OFFERING CIRCULAR

ANA HOLDINGS INC.

(incorporated in Japan with limited liability under the laws of Japan)

¥150,000,000,000 Zero Coupon Convertible Bonds due 2031

OFFER PRICE: 102.5 PER CENT

The ¥150,000,000,000 Zero Coupon Convertible Bonds due 2031 (the "Bonds") (being bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) which term shall, unless the context requires otherwise, include Stock Acquisition Rights (as defined below) incorporated in the Bonds of ANA HOLDINGS INC. (the "Company") will be issued in registered form in denominations of ¥10,000,000, each with a stock acquisition right (*shinkabu yoyakuken*) (a "Stock Acquisition Right", and collectively, the "Stock Acquisition Rights") exercisable on or after 24 December 2021 up to, and including, 26 November 2031, unless the Bonds have been previously redeemed or purchased and cancelled or become due and payable, entitling the Bondholder (as defined in the terms and conditions of the Bonds (the "Conditions")), to acquire fully-paid and non-assessable shares of common stock of the Company (the "Shares") at an initial Conversion Price (as defined in the Conditions), subject to adjustment in certain events as set out in the Conditions, of ¥2,883 per Share.

The closing price of the Shares as reported on the Tokyo Stock Exchange, Inc. (the "Tokyo Stock Exchange") on 24 November 2021 was ¥2,620.5 per Share.

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at 100 per cent of their principal amount on 10 December 2031. At any time on or after 10 December 2024, the Company may, but shall not be bound to, redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption, provided, however, that no such redemption may be made unless the Closing Price (as defined in the Conditions) of the Shares for each of the 20 consecutive Trading Days (as defined in the Conditions), the last of which occurs not more than 30 days prior to the date upon which the notice of redemption is first given, is at least 120 per cent of the Conversion Price in effect on each such Trading Day. Further, if, at any time prior to the date of the giving of the notice of redemption, the outstanding principal amount of the Bonds as at the date of such notice is less than 10 per cent of the aggregate principal amount of the Bonds as at the date of issue thereof, the Bonds may be redeemed in whole but not in part at 100 per cent of their principal amount, at the option of the Company as set out in the Conditions. The Bonds may also be redeemed by the Company in whole but not in part in certain other limited events (including Corporate Events (as defined in the Conditions)), at the percentage of their principal amount specified in the Conditions, as set out in the Conditions. The holder of any Bond is entitled, at its option, to require the Company to redeem such Bond at 100 per cent of its principal amount on 8 December 2028.

Payments of principal, premium (if any) and any other amount due in respect of the Bonds will be made without withholding or deduction for or on account of Japanese taxes to the extent set out herein (see "Japanese Taxation" and Condition 9). If Japanese withholding taxes are imposed on payments in respect of the Bonds, the Company may, at any time, redeem all of the Bonds at 100 per cent of their principal amount (as set out herein).

Approval in-principle has been received for the listing and quotation of the Bonds on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Approval in-principle for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Company or the Bonds.

The Bonds will be represented by a global certificate (a "Global Certificate") evidencing the Bonds in registered form, which is expected to be deposited with and registered in the name of, or a nominee for, a common depositary for each of Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg") on or about 10 December 2021 (the "Closing Date") for the accounts of their respective accountholders. The Managers (as defined in "Subscription and Sale") expect to deliver the Bonds through the facilities of Euroclear and Clearstream, Luxembourg on or about the Closing Date.

This Offering Circular does not constitute an offer of, or solicitation of an offer to buy or subscribe for, the Bonds or the Shares, in any jurisdiction in which such offer or solicitation is unlawful. In particular, the Bonds and the Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States. In addition, the Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "FIEA") and may not be offered or sold within Japan or to, or for the account or benefit of, residents of Japan including corporations incorporated under the laws of Japan, unless otherwise provided under the FIEA. For a summary of certain restrictions on offers and sales of Bonds and the Shares, see "Subscription and Sale".

See "Investment Considerations" for a discussion of certain factors that should be considered in connection with an investment in the Bonds.

Joint Bookrunners and Joint Lead Managers

Nomura **Goldman Sachs International**

Co-Managers

SMBC NIKKO **Mizuho Securities**

The date of this Offering Circular is 24 November 2021.

We accept responsibility for the information contained in this Offering Circular. To the best of our knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

Having made all reasonable enquiries, we confirm that this Offering Circular contains all information with respect to the Company, the Group (as defined below), the Bonds and the Shares (including all information in relation to the applicable laws of Japan) which is material in the context of the issue and offering of the Bonds, the statements contained in this Offering Circular are in every material particular true and accurate and not misleading, the opinions and intentions expressed in this Offering Circular are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, there are no other facts in relation to the Company, the Group, the Bonds or the Shares the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by us to ascertain such facts and to verify the accuracy of all such information and statements.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to the "Group", "we", "us" and "our" are to the Company and its consolidated subsidiaries and its affiliates accounted for by the equity method taken as a whole or the Company on a non-consolidated basis, as the context may require, and references to "Shares" are to shares of our common stock issuable upon exercise of Stock Acquisition Rights.

No person has been authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by or on behalf of us, the Trustee (as defined in the Conditions) or the Managers. Neither the delivery of this Offering Circular nor any sale made in connection herewith at any time implies that the information contained in this Offering Circular is correct as of any time subsequent to the date hereof, nor does it imply that there has been no change in our affairs or financial position since the date of this Offering Circular.

To the fullest extent permitted by law, none of the Managers or their respective affiliates, the Trustee, the Principal Agent, the Custodian, the Registrar nor the Custodian's Agent accept any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made on their behalf in connection with us or the issue and offering of the Bonds. Each of the Managers, their respective affiliates, the Trustee, the Principal Agent, the Custodian, the Registrar and the Custodian's Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of us or the Managers to subscribe for, or purchase, any of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights. The distribution of this Offering Circular and the offering of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by us and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on the offer and sale of the Bonds and the distribution of this Offering Circular, see "Subscription and Sale".

The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights have not been, and will not be registered under the Securities Act and, subject to certain exceptions, the Bonds may not be offered or sold within the United States. The Bonds are being offered and sold outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). See "Subscription and Sale".

The Bonds have not been and will not be registered under the FIEA. Each Manager has represented and agreed that in connection with the initial offering of the Bonds that it has not, directly or indirectly, offered or sold, and shall not, directly or indirectly, offer or sell, any Bonds in Japan or to, or for the account or benefit of, any resident of Japan or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines in Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

There are restrictions on the offer and sale of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights in the United Kingdom. All applicable provisions of the Financial Services and Markets Act 2000 ("FSMA") with respect to anything done by any person in relation to the Bonds in, from or otherwise involving the United Kingdom must be complied with. See "Subscription and Sale".

No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds, and the circulation of documents relating thereto, in jurisdictions including the United States, Japan, the European Economic Area, the United Kingdom, Singapore and Hong Kong and to persons connected therewith. See "Subscription and Sale".

EEA MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET: For the purposes of Directive EU 2014/65/EU (as amended, "MiFID II"), the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in MiFID II and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "distributor") should take into consideration such target market; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

UK MIFIR PRODUCT GOVERNANCE/ PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET—Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("COBS"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("UK MiFIR"); and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any distributor should take into consideration the manufacturer's target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "UK MiFIR Product Governance Rules") is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA INVESTORS—The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "Prospectus Regulation"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the European Economic Area has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the European Economic Area may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS—The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or (iii) not a qualified investor as defined in the Prospectus Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018. Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "UK PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the United Kingdom has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the United Kingdom may be unlawful under the UK PRIIPs Regulation.

SECTION 309B NOTIFICATION: We have determined, and hereby notify all relevant persons (including all relevant persons (as defined in Section 309A(1) of the Securities and Futures Act, Chapter 289 of Singapore, as modified or amended from time to time)), that the Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

DISCLOSURE OF ALLOCATION: Each prospective purchaser who purchases the Bonds is deemed to consent to the disclosure by the Managers to us of the prospective purchaser's identity and the amount purchased thereby.

IN CONNECTION WITH THE ISSUE OF THE BONDS, NOMURA INTERNATIONAL PLC (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT THE BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR ANY PERSON(S) ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise stated, references in this Offering Circular to "US dollar", "US$" and "$" are to the lawful currency of the United States of America, and references to "yen" and "¥" are to Japanese yen.

In this Offering Circular, unless otherwise specified or the context requires, "billion" means thousand million, and where financial information is presented in millions of yen, amounts of less than one million have been rounded down to the nearest one million, and where financial information is presented in one hundred millions (one-tenth of a billion) of yen, amounts of less than one-tenth of a billion have been rounded down to the nearest one-tenth of a billion. Accordingly, the total of each column of figures may not be equal to the total of the individual items. All other figures and percentages, including operating data, have been rounded up or down (in the case of percentages, to the nearest 0.1 per cent or to the nearest 0.01 per cent), unless otherwise specified; however, certain percentages in tables may have been rounded otherwise than to the nearest 0.1 per cent or 0.01 per cent, as the case may be, to make the total of the relevant column equal to 100 per cent.

Unless otherwise stated or the context requires, the description of our business and financial information contained in this Offering Circular are given on a consolidated basis.

Our fiscal year end is 31 March. Our financial statements are prepared in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which differ in certain material respects from generally accepted accounting principles in certain other countries. Potential investors should consult their own professional advisers for an understanding of the differences between Japanese GAAP and International Financial Reporting Standards ("IFRS"), or generally accepted accounting principles in other jurisdictions and an understanding of how those differences might affect the financial information contained herein. See "Investment Considerations—Considerations Relating to Our Financial Statements—Differences in Generally Accepted Accounting Principles".

This Offering Circular contains our audited consolidated financial statements, prepared and presented in accordance with Japanese GAAP, as at and for the fiscal years ended 31 March 2020 and 2021, as indicated in the audit reports with respect thereto included herein at pages F-3.

This Offering Circular also contains our unaudited interim consolidated balance sheet as at 30 September 2021 (together with our consolidated balance sheet as at 31 March 2021) and the related unaudited interim consolidated statements of operations, comprehensive income and cash flows for the six-month period ended 30 September 2021. Our unaudited interim consolidated financial statements of the Company as at 30 September 2021 and for the six-month period ended 30 September 2021 prepared by us in accordance with Japanese GAAP have been reviewed by our independent accountant in accordance with quarterly review standards generally accepted in Japan, as indicated in the review report with respect thereto included herein at page Q-3.

Construction of Certain References

Under the Companies Act of Japan (Act No. 86 of 2005, as amended) (the "Companies Act"), the Company may issue new Shares to a Bondholder (as defined in the Conditions) and/or transfer Shares that it holds as treasury stock to a Bondholder, in each case upon exercise of a Stock Acquisition Right. Accordingly, unless otherwise specified or the context requires, references in this Offering Circular to the issuance of Shares shall be read as including both the issuance of new Shares and the transfer of Shares held by us as treasury stock and the words "issue", "issued", and "issuable" shall be construed accordingly.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements and information, which can be identified by the use of terminology such as "may", "might", "will", "expect", "intend", "plan", "estimate", "anticipate", "project", "believe" or similar phrases. We base these statements on beliefs as well as assumptions made using information currently available to us. As these statements reflect our current views concerning future events, these statements involve risks, uncertainties and assumptions. Our actual future performance could differ materially from these forward-looking statements. Important factors that could cause actual results to differ from our expectations include those risks identified in "Investment Considerations" and the factors discussed in "Recent Business" and "Business", as well as other matters not yet known to us or not currently considered material by us. We do not undertake to review or revise this Offering Circular or any forward-looking statements contained in this Offering Circular to reflect future events or circumstances. We caution prospective investors in the offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to us or persons acting on our behalf are qualified in their entirety by these cautionary statements.

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SUMMARY INFORMATION

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the more detailed information and financial statements and the notes thereto contained elsewhere in this Offering Circular. For a discussion of certain factors that should be considered by prospective investors in connection with an investment in the Bonds, see "Investment Considerations".

ANA HOLDINGS INC.

We are one of the leading airline groups in the world, ranking 11th worldwide in terms of market capitalisation, based on stock prices and exchange rates as of 11 November 2021 (according to information from S&P Global Market Intelligence). Prior to the onset of COVID-19, we were also ranked 15th worldwide in terms of the number of revenue passengers in the year ended 31 December 2019, surpassing our largest competitor, Japan Airlines Co., Ltd. ("JAL") and its group companies (the "JAL group"), which was ranked 26th (according to the World Air Transport Statistics 2020 published by the IATA). For the year ended 31 December 2020, we were ranked 19th worldwide in terms of scheduled passengers carried domestically and ranked 21st worldwide overall (according to the World Air Transport Statistics 2021 published by the IATA). We were also ranked 18th worldwide in terms of scheduled cargo tonnes carried (according to the World Air Transport Statistics 2021 published by the IATA).

Our primary operating segment is our air transportation segment, which accounted for 61.1 per cent of our consolidated operating revenues for the fiscal year ended 31 March 2021 (before intersegment eliminations). Our other operating segments are airline-related, travel services, trade and retail and others. Our airline-related segment consists of group companies that support our air transportation segment, including services such as airport ground support, aircraft maintenance, cargo and logistics, catering (in-flight meals) and contact centre services. Our travel services segment operates as our group's sales and marketing division and travel services which plans and sells travel products combining air tickets, accommodations and other options. Our trade and retail segment carries out aircraft parts procurement, conducts aircraft trading (import, export, leasing and sales), operates airport shops across Japan, and manages other businesses related to air transportation. Our others segment primarily consists of our temporary staffing business and our building and facility maintenance business.

We were the fifth largest airline in Asia in terms of the number of revenue passengers in the year ended 31 December 2019. We are a member of the Star Alliance, a global airline alliance which, as of October 2019 includes 26 member airlines and serves more than 1,300 destinations in 195 countries and regions. As of 30 September 2021, we operated a fleet of 271 aircraft.

We are one of the two largest domestic airline groups in Japan, and our share of the domestic air travel market, the fourth largest market in the world in terms of the number of revenue passengers, was 50 per cent in terms of passenger revenue during the year ended 31 March 2020 according to the Ministry of Land, Infrastructure, Transport and Tourism (the "MLIT"), representing a 12 per cent lead over the JAL group. For ANA brand flights prior to the COVID-19 pandemic, we conducted regularly scheduled flights to 53 airports in Japan and carried 42.9 million revenue passengers on domestic flights during the fiscal year ended 31 March 2020.

For ANA brand flights prior to the COVID-19 pandemic, our international destinations for our passenger services included 46 cities in 22 different countries and regions (other than Japan). Asia constitutes our most important geographic region for our international passenger services, with 71 per cent of our international flights departing from or arriving in China and Asia/Oceania as of 31 March 2020. As of 31 March 2020, 20 per cent of our international flights departed from or arrived in North America and Hawaii, and 9 per cent departed from or arrived in Europe. During the fiscal year ended 31 March 2020, we carried 9.4 million revenue passengers on international flights, and 45 per cent, 38 per cent and 17 per cent of our total available seat-km were on flights that departed from or arrived in China and Asia/Oceania, North America and Hawaii, and Europe, respectively.

