



Takata Airbag Tort Compensation Trust Fund

Audited Special-Purpose Financial
Statements with Supplementary Information
Period from April 10, 2018 (Inception) to
December 31, 2018

Takata Airbag Tort Compensation Trust Fund

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Takata Airbag Tort Compensation Trust Fund

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Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean, VA 22102

Independent Auditor's Report

Trustees
Takata Airbag Tort Compensation Trust Fund
Boston, Massachusetts

We have audited the accompanying special-purpose financial statements of Takata Airbag Tort Compensation Trust Fund (the Trust) (a statutory trust created under the laws of the State of Delaware), which comprise the special-purpose statements of assets, liabilities, and claimants' equity as of December 31, 2018, and the related special-purpose statements of changes in claimants' equity and the special-purpose statements of cash flows for the period from April 10, 2018 (Inception) through December 31, 2018, and the related notes to the special-purpose financial statements.

Management's Responsibility for the Special-Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with the basis of accounting as described in Note 2 to the special-purpose financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these special-purpose financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special-purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special-purpose financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the special-purpose financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the assets and liabilities of Takata Airbag Tort Compensation Trust Fund as of December 31, 2018, and the additions, deductions, and cash flows for the period from April 10, 2018 (Inception) through December 31, 2018, in accordance with the basis of accounting described in Note 2 to the special-purpose financial statements.

Basis of Accounting

We draw attention to Note 2 of the special-purpose financial statements, which describes the special-purpose basis of accounting. As described in Note 2 of the special-purpose financial statements, these special-purpose financial statements were prepared on a special-purpose basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter. The special-purpose basis of accounting has been used in order to communicate the amount of net assets presently available to fund current and future claimants.

Restriction of Use

Our report is intended solely for the information and use of the Trust and is not intended to be and should not be used by anyone other than the specified party. This restriction is not intended to limit the distribution of this report which, upon filing with the United States Bankruptcy Court for the District of Delaware, is a matter of public record.

BDO USA, LLP

McLean, Virginia
April 22, 2019

Special-Purpose Financial Statements

Takata Airbag Tort Compensation Trust Fund
Special-Purpose Statement of Assets, Liabilities and Net Claimants' Equity

December 31, 2018

Assets

Cash and cash equivalents	\$ 509,483
Investments	128,920,120
Interest receivable	106,021

Total assets 129,535,624

Liabilities

Accounts payable and accrued expenses	308,199
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Total liabilities 308,199

Net claimants' equity \$ 129,227,425

See accompanying notes to the special-purpose financial statements.

Takata Airbag Tort Compensation Trust Fund
Special-Purpose Statement of Changes in Net Claimants' Equity

Period from April 10, 2018 (Inception) to December 31, 2018

Additions

Initial funding	\$ 133,906,272
Interest income	1,632,807

Total additions	135,539,079
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Deductions

Operating expenses	6,311,654
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Total deductions	6,311,654
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Increase in net claimants' equity	129,227,425
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Net claimants' equity

Beginning of the period	-
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End of the period	\$ 129,227,425
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See accompanying notes to the special-purpose financial statements.

Takata Airbag Tort Compensation Trust Fund

Special-Purpose Statement of Cash Flows

Period from April 10, 2018 (Inception) to December 31, 2018

Cash flows from operating activities:

Increase in net claimants' equity	\$ 129,227,425
Adjustments to reconcile the increase in net claimants' equity to net cash provided by operating activities:	
Changes in operating assets and liabilities	
Interest receivable	(106,021)
Accounts payable and accrued expenses	308,199

Net cash provided by operating activities 129,429,603

Cash flows from investing activities:

Purchases of treasury bills	(558,675,335)
Maturities of treasury bills	429,755,215

Net cash used for investing activities (128,920,120)

Net increase in cash and cash equivalents 509,483

Cash and cash equivalents at the beginning of the period -

Cash and cash equivalents at the end of the period \$ 509,483

See accompanying notes to the special-purpose financial statements.

