to our automaker customers in May contained inflators made by our competitors. By the end of the year, we expect that number to reach approximately 70 percent. As of today, only one driver airbag replacement kit is on back order, and we will have that remedied in two weeks.

CONCLUSION

In closing, I want to emphasize that we have confidence in the inflators we are producing today. We have confidence in the integrity of our engineering and our current

manufacturing processes. We believe that, properly manufactured and installed, these inflators will work as designed to save lives.

Of course, we know that the proof is in the data, and that is why we have enlisted the assistance of the Quality Assurance Panel and why we have agreed with NHTSA to conduct ongoing testing, including of our remedy parts.

We will continue to do everything we can to ensure uncompromised safety for our customers and the success of the recall efforts, and we will keep Congress, NHTSA, and the public updated on our progress.

Thank you, Mr. Chairman.

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