We have taken steps to address the concerns of our passengers, including the launch of "ANA Care Promise," a programme including a variety of infection-prevention measures in aircraft cabins and airports with the objective of creating a clean and sanitary environment for our passengers. However, it is difficult to predict when or if demand for air travel will return to pre-pandemic levels. See "Investment Considerations—The outbreak and global spread of the COVID-19 pandemic has resulted in a severe decline in demand for air travel which has adversely impacted our business, financial condition and results of operations and the duration and severity of the COVID-19 pandemic and similar public health threats that we may face in the future, could result in additional adverse effects on our business, financial condition and results of operations".

In October 2020, we announced our Business Structure Reform Plan to adapt our operations to the "post-COVID-19" world. As part of this plan, we intend to implement cost reduction initiatives to reduce fixed costs by an aggregate of ¥400 billion or more for the two-year period ending 31 March 2022 (based on a comparison of the expected annual fixed costs for each of the two years against fixed costs in air transportation business of ¥991 billion for the fiscal year ended 31 March 2020). We also intend to reduce our capital expenditures by approximately ¥328 billion for the three-year period ending 31 March 2023 in total as compared with our pre-COVID-19 original plans of approximately ¥1,035 billion for such period as of January 2020. With respect to our fleet, we retired a total of 35 aircraft during the fiscal year ended 31 March 2021, an increase of 28 from our pre-COVID-19 plans as of January 2020. We recorded business restructuring expense of ¥86.3 billion including an impairment loss for the early retirement of these additional aircraft during the fiscal year ended 31 March 2021. See "—Our Strategies—Pursue our Business Structure Reform Plan to adapt our operations to a 'post-COVID-19' world" and "Investment Considerations—We may not be able to successfully implement the initiatives included in our Business Structure Reform Plan".

THE OFFERING

Issuer	ANA HOLDINGS INC.
Securities Offered	¥150,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2031 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*).
Issue Price	100.0 per cent
Offer Price	102.5 per cent
Closing Date	On or about 10 December 2021
Delivery	It is expected that the Global Certificate will be deposited with, and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg on or about the Closing Date.
Form	The Bonds will be issued in registered form, evidenced by a Global Certificate. Definitive Certificates will only be available in certain limited circumstances. See "Summary of Provisions Relating to the Bonds While in Global Form".
Listing	Approval in-principle has been received for the listing and quotation of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of ¥200,000 with a minimum of 100 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require.
Lock-up	In connection with the issue and offering of the Bonds, the Company has agreed that it will not, and will procure that none of its directors or officers or any person acting on the direction of the Company will, for a period beginning on the date of the Subscription Agreement (as defined in "Subscription and Sale") and ending on the date 180 calendar days after the Closing Date: (i) issue, offer, pledge, lend, sell, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that constitutes the right to receive, Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for Shares; (ii) enter into a transaction (including a derivative transaction) that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company, or that has an effect on the market in the Shares similar to that of a sale; (iii) deposit any Shares (or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Company or which carry rights to subscribe or purchase Shares or any other capital stock of the Company) in any depositary receipt facility; or (iv) publicly announce any intention to do any of the above,

without the prior written consent of the Managers (as defined in "Subscription and Sale"), other than:

(a) the issue and sale by the Company of the Bonds, the issue or transfer of Shares upon exercise of the Stock Acquisition Rights;

(b) the sale of Shares by the Company to any holder of Shares constituting less than one unit for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute one full unit of Shares;

(c) the issue of Shares by the Company as a result of any stock split or the *pro rata* allocation of Shares or the stock acquisition rights to holders of Shares without any consideration and the issue or transfer of Shares upon exercise of such stock acquisition rights;

(d) the issue or transfer of Shares upon exercise of stock acquisition rights (including those incorporated in the bonds with stock acquisition rights) which have been issued and outstanding as at the date of the Subscription Agreement, or the issue or transfer of Shares upon acquisition thereof at our option; and

(e) any other issue or sale of Shares required by the Japanese laws and regulations.

See "Subscription and Sale".

Use of Proceeds .... The net proceeds from the issue of the Bonds are estimated to amount to approximately ¥149.89 billion, and are expected to be used primarily as follows:

(i) approximately ¥50 billion as investment in growth to promote further our Business Structure Reform Plan, including investments in reforming our service model (see "Business—Our Strategies") and establishing our new third brand;

(ii) ¥70 billion to redeem the convertible bonds to be redeemed at maturity on 16 September 2022; and

(iii) the remainder for the repayment of long-term debt.

THE BONDS

Form and Denomination	The Bonds are issued in registered form in the denomination of ¥10,000,000 each.
Initial Conversion Price	¥2,883 per Share
Coupon	Zero
Exercise of Stock Acquisition Rights	Subject to and upon compliance with the provisions of Condition 5, any holder of a Bond may exercise its Stock Acquisition Rights, at any time on and after 24 December 2021 up to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on 26 November 2031 (but in no event thereafter), to acquire fully-paid and non-assessable Shares. See Condition 5.
Status	The obligations of the Company in respect of the Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.
Negative Pledge	So long as any of the Bonds remain outstanding, the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined in Condition 2) unless the same security or such other security or guarantee as provided in Condition 2 is accorded to the Bonds. See Condition 2.
Redemption at Maturity	Unless the Bonds have previously been redeemed or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised, the Company will redeem the Bonds at 100 per cent of their principal amount on 10 December 2031.
Early Redemption—Redemption at the Option of the Company upon Increased Share Prices	At any time on or after 10 December 2024, the Company may, but shall not be bound to, redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption, provided, however, that no such redemption may be made unless the Closing Price of the Shares for each of the 20 consecutive Trading Days, the last of which occurs not more than 30 days prior to the date upon which the Optional Redemption Notice (as defined in Condition 7.2) is first given, is at least 120 per cent of the Conversion Price in effect on each such Trading Day (taking into account any Retroactive Adjustment not then reflected in the Conversion Price). See Condition 7.2.
Early Redemption—Redemption at the Option of the Company upon Reduced Outstanding Amounts	The Company may, having given not less than 45 nor more than 60 days' prior irrevocable notice of redemption to the Bondholders in accordance with Condition 19, redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount if, at any time prior to the date of giving that notice, the outstanding

principal amount of the Bonds is less than 10 per cent of the aggregate principal amount of the Bonds as at the date of issue thereof. See Condition 7.3.

Early Redemption—Redemption for Taxation Reasons................................ If the Company satisfies the Trustee, immediately prior to giving the notice to the Bondholders, that (i) the Company has or will become obliged to pay any Additional Amounts (as defined in Condition 9) in accordance with Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 24 November 2021, and (ii) the Company is unable to avoid such obligation by taking reasonable measures available to it, the Company may, at any time, having given not less than 45 nor more than 60 days' prior irrevocable notice to the Bondholders in accordance with Condition 19, redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount. If, however, the outstanding principal amount of the Bonds at the time of such notice of redemption is 10 per cent or more of the aggregate principal amount of the Bonds as at the date of issue thereof, the Bondholders will have the right to elect that their Bonds should not be redeemed and that, in respect of payments on the Bonds to be made after that date, payments will be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges. See Condition 7.4.

Early Redemption—Corporate Events .... In the case of a Corporate Event, the Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of such Corporate Event and the anticipated effective date of such transaction and the provisions set out in Condition 6 shall apply. See Condition 6.

Upon or following the occurrence of a Corporate Event, the Company shall give not less than 14 Tokyo Business Days' prior irrevocable notice to the Bondholders in accordance with Condition 19 to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out in Condition 7.5 and in accordance with the provisions of Condition 7.5 on the Corporate Event Redemption Date (as defined in Condition 7.5) specified in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date (as defined in Condition 6.3) or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given as soon as practicable after the date of occurrence of the Corporate Event) if any of the following conditions is satisfied:

(i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation of such laws) to effect a scheme provided for by Condition 6.4.1; or

(ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company is not able to effect such a scheme in compliance with Condition 6.4.1; or

(iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing (as defined in Condition 6.4.2) has been obtained for the shares of common stock of the New Obligor (as defined in Condition 6.1) and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or

(iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director or an Authorised Officer (as defined in Condition 3.1) stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate.

See Condition 7.5.

Early Redemption—Delisting of the Shares .... In certain circumstances where a tender offer is made to holders of Shares of the Company by an Offeror (as defined in Condition 7.6.1) where, *inter alia*, the Company expresses its opinion to support such offer, the Company or the Offeror publicly announces or admits that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange (as defined in Condition 3.1), and the Offeror acquires any Shares pursuant to the offer, then the Company shall redeem all, but not some only, of the Bonds then outstanding at the redemption price each calculated in the same manner as referred to in Condition 7.5, subject to the provisions of Condition 7.6.

See Condition 7.6.

Early Redemption—Squeezeout Event .... Upon the occurrence of a Squeezeout Event (as defined in Condition 7.7.1), the Company shall redeem all, but not some only, of the Bonds then outstanding at the redemption price calculated in the same manner as referred to in Condition 7.5, subject to the provisions of Condition 7.7.

See Condition 7.7.

Redemption at the Option of the Bondholders .... The holder of any Bond is entitled, at its option, to require the Company to redeem such Bond at 100 per cent of its principal amount on 8 December 2028.

See Condition 7.8.

Cross Default .... The Bonds are subject to a cross default in respect of indebtedness for borrowed money or any guarantee and/or indemnity thereof of the Company or of any Principal Subsidiary in respect of amounts of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies). See Conditions 10.3 and 10.4.

Taxation.. All payments by the Company in respect of the Bonds will be made without any deduction for withholding taxes of Japan, except to the extent described in Condition 9.

Governing Law	English law
Jurisdiction	English courts
International Securities Identification Numbers (“ISIN”)	XS2413708442
Common Codes	241370844
Legal Entity Identifier (“LEI”)	5493008IRKIY0G3TE305
Trustee and Custodian	The Law Debenture Trust Corporation p.l.c.
Principal Agent and Registrar	Mizuho Trust & Banking (Luxembourg) S.A.
Custodian’s Agent in Japan	Mizuho Bank, Ltd.

GLOSSARY

The following terms used in this Offering Circular, including those relating to operating performance within the airline industry, have the meanings indicated below:

Term	Description
Available seat-km	Also referred to as ASK, represents the number of seats available for passengers multiplied by the number of kilometres the seats are flown.
Cargo volume	Represents the total weight of cargo carried.
Code-sharing	Represents an agreement between two airlines under which certain flights are operated using the aircraft of one of the parties but sold by both of the airlines. These flights are identified using the name, IATA code and flight number of both airlines.
Flight slot	Represents a time slot granted at an airport to an airline for either the take-off or landing of a flight.
Fuel surcharge	Represents the surcharge applied to ticket prices and cargo fares by airlines in response to costs incurred as a result of an increase in fuel prices.
Full Service Carrier (FSC)	An airline company that serves a wide range of markets based on a route network that includes code-sharing connecting demand. FSCs offer multiple classes of seats and provide in-flight food and beverages that are included in advance in the fare paid. FSCs are also called network carriers or legacy carriers when compared with low cost carriers (LCCs).
Hub	Represents, with respect to an airline, an airport at which such airline centralises and co-ordinates a high number of in- and out-bound flights.
IATA	The International Air Transport Association.
Low Cost Carrier (LCC)	Refers to airlines that generally offer lower fares to passengers by implementing measures such as offering minimal services compared to full-service carriers, charging additional fees for services such as seat selection and luggage allowance and minimising costs through focusing operations on a limited number of aircraft models.
Load factor	Represents, with respect to passengers, the percentage of aircraft seating capacity that is actually utilised by revenue passengers (revenue passenger-km divided by available seat-km), and with respect to cargo and mail, the percentage of available ton-km that is actually utilised by cargo and mail (cargo and mail revenue ton-km divided by available ton-km).
Number of passengers	Represents the total number of paying passengers flown on an airline's scheduled flights. Unless otherwise indicated, (i) with respect to domestic flights, paying passengers on scheduled flights operated by us and other airlines (to the extent we purchase block of seats on such airlines' flights) and, (ii) with respect to international flights, only paying passengers on scheduled flights operated by us, are included as our revenue passengers. Data sourced from the IATA includes only paying passengers on scheduled flights operated by the relevant airline.
Revenue passenger-km	Also referred to as RPK, represents the number of kilometres flown by revenue passengers aboard aircraft.
Revenue tonne-km	Also referred to as RTK, represents the weight of cargo or mail, as applicable, carried, multiplied by the number of kilometres flown.
Scheduled flights	Represents flights operated with such frequency and regularity that they constitute an organised series of flights.
Unit cost	A measure we use to monitor the operating expense levels of our domestic and international full-service carrier passenger business, calculated as the operating expenses of our air transportation segment, minus the operating expenses of our LCC operations, minus our cargo and mail revenues and

Term	Description
	minus our other revenues, divided by the sum of domestic and international available seat-km for our full-service carrier operations. Our calculation of unit cost may differ from other airlines and therefore may not be comparable with that of other airlines.
Unit revenues	Represents passenger revenues divided by available seat-km.
Yield	Represents passenger revenues divided by revenue passenger-km.

INVESTMENT CONSIDERATIONS

You should carefully review the following considerations, along with the other information in this Offering Circular, before making a decision to buy the Bonds. If any event related to the following considerations actually occurs, our business, prospects, financial condition or results of operations could be materially adversely affected.

We have described the considerations that our management believes are material, but these considerations may not be the only ones we face. Additional considerations, including ones that we currently are not aware of or do not currently deem material, may have a material adverse effect on us, including on our ability to fulfil our obligations under the Bonds.

Considerations Relating to Our Business

The outbreak and global spread of the COVID-19 pandemic has resulted in a severe decline in demand for air travel which has adversely impacted our business, financial condition and results of operations and the duration and severity of the COVID-19 pandemic and similar public health threats that we may face in the future, could result in additional adverse effects on our business, financial condition and results of operations

In December 2019, the emergence of a novel strain of coronavirus, which causes a disease referred to as COVID-19, was reported in Wuhan, Hubei Province, China and has subsequently spread around the world, including Japan. On 30 January 2020, the World Health Organization declared COVID-19 a public health emergency of international concern, and on 11 March 2020, the World Health Organization declared COVID-19 a global pandemic. In response to the outbreak, authorities in various countries have implemented numerous measures to try to contain the spread of the disease, such as travel bans and restrictions, quarantines, shelter-in-place orders and lockdowns.

In Japan, the central and local governments have in the past imposed and continue to impose a number of such measures, including travel restrictions, requesting residents to refrain from leaving their homes for non-essential activities and requesting certain businesses to close or restrict their operations. In April 2020, the Prime Minister of Japan declared a state of emergency to cover all prefectures in Japan. Although the Prime Minister of Japan subsequently lifted the state of emergency for all prefectures during May 2020, a state of emergency was declared on three additional occasions thereafter with the latest state of emergency declared in July 2021 following a rise in COVID-19 infections ahead of the Tokyo Olympics. The latest declaration of a state of emergency was lifted in all prefectures on 30 September 2021. Whilst more recently, the infection and hospitalisation rates for COVID-19 in Japan have rapidly declined and central and local governments have continued to ease COVID-19 related restrictions, in the summer of 2021, Japan had seen a surge in COVID-19 cases, with daily record high infections being registered multiple times since the conclusion of the Tokyo Olympics. In addition, although certain of such measures have now been relaxed (including more recently the shortening of the self-isolation periods for fully vaccinated travellers arriving in Japan from 14 to 10 days (3 days in the case of vaccinated business travellers)), the central and local governments continue to impose a number of measures, including travel restrictions that continue to prevent or restrict nearly all non-Japanese citizens from entering Japan, and virtually all governments worldwide have imposed similar types of travel restrictions for their respective countries from time to time. Government officials and infectious disease experts remain cautious over the possibility of future waves of infections in Japan, and the Prime Minister of Japan may declare a state of emergency again at any time, and local governments may strengthen their precautionary attitudes should infection or hospitalisation rates climb again.