Takata Airbag Tort Compensation Trust Fund

Notes to the Special-Purpose Financial Statements

1. Description of the Trust

The Trust was established on April 10, 2018, as a Delaware Statutory Trust under the laws of the State of Delaware pursuant to an order of the U.S. Bankruptcy Court for the District of Delaware (Bankruptcy Court) pursuant to the Fourth Plan Supplement pursuant to the Fifth Amended Joint Chapter 11 Plan of Reorganization of TK Holdings Inc. and its Affiliated Debtors, filed March 26, 2018 (Plan). The Trust is governed by the provisions of the Trust Agreement dated as of April 10, 2018 (Trust Agreement), the Second Amended Trust Distribution Procedures (TDP), and related Bankruptcy Court approved documents. The provisions of the Trust Agreement, the TDP, and the approved documents are enforceable by the Bankruptcy Court, and, after the close of the TK Holdings Inc. Chapter 11 case, by the U.S. District Court for the District of Delaware (District Court).

The purpose of the Trust is to administer, process, settle, resolve, liquidate and pay certain claims for personal injury or wrongful death caused by the rupture or aggressive deployment of a Takata phase-stabilized ammonium nitrate airbag inflator, as set forth in the Trust Agreement and the TDP, and to preserve, hold and manage the Trust assets for use in paying such claims.

The Trust is administered by the Trustee, whose appointment was approved by the Bankruptcy Court. Eric D. Green was appointed Trustee of the Trust by the Bankruptcy Court. Wilmington Trust, N.A. serves as Delaware Trustee to the Trust.

The Trust is subject to certain review and consent procedures of the PSAN PI/WD Trust Advisory Committee, the PSAN PI/WD OEM (Original Equipment Manufacturers) Advisory Committee, and the Future Claimants' Representative.

The Trust is separate from the Individual Restitution Fund (IRF), established by the United States District Court for the Eastern District of Michigan (Michigan District Court) to compensate claimants for certain personal injuries or wrongful deaths caused by the rupture or aggressive deployment of a Takata phase-stabilized ammonium nitrate airbag inflator. The Trust and the IRF are designed to complement each other and to work in tandem to make distributions to claimants who seek compensation from the Trust and the IRF. Pursuant to the order of the Michigan District Court, the Trustee serves as Special Master of the IRF.

2. Summary of Significant Special-Purpose Accounting Policies

Basis of presentation

The Trust's financial statements are prepared using special-purpose accounting methods adopted by the Trustee, which differs from accounting principles generally accepted in the United States of America (GAAP). The special-purpose accounting methods were adopted in order to communicate to the beneficiaries of the Trust the net claimants' equity available for the payment of claims and the operating expenses of the Trust. Since the accompanying special-purpose financial statements are not based upon GAAP, the accounting treatment by other parties for these same transactions may differ as to timing and amount. The special-purpose accounting methods include the following:

- Trust assets are generally recorded when they are received by the Trust and are available for the payment of claims and the operating expenses of the Trust. The trust has recorded a receivable for interest earned but not received as of December 31, 2018.

Takata Airbag Tort Compensation Trust Fund

Notes to the Special-Purpose Financial Statements

- Certain assets of the Trust are restricted for the payment of certain claims and expenses related to such claims.
- Future fixed liabilities under contractual obligations and other agreements entered into by the Trust are recorded as deductions from net claimants' equity in the same period that such contractual obligations or agreements are signed. Under GAAP, liabilities and contractual obligations are recorded over the period that is benefited by the underlying contract or agreement.
- Payments for services to be received over an extended period in the future are expensed as paid because these amounts are no longer available for the payment of claims or operating expenses. Under GAAP, an asset would be recorded and amortized over the period in which the related benefits are received. The trust has accrued for expenses incurred but not paid as of December 31, 2018
- Payments for property and equipment are expensed as incurred. Under GAAP, payments for property and equipment are capitalized and depreciated over the useful lives of the assets. To date, the Trust has incurred no expenses related to purchases of property and equipment.
- Under GAAP, a provision for income taxes is recorded based upon income reported for financial statement purposes, and federal income taxes currently payable and changes in deferred taxes due to differences between financial reporting and tax bases of assets and liabilities. Under GAAP, deferred taxes including measuring the benefit from the future use of net operating losses generated. The Trust records income tax expense (or benefit) associated with amounts payable (or receivable) under current federal income taxes, and does not record a provision for (or benefit from) deferred taxes. Accordingly, there is no provision for (or benefit from) deferred taxes.
- Under GAAP, for financial statement disclosure purposes all investments would be categorized based on the priority of inputs used to measure fair value. Under GAAP, inputs used in measuring fair value are categorized into three levels. Level 1 includes inputs that are based upon quoted prices for identical instruments traded in active markets. Level 2 includes inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment. Level 3 includes inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. The accompanying special-purpose financial statements do not categorize investments into these levels.

