

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, C. c-36, AS
AMENDED

AND IN THE MATTER OF JAPAN AIRLINES
CORPORATION, JAPAN AIRLINES INTERNATIONAL CO.,
LTD., AND JAL CAPITAL CO., LTD.

Applicants

APPLICATION UNDER PART IV OF THE *COMPANIES'
CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36
AS AMENDED

**FIRST REPORT OF PRICEWATERHOUSECOOPERS INC.
(AS PROPOSED SUBSTITUTE INFORMATION OFFICER)
JUNE 6, 2011**

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**JAPAN AIRLINES CORPORATION, JAPAN
AIRLINES INTERNATIONAL CO., LTD., AND
JAL CAPITAL CO., LTD**

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(AS PROPOSED SUBSTITUTE INFORMATION OFFICER)**

June 6, 2011

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE COMPANIES'
CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c.
C-36, AS AMENDED**

**AND IN THE MATTER OF CERTAIN PROCEEDINGS
TAKEN IN THE CORPORATE REORGANIZATION
ACT OF JAPAN (KAISHA KOSEI HO) (THE "JRA")
BEFORE THE TOKYO DISTRICT COURT, CIVIL
DEPARTMENT NO. 8**

**APPLICATION OF JAPAN AIRLINES CORPORATION, JAPAN AIRLINES
INTERNATIONAL CO., LTD., AND JAL CAPITAL CO., LTD UNDER
SECTION 46 OF THE
COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED**

**FIRST REPORT OF PRICEWATERHOUSECOOPERS INC.
(AS PROPOSED SUBSTITUTE INFORMATION OFFICER)**

June 6, 2011

INTRODUCTION

- 1) On January 19, 2010, Japan Airlines Corporation, including wholly owned subsidiaries Japan Airlines International Co., Ltd. ("**JALI**") and JAL Capital Co., Ltd. (collectively, "**JAL**" or the "**Company**"), commenced restructuring proceedings under the Corporate Reorganization Act of Japan (*Kaisha Kosei Ho*) (the "**JRA**") before the Tokyo District Court, Civil Department No. 8 ("**Japan Proceeding**").
- 2) Pursuant to the commencement of proceedings under the JRA, the Tokyo District Court (the "**Japanese Court**") appointed the Enterprise Turnaround Corporation of Japan ("**ETIC**"), a fund established by the Japanese government to help distressed entities, and Eiji Katayama, as trustees (collectively, the "**Trustees**") in the Japan Proceeding, with

full authority to administer JAL's assets and ultimately formulate a plan of reorganization.

- 3) On January 19, 2010, Eiji Katayama (the "**Foreign Representative**") sought certain protections in the United States pursuant to chapter 15 of title 11 of the United States Code ("**Chapter 15 Proceedings**").
- 4) On April 30, 2010 (the "**Filing Date**"), the Foreign Representative brought an application (the "**Recognition Proceeding**") before the Canadian Court pursuant to Part IV of the Companies' Creditors Arrangement Act, *R.S.C. 1985, c. C-36*, as amended (the "**CCAA**"), and obtained an order (the "**Canadian Recognition Order**"), which among other things: (i) recognized the Japan Proceeding as a "foreign main proceeding"; (ii) granted a stay of proceedings in Canada against the Company; and (iii) appointed Deloitte & Touche Inc. ("**Deloitte**") as Information Officer.
- 5) The Company put forward a Reorganization Plan in the Japan Proceeding, which was accepted by the requisite majority of creditors and approved by the Japanese Court. On March 28, 2011, the Japanese Court determined that JAL's restructuring proceeding was complete as JAL had repaid more than two thirds of the monetary claims provided for in the Reorganization Plan (as defined below).
- 6) JAL, through the Foreign Representative now seeks an order, *inter alia*, recognizing implementing and giving effect to the order of the Japanese Court confirming the Reorganization Plan, recognizing and implementing the Reorganization Plan in Canada and terminating the stay of proceedings granted in the Canadian Recognition Order (as defined below).
- 7) As discussed below, the Foreign Representative and the Company have also requested that PricewaterhouseCoopers Inc. ("**PwC**") be substituted in place of Deloitte as Information Officer. PwC understands that this request is made for continuity and efficiency as the licensed trustee in bankruptcy with responsibility for the JAL engagement has moved from Deloitte to PwC. PwC consents to act as the Information Officer in these proceedings in the event that this Court grants the substitution motion. PwC is writing this report as the proposed substitute Information Officer in the same manner as it would had it already been appointed as Information Officer by this Court.
- 8) The Canadian Recognition Order requires that the Information Officer report to the

Court at such times and intervals as it deems appropriate and, in any event, at least once every three months.