In the first half of 2021, while the development and administration of vaccines, particularly among developed economies, had helped stem the rate and severity of COVID-19 infections, there are significant variations in vaccination rates globally, with developing countries (in particular, in Africa and South East Asia) lagging behind global averages whereas most of the G7 achieved vaccination rates approaching thresholds considered to be necessary for widespread immunity. Japan's vaccination rate has significantly improved over the past few months and stood at 75.6 per cent. as at 17 November 2021 according to the Prime Minister's Office of Japan. In addition, more recently even countries with high vaccination rates are seeing surges in COVID-19 infection rates, particularly involving mutations of the COVID-19 virus, including the Delta and Lambda variants. As of 18 November 2021, there were 6,186 cases of COVID-19 recorded in Japan in the preceding 28 days and 183 deaths resulting from COVID-19 in the preceding 28 days recorded in Japan according to data presented by Johns Hopkins University, with weekly cases decreasing over the past

12 weeks. This compares to 12,763,292 cases of COVID-19 recorded globally in the preceding 28 days and 199,715 deaths resulting from COVID-19 in the preceding 28 days recorded globally according to data present by Johns Hopkins University, with weekly cases increasing over the past 5 weeks.

The COVID-19 pandemic, along with the measures governments and private organisations worldwide have implemented in an attempt to contain the spread of this pandemic, has resulted in a severe decline in demand for both domestic and international air travel, which has adversely affected our business, financial condition and results of operations to an unprecedented extent. We had 12.6 million domestic passengers and 0.4 million international passengers for the fiscal year ended 31 March 2021 as compared to 42.9 million domestic passengers and 9.4 million international passengers for the fiscal year ended 31 March 2020 and 44.3 million domestic passengers and 10.0 million international passengers for the fiscal year ended 31 March 2019. In response to this material deterioration in demand, we have taken a number of actions in the short-term to transform our business structure with the goal of balancing income and expenditures in order to ameliorate the effects of reduced demand on our business, financial condition and results of operations. We have focused on cost reductions through reducing the number of flights in order to decrease aviation-related expenses such as fuel, reducing personnel costs through reductions in executive compensation packages and employee salaries, furloughing employees and voluntary early retirement. We have also reduced planned capital expenditures by delaying the delivery of certain aircraft beyond 31 March 2021, retiring a total of 35 aircraft during the fiscal year ended 31 March 2021 (an increase of 28 from an initially planned 7) and deferring cabin refurbishment plans. However, even with the successful implementation of these measures, we do not expect that they will be able to fully offset the impact of the decreased demand for domestic and international air travel unless such demand increases significantly from current levels.

With respect to liquidity, our net cash used in operating activities for the fiscal year ended 31 March 2021 and for the six-month period ended 30 September 2021 was ¥270.4 billion and ¥77.8 billion, respectively, reflecting the impact on our operations of the significant decrease in demand that began in the first half of 2020 due to the COVID-19 pandemic and the decrease in outward cash flows as we implemented cost reduction measures. To improve our liquidity, we entered into a ¥350.0 billion increase in our bank commitment line (in addition to our existing ¥150.0 billion commitment line (which has subsequently been downsized to ¥148.0 billion)) and a ¥100.0 billion loan agreement with private financial institutions in April 2020, with the additional ¥350.0 billion increase expiring unutilised in March 2021 and the ¥100.0 billion loan agreement being rolled over in the first quarter of the fiscal year ending 31 March 2022. In addition, we entered into a ¥350.0 billion loan agreement with Development Bank of Japan Inc. ("DBJ") in May 2020, a ¥85.6 billion loan agreement with private financial institutions, guaranteed by Japan Bank for International Cooperation ("JBIC"), in June 2020 and a ¥400.0 billion subordinated loan agreement with private financial institutions and DBJ in October 2020. We also raised an aggregate of ¥297.6 billion through a public offering of the Shares in December 2020 and a third-party allotment of the Shares in January 2021 and another ¥20.0 billion through an issuance of sustainability linked bonds in June 2021. Despite these initiatives to increase our liquidity, any unexpected developments due to the pandemic could require us to seek additional liquidity, and any inability by us to secure sufficient liquidity for our operations would adversely affect our business.

Due to reduced demand for air travel caused by the COVID-19 pandemic, our operating revenues and operating loss for the fiscal year ended 31 March 2021 were ¥728.6 billion and ¥464.7 billion, respectively, as compared to operating revenue and operating income of ¥1,974.2 billion and ¥60.8 billion, respectively, in the prior fiscal year. For the six-month period ended 30 September 2021, our operating revenues were ¥431.1 billion, an increase of ¥139.2 billion, or 47.7 per cent, as compared to the same period in the prior fiscal year. For the same period, our operating loss was ¥116.0 billion, as compared to operating loss of ¥280.9 billion for the same period in the prior fiscal year. We expect our results of operations for the fiscal year ending 31 March 2022 to continue to be materially impacted by COVID-19.

The full extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on when and at what pace demand for air travel returns to pre-pandemic levels, or whether demand will return to pre-pandemic levels at all. Changes in demand, in turn, will depend on future developments, most of which are outside of our control, including but not limited to the following:

- the mutation of the COVID-19 virus, particularly the Delta and Lambda variants, which has caused resurgences all across the globe and may be more resistant to or unaffected by currently available vaccines or other effective medical treatments for COVID-19;
- additional "waves" of infection of COVID-19 in Japan or other countries that could potentially be affected by seasonal factors that influence the spread of COVID-19 or result from reduced

vigilance by the general population as a result of the prolonged duration of the COVID-19 pandemic;

- the effectiveness of the vaccines developed by Pfizer Inc., BioNTech SE, Moderna, Inc., AstraZeneca plc and others, including factors such as whether the vaccines are capable of dealing with mutations of the virus and whether booster injections are required at regular intervals in order to remain effective (in Japan, the Ministry of Health, Labor and Welfare approved the administration of booster shots for fully vaccinated individuals from December 2021), whether the vaccines may have negative long term side effects that inhibit widespread adoption or whether a generally effective vaccine nonetheless is unable to fully protect against the effects or the spread of COVID-19 or whether sufficient vaccination rates can be achieved globally;
- the availability of sufficient medical resources and manufacturing capacity to produce, distribute and administer any potential vaccine in the mass quantities that may be required for widespread immunity and to prevent public health services from becoming overextended in dealing with patients infected with COVID-19;
- the cost of any potential vaccines to the general population;
- public attitudes and continued caution regarding domestic and international air travel despite any national or local travel campaigns to encourage tourism and leisure travel, whether or not a vaccine or other effective medical treatment becomes available;
- prolonged or permanent shifts in business culture such as increased usage of teleconferencing and online conferencing, shifts towards remote work or other habits and technologies that have the effect of reducing demand for business travel;
- negative macroeconomic conditions that may continue even after vaccination rates have attained target goals;
- continued government restrictions, including restrictions by the Japanese government or foreign countries, or travel advisories on regional or international travel, even if a vaccine or other effective medical treatment becomes available;
- continued suspension of or restrictions on the “Go To Travel” campaign in Japan (a Japanese government campaign to encourage domestic travel through discounts and coupons) which had been halted since December 2020 due to rising infections or the lack of other similar campaigns by the Japanese government (although limited trial runs involving a number of travel agencies was recommenced in October 2021 and the government has announced plans to restart the campaign as early as January 2022 depending on developments with respect to the COVID-19 pandemic);
- continued time-consuming and burdensome border procedures, quarantine measures and health examinations that may discourage air travel, even if a vaccine or other effective medical treatment becomes available (including with respect to “vaccine passports” and other official documents required for travel) and any failure or delays in rolling out streamlined processes to expedite such procedures or measures (including digitisation of “vaccine passports”);
- the reduction in available flight times and route options due to reduced airline operations; and
- any difficulties or delays we may face in increasing available flights from currently reduced levels, such as potential delays in re-engaging employees that have been furloughed or seconded to external entities.

Although the above factors are expected to affect demand for both domestic and international travel, demand for international travel may take substantially longer to recover than demand for domestic travel, due in part to the increased complexity and burden of border procedures, quarantine measures and health examinations. Additional waves of infection may delay any potential recovery in demand for international travel and routes to countries where vaccination rates are lower may be particularly slow to recover. The potential continuation of reduced air travel demand for an extended period of time (beyond the already significant period of materially supressed air travel demand), potentially extending beyond the development of effective medical countermeasures against COVID-19, may have a material adverse effect on our business, financial condition and results of operations. Due to the global nature of the pandemic and the scale of government travel restrictions, we have almost no ability to control these factors that affect demand for air travel, and it is difficult to predict future developments with respect to the COVID-19 pandemic, including when or if demand for air travel will return to pre-pandemic levels.

Our business, financial condition and results of operations may also be adversely affected by COVID-19's impact on the financial health and operations of our business partners, including suppliers and aircraft manufacturers, as well as future governmental actions, including the period for which the MLIT will continue to extend its COVID-19 relief measures including reduced landing fees and jet fuel taxes. Additionally, Japanese labour laws are more restrictive than certain other countries and we may be at a competitive disadvantage with respect to international competitors that are able to reduce operational scale more flexibly. Japanese and foreign governmental authorities may also require us to adhere to passenger capacity restrictions, such as empty seats between passengers, or we may voluntarily decide to reduce passenger capacity on our flights, which may significantly affect our ability to operate profitably.

Due to the global scale of the COVID-19 pandemic and the unprecedented adverse macroeconomic impacts, there may be significant events or developments in the airline market such as consolidations among our domestic or international competitors that affect the competitive landscape, shifts or restructurings in the primary global airline alliances, changes in passenger preferences that reduce demand for our offerings such as a potential general shift in favour of LCCs or regional travel by surface transportation, government actions such as bailouts or nationalisation or other unanticipated developments that may not occur regularly in the ordinary course of the airline market. Such developments may be very difficult to anticipate or address and may result in challenges or difficulties for our business or otherwise adversely affect our business, financial condition and results of operations.

During the course of the COVID-19 pandemic, negative publicity, whether connected to potential infections or clusters on our aircraft or at airport facilities or otherwise, may have a negative impact on our reputation and brand image and may result in a prolonged decrease in demand for our passenger services. Because general sensitivities to health concerns have escalated significantly due to the pandemic, an outbreak of another disease or similar public health threat, or fear of such an event, that affects travel demand, travel behavior or travel restrictions and regulation could also have a material adverse impact on our business, financial condition and results of operations.

We expect an operating loss for the fiscal year ending 31 March 2022, and our operating results may nonetheless underperform our estimates

The ongoing COVID-19 pandemic continues to significantly suppress air travel demand, both internationally and domestically. While we look to optimise our supply and demand balance and transition to our new business and service models, and despite a promising outlook for international cargo demand, the extended impact of COVID-19 due to outbreaks of variants has resulted in a much larger decrease in passenger demand than first anticipated and we have forecasted a loss for the fiscal year ending 31 March 2022 (having initially expected to record a nominal operating income for the period). While the number of new infections in Japan is currently decreasing and domestic route demand is showing signs of recovery, the delay in full recovery has led to a significant reduction in our estimated operating revenues, which is only partially offset by restrictions on variable flight operation costs, reduction efforts for fixed expenses such as maintenance and outsourcing costs and other operating expenses. A number of risks may cause international and/or domestic demand for air travel to decrease in the remaining months of the current fiscal year, which could cause us to further underperform our estimates, including the following:

- additional "waves" of infection of COVID-19 in Japan or other countries during the remaining months of the current fiscal year, which may result in additional government travel restrictions or border closures;
- potential new strains or mutations of COVID-19 or other diseases that may emerge during the remaining months of the current fiscal year;
- the continued suspension of or restrictions on the "Go To Travel" campaign in Japan which had been halted since December 2020 due to rising infections or the lack of other similar campaigns by the Japanese government (although limited trial runs involving a number of travel agencies was recommenced in October 2021 and the government has announced plans to restart the campaign as early as January 2022 depending on developments with respect to the COVID-19 pandemic);
- we may face difficulties reducing our personnel costs if we experience significant union resistance to our proposals regarding wage reductions, bonus eliminations and extension of temporary leave;

- a further deterioration in macroeconomic conditions, a reduction in governmental aid programmes or spending or a financial crisis or other macroeconomic event (whether prompted by the pandemic or otherwise) may cause international and/or domestic demand for air travel to decrease during the remaining months of the current fiscal year;
- our management's expectations regarding operating performance that are based on assumptions regarding air travel demand may prove incorrect, including as a result of third-party information such as estimates released by the IATA proving to be inaccurate;
- the other general challenges and risks we face in our business as described herein, including the various other risks related to the impact of the COVID-19 pandemic on our business and results of operations, which is difficult to predict and subject to change based on the pandemic's duration and severity, which remain highly uncertain. See "—The outbreak and global spread of the COVID-19 pandemic has resulted in a severe decline in demand for air travel which has adversely impacted our business, financial condition and results of operations and the duration and severity of the COVID-19 pandemic and similar public health threats that we may face in the future, could result in additional adverse effects on our business, financial condition and results of operations";
- policies and procedures being developed to establish a framework for more efficient international travel (including vaccine passports) may not be implemented in a timely manner, or at all, which would significantly impact forecasts developed by the IATA and governments with respect to the future prospects of international air travel; and
- our ability to continue to achieve anticipated cost reductions (through reduction of fixed costs through various measures).

Any of these factors could cause our management's assumptions and expectations underlying our estimated operating results to be incorrect and could negatively affect our business, financial condition and results of operations during the remainder of the fiscal year ending 31 March 2022.

We may not be able to successfully implement the initiatives included in our Business Structure Reform Plan

In October 2020, we announced our Business Structure Reform Plan in response to the extraordinary circumstances confronting the airline industry due to the COVID-19 pandemic. Pursuant to this plan, we aimed to implement various measures to adapt our operations to the "post-COVID-19" world, including cost reduction initiatives and capital expenditure reductions. In the fiscal year ended 31 March 2021, we accelerated the retirement of aircraft, mainly the wide-bodied ones, and saw the total number of such aircraft decreasing to 274 at the end of the fiscal year. In terms of human resources, we also plan to conduct a reduction in force by approximately 5,000 employees by the end of the fiscal year ending 31 March 2023 (as compared to 31 March 2021) and will also look to review compensation packages of our existing employees. However, we may not be able to successfully implement our initiatives, and, even if such initiatives are successfully implemented, they may not have the effects that we anticipate. We face a number of challenges in executing our Business Structure Reform Plan, including the following (as well as the general challenges and risks we face in our business as described herein):

- the COVID-19 pandemic may continue despite vaccination rates continuing to climb globally or border restrictions may continue to inhibit international travel for longer than we anticipate. For additional risks regarding the duration and resolution of the pandemic, see "—The outbreak and global spread of the COVID-19 pandemic has resulted in a severe decline in demand for air travel which has adversely impacted our business, financial condition and results of operations and the duration and severity of the COVID-19 pandemic and similar public health threats that we may face in the future, could result in additional adverse effects on our business, financial condition and results of operations";
- we may be unsuccessful in our efforts to flexibly respond to changes in demand for air travel, which may inhibit our efforts to reduce variable costs associated with our flights;
- we may be unable to reduce or delay capital investments to the extent anticipated, and such reductions and delays may result in countervailing cost increases;
- we may not achieve the planned level of operational cost reductions if we encounter difficulties in centralising procurement and other management functions;

- we may face difficulties reducing our personnel costs if we experience significant union resistance to our proposals regarding wage reductions, bonus eliminations and extension of temporary leave;
- we may face difficulties with the launch of our new third brand or may be unable to commence operations on our desired schedule;
- we may be unsuccessful in differentiating our ANA brand, Peach brand and new third brand, potentially resulting in cannibalisation of revenues;
- we may be unable to win the confidence of passengers regarding the contactless services that we seek to provide; and
- we may be unable to successfully design new marketing strategies to appeal to customers in a post-COVID-19 industry environment.