Use of estimates

The preparation of financial statements in conformity with the special-purpose accounting methods described above requires the Trust to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the disclosures of contingent assets and liabilities at

Takata Airbag Tort Compensation Trust Fund

Notes to the Special-Purpose Financial Statements

the date of the special-purpose financial statements, as well as the reported amounts of additions and deductions to the net claimants' equity during the reporting period. Actual results could differ from those estimates and such differences could have a material effect on the net assets available for the payment of claims.

Investments

The Trust generally invests its cash assets in U.S. Treasury bills. As of December 31, 2018, all of the Treasury bills had maturities of less than twelve months.

Accounts payable and accrued expenses

Accrued expenses and accounts payable consist of accruals and outstanding invoices associated with managing the Trust that had not been paid as of December 31, 2018.

Operating expenses

Operating expenses of the Trust are paid from the Trust's cash assets when invoices are received.

Income taxes

The Trust is classified as a Qualified Settlement Fund pursuant to the Internal Revenue Code and Regulations thereunder (the Code). In general, a Qualified Settlement Fund is subject to federal income taxes based on modified gross income, as defined by the Code. For the year ended December 31, 2018, the Trust did not incur any federal income tax liability. During the period from April 10, 2018 through December 31, 2018 the Trust generated a net operating loss of \$4,773,000. As disclosed in Note 2 to the special-purpose financial statements, the Trust does not record a provision for (or benefit from) deferred taxes. Accordingly, there is no provision for a deferred tax asset associated with net operating losses.

The Trust is not subject to state income taxes and, therefore, the special-purpose financial statements do not include any provision or liability for state income taxes.

Risks and uncertainties

The Trust's assets that are exposed to credit risk consist primarily of cash and cash equivalents, and investments in Treasury bills. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Trust has never experienced any losses related to these balances.

Pursuant to a Bankruptcy Court approved investment policy for the Trust, the Trust invests a majority of its assets in U.S. Treasury bills which generate interest income. The amount of interest income to be earned by the Trust will be subject to fluctuations of yield based upon market conditions.

3. Initial Funding

The Trust was funded approximately \$133.9 million of cash contributed by TK Holdings, Inc. and Affiliated Debtors, including Participating Original Equipment Manufacturers (POEM) assets, pursuant to the Plan and related court approved agreements. POEM assets contributed to the Trust

Takata Airbag Tort Compensation Trust Fund

Notes to the Special-Purpose Financial Statements

were \$10.5 million. POEM assets are available to the Trust to secure contribution obligations of the POEM in satisfaction of POEM claims and POEM expenses. For the year ended December 31, 2018, the only POEM party was Honda/Acura.

4. Related Parties

Pursuant to Bankruptcy Court approved agreements, the Trustee performs his duties under the Trust Agreement, the TDP and the related documents through retention agreements with several service providers, including Resolutions, LLC, which is a related party to the Trustee. For the period from April 10, 2018 (Inception) through December 31, 2018, the Trust incurred \$1,426,044 for services performed by Resolutions, LLC. As of December 31, 2018, the Trust had \$141,574 payable to Resolutions, LLC for services performed during the period from April 10, 2018 (Inception) through December 31, 2018.