- 9) This report is the first report ("**First Report**") of PwC as the proposed substitute Information Officer which follows three prior reports by Deloitte, including a report dated July 30, 2010, a report dated September 24, 2010 and the final report of Deloitte dated April 29, 2011 (the "**Third Report**"). For purposes of clarity, this First Report is the fourth report prepared for this Honourable Court in respect of the JAL Restructuring Proceeding.

A. PURPOSE

- 10) The purpose of this First Report is to provide this Honourable Court with information concerning the following:
- a) Update on JAL's reorganization plan ("**Reorganization Plan**") to date;
 - b) Update on foreign proceedings;
 - c) The proposed substitution of the Information Officer; and
 - d) The proposed substitute Information Officer's recommendation with respect to the Foreign Representative's motion to recognize and implement the Reorganization Plan in Canada.

B. TERMS OF REFERENCE

- 11) In preparing this report, PwC mainly relied upon the Affidavit of Eiji Katayama sworn May 10, 2011 ("**Katayama Affidavit**") and filed by counsel for JAL in support of its motion returnable June 8, 2011. PwC has also relied upon unaudited financial information, the Company's books and records, and financial information prepared by the Company and its advisors, including the Trustees. In addition, PwC has examined publicly available information filed in the Japan Proceeding and this Recognition Proceeding. PwC has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, PwC expresses no opinion or other form of assurance on the information contained in this report.
- 12) Certain of the information referred to in this report may consist of or include forecasts

and/or projections. An examination or review of financial forecasts and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. Readers are cautioned that, since projections are based upon assumptions about future events and conditions that are not ascertainable, actual results may vary from the projections, even if the assumptions materialize, and the variations could be significant.

- 13) PwC has requested that JAL bring to its attention any significant matters or concerns that were not addressed in the course of its inquiries. Accordingly, this report is based solely on the financial and other information provided to PwC by the Company or otherwise made publicly available.

C. REORGANIZATION PLAN

- 14) The following is a summary of JAL's Reorganization Plan and status in order to provide this Honourable Court with an overview as part of JAL's motion to recognize and implement the Reorganization Plan in Canada ("**Recognition Order**"). For a more detailed overview of the Reorganization Plan and applicable details please refer to the Third Report and the Katayama Affidavit.

Claims and results of voting

- 15) For purposes of voting, there were two classes of claims, secured and unsecured. The unsecured creditor classes consisted mainly of (i) holders of the Yen and Euro denominated bond, (ii) tax claims, and (iii) labour-related claims. The following is a summary of the admitted secured and unsecured claims:

Summary of Claims	
Type	Amount
Secured Claims	¥295,985,304,221
Unsecured Claims	
Bondholders / Other *	¥1,356,060,792,878
Tax	¥3,362,174,540
Labour-related	¥3,928,599,864
Other - USD	US\$811,831,558
Other - KSW	KSW17,896,949

* Over ¥1 trillion of these claims relate to Euro and Yen bond holder claims

- 16) Under the JRA, the voting percentages for secured creditors had to be approved by two thirds of the debtor's secured creditors by total claim amount and unsecured creditors must vote in favor of the plan by a majority of the aggregate claim amount. The following table summarizes the votes by the respective JAL applicants:

Applicant	Secured Claim Approval %	Unsecured Claim Approval %
JAC	100.00%	96.43%
JALI	100.00%	96.79%
JCC	96.56%	99.29%

- 17) As noted in the Katayama Affidavit, there were no Canadian creditors that were compromised or filed a claim as it relates to the Reorganization Plan, excluding the class-action creditors that are discussed below.