We have also made other various assumptions in our Business Structure Reform Plan, including with respect to future passenger demand, business and economic conditions, further developments regarding the COVID-19 pandemic and foreign exchange rates. If we encounter higher-than-expected growth in demand, we may decide to reduce or reverse the levels of operational downsizing. There can be no guarantee that these or other assumptions made by us will prove to be correct, and we may be unable to compensate for the effect of inaccurate assumptions. For a more information regarding our Business Structure Reform Plan, see "Business—Our Strategies—Pursue our Business Structure Reform Plan to adapt our operations to a 'post-COVID-19' world".

Our indebtedness and lease obligations are substantial, and this could affect our ability to execute our strategy and grow our business

As of 31 March 2021, we had ¥1,655.4 billion in interest-bearing debt and ¥361.5 billion in operating lease obligations (including current portion), almost all of which were related to leases of aircraft and recent initiatives to improve liquidity in light of the COVID-19 pandemic. In particular, we have entered into a ¥400.0 billion subordinated loan agreement with private financial institutions and DBJ in October 2020 (which, for credit rating purposes, provides us 50 per cent equity credit from Japan Credit Rating Agency, Ltd. ("JCR"), and Rating and Investment Information, Inc. ("R&I")) and we have also obtained additional liquidity in an aggregate amount of ¥297.6 billion through a combination of a global offering of the Shares in December 2020 and a third-party allotment of the Shares in January 2021 and ¥20.0 billion through our issuance of sustainability linked bonds in June 2021. We are also seeking additional liquidity through the offering of the Bonds. Despite these initiatives to increase our liquidity, we may need to seek additional liquidity due to the ongoing COVID-19 pandemic. See also "—The outbreak and global spread of the COVID-19 pandemic has resulted in a severe decline in demand for air travel which has adversely impacted our business, financial condition and results of operations and the duration and severity of the COVID-19 pandemic and similar public health threats that we may face in the future, could result in additional adverse effects on our business, financial condition and results of operations".

Our high level of interest-bearing debt and lease obligations could have important consequences. For example, it could:

- divert substantial cash flows from our operations and capital expenditure plans in order to service our obligations;
- limit our ability to obtain additional financing from the debt capital markets or from commercial banks, including those required to replace maturing interest-bearing debt;
- result in further downgrades in our credit ratings (in September 2021 R&I downgraded our issuer rating and in November 2021 JCR downgraded our issuer rating, citing continued uncertainty over the impact of COVID-19);
- result in increases in the interest rates that we must accept to obtain additional financing;
- make us more vulnerable to future downturns in general economic conditions or further developments regarding the COVID-19 pandemic in terms of earnings and liquidity;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and

- place us at a possible competitive disadvantage compared to less leveraged competitors and competitors that have better access to capital resources or have otherwise been able to reduce their leverage, such as through insolvency proceedings or due to government aid and support.

Government support and aid to address the COVID-19 pandemic may be insufficient, may be tied to restrictions on our future operations or may place us at a competitive disadvantage with respect to international competitors

Due to the ongoing COVID-19 pandemic, we currently benefit from various governmental initiatives in Japan that have the effect of lowering our operating expenses. In April 2020, the MLIT implemented temporary emergency economic measures to defer the payment of landing fees applicable to flights within Japan for the period from February to July 2020. In October 2020, the MLIT announced that it would reduce landing fees by 45 per cent on certain domestic passenger flights, with such reduction applied retroactively from August 2020 through February 2021 in an effort to support the domestic air travel network, with further reductions in landing fees announced in December 2020 in respect of the entire fiscal year ending 31 March 2022 of approximately 90 per cent. General deferrals for the payment of national and local taxes in Japan due between 1 February 2020 and 1 February 2021 have also been implemented (not specific to the Japanese airline industry). Moreover, on 20 December 2019, the MLIT announced measures to reduce rates of jet fuel taxes applied in connection with our domestic flights by approximately 30 per cent in order to support domestic air travel in anticipation of the Tokyo Olympic Games, with such measures extended in April 2020 until 31 March 2022 and a further 50 per cent reduction in jet fuel taxes (on top of existing reduction measures in place) announced in December 2020. Additionally, in May 2020 we entered into a ¥350.0 billion loan agreement with DBJ, and in June 2020 we entered into an ¥85.6 billion loan guaranteed by JBIC. While the Japanese government has also implemented the "Go To Travel" campaign to encourage domestic travel through discounts and coupons, the campaign has been suspended following a spike of infections in December 2020 and it is currently unclear when, or if, the campaign will be resumed. With respect to general employment levels, the Japanese government has implemented a subsidy programme whereby businesses can receive a subsidy for employees placed on temporary leave, which is expected to continue until the end of March 2022. However, these forms of government aid and support may not be sufficient to effectively address the unprecedented scale and severity of the COVID-19 pandemic and its effects or may otherwise be cancelled earlier than initially planned. Additionally, many of our international competitors are based in countries where the government may be willing to provide more expansive support, such as additional low-interest loans, debt cancellation, favourable restructurings, tax deferrals or exemptions and even pure subsidies. To the extent that certain of our international competitors are able to secure additional or more effective support from their governments, we may be at a competitive disadvantage with respect to such competitors during and after the COVID-19 pandemic. Furthermore, in the event that the Japanese government does provide us with additional support, such support may be subject to terms and conditions that could limit our ability to flexibly control our operations. If Japanese government support for our operations is insufficient, weak relative to foreign governments or accompanied by restrictions on our operations, our business, financial condition and results of operations may be adversely affected.

Demand for air transportation services is highly sensitive to general economic trends and business culture, and any downturn in the global economy or in the local economy in any of our major markets, particularly Japan, whether due to the ongoing COVID-19 pandemic or otherwise, could adversely affect our financial condition and results of operations

Our business and results of operations are subject to changing economic conditions prevailing from time to time worldwide, particularly in Japan. In particular, the fallout from mounting defaults and selloffs in the China high yield credit space, stagflation risks and volatility stemming from expectations around tapering of monetary stimulus are key issues facing the global economy. In Japan, the impact of the new administration under Prime Minister Fumio Kishida on the Japanese economy remains uncertain as well. Because a substantial portion of air travel (both business and leisure) is discretionary, the industry tends to experience adverse financial results during general economic downturns. Downturns in the airline industry are characterised by excess capacity and lower prices. The effects of general economic and other industry trends are accentuated by the high operating leverage caused by the high percentage of fixed costs within our overall operating expenses. In the past, unfavourable economic conditions have resulted, and may result in the future, in decreased passenger demand for air travel, changes in booking practices and related reactions by our competitors, all of which in turn have had, and may have in the future, a strong negative effect on our business. In particular, the ongoing COVID-19 pandemic and associated decline in economic activity and increase in unemployment levels are expected to have a severe and prolonged effect on the Japanese and global economy generally and, in turn, is expected to depress demand for air travel into the foreseeable future. Additionally, changes in business culture as a result of the COVID-19 pandemic, such as increased usage of teleconferencing and online conferencing and shifts towards remote work, may result in an enduring decrease in demand for business travel even after the resolution of the pandemic. To the extent that decreased business travel results in a decrease in demand for business class seats, the negative effect on our yield and operating results may be more significant than a decrease in demand for air travel more generally. Due to the uncertainty surrounding the duration and severity of this pandemic, we can provide no assurance as to when and at what pace demand for air travel will return to pre-pandemic levels, or whether there will be such a return at all. See also "—The outbreak and global spread of the COVID-19 pandemic has resulted in a severe decline in demand for air travel which has adversely impacted our business, financial condition and results of operations and the duration and severity of the COVID-19 pandemic and similar public health threats that we may face in the future, could result in additional adverse effects on our business, financial condition and results of operations".

We face substantial competition in the domestic transportation market from the JAL group, LCCs, other small domestic airlines and the Shinkansen high-speed rail service

Our largest source of operating revenues is our domestic passenger activities and this is more pronounced than ever particularly as a result of the COVID-19 pandemic, which has disproportionally impacted international air travel. Domestic passenger revenues (before intersegment eliminations) constituted 39.1 per cent and 33.6 per cent of the total revenues for our air transportation segment for each of the fiscal years ended 31 March 2020 and 31 March 2021, respectively. Competitive pressures in the domestic transportation market could require us to reduce fares, lead to reduced passenger traffic or otherwise have an adverse effect on our business, financial condition and results of operations. Although in recent years, air travel has benefitted from increased efforts to focus on the tourism industry in Japan in order to encourage economic growth, the industry has been severely impacted by the sharp decline in demand as a result of the ongoing COVID-19 pandemic. Together with the effects of industry deregulation, the entry and gradual growth in the market of new domestic airlines and supply overcapacity due to the significant decrease in air passengers due to the COVID-19 pandemic, the competitive nature of the domestic transportation market has been intensifying.

JAL group

The Japanese domestic airline market is mostly dominated by two airline groups, the JAL group and us. For the fiscal year ended 31 March 2020, we and the JAL group had market shares in the Japanese airline market of approximately 50 per cent and 38 per cent in terms of passenger revenue, respectively, according to the MLIT. Competition is intense between the JAL group and us, in particular on high demand routes such as Tokyo (Haneda)—Sapporo (New Chitose), Tokyo (Haneda)—Fukuoka, Tokyo (Haneda)—Okinawa (Naha), and Tokyo (Haneda)—Osaka (Itami), and there can be no assurance that we will be able to maintain our market share advantage in the long-term.

LCCs

Although Japan has been less affected by the global trend of LCCs increasing their market presence as compared to other markets, LCCs have become more active in Japan over the past decade and had a market share of approximately 11 per cent of the Japanese airline market in terms of the number of revenue passengers as of 31 March 2020 and 2021 according to the MLIT. Although Peach Aviation Limited ("Peach Aviation"), a consolidated subsidiary of ours, is the largest LCC in Japan as of 31 March 2021 in terms of the number of revenue passengers, we face competition from Jetstar Japan Co., Ltd. ("Jetstar Japan"), an equity method affiliate of JAL that is partnered with the Jetstar group, an LCC that operates mainly domestic and international short-haul routes in the Asia Pacific market and Spring Airlines Japan, a consolidated subsidiary of JAL which commenced operations in 2014 and services routes between regions in China, major passenger terminals in Japan and Narita International Airport ("Narita"). Mainly because of the limitations on flight slots and the higher landing fees at Tokyo International Airport ("Haneda"), and Osaka International Airport ("Itami"), LCCs tend to operate out of Narita, which has a terminal primarily dedicated to LCC operations following a 2015 expansion, and/or Kansai International Airport ("Kansai"), which are less convenient in terms of access from urban centres compared to Haneda and Itami. However, these LCCs offer fares that are often significantly lower than full-service carriers and may prove to be a significant disruptive force in the domestic air transportation market and could materially and adversely affect demand and price levels for our full-service flights, including Haneda and Itami flights. Since its launch, Peach Aviation has proved successful in bringing new customers to the domestic airline market, and cannibalisation with our full-service airline business to date has generally been limited. However, there can be no assurance that a significant number of our customers will not be drawn to competitor LCCs and thus have a material adverse effect on our financial condition and results of operations due to a decline in passengers or a reduction in our pricing. In addition, the ability of our full-service airline business to compete head-on with the LCCs in terms of pricing is severely limited due to the drastically different cost structures.

Smaller Domestic Airlines

Since the 1990s, the domestic airline market has become gradually deregulated, which has created opportunities for new airlines to enter the market. Currently, there are seven such small domestic airlines in operation (Skymark Airlines Inc. ("Skymark"), Air Do, Solaseed Air, Star Flyer, IBEX Airlines, Oriental Air Bridge and Fuji Dream Airlines Co., Ltd. ("Fuji Dream"), with Air Do and Solaseed Air announcing (in May 2021) a planned merger in 2022 in the wake of the impact of COVID-19), and although they do not claim to be LCCs, some of them share some of the attributes of LCCs which enable them to reduce costs and pricing. These smaller competitors generally compete with us by offering lower-priced fares and focusing their service on a small number of high-demand or underserved routes. These airlines have been seeking to increase the number of flight slots at Haneda and Itami, the two busiest airports in Japan. Following a Haneda flight slot reallocation by the MLIT in September 2019, JAL lost three domestic flight slots, we lost one domestic flight slot, Skymark gained one domestic flight slot, and Air Do, Solaseed Air and Star Flyer had no net changes in flight slots (with three other slots to be allocated to a future new operator). Because of the gradual nature of any changes in flight slots in the domestic air travel market and our efforts to maintain code-sharing alliances with five of these seven domestic airlines, their impact on our business so far has been limited, but their presence could grow in the future and lead to significant competitive pressures on larger domestic airlines such as us.

Shinkansen/High-speed Rail Services

We also compete with the "Shinkansen", which is a high-speed rail service that services many major cities in Japan. Competition with the Shinkansen is particularly intense on our shorter routes where we may not have a competitive advantage in total travel time. For example, with respect to passenger service between Tokyo, Osaka and Nagoya, the three largest metropolitan areas in Japan, we do not provide flights between Osaka and Nagoya and we provide few flights between Haneda or Narita and Nagoya, in each case primarily due to our inability to compete with the Shinkansen. The Shinkansen's market share of passengers between the greater Tokyo area and the greater Osaka area is approximately five times that of air travel, even though the cost of tickets for air travel can be lower than for the Shinkansen. The Shinkansen generally provides more frequent scheduled departures and more passenger capacity compared to air travel, its stations are more convenient to urban centres than competing airports, and it allows for cell phone services, which helps to enhance its relative competitiveness. In addition, the expansion of Shinkansen coverage over the years, including a significant expansion of its services in Kyushu extending from Hakata to Kagoshima in 2011, and continuing improvements in Shinkansen service quality have led to increased Shinkansen market share on some key routes, including Tokyo—Hiroshima and Nagoya—Fukuoka. Also, the Shinkansen launched the Hokuriku service in 2015 which is expected to connect Tokyo and Osaka via Northern coastal cities such as Toyama and Kanazawa, as well as the Hokkaido service which in its initial stage extended services to Hakodate in 2016 and is expected to extend to Sapporo by 31 March 2030. The Chuo Shinkansen, an even higher speed maglev train, is currently under construction and is scheduled to link Tokyo and Nagoya by as early as 2027 and Tokyo and Osaka by as early as 2037. We face strong competition from the Shinkansen, and the number of routes to be offered are expected to increase as the new Shinkansen services are launched. Furthermore, while the Shinkansen currently offers only limited discounted fares based, for instance, on the number of days prior to departure the ticket is purchased, an increase in such discounts could significantly enhance the competitiveness of Shinkansen services. In addition, consumer preference for environmentally friendly modes of transportation could strengthen in the future, and this could lead to a loss of our passengers to the Shinkansen, which has a smaller negative environmental impact compared to air travel. If the relative attractiveness of Shinkansen services over air travel increases in the future based on any of the above factors or otherwise, our domestic passenger service business may be adversely affected.

