

## **JAL Received Decision on Support from the Enterprise Turnaround Initiative Corporation of Japan (ETIC) and the Court's Decision on Commencement of Corporate Reorganization Proceedings**

— JAL's corporate restructuring will proceed swiftly under sound procedures through the combination of receiving support from ETIC and in-court corporate reorganization proceedings. Commercial transaction claims and the frequent flyer miles will be fully protected. —

**Tokyo, January 19, 2010:** Japan Airlines Corporation, Japan Airlines International Co., Ltd. and JAL Capital Co., Ltd. (collectively, "JAL" or "we"), filed today, jointly with the Development Bank of Japan ("DBJ"), Japan Bank for International Cooperation, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Sumitomo Mitsui Banking Corporation (collectively, "Financial Institution Applicants"), an application to the Enterprise Turnaround Initiative Corporation of Japan ("ETIC") for support for our restructuring and received the decision from ETIC to provide support.

In addition, today JAL filed the petitions for commencement of corporate reorganization proceedings with the Tokyo District Court (the "Court"). The Court entered an order commencing the proceedings and appointed ETIC and Eiji Katayama, Esq. as reorganization trustees ("Trustees").

With respect to the certified alternative dispute resolution procedures as prescribed in the Act on Special Measures for Revitalization of Industrial Vitality and Innovation of Industrial Activities (the "Turnaround ADR Procedure") that JAL had begun, the termination of those procedures was decided by the Japanese Association of Turnaround Professionals ("JATP"), a private operator of the Turnaround ADR Procedure, prior to the filing of the petitions for commencement of corporate reorganization proceedings.

We hereby notify you of the above events and sincerely apologize to all of our shareholders, financial creditors, customers and suppliers and other parties concerned for the great inconvenience and concern this situation might cause.

The Trustees today obtained comprehensive Court approval authorizing JAL's continued payment of certain commercial transaction claims, including payments for fuel and other supplies and services, as well as leases and other related obligations. Also, JAL will be able to obtain the DIP financing from DBJ and ETIC, the amount of which will be sufficient to continue our business. Further, we understand that customers' airline tickets and frequent flyer miles will be fully protected and the frequent flyer program is expected to be continued as it has been conducted.

Therefore, the continuation of our group's flight operations will not be interrupted and our safe flight operations will



be surely performed. Additionally, effects on customers will be avoided and JAL Group's business will continue as it has been conducted. We sincerely ask for your kind understanding and cooperation.

While receiving the support from ETIC and sound assistance from related parties including the Japanese government, and under the supervision of the Court and the leadership of the Trustees, we are confident that the swift revitalization of JAL Group will be achieved after which JAL Group will be reborn as a leading airline group that could again lead the global airline industry.

## **1. Background of the Filing of Application to ETIC for Support for Our Restructuring and Filing of the Petitions for Commencement of Corporate Reorganization Proceedings**

Since it was established in 1953, JAL Group has been providing high-quality air transportation services based on safe and timely operations mainly through international airline networks. After the integration of Japan Airlines Corporation and Japan Air System Co., Ltd. in 2002, JAL Group has a 66% market share of international airline services and a 46% market share of domestic airline services in Japan and, as the largest airline company in Japan providing around 1,100 daily regular flights, has contributed to the convenience of domestic and international flight users as well as to public interests.

However, since the beginning of this century, several incidents such as the September 11th multiple attacks in the U.S., the outbreak of Severe Acute Respiratory Syndrome (SARS) and the Iraq War have contributed to the decline in demand especially for international flight services, which significantly affected JAL Group. In addition, there was a decline in tourism demand due to unprecedented soaring fuel prices and high fuel surcharges.

Under such circumstances, our group has made every effort to improve our group's business, including a decrease in the number of employees by improving employee productivity and efficiency, amendment of the wage system and retirement allowance system, decrease in employee-related costs by reducing lump-sum payments and other similar measures, improvements to the cost system by reviewing operation structures and business processes, intensive analysis of the profitability of international and domestic flight routes, and replacement of certain aircrafts and progress in downsizing. As a result, we gained operating profits in the first quarter of fiscal year 2008 for the first time since our consolidation in 2002, despite the fact that the first quarter is usually a low-demand quarter. However, the financial crisis that occurred in the fall of 2008 pushed the world economy into an unprecedented global recession and JAL Group also suffered a significant decline in sales due mainly to a decline in demand for international passenger service for business users and a sudden decline in demand for international cargo service. As a result of such circumstances, in June of 2009, JAL Group received loans in the total amount of 100 billion yen from DBJ and other private financial institutions.

Under such business circumstances, on October 29, 2009, "JAL Task Force", a professional Group consisting of



business restructuring specialists and established by the Minister of Land, Infrastructure, Transport and Tourism for the purpose of ensuring JAL Group's restructuring, reported to the Minister of Land, Infrastructure, Transport and Tourism the results of their examinations to the effect that it is appropriate that JAL Group's corporate restructuring should be conducted with the support of ETIC.

Thus, we began prior consultations with ETIC regarding support for our restructuring and, while pursuing the Turnaround ADR Procedure, we have continued to consult with ETIC. Today, after prior examination by ETIC, we filed, jointly with DBJ and other Financial Institution Applicants, an application to ETIC for support for our restructuring and received ETIC's decision to provide support. ETIC is a joint-stock corporation established and authorized by the Japanese government to provide support for the revitalization of certain corporations as stipulated by laws. We will receive public support for our restructuring as a result of this decision.

