

# Japan Airlines Back to Normal – Completion of the JAL Corporate Reorganisation

## Back to Normal after 1 Year, 2 Months Interval

On 28 March 2011, Japan Airlines ("JAL") successfully exited its corporate reorganisation proceedings following the approval of the Tokyo District Court (the "Court"). The corporate reorganisation proceedings of JAL commenced on 19 January 2010, and the Court approved its reorganisation plan on 30 November 2010. While companies typically take about 2 years to exit reorganisation proceedings, JAL managed to return to normal business by refinancing most of its reorganisation claims after 1 year, 2 months from the commencement of proceedings. In this briefing, we analyse how and why JAL exited very much ahead of the average timeframe.

## Early Exit from the Corporate Reorganisation Proceedings

Under the reorganisation plan approved by the Court, both secured reorganisation claims (*kosei tanpoken*) and unsecured reorganisation claims (*kosei saiken*) were scheduled to have been repaid in annual instalments over 7 years. As only 4 months had passed since the Court approved the reorganisation plan, this exit is very much ahead of schedule.

This is because Enterprise Turnaround Initiative Corporation of Japan (ETIC) wished to have JAL exit the reorganisation proceedings as early as possible. As introduced in previous Clifford Chance client briefings\*, ETIC, a quasi-governmental fund, acted as JAL's reorganisation trustee and led the reorganisation proceedings. As part of its support ETIC injected JAL with new capital of JPY350 billion and became the new 100% shareholder of JAL on 1 December 2010. However, ETIC is required by its statutory governing law to make efforts to exit within 3 years from the commencement of its involvement; that is, by January 2013. As a result, ETIC has needed JAL to exit from its reorganisation proceedings and to be re-listed as soon as possible.

### Key Issues

**Back to Normal after 1 Year, 2 Months Interval**

**Early Exit from the Corporate Reorganisation Proceedings**

**Refinancing and Capital Injection**

**Prospects**

**Related Links**

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\* **Application for Corporate Reorganisation Proceedings by JAL – New Turnaround Method?** (February 2010)  
[http://www.cliffordchance.com/publicationviews/publications/2010/02/application\\_for\\_corporatereorganisatio0.html](http://www.cliffordchance.com/publicationviews/publications/2010/02/application_for_corporatereorganisatio0.html)

**JAL Reorganisation Plan** (October 2010)

[http://www.cliffordchance.com/publicationviews/publications/2010/10/jal\\_reorganisationplan.html](http://www.cliffordchance.com/publicationviews/publications/2010/10/jal_reorganisationplan.html)

**Restart of Japan Airlines – Court Approval of the JAL Reorganisation Plan** (December 2010)

[http://www.cliffordchance.com/publicationviews/publications/2010/12/restart\\_of\\_japanairlines-courtapprovalofth.html](http://www.cliffordchance.com/publicationviews/publications/2010/12/restart_of_japanairlines-courtapprovalofth.html)

## Refinancing and Capital Injection

Since December 2010 ETIC had been in negotiation with 11 banks to refinance most of the reorganisation claims and, on 28 March 2011, JAL and ETIC successfully closed this refinancing. Reportedly, 11 banks, including DBJ, JBIC, BTMU, MHCBC and SMBC, refinanced JPY254.9 billion. According to the Nikkei newspaper, among these banks, DBJ refinanced JPY102.3 billion and JBIC refinanced JPY101.3 billion.

In addition, just before the refinancing, 8 Japanese companies (travel agency companies, insurance companies and others) injected JPY12.7 billion capital into JAL.

By utilising these refinancing facilities and the newly injected capital as well as the cash injected by ETIC, JAL repaid JPY395 billion of reorganisation claims. Consequently, the Court approved JAL's exit from its corporate reorganisation proceedings.

Under the Corporate Reorganisation Law of Japan (Law No. 154 of 2002), if 2/3 or more of reorganisation claims have been repaid and the reorganising company has not been in breach of the court approved reorganisation plan, the Court may approve the company's exit from the corporate reorganisation proceedings. The Court has some discretion not to approve the exit if the Court thinks the reorganisation plan is unlikely to be accomplished. However, in JAL's case, the Court approved the exit on the basis that JAL had repaid all the reorganisation claims other than certain small claims which amounts were not fixed in the reorganisation plan.

As a consequence, JAL has re-started as a normal company and with a new name (Japan Airlines Co., Ltd.) and is no longer under court-supervision. As a next step, ETIC, not as JAL's reorganisation trustee but as JAL's 96.5% shareholder, intends re-listing JAL by January 2013.

## Prospects

Although the corporate reorganisation proceedings have been successfully completed, JAL has to manage to make profits in an historically difficult situation following the devastating earthquake and nuclear power plant crisis in Japan. At its press conference on 28 March, the management of JAL admitted that passenger numbers had decreased by 28% for domestic flights and 25% for international flights after the earthquake. Rising oil prices, due to continuing political uncertainty in the Middle East, have only added to JAL's business pressures.

ETIC has to manage to exit its involvement with JAL despite these unusually difficult challenges and to pave the way for JAL's re-listing in less than 2 years. As a result, JAL's progress towards further normalisation continues to warrant close attention.

## Related Links

JAL's press release (English): [http://www.jal.co.jp/en/other/info2011\\_0328\\_02.html](http://www.jal.co.jp/en/other/info2011_0328_02.html)

Tokyo District Court Decision (English translation): <http://www.jal.co.jp/en/other/110328.pdf>

JAL's press release (Japanese): [http://www.jal.co.jp/other/info2011\\_0328\\_02.html](http://www.jal.co.jp/other/info2011_0328_02.html)

Tokyo District Court Decision (Japanese): <http://www.jal.co.jp/other/110328.pdf>

*Where Japanese legal concepts have been expressed in the English language, the concepts concerned may not be identical to the concepts described by the equivalent English terminology as they may be interpreted under the laws of other jurisdictions.*

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