Competition in the international airline market is intense and susceptible to price discounting

The international airline market is highly competitive, and we face competition from other airlines on almost all our international routes, several of which have greater name recognition and financial and other resources than us, as well as from indirect flights and charter services. In particular, our international routes overlap significantly with those of JAL. In the international airline market, the principal competitive factors are convenience of flight schedules and routes, level of service, brand recognition, membership in airline alliances, the attractiveness of frequent flyer programmes and price. Our pricing decisions are affected by many factors, including competition from other airlines, many of which have cost structures that are lower than ours or have other competitive advantages. These factors may become even more significant in periods when the industry experiences large losses (such as the current COVID-19 pandemic), as airlines under financial stress or in bankruptcy may institute pricing structures intended to achieve near-term survival rather than long-term viability.

Bankruptcy protection offered in connection with Chapter 11 (in the United States) or similar proceedings, especially in Europe and the Americas as well as government subsidies or other public aid to one or more of our competitors could also distort the markets and deteriorate our competitive position. Periods of industry downturns, including the current COVID-19 pandemic, could also precipitate mergers and alliances between carriers, such as the acquisition of Asiana Airlines by Korean Air announced in November 2020, and such developments could alter the competitive landscape.

Fare discounting by competitors, in particular on our Asia and North American routes, has historically had a negative effect on our financial results because we are generally required to respond to competitors' fares to maintain passenger traffic, and the ease in obtaining pricing information through the Internet has intensified such price competition. Because we, as a Japanese carrier, are effectively restricted to using the major Japanese international airports as primary hubs, we could suffer disadvantages compared to other airlines with more advantageous airports as primary hubs, including with respect to the range of available connecting flights, restrictions on arrival and departure times, expensive landing fees compared to other leading Asian international airports and, in the case of Narita, the distance from central Tokyo. Furthermore, to the extent that other nearby Asian countries build new airports, our Asian competitors may gain additional advantages by being able to offer more convenient flight times and destinations. For example, the Civil Aviation Administration of China has encouraged the building of over 200 additional airports in China by 2035. A future lifting of regulatory restrictions, such as beyond rights through Japanese airports such as Narita (i.e., the right to maintain a flight that originates from a foreign country, lands in a Japanese airport, and then continues on to a final destination in a third foreign country) for Middle Eastern and Asian carriers with lower operating costs compared to us, could significantly increase competition on our trans-Pacific and Asian flights.

Recently, competition from LCCs that are able to offer lower pricing due to significantly lower cost structures has been intensifying in the international airline market, and their negative impact on full-service airlines such as us could increase, particularly on routes between Japan and other Asian cities. The JAL group, our largest domestic competitor, launched its first passenger operations for ZIPAIR Tokyo Inc. ("ZIPAIR"), a wholly owned subsidiary LCC of JAL, between Narita and Seoul in October 2020, with plans for ZIPAIR's passenger operations to focus mainly on medium- and long-haul international routes. In addition, JAL acquired Spring Airlines Japan in 2021, which is an LCC which commenced operations in 2014 and service routes between regions in China, major passenger terminals in Japan and Narita. Spring Airlines Japan is now a consolidated subsidiary of JAL. Intense competition could result in a supply of international passenger services that significantly exceeds demand, and there can be no assurance that we will be able to implement pricing policies in a manner that is effective in competing with other airlines due to our inability to accurately assess other airlines' pricing policies in a timely manner or limitations relating to our cost structure or otherwise. These competitive pressures may be exacerbated by the ongoing COVID-19 pandemic, as the same number of competitors must compete for a significantly smaller number of international passengers. To the extent that demand for air travel is slow to return to pre-pandemic levels or does not return to such levels at all, this magnified competitive pressure may continue for an extended period, and we may suffer declines in passenger traffic despite the implementation of fare reductions or other measures.

These various competitive pressures in the international airline market could lead to reduced passenger traffic or require us to reduce fares or take other measures that have an adverse effect on our business, financial condition or results of operations.

We may not be successful in our efforts to grow our LCC operations

As part of our air transportation segment, we operate in the LCC market through Peach Aviation, a consolidated subsidiary of ours that merged with Vanilla Air, during the fiscal year ended 31 March 2020. For the fiscal year ended 31 March 2020, our revenues from our LCC operations (before intersegment eliminations) constituted 4.7 per cent of the total revenues for our air transportation segment. An increase in competition from other LCCs, such as Jetstar Japan, an equity method affiliate of JAL that is partnered with the Jetstar group, an LCC that operates mainly domestic and international short-haul routes in the Asia Pacific market, and ZIPAIR, a wholly owned subsidiary LCC of JAL that launched its first passenger operations between Narita and Seoul in October 2020, or other modes of transportation such as the Shinkansen could negatively impact our operating results for our LCC operations. In particular, JAL made additional investments in Spring Airlines Japan in 2021, with Spring Airlines Japan becoming a consolidated subsidiary of JAL and made additional investments in Jetstar Japan as part of a broader plan to build a Narita based LCC network. Even if we are successful in growing our LCC operations, there can be no assurance that the success of our LCC operations will not come as a result of cannibalisation of revenues of our full-service airline business.

The procurement and maintenance of our fleet is subject to the risk of the inability of, or delay or refusal by, aircraft manufacturers to fulfil their obligations, particularly with respect to Boeing or Airbus, each of which produce a significant portion of our new aircraft currently on order and our current fleet

We rely on the ability of aircraft manufacturers to deliver aircraft on schedule and provide parts after delivery as necessary. An inability of, or delay or refusal by, the manufacturer to perform its obligations under the related agreements due to financial or technical difficulties, labour problems, natural disasters or other reasons could have an adverse effect on our ability to execute our aircraft procurement and maintenance activities. In particular, as of 31 March 2021, we have orders in place for twenty Boeing 777-9s, twelve Boeing 787-10s, twelve Boeing 787-9s, one Airbus A380, five Airbus A321neos, four Airbus A321neo-LRs, twenty-three Airbus A320neos and fifteen Mitsubishi SpaceJets ("MSJ"), and approximately 66 per cent and 26 per cent of the number of aircraft in our fleet consisted of Boeing and Airbus aircraft, respectively. We have delayed the delivery of certain of our ordered aircraft due to the ongoing COVID-19 pandemic as described in "Business—Fleet", and although we do not currently expect to be required to pay any penalties for such delayed deliveries, penalties or other fees may be imposed if such deliveries are delayed further or cancelled. As of 31 March 2021, we also owned 24 aircraft produced by De Havilland Aircraft of Canada Limited. We may also encounter difficulties in our future aircraft procurement and maintenance activities if the respective financial conditions of Boeing, Airbus or De Havilland were to deteriorate in the future, including any potential bankruptcies or restructurings of such companies that may become necessary, or if our relationships with them were to deteriorate for other reasons. If Boeing, Airbus or De Havilland became unwilling or unable to perform its obligations, our business could suffer as we may not be able to execute our fleet strategy and may be forced to reduce the number of flights and routes that we offer, and our aircraft could also be grounded for an extended period of time. Our competitiveness could also be adversely affected as we may be forced to use ageing aircraft until aircraft can be sourced from other suppliers. Due to our reliance on aircraft produced by Boeing and Airbus, any systemic defects or issues that are discovered could affect large portions of our fleet. For example, from July to October 2018 we were forced to cancel certain scheduled domestic and international flights in order to conduct inspections and maintenance on the Rolls-Royce Trent 1000 engines that are equipped in certain of our Boeing 787 aircraft following an Airworthiness Directive issued by the Civil Aviation Bureau of the MLIT (the "Civil Aviation Bureau"). Additionally, although we expect to order twenty Boeing 737 MAX 8 aircraft and potentially up to ten more, we have delayed the delivery of such aircraft. The Boeing 737 MAX 8 was temporarily banned by various international aviation regulatory authorities following crashes by Lion Air and Ethiopian Airlines in October 2018 and March 2019, respectively. The U.S. Federal Aviation Authority rescinded its prohibition order within the United States on 18 November 2020, and many international jurisdictions have followed suit in clearing the Boeing 737 MAX 8 for flight, subject to conditions. Notwithstanding this, in the event that Boeing is unable to resolve any remaining issues regarding the Boeing 737 MAX 8, we may need to source alternatives. Similarly, we had previously planned to offer shorter domestic routes using the MSJ, which is a fuel efficient small passenger jet being developed principally by Mitsubishi Heavy Industries, Ltd., beginning in the fiscal year ending 31 March 2022. However, Mitsubishi Heavy Industries, Ltd. announced in October 2020 that it had suspended development on the MSJ, and delivery of the MSJ may be delayed for several years, if development is completed at all. Any delays or technical difficulties that result in our inability to take delivery of new aircraft as planned or require us to ground aircraft for extended periods could have a material adverse effect on our financial condition and results of operations.

If we are unable to secure sufficient flight slots at Haneda and/or Narita, our business could be adversely affected

We rely on Haneda and Narita as hubs for our air transportation business, and our business depends on maintaining our flight slots and obtaining additional flight slots when they are made available. Narita is currently in the process of implementing an expansion plan that includes a runway extension and construction of a new runway, which may not be completed until 2028 or later. Following the completion of this expansion, the number of hourly slots will increase dramatically, and we intend to secure a portion of these new flight slots, although Narita, as well as the MLIT and other governmental authorities, have not made any official announcements regarding the allocation of the new flight slots. Although we anticipate that we will be allocated approximately 25 per cent of the new Narita flight slots based on past allocation policies, there can be no assurance that this will be the case. For example, such allocations and future allocations could be affected by regulatory initiatives to enhance the market presence of other carriers such as LCCs. In the event that there are increases in the number of flight slots at Haneda in the future, we expect to seek an allocation of such slots, but there can be no assurance that we will be successful in securing our desired allocation.

There can be no assurance that Narita will expand its flight slots in the manner set forth above or that the allocation of such slots will be consistent with our expectations, and our business, financial condition and results of operations could be materially and adversely affected.

With respect to the ongoing COVID-19 pandemic, as of September 2021, while revenue and the number of passengers increased quarter-on-quarter due to a gradual recovery in business demand, travel demand in all regions remained suppressed, both internationally and domestically. In October 2020, the MLIT announced its intent to temporarily suspend the "use it or lose it" rules that can result in an airline losing access to flight slots if it does not operate the applicable flights, but in the event that this policy is cancelled or modified in the future and we are not able to fulfil the necessary conditions for maintaining such flight slots, our flight slot allocation may decrease.

We face risks related to our strategic alliances

We view our membership in the Star Alliance airline network as a key element of our business strategy, and its importance to our international passenger operations has increased significantly in recent years. We derive various benefits from our membership, including ticket sales to customers of member airlines, increased competitiveness of our flights based on flight schedules that are optimised for connection with member airline flights, enlarged flight network based on code-sharing flights, enhanced brand strength (particularly outside of Japan) and attractiveness of our frequent flyer programme. If the Star Alliance loses members that are important to our current or future business, whether as a result of one or more member airlines terminating their membership, having their membership suspended by the Star Alliance or for any other reason, our business could be materially and adversely affected. For example, Adria Airways, a Slovenian airline, and Avianca Brasil, a Brazilian airline, each left the Star Alliance in October and August of 2019, respectively, following bankruptcy-related proceedings, and other members of the Star Alliance may similarly face bankruptcy proceedings or withdraw from the Star Alliance due to difficulties related to the ongoing COVID-19 pandemic. In addition, other members of the Star Alliance may decide to change their flight routes or flight schedules in a manner that diminishes the attractiveness of our flights or reduces our flight network, whether due to the COVID-19 pandemic or otherwise. For example, most of the members of the Star Alliance have significantly decreased international routes due to the COVID-19 pandemic, which decreases the available flight options that we are currently able to offer to our customers as a member of the Star Alliance. If other airline alliances achieve a stronger market position as a result of mergers or the inability of the Star Alliance to attract new members that it may require to be successful in the future or if the Star Alliance is required to disband or materially alter its services due to antitrust or other similar laws and regulations of any jurisdiction in which member airlines operate, the competitive advantage that we derive from our membership in the Star Alliance could be reduced or eliminated.

We have also established deeper relationships with certain members of the Star Alliance in the form of strategic joint ventures. Specifically, we maintain operations under our joint venture with United Airlines on flights between Japan, the United States and Asia (except flights to and from mainland China and India) and with Lufthansa on flights between Japan and Europe under antitrust immunity from the relevant authorities, which allows us to coordinate sales and marketing, flight scheduling and pricing with our joint venture partners. We believe that these relationships have further enhanced our competitiveness on key trans-pacific and European routes as well as connecting Asian routes, in particular with respect to sales to non-Japanese customers. Additionally, in January 2020, we signed a joint venture framework with Singapore Airlines, which remains subject to regulatory approvals, as our first Asian airline joint venture partner, allowing us to provide our customers with more seamless flight connectivity and access to a wider network of flights in key markets including Australia, India, Indonesia and Malaysia. If our strategic joint ventures should be terminated or suspended, either by our joint venture partners, by regulatory agencies with oversight of such partnerships or otherwise, or the joint ventures do not result in the strategic advantages that we expect, our international air transportation business could be materially and adversely affected. Likewise, any deterioration in the business of our joint venture partners due to the ongoing COVID-19 pandemic or other reasons could materially and adversely affect our business. A reduction in the scale of our joint venture partners' operations may reduce the benefits we experience under such joint ventures, which may also reduce or eliminate the competitive benefits that we derive from such arrangements. Furthermore, the joint ventures may have the effect of exposing our business to the reputational risks related to our joint venture partners to a larger extent than in the case of simply being co-members of the Star Alliance.

Jet fuel price volatility or unavailability could have an adverse effect on us

Jet fuel costs account for a significant portion of our operating expenses and, therefore, substantial changes in jet fuel costs could materially affect our operating results. Jet fuel costs and fuel tax represented 18.6 per cent and 10.4 per cent of our operating expenses in our air transportation segment for the years ended 31 March 2020 and 2021, respectively. Jet fuel prices are directly affected by crude oil prices, which in turn are subject to fluctuations based on, among other factors, political unrest in various parts of the world, including Iran, Organization of Petroleum Exporting Countries, pricing policies, shale oil production levels in the United States, the rapid growth of economies such as China and emerging economies, the levels of inventory carried by industries, the amounts of reserves maintained by governments, disruptions to production and refining facilities, the activities of speculative investors in the crude oil market, natural disasters and weather. The price of Dubai crude oil, historically an indicator of jet fuel prices, has experienced large changes in recent years, including a steady decrease from U.S.$108.40 in September 2013 to U.S.$27.00 in January 2016, followed by a steady increase to U.S.$78.96 in October 2018 and a subsequent decreasing trend to U.S.$63.76 in January 2020 (each price presented as a monthly average). Due to the general decrease in global macroeconomic activity as a result of the COVID-19 pandemic, the monthly average price of Dubai crude oil decreased to U.S.$23.27 in April 2020 and has since experienced a slow increasing trend before increasing dramatically and reaching multi-year highs on tight supply in October 2021. As of 18 November 2021, the market price for Dubai crude oil was U.S.$79.95 per barrel.