We also filed the petitions for commencement of corporate reorganization proceedings. Based on ETIC's suggestions, as we will receive public support through ETIC, we will use the Corporate Reorganization proceedings simultaneously with support from ETIC to ensure that our restructuring is conducted swiftly pursuant to transparent and fair procedures.

With respect to the Turnaround ADR Procedure that JAL had begun, today JAL offered to both of the JATP and appointed mediators (*Tetsuzuki Jisshisha*) to terminate the procedure. Having received our offer, as a result of discussion among the appointed mediators, the appointed mediators decided that it is appropriate to terminate the Turnaround ADR Procedure. Upon such decision, JATP decided to terminate the Turnaround ADR Procedure prior to the filing of the petitions for commencement of corporate reorganization proceedings.

## **2. Protection, Etc. of Commercial Transaction Claims**

Upon commencement of corporate reorganization proceedings, our restructuring will be conducted, while we will receive support from ETIC, under the supervision of the Court and the leadership of the Trustees. In order to ensure safe flight operations and maintain corporate value as much as possible, we believe that at least the following measures are indispensable. In this regard, we requested and obtained its consent that ETIC will take the following measures and maintain necessary funds for those measures.

### **(1) Protection of Commercial Transaction Claims**

In order to maintain the trust of our commercial related parties and to continue providing safe flight operations, protection of commercial transaction claims is indispensable. We are requesting that commercial transaction claims be protected under the Corporate Reorganization proceedings.

### **(2) Protection of Customers' Frequent Flyer Miles**



JAL's frequent flyer program has been used by many customers and has contributed substantially to its business operations. We are requesting that customers' frequent flyer miles be protected under the Corporate Reorganization proceedings.

### (3) Protection of Leasing Fees

In order for JAL to continue smooth flight operations, payment of the leasing fees regarding the aircrafts necessary for our flight operations is indispensable. We are requesting that the payment for the leasing fees will be continued as it has been conducted and that the leasing fee claims be protected under the Corporate Reorganization proceedings.

## 3. Outlook for Our Business Restructuring Plan

We believe that our business revitalization is sufficiently feasible through the adoption of the following measures:

### (1) Renewal of Aircraft and Reviewing Airline Routes

We believe that the proactive shift from low-efficiency large aircrafts to high-efficiency small aircrafts as well as regional jet aircrafts is necessary and restructuring and consolidation of underperforming routes are also necessary.

### (2) Review of the Workforce and Organization Structure

We believe that the following measures are necessary: the streamlining of headquarters; improvement of productivity by adjustment of the workforce, including aircraft mechanics, flight attendants and flight crews, to an appropriate scale; establishment of a new management system that will promote appropriate and timely decision-making and the appointment of younger management team members.

### (3) Establishment of the Business Operation System Optimizing Revenue

We believe that the following measures are necessary: establishing an operating system maximizing revenue by flexibly and swiftly planning flight routes and aircraft schedules in response to demand changes both in domestic and international routes; especially for international flights, conducting business operations under the Open Sky Policy by leveraging our multiple alliances to expand our networks, in addition to structuring flight routes to match business demand; as for local flights, by establishing a low-cost flight service model, satisfying demand for tourism and expanding the local network.

### (4) Focused Investment to Realize Business Strategy

We believe that a significant amount of investment is necessary for the renovation of aircrafts as necessary to maintain our competitiveness as well as investment in ground infrastructure such as IT systems.



## **4. Restructuring of the Pension System**

With respect to JAL Corporate Pension Funds, the consent of more than two thirds of each of pension rights holders (i.e., former employees) and current employees, and the consent of the JAL Labor Union, the largest labor union of JAL, have been obtained as to the amendment regarding the significant decrease in pension payments. Therefore, the amendment regarding the decrease of pension payments will be carried out subject to the approval of the Minister of Health, Labor and Welfare of such amendment of the pension plan. We requested that the intentions of pension rights holders and current employees who accepted such a great burden for our revitalization be respected. Also, we understand that the appropriate arrangements will be made to the effect that the pension system of JAL Corporate Pension Funds will be amended to reduce the pension payments pursuant to the proposed amendment agreed by the related parties and will be continued under the Corporate Reorganization proceedings supported by ETIC.

## **5. Responsibility of the Management of JAL**

In order to take responsibility as the management for causing our current situation, Haruka Nishimatsu, the Representative Director and President, today resigned and it is also expected that all of other directors will resign. However, it is expected that they will cooperate whenever any cooperation necessary to conduct our business is requested by the company under the Corporate Reorganization proceedings.

## **6. Management Structure**

The new management structure will be determined in early February. Meanwhile, it is expected that Masato Uehara, the Senior Managing Executive Officer, will be the Group Temporary Chief Operating Officer.

Lastly, we again apologize to all of our shareholders and other parties concerned for the great inconvenience and for causing concern. Hereafter, we, together with ETIC's support, the Court's supervision and the Trustee's leadership, intend to implement a comprehensive restructuring plan which will revitalize JAL's business. Thank you for your understanding and cooperation as we move forward with this process.

End