Source of Funds and Status of Claims

- 18) JAL's ability to fund the distributions under the Reorganization Plan were based on the following sources of funds;
- a) Cash, deposits and operating revenue;
 - b) Paid-in capital for issuance of new shares;
 - c) A ¥350 billion investment by ETIC in exchange for 175 million shares of JALI;

- d) Proceeds from the sale of assets in the amount of ¥2.6 billion; and
 - e) Using part of the ¥255 billion in financing JAL received from 11 financial institutions.
- 19) The Katayama Affidavit details that all claims (as compromised under the Reorganization Plan), excluding claims that are in dispute and liabilities that were guaranteed by JALI, have been paid in full.
- 20) The following is a summary of all claims paid in full as at the date of this report;
- a) Secured claims – On March 28, 2011 JAL paid ¥298,601,100,613, which represents full satisfaction of the secured claims admitted plus an additional amount for proceeds from the sale of assets.
 - b) Unsecured claims – Yen bond holders – On February 18, 2011, JAL paid the amount of ¥5.92 billion to satisfy the claim of the holders of the Yen bonds.
 - c) Unsecured claims – Euro bond holders – On February 22, 2011, JAL paid the amount of ¥2.52 billion to satisfy the claim of the holders of the Euro bonds.
 - d) Unsecured claims – Domestic corporate bonds – These were claims in respect of bonds held by the Japanese public which were paid in full by March 28, 2011.
 - e) Unsecured claims – Retirement pension claims – These pension claims were paid in full by March 28, 2011.
 - f) Unsecured claims – Tax liability – JAL received a waiver for a portion of these claims, with the remaining portion paid in full on December 20, 2010.
 - g) Unsecured claims – Other – As noted above, there were certain USD and KSW claims that PwC has been advised related to other unsecured debts claims that have been paid in full by March 28, 2011.
- 21) As noted in the summary above, JAL has expedited the payment of claims to its respective creditors, and in certain cases, has accelerated the time frame for such payments by seven years. As at the date of this report, PwC understands that all proven claims, except those discussed below, have been paid in full by JAL.

- 22) As noted above, the only claims that have not been paid as at the date of this report are those claims that are in dispute (“**Unresolved Claims**”) and those liabilities which were guaranteed by JAL (“**Guarantee Claims**”) but have not come due because the primary debtor has continued to pay these debts in the ordinary course. If JAL becomes liable for the Guarantee Claims, it will be treated as an unsecured claim, and 87% of the claim would be compromised. The value of these unpaid claims is approximately ¥19 billion.

Status of the Japanese Proceedings

- 23) On March 28, 2011, the Japanese Court, pursuant to the JRA, determined that JAL’s restructuring proceeding was complete. The Japanese Court made this determination based on the fact that JAL had repaid more than two thirds of the monetary claims provided for in the Reorganization Plan and was not in default of the Reorganization Plan.

D. STATUS OF CANADIAN AND FOREIGN PROCEEDINGS

Canada

- 24) The Reorganization Plan did not have an adverse impact on Canadian creditors. JAL and the Trustee have confirmed throughout these proceedings that all ordinary trade creditors and employees were paid in the normal course. Certain employees were offered early retirement packages during the course of the proceedings but no employees were adversely impacted by the Reorganization Plan.
- 25) As detailed in the Third Report and defined therein, the Canadian Cargo Settlement was approved by the relevant Canadian courts.
- 26) The Canadian Passenger Proceeding (as defined in the Third Report) remains outstanding as at the date of this First Report; however PwC is advised that JAL and the plaintiffs have entered into a settlement agreement (“Passenger Settlement Agreement”) that will be subject to court approval. As at the date of this report, the Passenger Settlement Agreement has not been put forward for approval. At such time as the Passenger Settlement Agreement is ready to be approved, PwC understands from discussions with Davies that such agreement will be put forward to the relevant Ontario court for approval, similar to the Canadian Cargo Settlement.

United States

- 27) PwC has been advised that there have been no material updates to JAL's restructuring proceeding in the United States. As noted in the Katayama Affidavit, JAL did not run a separate claims process in the United States and the U.S. Bankruptcy Court's initial order provided JAL with formal recognition of the Reorganization Plan in the United States.

United Kingdom

- 28) PwC has been advised by JAL that there are no material updates to JAL's proceedings in the United Kingdom.
- 29) JAL did not run a separate claims process in the United Kingdom, nor has JAL, as at the date of this report, sought formal recognition of the Reorganization Plan in the United Kingdom.