Although we seek to reduce the impact of jet fuel prices by passing some of the price increases to our customers, including implementing fuel surcharges for international flights, utilising more fuel efficient aircraft, employing fuel efficient operational methods, reducing aircraft weight and optimising our fleet usage, our operating results may be significantly and adversely affected to the extent these efforts are not sufficient to absorb the full impact of jet fuel cost increases. Furthermore, due to severe competition against other airlines, we are sometimes subject to negative pressure when setting higher fuel surcharges, or higher fuel surcharges may discourage travel and lead to a decline in demand, and as a result our revenues may not increase in line with the increases in jet fuel prices.

We seek to stabilise our operating income through our hedging activities related to the fluctuations in jet fuel costs. Our objective with our hedging activities is to stabilise the impact of fluctuations in our jet fuel costs net of the offsetting effects on the operating revenue side, such as fuel surcharges, thus achieving more stability from an operating income perspective. As a result of this policy, if fuel surcharges or other offsetting revenue-side effects fail to materialise to the degree of our expectations, including due to significant short-term fluctuations in jet fuel prices, and we are otherwise unable to adjust our hedging position appropriately in response, our results of operations could be negatively impacted. Additionally, on 20 December 2019, the MLIT announced measures to reduce rates of jet fuel taxes applied in connection with our domestic flights by approximately 30 per cent in order to support domestic air travel in anticipation of the Tokyo Olympic Games, with such measures extended in April 2020 until 31 March 2022 and a further 50 per cent. reduction in jet fuel taxes (on top of existing reduction measures in place) announced in December 2020. Our expenses for jet fuel taxes will be negatively affected to the extent the measure is not extended past its current expiration date.

While we currently do not anticipate any difficulty in obtaining adequate supplies of jet fuel, extreme conditions involving natural disasters, political disruptions or wars involving oil-producing countries, weather-related events or other unpredictable events may result in fuel supply shortages which could force us to cancel flights or have other negative effects on our operations.

We have high fixed costs, which can cause small changes to business levels to have a material adverse effect on financial performance

A high proportion of our operating expenses, including employees' salaries and bonuses, depreciation, and a high proportion of our cost of sales, including lease and maintenance costs related to aircraft, do not vary proportionately to changes in operating revenues. In addition, operating expenses related to a given flight, such as jet fuel costs and landing and navigation fees, are affected primarily by the type of aircraft and not by the load factor or number of passengers. As a result, a minor decline in passenger traffic, load factors and yields can have a significant negative impact on our operating income. Furthermore, the significant amount of our interest-bearing debt has the effect of enhancing this operating leverage with respect to our net income due to the significant amount of interest expenses. Due to the ongoing COVID-19 pandemic, we have focused on cost reductions by reducing the number of flights and personnel costs, but cost reductions take time to implement and inherent limitations exist as to the extent of fixed cost reductions. Additionally, Japanese labour laws are more restrictive than certain other countries and we may be at a competitive disadvantage with respect to international competitors that are able to reduce operational scale more flexibly. See also "—The outbreak and global spread of the COVID-19 pandemic has resulted in a severe decline in demand for air travel which has adversely impacted our business, financial condition and results of operations and the duration and severity of the COVID-19 pandemic and similar public health threats that we may face in the future, could result in additional adverse effects on our business, financial condition and results of operations". If we are unable to manage fixed costs efficiently in times of reduced flight operations, including during the ongoing COVID-19 pandemic, our financial condition and results of operations would be adversely affected.

We may not be able to finance our aircraft procurement plans, or otherwise maintain sufficient liquidity, on acceptable terms or at all

As of 31 March 2021, we had orders in place for 92 new aircraft, with total outstanding payment obligations of ¥995.7 billion under our aircraft purchase agreements (based on an exchange rate of ¥110 to $1). We intend to finance the purchase of these aircraft primarily through loans, leases, as well as through cash flows from our operations. In addition, we continue to have significant debt, lease and other payment obligations. For example, in the fiscal year ending 31 March 2022, we will be required to make ¥173.0 billion of principal payments on interest-bearing debt and ¥65.9 billion in lease payments. However, a number of factors could limit our ability to finance these new aircraft purchases and other payment obligations on acceptable terms or at all, including:

- Downturns in the airline market. Downturns in the airline market due to changing economic conditions or other circumstances that are largely outside of our control, as discussed further under "—Considerations relating to the Airline Industry", could materially and adversely affect our results of operations. In the event we are required to take delivery of aircraft under our existing purchase obligations during such a downturn, we may not be able to secure financing on acceptable terms or at all. Due to the ongoing COVID-19 pandemic, we have delayed delivery of one Airbus A380, one Boeing 777-9, one Boeing 787-10 and one Airbus A321neo aircraft beyond the fiscal year ended 31 March 2021. Although we do not currently expect to be required to pay any penalties for such delayed deliveries, penalties or other fees may be imposed if such deliveries are delayed further or cancelled.
- Disruptions in global financial markets. Future global economic downturns or further developments related to the COVID-19 pandemic could lead to disruptions in global capital and debt markets, including widening of credit spreads and limited availability of funding, particularly in light of tightening of regulatory capital requirements for financial institutions, and this could lead to our inability to secure financing on acceptable terms or at all.
- Decline in credit quality. Our borrowing costs and ability to raise funds are determined in part by our credit ratings. Credit ratings are subject to revision, suspension or withdrawal by rating organisations at any time. In the event we suffer a significant downgrade due to the deterioration of our financial condition or results of operations or for any other reason, our cost of funding, as well as our ability to raise funds, will be impacted. In addition, a significant downgrade could result in a breach of covenants related to our bank commitment lines.
- The loss of JBIC credit support. We currently have access to guarantees from JBIC in connection with the financing of aircraft purchases to lower our financing costs. JBIC's mandate is to undertake lending and other operations for the promotion of Japanese exports, imports and economic activities overseas. If JBIC guarantees become unavailable for any reason and we are unable to obtain comparable credit support from other sources, our financing costs for aircraft may increase.

Any of these factors could cause our cost of financing for our aircraft to increase, which would adversely affect our financial condition and our results of operations. In addition, if any of these or other factors result in our inability to secure financing required for our aircraft purchase obligations on acceptable terms or at all, we may not be able to implement our aircraft procurement plans, which may adversely affect our business, financial condition and results of operations.

Fluctuations in interest rates may increase the cost of our current and future borrowings

The Bank of Japan currently maintains short-term interest rates at levels near zero per cent. If interest rate policies change or if yen interest rates otherwise increase, the applicable interest rate on our debts with floating interest rates will increase. As part of our initiative to improve our liquidity during the COVID-19 pandemic, we entered into a ¥100.0 billion loan agreement with private financial institutions in April 2020, which was refinanced in the first quarter of the fiscal year ending 31 March 2022 and a ¥400.0 billion subordinated loan agreement with private financial institutions and DBJ in October 2020, both of which carry a floating interest rate. In addition, we expect to issue bonds and notes or enter into additional loan agreements in the future to fund our operations and capital expenditures, and the cost of financing for these obligations will depend greatly on market interest rates. As a result, an increase in yen interest rates due to a change in Bank of Japan policy or otherwise, to the extent their effects are not hedged, will increase our financing costs, and our results of operations could be materially and adversely affected.

We make substantially all of our payments for aircraft and jet fuel for international flights using foreign currencies, particularly the U.S. dollar and, therefore, are subject to foreign exchange risks

We are exposed to foreign exchange rate fluctuations primarily with respect to our aircraft lease and purchase obligations, substantially all of which are denominated in U.S. dollars, and our jet fuel purchases. To the extent possible, we use foreign currency earned from our operating activities to pay operating and other expenses denominated in the same foreign currency, thereby reducing foreign exchange fluctuation risks and commissions. However, U.S. dollar payments, particularly for aircraft and jet fuel, are substantially larger than our U.S. dollar revenues, and as a result, depreciation of the Japanese yen against the U.S. dollar generally has a negative effect on our net income. We utilise forward exchange contracts to hedge certain foreign currency transactions related to our U.S. dollar commitments. However, our hedging strategies do not cover all of our foreign currency liabilities and may not always be effective.

If Haneda and/or Narita were to suffer a prolonged shutdown, our results of operations could be seriously harmed

In the fiscal year ended 31 March 2020, 64.5 per cent of our domestic passengers and 43.6 per cent of our international passengers departed from or arrived in Haneda, and 50.9 per cent of our international passengers departed from or arrived in Narita. Additionally, the operational control for all of our domestic and international flights is conducted at Haneda. If either Haneda or Narita were to suffer a prolonged shutdown due to an earthquake, tsunami, flooding, volcanic eruption or other natural disaster, systems breakdowns or any other reason, a substantial portion of our fleet would be grounded and our results of operations could be seriously harmed.

Our cargo operations are subject to various risks inherent in such business

Our cargo operations are an important part of our business (and particularly so during the COVID-19 pandemic where we achieved record quarterly international cargo revenue for the four consecutive quarters ending the three-months ended 30 September 2021), accounting for 30.0 per cent and 40.6 per cent of our total air transportation revenues for the fiscal year ended 31 March 2021 and the six-month period ended 30 September 2021, respectively. Demand for both domestic and international air cargo is affected by global and domestic economic conditions, and downturns have historically had an adverse impact on the volume of international trade and domestic commerce. Other events and circumstances that impact the volume of international trade and domestic commerce, such as natural disasters and terrorism, have also negatively affected demand for our cargo services in the past. Demand for international air cargo is also influenced by cyclical changes in demand for semiconductor-related and electronic goods, as these products constitute a significant portion of cargo carried by airlines. The ongoing COVID-19 pandemic has contributed to a recent increase in shipments of medical supplies as well as computers and communication equipment due to the rise in teleworking. A significant reduction in "belly cargo space" (cargo space in passenger aircraft) as a result of airlines globally downsizing their operational fleet and congestion in marine transportation have resulted in supply-demand imbalances, which has contributed to increased fares for international air cargo. For the six-month period ended 30 September 2021, we saw the highest-ever first half international cargo revenue of ¥138.3 billion, but there can be no assurance that this trend will continue. Additionally, geopolitical tensions can affect demand for international air cargo, such as the recent trade friction between the United States and China which contributed to the decrease in our international cargo volume for the fiscal year ended 31 March 2020.

Longer-term trends related to Japan's manufacturing sector, such as structural shifts from the manufacturing sector to the services sector or the relocation of manufacturing activity to foreign locations in response to the persistent strength of the Japanese yen and high personnel costs, could lead to a decline in the demand for our international air cargo services. The international and domestic cargo markets are highly competitive, and we face competition from the JAL group and Nippon Cargo Airlines Co., Ltd. ("NCA"), as well as other airlines, and freight integrators such as DHL International GmbH ("DHL"), and FedEx Corporation ("FedEx"), on virtually all of our cargo routes. There can be no assurance that we will be able to compete successfully in the future in the air cargo market with other airlines that may benefit from cost structures that are lower than ours or financial or other resources that are greater than ours or maintain stronger relationships with freight forwarders.

We may suffer losses in the event of an accident or incident involving our aircraft or any other airline

An accident or incident involving one of our aircraft could require repair or replacement of a damaged aircraft, its consequential temporary or permanent loss from service and significant liability to injured passengers and others. There is also the possibility of debris falling from an aircraft in flight, and, for example, in September 2017 and March 2020 there were incidents of external panels falling from our aircraft. Although we believe we currently maintain liability insurance in amounts and of the type generally consistent with industry practice, the amount of such coverage may not be adequate to cover in full the costs related to the accident or incident, resulting in harm to our financial condition and results of operations. In addition, any aircraft accident or incident, even if fully insured, as well as an increase in the number of irregularities on flights, could cause a public perception that we are less safe or reliable than other airlines, which would harm our competitive position and result in a decrease in our operating revenues. We may be similarly subject to liability to passengers of our code-share flights operated by other carriers, and we generally have no direct control over the safety and security measures taken by such carriers. Moreover, a major accident or incident involving the aircraft of any of our competitors may cause demand for air travel in general to decrease, which would adversely affect our financial condition and results of operations.

Labour disruptions could threaten our future operations

Almost all of our flight crew are members of labour unions for flight crew and most of our other employees are members of other labour unions. In the event that any strike, work stoppage or work slowdown by our employees occurs, our business, financial condition and results of operations could be adversely affected. There can be no assurance that we will not experience strikes in the future, whether in connection with the COVID-19 pandemic or otherwise, or that the negative effects of future strikes will not be more significant. Furthermore, we plan to conduct a reduction in force by approximately 5,000 employees by the end of the fiscal year ending 31 March 2023 (as compared to 31 March 2021) and other cuts in employee benefits, including the measures we intend to implement as part of our Business Structure Reform Plan. This could meet with significant resistance from labour unions and result in strikes or other action by our employees and result in our inability to implement such cost-cutting measures. In addition, given the significant scale of the labour force reduction, this may impair our ability to react to and capture market opportunities in the future and/or may result in other unintended consequences which may have an adverse effect on our financial condition and results of operations.

The inability to retain or hire adequate numbers of qualified flight crew may affect our future business

We may face increasing difficulty in securing a sufficient number of qualified flight crew for maintaining or expanding our air transportation services or flight crew currently on furlough may not return. There has traditionally been a limited supply of qualified commercial airline flight crew in Japan. In addition, demand for flight crew globally has increased significantly in recent years prior to the COVID-19 pandemic due to the significant increase in demand from LCCs, which has caused an increase in compensation levels in the industry for new hires. The ongoing COVID-19 pandemic has significantly decreased demand for flight crew due to the decrease in flights, but such pressures may return if air traffic returns to pre-pandemic levels. The training of new flight crew is a costly and time-consuming process, and it has historically been difficult to find a sufficient number of suitable candidates to fill our flight crew training programmes. The number of graduates from the Civil Aviation College (*koku daigakko*), which is a training school for new flight crew operated by the government of Japan, is also limited. We may hire flight crew members who have reached retirement age to operate certain types of aircraft, but if we are unable to secure a sufficient number of flight crew either from within Japan or overseas at acceptable costs, we may be required to reduce our operations, which would have a material adverse effect on our results of operations.