5. Contingent Liabilities

The Trust Agreement subjects the Trust to certain indemnification obligations that may result in future claims against the Trust. The probability of such claims cannot be reasonably determined. Accordingly, no associated liability has been recorded in the accompanying special-purpose financial statements. Such claims, if any, are not expected to be material. The Trust has obtained liability insurance with respect to its obligations to indemnify the Trustee, the members of the Trust Advisory Committee, the Future Claimants' Representative and certain service providers to the Trust.

6. Trust Liability Insurance

The Trust purchased liability insurance requiring premiums of \$287,850 in 2018 for the policy term through November 11, 2022. In addition, the Trust purchased supplemental liability insurance for the Future Claimants' Representative, requiring premiums of \$37,800 for the policy term through October 10, 2019, and for the Trustee, requiring premiums of \$49,250 for the policy term through November 1, 2019. The Trust's special-purpose accounting policy is to expense in the current period any amounts that will not be available to pay future claims or operating expenses of the Trust. Accordingly, insurance premiums paid were recorded as reductions in net claimants' equity during the period from April 10, 2018 through December 31, 2018.

7. Claim Liabilities

The TDP is designed to provide an efficient process to fairly and reasonably compensate, as swiftly as possible, certain valid personal injury and wrongful death claims as set forth in the Trust Agreement and the TDP. The TDP distinguishes between (i) TD (Takata Defendant) claims, which are current and future personal injury or wrongful death claims arising out of the rupture or aggressive deployment of a Takata phase-stabilized ammonium nitrate airbag inflator (other than POEM claims), and (ii) POEM claims which are current and future personal injury or wrongful death claims arising out of the rupture or aggressive deployment of a Takata phase-stabilized ammonium nitrate airbag involving a vehicle manufactured or sold by a POEM. By agreement with the POEM, the Trust has the goal of fully compensating POEM claims through additional POEM contributions to the Trust.

The TDP establishes a relative valuation process adopted from and approved by the Michigan District Court with respect to the IRF. That valuation process classifies each compensable claim into an injury category which will be assigned points. The points assigned to each claim will be converted

Takata Airbag Tort Compensation Trust Fund

Notes to the Special-Purpose Financial Statements

into a monetary award based on the value of each point. The dollar value of each point may be adjusted periodically in accordance with the provisions of the TDP.

As of December 31, 2018, the valuation process with respect to claims and the dollar value of each point was still under review by the Trustee, the Trust Advisory Committee, the Future Claimants' Representative, the OEM Advisory Committee, and their professional advisors. As of December 31, 2018, the Trust had not made any distributions for TD claims or POEM claims.

8. Subsequent Events

The Trust has evaluated its December 31, 2018, special-purpose financial statements for subsequent events through April 22, 2019, the date the special-purpose financial statements were available to be issued. The Trust is not aware of any subsequent events which would require recognition or disclosure in the special-purpose financial statements.

Takata Airbag Tort Compensation Trust Fund

Supplementary Information

Period From April 10, 2018 through December 31, 2018

Independent Auditor's Report on Supplementary Information

Trustees
Takata Airbag Tort Compensation Trust Fund
Boston, Massachusetts

Our audits of the special-purpose financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those special-purpose statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the special-purpose financial statements. The information has been subjected to the auditing procedures applied in the audits of the special-purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose financial statements or to the special-purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the special-purpose financial statements as a whole.

BDO USA, LLP

McLean, Virginia
April 22, 2019

Takata Airbag Tort Compensation Trust Fund

Supplementary Schedule of Operating Expenses

Period from April 10, 2018 (Inception) through December 31, 2018

Legal fees and expenses	\$ 2,620,406
Trustee fees and expenses	1,466,350
Claims administrator fees and expenses	756,315
Future Claimants' Representative and Future Claimants' Representative Counsel fees and expenses	666,336
Insurance expenses	374,900
Other professional fees and expenses	232,885
Accounting fees and expenses	97,560
Trust Advisory Committee fees and expenses	96,610
Miscellaneous operating expenses	292
Total operating expenses	\$ 6,311,654

See independent auditor's report on supplementary information.