



TO: A123 Customers, Partners, Investors and all other Stakeholders
FROM: David Vieau, CEO
RE: Livonia Prismatic Cell Field Campaign
DATE: March 26, 2012

A123 Systems is committed to designing, developing and manufacturing quality batteries and energy storage systems that deliver high performance and value for our customers.

Recently, a small number of battery packs in the field experienced a malfunction, and when we inspected these packs to determine the cause, we discovered the existence of this defect. Upon further investigation, we determined that the root cause to be the incorrect calibration of one of four automated tab welding machines in the prismatic cell manufacturing process at our Livonia facility. This caused a misalignment of a certain component in some prismatic cells.

This defect was undetected by our standard visual and electrical inspection yielding cells which initially met specification. When the prismatic cells with the undetected defect were subsequently compressed as part of the standard module assembly process, a mechanical interference was created between the misplaced component and the foil pouch which contains the cell. In certain cases, this interference can breach the foil pouch electrical insulation, causing an electrical short which can cause premature failure of the battery module or pack, including a decrease in performance and reduced battery life.

We have isolated the root cause of the defective cells to this single automated welding machine, and have recalibrated it to conform with the other three automated welding machines at the Livonia facility. Cells made using these other three machines are not defective, giving us confidence that we have pinpointed the source of the defect and corrected it.

As a result of engineering analysis and testing, we believe the defect does not create a safety issue. A123 has not received or discovered any reports of injury or property damage related to this situation. We maintain that our core Nanophosphate[®] chemistry and our systems are safe, and this situation is ultimately a packaging issue for which we have identified the root cause and are taking corrective action.

In response to this situation, A123 has voluntarily launched a field campaign to replace all battery modules and packs that may contain defective cells.

While we cannot discuss the specific customers that are part of this campaign, there are five transportation customer production programs that have received products from A123 that potentially have defective cells. We are working with these customers to develop a schedule to get them replacement packs and modules to quickly remedy the situation. We have begun building replacement systems and expect to begin shipping them this week.

It is important to reiterate that this defect has been discovered only in some prismatic cells manufactured at our Livonia, Michigan facility. Customers using modules and packs built on prismatic cells produced at another A123 facility are not impacted by this defect.

Further, the cylindrical cells we make at our facilities in China that are used by BMW and a number of other transportation customers, as well as for the majority of our grid energy storage systems and commercial applications, are not impacted. These cells, along with the modules and packs built using them, continue to deliver their expected performance capabilities and this campaign will not disrupt any customer programs using cylindrical cells.

In parallel with this campaign, as we have discussed previously, we continue to implement actions that we believe will improve operations and minimize the possibility of quality issues going forward. This includes hiring a Chief Operating Officer, Ed Kopkowski, who has more than 25 years of global management and operational leadership in improving quality and reducing costs.

As for the financial impact of this campaign, we anticipate that the cost of replacing the affected customer modules and packs will be approximately \$55 million and we expect it will be funded over the next several quarters. We have sufficient liquidity to fund this campaign, but expect this situation will require us to adjust our fund-raising strategy. We plan to provide an updated outlook during our next quarterly earnings call.

A123 has made hundreds of thousands of high-quality prismatic cells at another facility, so while the initial rapid ramp up of our Michigan operations to satisfy customer demand has resulted in near-term operational challenges, we are confident in our ability to overcome these issues. While we make no excuses and accept full responsibility for this situation, we believe that we have taken corrective actions to address this problem and improve our operations to move forward and continue delivering high-quality products to our customers.

We are working around the clock, from the senior management team down through the rest of the organization, to focus on executing the necessary actions as quickly and thoroughly as possible to resolve this situation. Going forward, we will remain as transparent as possible to provide updates as we progress through this field campaign. We have set up a page on our Web site where we will provide updates as we can make them available.

In closing, I want to add that we are disappointed and frustrated by this unexpected situation and empathize with customers, partners, investors, employees and other key A123 stakeholders who may be disheartened, but we are also focused and remain unwavering in our commitment to growing the company.

We continue to believe we have an innovative technology that is helping to solve some of the most pressing issues our time by enabling next-generation solutions, and we will devote our full resources to fixing this situation, putting it behind us and move forward toward what we believe will be a bright future for A123.

Thank you for your continued support of A123 Systems.

David Vieau
CEO, A123 Systems