We have been endeavouring to reduce the types of aircraft and engines we utilise in recent years, and any design defects or mechanical problems with these aircraft or engines, whether real or perceived, could significantly harm our business

We have in recent years been endeavouring to reduce the types of aircraft and engines used in our fleet to make its operation more efficient. This rationalisation of our fleet makes us more vulnerable to any problems that might be associated with our aircraft or engines. Our business would be significantly harmed if, for instance, it was discovered that a particular aircraft model had a design defect or mechanical problem and our entire fleet of such aircraft model was grounded while such defect or problem was corrected or we otherwise incurred significant costs to replace or repair a defective part and such costs were not covered under a manufacturer warranty. For example, from July to October 2018 we were forced to cancel certain scheduled domestic and international flights in order to conduct inspections and maintenance on the Rolls-Royce Trent 1000 engines that are equipped in certain of our Boeing 787 aircraft following an Airworthiness Directive issued by the Civil Aviation Bureau. Additionally, although we have delayed the delivery of any Boeing 737 MAX 8 aircraft, the Boeing 737 MAX 8 had been temporarily banned by various international aviation regulatory authorities following crashes by Lion Air and Ethiopian Airlines in October 2018 and March 2019, respectively. The U.S. Federal Aviation Authority rescinded its prohibition order within the United States on 18 November 2020 and many other regulators have followed suit in clearing the Boeing 737 MAX 8 for flight, subject to conditions. More recently, faulty titanium parts were discovered by Boeing in its Boeing 787 aircraft in another setback. To the extent that such types of issues occur in the future, the MLIT could suspend or restrict the use of a portion of our fleet in the event of any actual or perceived mechanical or design problems with respect to one of our aircraft or engine types while it conducts its own investigation. Furthermore, if the public perceives our fleet to be less safe due to the discovery of any defect or mechanical problem or the instigation by the MLIT of an investigation related to the safety of our fleet, demand for our passenger service and, therefore, our results of operations could be materially harmed. Finally, if a type of aircraft that is more suitable for our business than our current aircraft is developed in the future, it may be difficult for our fleet to shift promptly to such aircraft type.

We rely heavily on technology and automated systems to operate our business, and any failure of these technologies or systems could harm our business, financial condition and results of operations

We are highly dependent on existing and emerging technology and automated systems to operate our business. These technologies and systems include our computerised airline reservation system, flight operations systems, financial planning, management and accounting systems, telecommunications systems, website, maintenance systems and check-in kiosks. In order for our operations to work efficiently, our website and reservation system must be able to accommodate a high volume of traffic, maintain secure information and deliver flight information, as well as issue electronic tickets and process critical financial information in a timely manner. Substantially all of our tickets are issued to passengers as electronic tickets. Our group's data centre is located in Tokyo and operational control for all of our domestic and international flights is conducted at Haneda. Although we maintain backup systems located outside of Tokyo that are intended to activate based on our business continuity plans in the event of a major disaster affecting the Tokyo metropolitan area, such as an earthquake, typhoon, tsunami, volcanic eruption or fire, there can be no assurance that our operational capabilities would be free of disruption under such circumstances. If our technologies or automated systems were to experience a disruption or if our third-party service providers were to fail to adequately provide technical support, system maintenance or timely software upgrades for any one of our key existing systems, we could experience service disruptions or delays, which could harm our business and result in the loss of important data, increase our expenses and decrease our revenues. For example, due to a network router failure on 22 March 2016, our systems experienced a disruption that prevented us from conducting check-in's and new reservations or sales at airports within Japan for several hours. Additionally, because much of modern internet and communications networks are based on interconnected infrastructure operated and managed by third parties, any disruptions or failures in third party infrastructure or more general outages in internet and communications networks may result in disruptions to our operations. In the event that one or more of our primary technology or systems vendors goes into bankruptcy, ceases operations or fails to perform as promised, replacement services may not be readily available on a timely basis, at competitive rates or at all, and any transition time to a new system may be significant.

Our technologies and automated systems cannot be completely protected against events that are beyond our control, including natural disasters, power failures, terrorist attacks, cyber-attacks, data theft, equipment and software failures, computer viruses or telecommunications failures. Substantial or sustained system failures could cause service delays or failures and result in our customers purchasing tickets from other airlines. We cannot assure that our security measures, change control procedures or disaster recovery plans are adequate to prevent disruptions or delays. Disruption in or changes to these technologies or systems could result in a disruption to our business, either through the cancellation or delay of flight and check-in operations, the loss of important data and the general impact of negative publicity. Any of the foregoing could result in a material adverse effect on our business, financial condition and results of operations.

We are dependent on third parties for certain essential services in our air transportation business, and disruptions in these services would negatively impact our business

We are dependent upon the services of third parties for our air transportation operations, such as air traffic controllers, jet fuel handlers, baggage handlers, catering services and certain maintenance services. Any interruption in the normal business activities of these third parties, such as operational malfunctions or prolonged strikes, in particular at Haneda or Narita, could result in a material adverse effect on our business, financial condition and results of operations.

Losses related to our retirement benefit plans and a decline in returns on our plan assets may adversely affect our financial condition and results of operations

Costs related to our pension and retirement benefit plans may increase if the fair value of our pension plan assets declines or if there is a change in the actuarial assumptions on which the calculations of the retirement benefit obligation are based, such as a decline in the expected rate of return on plan assets. In addition, we may be required to recognise expenses related to the recognition of previously unrecognised service costs as a result of plan amendments. Changes in the interest rate environment and other factors may also adversely affect the amount of unfunded retirement benefit obligations and the resulting annual amortisation expense.

Our aircraft assets are subject to the risk of future impairment and losses upon their sale

Due to the nature of our business, we hold a significant amount of fixed assets, mostly in the form of aircraft. As of 31 March 2021, the net book value of our aircraft was ¥1,026.2 billion. In the past, we have incurred significant losses upon the sale of our aircraft, as well as impairment losses when the profitability and market prices of our aircraft dropped notably and net book value was written down to the recoverable amount. During the fiscal year ended 31 March 2021, we originally planned to retire seven aircraft from our fleet, but due to our reduced operations as a result of the COVID-19 pandemic we retired a total of 35 aircraft, resulting in restructuring expenses of ¥86.3 billion including an impairment loss for the early retirement of these additional aircraft. Depending on the amount of time before the resolution of the COVID-19 pandemic or a potentially prolonged economic recovery following the pandemic, we may be required to recognise impairment losses or losses on the sale of additional aircraft, and our financial condition and results of operations may be adversely affected.

Decreases in our taxable income may negatively affect the recoverable amount of our deferred tax assets

We use the asset and liability approach to recognise deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences. Our total net deferred tax assets were ¥219.3 billion and ¥99.7 billion as of 31 March 2021 and 31 March 2020, respectively. In the event that our future taxable income is less than our current estimates for purposes of tax planning due to deteriorations in our business, whether due to the COVID-19 pandemic or otherwise, the recoverable amount of our deferred tax assets would decrease, negatively affecting our financial condition.

We have been the subject of investigations relating to price fixing activities in the past, and similar proceedings in the future may adversely affect our financial condition and results of operations

In the past, we, together with various other airlines, were the subject of a government investigation in the United States led by the Department of Justice regarding illegal price fixing in the international air cargo services in connection with trans-pacific cargo shipments between 2000 and 2006. As discussed further below, several related civil class action lawsuits were also filed against us and other airlines in the United States. A government investigation relating to price fixing in the air passenger services industry, including us, was commenced by the Department of Justice in 2007. In October 2010, we pleaded guilty to the cargo and passenger allegations and were subjected to a criminal fine totalling US$73 million upon due consideration of the circumstances surrounding the investigation which we duly paid. In the same month, we also entered into settlements with the plaintiffs of the class action lawsuits from freight forwarders and agreed to a settlement of US$10.4 million. A similar investigation was commenced by the European Commission in 2007 in connection with the international air cargo cartel. We cooperated with such investigation, and the Commission decided to close the air cargo proceedings in November 2010 with no fines or other penalties applied against us, although similar proceedings by competition authorities in the Netherlands and Canada remain in process as of the date of this Offering Circular. A similar proceeding in Korea that began in 2009 resulted in the payment of penalties of 1.63 billion Korean won (approximately ¥117 million based on the exchange rate of 0.0718 to 1 Korean won) in

January 2011, and the proceeding remains in process as of the date of this Offering Circular. There can be no assurance that further civil lawsuits will not be filed against us in connection with the above, in which case our guilty plea in 2010 could have an adverse effect on any such future lawsuit or any related settlement thereof. Furthermore, there can be no assurance that further investigations will not be commenced in other jurisdictions in relation to the above.

In the event we are subject to an adverse judgment in any future civil litigations related to alleged or other illegal price fixing in the air passenger industry, we may be required to pay substantial civil damages, which may materially and adversely affect our financial condition and results of operations.

We may be subject to various legal proceedings

As a major airline with extensive domestic and international operations, we may become a party to legal proceedings or investigations in the ordinary course of our operations with respect to passengers, shareholders, business counterparties, regulatory authorities or other governmental authorities or other third parties. A negative outcome in any such legal proceedings could adversely affect our business, financial condition and results of operations. See "Business—Legal Proceedings".

We hold a large share of the domestic market, which makes us subject to antitrust regulation in certain aspects of our business

For the fiscal year ended 31 March 2020, we had an approximately 50 per cent share of the domestic air transportation market based on passenger revenue according to the MLIT, and under the Act Concerning the Prohibition of Private Monopoly and the Methods of Preserving Fair Trade (Act No. 54 of 1947, as amended) (the "Japanese Antitrust Act"), we are subject to antitrust regulation in various aspects of our business activities, including the pricing of our fares, the formation of alliances, the operation of code-sharing flights, the determination of contractual terms with our suppliers and the conduct of merger and acquisition activities. For example, in September 2002, two of our smaller competitors filed complaints with the Japan Fair Trade Commission (the "JFTC"), alleging that pricing on certain routes operated by JAL, Japan Air System Co., Ltd. ("JAS") (a carrier that has subsequently been acquired by JAL), and us violated the Japanese Antitrust Act. In response to these allegations, the JFTC informally requested that each of us increase our prices, and we complied with the request. Due to these restrictions arising from Japanese antitrust regulation, we may be unable to take advantage of certain business opportunities or may be unable to match the pricing of domestic airlines that are not subject to such restrictions, which could have an adverse effect on our business, financial condition, results of operations or market share.

Evolving data security and privacy requirements could increase our costs, and any significant data security incident could disrupt our operations, harm our reputation, expose us to legal risks and otherwise materially adversely affect our business, financial condition and results of operations

Our business requires the secure processing and storage of sensitive information relating to our customers, employees, business partners and others. However, like any global enterprise operating in today's digital business environment, we are subject to threats to the security of our networks and data, including threats potentially involving criminal hackers, hacktivists, state-sponsored actors, corporate espionage, employee malfeasance, and human or technological error. These threats continue to increase as the frequency, intensity and sophistication of attempted attacks and intrusions increase around the world. We have been the target of cybersecurity attacks in the past and expect that we will continue to be in the future.

In response to these digital security threats, there has been heightened legislative and regulatory focus on data privacy and cybersecurity in Japan, the U.S., the EU and elsewhere, particularly with respect to critical infrastructure providers, including those in the transportation sector. As a result, we must comply with a proliferating and fast-evolving set of legal requirements in this area, including substantive cybersecurity standards as well as requirements for notifying regulators and affected individuals in the event of a data security incident.

Under the Act Concerning Protection of Personal Information of Japan (Act No. 57 of 2003, as amended) designed to generally protect the personal information of individuals, relevant authorities may issue recommendations or orders against us as an institution in possession of personal information if we fail to protect the personal information of our customers, whether through mishandling, theft, cyber-attacks or otherwise, and we may be required to provide compensation for economic loss arising out of a failure to protect personal information in accordance with this act. In addition, incidents of mishandling personal information could create a negative public perception of our operations, which may in turn lead to loss of market share, reduced sales or otherwise materially and adversely affect our business, financial condition and results of operations. As of 31 March 2021, we had approximately 37.4 million members in our frequent flyer programme.

The data security regulatory environment is increasingly challenging and may present material obligations and risks to our business, including significantly expanded compliance burdens, costs and enforcement risks. For example, in May 2018, the EU's new General Data Protection Regulation, commonly referred to as GDPR, came into effect, which imposes a host of new data privacy and security requirements, imposing significant costs on us and carrying substantial penalties for non-compliance. In addition, the Personal Information Protection Law came into force on 1 November 2021 in China, outlining data processing and collection requirements.

In addition, many of our commercial partners, including credit card companies, have imposed data security standards that we must meet. In particular, we are required by the Payment Card Industry Security Standards Council, founded by the credit card companies, to comply with their highest level of data security standards. While we continue our efforts to meet these standards, new and revised standards may be imposed that may be difficult for us to meet and could increase our costs.

A significant cybersecurity incident could result in a range of potentially material negative consequences for us, including unauthorised access to, disclosure, modification, misuse, loss or destruction of company systems or data; theft of sensitive, regulated or confidential data, such as personal identifying information or our intellectual property; the loss of functionality of critical systems through ransomware, denial of service or other attacks; a deterioration in our relationships with business partners and other third parties; and business delays, service or system disruptions, damage to equipment and injury to persons or property. The methods used to obtain unauthorised access, disable or degrade service or sabotage systems are constantly evolving and may be difficult to anticipate or to detect for long periods of time. The constantly changing nature of the threats means that we may not be able to prevent all data security breaches or misuse of data. Similarly, we depend on the ability of our key commercial partners, including our regional carriers, distribution partners and technology vendors, to conduct their businesses in a manner that complies with applicable security standards and assures their ability to perform on a timely basis. A security failure, including a failure to meet relevant payment security standards, breach or other significant cybersecurity incident affecting one of our partners could result in potentially material negative consequences for us. For instance in 2021, we discovered data of a significant number of our customers had been compromised in relation to a cyberattack on Swiss air transportation information technology firm Sita (Sita's servers are used to share frequent flyer membership data with other Star Alliance members).

In addition, the costs and operational consequences of defending against, preparing for, responding to and remediating an incident of cybersecurity breach may be substantial. As cybersecurity threats become more frequent, intense and sophisticated, costs of proactive defence measures are increasing. Further, we could be exposed to litigation, regulatory enforcement or other legal action as a result of an incident, carrying the potential for damages, fines, sanctions or other penalties, as well as injunctive relief and enforcement actions requiring costly compliance measures. A significant number of recent privacy and data security incidents, including those involving other large airlines, have resulted in very substantial adverse financial consequences to those companies. A cybersecurity incident could also impact our brand, harm our reputation and adversely impact our relationship with our customers, employees and stockholders. Accordingly, failure to appropriately address these issues could result in material financial and other liabilities and cause significant reputational harm to us or our group companies.

Investments, acquisitions and the commencement of new businesses present risks, and we may be unable to achieve our financial and strategic goals related to those activities

From time to time we may encounter opportunities to invest in or acquire existing businesses or commence new businesses. For example, in 2016 we acquired 8.8 per cent of the outstanding shares of Vietnam Airlines, the leading airline in Vietnam (with our current holding being 5.6 per cent of the outstanding shares), and in 2019 we acquired 9.5 per cent of the outstanding shares of PAL Holdings Inc., the parent of Philippine Airlines Inc., the largest airline in the Philippines. On 3 September 2021, Philippine Airlines Inc. announced the voluntary decision to undergo financial restructuring under the U.S. Chapter 11 process, as part of a set of agreements entered into with creditors and which will allow it to restructure and reorganise its finances impacted by the COVID-19 pandemic and on 1 October 2021, it received U.S. court approval on a final basis to access its debtor-in-possession financing totalling U.S.$505 million, a core feature of the flag carrier's restructuring plan. Vietnam Airlines is subject to a government rescue plan following significant losses sustained as a result of the COVID-19 pandemic, with equity injections led by the State Capital Investment Corporation having diluted our stake in Vietnam Airlines from 8.8 per cent to 5.6 per cent. Due to our minority stakes in these companies, we do not have the ability to control their operations and are subject to the risk that their management may not operate the companies in a way that is favourable to us or that we may recognise impairment losses if the business condition of such companies deteriorates as a result of the ongoing COVID-19 pandemic or for any other reason. Additionally, from time to time we may commence new businesses as part of our operations. For example, in April 2020 we established avatarin Inc., a technology venture intended to accelerate the development, deployment and research of a robotic avatar service platform. New businesses, and particularly new businesses that are not directly related to our core competency in airline operations, as well as acquired businesses, present a number of risks and uncertainties, including (i) difficulties in integrating a new or acquired business into our existing operations, as a result of which we may incur increased operating costs that can adversely affect our results of operations; (ii) the diversion of management time and capital resources from our existing businesses, which could adversely affect the performance of those businesses and our results of operations; (iii) dependence on key management personnel of an acquired or newly started businesses and the risk that we will be unable to integrate or retain such personnel; and (iv) the risk that the anticipated benefits of any acquisition or of the commencement of any new business may not be realised or changes we make to an acquired business may harm the performance of that business, in which event we will not be able to achieve an acceptable return and we may incur losses on such investments.

