

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

SECOND REPORT OF PRICEWATERHOUSECOOPERS INC.

November 29, 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**

SECOND REPORT OF PRICEWATERHOUSECOOPERS INC.

November 29, 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.
- 6) On November 30, 2010 the Japanese Court confirmed the reorganization plan submitted by the Company ("**Japan Confirmation Order**"). On June 8, 2011 this Honourable Court recognized and approved the Japan Confirmation Order and Reorganization Plan and terminated the stay of proceedings granted in the Canadian Recognition Order. The Foreign Representative did not seek to terminate the CCAA proceedings due to the fact that there are certain Unresolved Claims and Guarantee Claims that had to be finalized (updated below).
- 7) On June 8, 2011 this Honourable Court also discharged Deloitte as Information Officer and approved their fees and expenses. Furthermore, PwC was approved as the Substituted Information Officer.
- 8) This report is the second report ("**Second Report**") of PwC as the Substituted Information Officer (hereafter referred to as the "**Information Officer**")

A. PURPOSE

- 9) The purpose of this Second Report is to provide this Honourable Court with information concerning the following:
 - a) Update on Unresolved claims and Guarantee claims;
 - b) Update on foreign proceedings; and
 - c) Update on the Canadian Passenger Proceedings.

B. TERMS OF REFERENCE

- 10) In preparing this report, PwC received an update from the Foreign Representative's external counsel in Canada, Davies Ward Phillips & Vineberg ("Davies"). 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.
- 11) 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.
- 12) 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. UNRESOLVED CLAIMS & GUARANTEE CLAIMS

- 13) 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.

- 14) As noted in the First Report of the Information Officer, the only claims that have not been paid as at the date of the First Report were those claims that were 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 became liable for the Guarantee Claims, it would be treated as an unsecured claim, and 87% of the claim would be compromised. The value of these unpaid claims was approximately ¥19 billion.
- 15) The Information Officer has been advised that ¥234,928,508 of Unresolved Secured Reorganization Claims, ¥2,533,177,495 and US\$38,669,825 of Unresolved Reorganization Claims have been settled and paid to creditors.
- 16) The Foreign Representative has also advised that a small portion of Guarantee Claims have become liable and paid by JAL. These Guarantee Claims related to debts guaranteed by JAL for employee debts on homes purchased or built that have subsequently been defaulted on by the employees. There has been no material Guarantee Claim made by any of JAL’s subsidiaries which represent the majority of the potential Guarantee Claims that could be made.

D. STATUS OF CANADIAN AND FOREIGN PROCEEDINGS

Canada

- 17) The Canadian Passenger Proceeding (as defined in the Third Report of Deloitte) remains outstanding as at the date of this Second 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.
- 18) As at the date of this Second Report, PwC has not had any enquiries from Canadian creditors.

United States

- 19) The Chapter 15 Proceedings are ongoing and PwC has been advised that there have been no material updates to JAL's restructuring proceeding in the United States since its First Report.

United Kingdom

- 20) The U.K. Proceedings are ongoing and PwC has been advised by JAL that there are no material updates to JAL's proceedings in the U.K. since its First Report.

Australia

- 21) PwC has been advised that counsel for JAL in Australia will be seeking an adjournment of the foreign main proceeding until 2012. There are no material updates to report.

E. CONCLUSION

- 22) 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 are still being finalized. The Information Officer will undertake to update the court as new information is presented to the Information Officer and/or there are any material changes.

All of which is respectfully submitted at Toronto, Ontario this 29th day of November, 2011.

PricewaterhouseCoopers Inc.

As 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