Australia

- 30) PwC has been advised by JAL that all matters relating to the Australian proceeding have been adjourned to October 27, 2011. JAL did not run a separate claims process in Australia.

E. SUBSTITUTION OF INFORMATION OFFICER

- 31) Mr. Paul van Eyk was the licensed trustee in bankruptcy with Deloitte who had primary carriage and knowledge of this matter. Mr. van Eyk resigned from Deloitte and in February 2011 became a partner with PwC. As disclosed in the Katayama Affidavit, the Foreign Representative wishes to have PwC appointed as Substitute Information Officer with Mr. van Eyk having primary responsibility to contain cost and maintain efficiency.
- 32) PwC has consented to act as Information Officer in these Recognition Proceedings, to assist the Company in this process by acting as liaison between the Foreign Representative, the Company and this Court and by providing information to the Company's Canadian stakeholders. PwC has established a website for the proceedings at www.pwc.com/ca/en/car where interested parties will be able to link to the JAL details.
- 33) In order to ensure there is complete transparency as it relates to the Recognition

Proceedings, PwC and Deloitte will ensure that proper details and appropriate website links are maintained on their respective websites to ensure that interested parties can access appropriate documents and reports either through PwC's or Deloitte's website.

- 34) Further, in keeping with the Company's goal of containing costs and maintaining efficiency, PwC intends to engage Mr. Stuart Brotman of Fasken Martineau DuMoulin LLP ("Fasken") as legal counsel. Mr. Brotman has been counsel for Deloitte throughout these proceedings.

F. RECOMMENDATION

- 35) The Foreign Representative is seeking a motion to terminate the stay of proceedings in the CCAA due to the fact that the restructuring has been approved and ordered to be completed by the Japanese Court and has been substantially completed. The Foreign Representative is not at this time seeking to terminate the CCAA proceedings due to the fact that there are certain Unresolved Claims and Guarantee Claims that have to be finalized.
- 36) It is PwC's recommendation that this Honourable Court grant the Foreign Representative's request for the Recognition Order to approve and implement the Reorganization Plan of JAL for the following reasons:
- a) JAL has completed its corporate reorganization, has finalized its equity investment from ETIC and has obtained new financing to secure payment for claims and fund ongoing operations;
 - b) All of JAL's secured claims have been paid in full as of March 28, 2011;
 - c) The Yen and Euro unsecured bond holder claims (as compromised) have been paid in full as of February 22, 2011;
 - d) The unsecured tax claims have been paid in full by December 1, 2010;
 - e) The unsecured labour claims have been paid in full by March 28, 2011;
 - f) The Guarantee Claims have an established and agreed upon mechanism for payment in the event they become due;

- g) Claims notices were sent to all known Canadian creditors, including the parties in the class-action proceedings and no Canadian creditors filed a claim in the JAL Restructuring (except for the class-action plaintiffs, whose claims were settled outside of the Reorganization Plan), nor were any Canadian creditors compromised as part of the Restructuring Plan;
 - h) JAL has continued to pay all Canadian employee costs and ordinary unsecured creditors as part of normal operation since JAL's filing in Japan;
 - i) Under the JRA, the voting percentages required to obtain formal proceedings greatly exceeded the minimum number of votes required; and
 - j) On March 28, 2011, the Japanese Court determined that the Japan Proceeding was complete due to the fact that JAL has repaid greater than two thirds of the monetary claims and was not in default of the Reorganization Plan.
- 37) Accordingly, PwC recommends that this Honourable Court grant the order requested by the Foreign Representative, recognizing and implementing the Reorganization Plan in Canada, as confirmed by the Japanese Court on November 30, 2010, and terminating the stay of proceedings.

All of which is respectfully submitted at Toronto, Ontario this 6th day of June, 2011.

PricewaterhouseCoopers Inc.
as Proposed Substitute Information Officer of
Japan Airlines Corporation,
Japan Airlines International Co., Ltd., and,
JAL Capital Co., Ltd.,
and not in its personal capacity



Paul van Eyk, CA-CIRP, CA-IFA
Senior Vice President

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, C. c-36, AS MENDED
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CV-10-8692-00CL

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