Considerations Relating to the Airline Industry

The airline industry is affected by risks and events that are beyond our control such as terrorism, political instability, natural disasters, extreme weather, international disputes and epidemics, and the occurrence of one or more of these events may spark a downturn in our business

Our international and, to a lesser extent, our domestic air transportation businesses, as well as our travel business, are exposed to various risks and events that are beyond our control and occur throughout the world, and these could lead to significant decreases in passenger traffic and ticket prices. For example, the global airline industry has entered a significant downturn as a result of the ongoing COVID-19 pandemic, and it is unclear how long the downturn will continue or whether the industry will recover to pre-pandemic levels. Historically, terrorist attacks, such as the September 11, 2001 terrorist attacks in the United States, have had a significant adverse effect on air travel, and natural disasters, such as the volcanic eruption in Iceland in 2010, have also resulted in sudden and significant disruptions in air travel. We are also subject to similar, but more localised, risks and events that disproportionately affect us or one of the markets we service. For example, the Great East Japan Earthquake and subsequent tsunami off the Pacific coast of northeastern Japan on 11 March 2011 and their aftermath, including the failure of the Fukushima Dai-ichi Nuclear Power Plant that led to leakage of radioactive materials and widespread power shortages, caused a significant disruption to the Japanese economy and materially and adversely affected demand for air travel to and within Japan. More isolated natural disasters in Japan, such as the Kumamoto earthquake in 2016, torrential rain in western and southern Japan in July 2018 and in July 2020, and typhoons 15 and 19 in 2019, have also resulted in temporary decreases in domestic air travel. In September 2018, typhoon 21 resulted in flooding at Kansai that caused major damage to the runway, power generation equipment and other airport facilities, and many aircraft became unavailable for an extended period. In the same month, an earthquake in Hokkaido caused widescale power outages. Although power at Chitose was quickly restored, allowing us to resume operations the following day, many forms of public transportation remained suspended, making it difficult for many of our local employees to return to work. To the extent that changes in weather patterns result in an increase in the frequency, severity or duration of severe weather events such as thunderstorms, hurricanes, flooding, typhoons, tornados and other severe weather, such events could result in increases in delays and cancellations, turbulence-related injuries and fuel consumption to avoid such weather, any of which could adversely affect our business, financial condition and results of operations. Our business has also been adversely affected in the past by reduced demand for air travel due to demonstrations and political unrest in Hong Kong in 2019 as well as political tensions between the governments of Japan and South Korea and China which have resulted in reduced demand for air travel to and from Japan from time to time. Continued or intensified political tensions could negatively affect our cargo or passenger operations as well as the global economy more generally.

Epidemics, whether on the scale of the ongoing COVID-19 pandemic or a reduced scale more similar to previous outbreaks of Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome ("SARS"), H1N1 influenza virus, avian flu, Zika virus or other diseases, any future global political instability, war, terrorist threats or acts or more localised events affecting the markets we service would result in reduced demand for air transportation and could have a material adverse effect on our financial condition and results of operations.

The airline industry experiences seasonal fluctuations, which may cause our results to vary significantly

The airline industry is seasonal in nature. Demand for scheduled airline services, including our services, is lowest during the winter months. Historically, sales for our flights are strongest during the summer months, particularly August, and around other holiday periods in Japan. Operating income for the second quarter of any fiscal year are generally significantly higher than the fourth quarter, and operating income for the first and third quarters are generally at varying levels in between the second and fourth quarters. Accordingly, our results of operations for any quarter of a fiscal year are not indicative of those for any other quarter or for the entire fiscal year. In addition, because much of our profitability for any fiscal year is attributable to the heavy demand for air travel during the summer months, significant declines in demand for air travel during this period in any fiscal year will materially and adversely affect our results of operations for such fiscal year. Moreover, there can be no assurance that the airline industry will continue to follow historical trends due to the effects of the COVID-19 pandemic and the accompanying shifts in consumer behaviour.

The airline industry is subject to significant regulation, and any additions or changes to such regulations could materially affect our revenues or profits

The operation of airlines in general, and particularly the awarding and retention of international route rights, is regulated by laws and regulations, bilateral and multilateral treaties between the airline's home country and other countries, the rules of self-regulatory organisations such as the IATA and the International Civil Aviation Organization (the "ICAO"), as well as recommendations from regulatory authorities or equipment manufacturers, all of which are subject to change. In addition, Japanese airline companies are regulated by the Civil Aeronautics Act of Japan (Act No. 231 of 1952, as amended) (the "Civil Aeronautics Act") as enforced by the MLIT. We cannot predict what laws and regulations, either internationally or domestically, will be adopted in the future or what changes to international air transportation treaties or aviation policies of Japan or other countries will be made and whether any such changes may have an adverse effect on our business. For example, following the terrorist attacks of September 11, 2001, there was a considerable enhancement to regulation relating to airport security, both internationally and in Japan, which led to increased costs for us and other airlines, and the inconvenience to passengers caused by the increase in security could have had the effect of depressing demand. Additionally, following the withdrawal by the United Kingdom from the European Union, we will also incur additional expenses in order to address related legal and regulatory issues.

We may also encounter difficulties in complying with regulations regarding the safety and conduct of our staff. For example, we have experienced repeated issues regarding alcohol compliance, including with respect to captains and first officers. Multiple alcohol incidents involving captains and first officers in October 2018 and January, February, March and November of 2019 resulted in flight delays in order to locate replacement crew. Additionally, in December 2018, the Civil Aviation Bureau determined that of the alcohol inspection records over the preceding twelve months, approximately 400 tests had not been performed. We have established the ANA Group Alcohol Compliance Committee and implemented more strict alcohol testing systems for flight crew, but there can be no assurance that these measures will be effective at preventing or detecting future incidents related to alcohol compliance. These alcohol compliance incidents and potential future incidents could result in reputational harm to our brand which could adversely affect our business, financial condition and results of operations.

Due to the ongoing COVID-19 pandemic, the airline industry and regulatory authorities have implemented additional health safeguards and procedures, and we expect that these measures will continue to evolve during and after the resolution of the COVID-19 pandemic. In addition, various costs related to the operation of an airline in Japan imposed by the Japanese government, including landing and navigation fees as well as jet fuel taxes, have a significant effect on our results of operations. Due to the ongoing COVID-19 pandemic, we currently benefit from various governmental initiatives in Japan that have the effect of lowering our operating expenses, but there can be no assurance that such initiatives will continue or will be sufficient to address the challenges of the ongoing pandemic. See "—Government support and aid to address the COVID-19 pandemic may be insufficient, may be tied to restrictions on our future operations or may place us at a competitive disadvantage with respect to international competitors".

Any regulatory changes, whether as a result of the COVID-19 pandemic, the United Kingdom's withdrawal from the European Union, other events or ordinary course developments due to periodic law making and regulatory reviews, could cause an increase in our operating expenses in order to address such changes and may negatively affect our business, financial condition and results of operations.

The airline industry is subject to increasing environmental regulations, which lead to increased costs and affect profitability

In recent years, regulatory authorities in Japan and other countries have issued a number of directives and other regulations to address, among other things, aircraft noise and aircraft engine emissions, especially CO_2, the use and handling of hazardous materials, aircraft age and environmental contamination prevention. These requirements impose high fees, taxes and substantial ongoing compliance costs on airlines, particularly as new aircraft brought into service will have to meet the environmental requirements during their entire service life. For example, in 2016 the ICAO adopted the Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA"). CORSIA may affect the future supply, demand and price of sustainable or lower carbon aircraft fuel, carbon offset credits and technologies that could allow airlines to reduce their emissions of CO_2 and may increase our operating expenses. In addition, in the EU, the European Commission has launched the "Fit for 55%" measures that will support Europe's climate policy framework and put the EU on track for a 55% reduction in carbon emissions by 2030. We expect to continue to incur expenditures on an ongoing basis to comply with environmental regulations, both domestically and internationally. Compliance with environmental regulations may also restrict our ability to make operational adjustments or expand networks and facilities or continue operations, or could require us to install costly pollution control equipment or incur other significant expenses, including carbon offsetting costs. If we are unable to increase our fares, impose surcharges or otherwise increase revenues or decrease other operating expenses sufficiently to offset our costs of complying with environmental regulations, our business, financial condition and results of operations could be adversely affected. Additionally, if institutional investors begin to exhibit stronger preferences for environmentally friendly companies, our financing costs may increase relative to green industries and companies. In the event that customers become dissatisfied with our environmental initiatives or our progress with respect to environmental objectives and policies, such as efforts to reduce CO_2 emissions, our reputation and brand may be harmed, which could adversely affect our business, financial condition and results of operations.

Considerations Relating to Our Financial Statements

Differences in generally accepted accounting principles

Our consolidated and non-consolidated financial statements are prepared and presented in accordance with Japanese GAAP, which differs in certain respects from IFRS and generally accepted accounting principles and financial reporting standards in other countries. Our financial statements may therefore differ from those prepared for companies outside Japan in those and other respects. This Offering Circular does not include a reconciliation of our financial statements to IFRS or to any other generally accepted accounting principles or reporting standards in other countries. If at any point in the future we were to apply IFRS or any other generally accepted accounting principles for our financial reporting, the reported results of our operations and financial condition may differ materially from prior fiscal years' results of operations and financial condition prepared under Japanese GAAP, which may make comparisons to prior fiscal years more difficult.

Unaudited financial statements

This Offering Circular contains interim financial statements in respect of the six-month period ended 30 September 2021, which are not required to be, and have not been, audited by our independent auditor. Our unaudited interim consolidated financial statements as at 30 September 2021 and for the six-month period ended 30 September 2021 prepared by us in accordance with Japanese GAAP have been reviewed by our independent accountant in accordance with quarterly review standards generally accepted in Japan. The interim financial statements contained in this Offering Circular are not wholly comparable with the annual financial statements contained in this Offering Circular and should not be so compared. Certain adjustments, accruals and deferrals which are made in the annual audited financial statements have been estimated or are not made in respect of such interim financial statements.

Considerations Relating to the Bonds and the Shares

Due to a limitation on foreign shareholding for Japanese airlines, you may not be able to assert shareholder rights against us

The Civil Aeronautics Act effectively limits ownership of the Shares by foreigners to Shares representing under one-third of our outstanding voting rights. Upon our receipt of the all shareholders notice from Japan Securities Depository Center, Inc. ("JASDEC"), we may refuse to register the Shares held by foreigners in our register of shareholders in the manner prescribed under the Civil Aeronautics Act in the case that the voting rights held by foreigners account for one-third or more of our outstanding voting rights.

Foreigners whose Shares are not registered in our register of shareholders would be unable to exercise their shareholder rights against us, such as the right to receive dividends or exercise the voting rights of their Shares, in respect of the Shares which are not registered. For details, see "Regulation". As of 31 March 2021, foreigners held the Shares representing 11.82 per cent of our total voting rights.

In the event that the voting rights held by foreigners account for one-third or more of our outstanding voting rights, our license for our air transport service business would be automatically invalidated. In addition, such limitation on foreign shareholding effectively bars a non-Japanese company from acquiring control of us. The reduced likelihood of us being subject to a change of control may have an adverse effect on our share price.

No cash amounts in respect of non-unit Shares

Since the coming into effect of the Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended) (including regulations promulgated thereunder, the "Book-Entry Act"), making it possible for listed shares of Japanese companies comprising less than one whole unit to be delivered through the JASDEC book-entry transfer system, JASDEC has given guidance to the effect that stock acquisition rights of Japanese companies issued since then should be structured so that exercising holders should have shares not constituting one full unit delivered to their accounts, instead of automatically selling back such shares to the issuer of such stock acquisition rights and receiving cash amounts in respect of them. Bondholders exercising their Stock Acquisition Rights will therefore not be receiving cash amounts in respect of the Shares of less than one full unit, but will be receiving those Shares themselves.

Limitations on the timing of exercise of Stock Acquisition Rights will impact Bondholders' rights

Under the current handling rules and practices of JASDEC, delivery of the Shares to the Bondholders will take at least three business days. In order to avoid processing errors in the JASDEC system around record dates, Stock Acquisition Rights may not be exercised during any period whereby the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period. Bondholders should therefore note, in particular, that restrictions will apply to the exercise of Stock Acquisition Rights in the period around record dates for the Shares set by us.

Future changes to Japanese law may have a mandatory effect under Japanese law

Future changes to provisions relating to Stock Acquisition Rights and/or the Shares may have a mandatory effect under Japanese law. Condition 15.2 of the Conditions of the Bonds provides for amendments to be made to the Conditions relating to the Stock Acquisition Rights where those amendments become necessary in order to comply with mandatory provisions of Japanese law even if those amendments are materially prejudicial to the interests of Bondholders.

Limitations on anti-dilution protection for Bondholders

The Conversion Price at which the Stock Acquisition Rights may be exercised will be adjusted in certain events having a dilutive impact on the Shares, to the extent described in the Conditions. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

Trading market for the Bonds

Prior to the issue of the Bonds, there has been no trading market for the Bonds. Although approval in-principle has been received for the listing and quotation of the Bonds on the SGX-ST, there can be no assurance that an active trading market for the Bonds will develop. Furthermore, even if such a market does develop, it may not be liquid.

Market price of the Bonds

The market price of the Bonds is expected to be affected by fluctuations in the market price of the Shares and it is impossible to predict whether the price of the Shares will rise or fall. Any decline in the price of the Shares will have an adverse effect on the market price of the Bonds. Trading prices of the Bonds and Shares will be influenced by, among other things, our financial position and our results of operations, including our financial results. In addition, the market price of the Bonds is expected to be affected by any downgrade or other events negatively affecting our credit rating.

Prior notification under the Foreign Exchange and Foreign Trade Act of Japan may be required in the case of transactions that constitute "inward direct investment"

Because we are engaged in certain businesses designated by the Foreign Exchange and Foreign Trade Act of Japan (Act No. 228 of 1949, as amended) (the "FEFTA"), and its related cabinet orders and ministerial ordinances (the "Foreign Exchange Regulations"), if a foreign investor intends to consummate an acquisition of Shares that constitutes an "inward direct investment" under the Foreign Exchange Regulations, the foreign investor, in general, must file prior notification of such inward direct investment with the Minister of Finance and any other competent Ministers. "Inward direct investment" includes an acquisition by a foreign investor of Shares which results in such foreign investor, in combination with any existing holdings, directly or indirectly, holding 1 per cent or more of (i) the total number of issued Shares or (ii) the total number of voting rights. While certain exemptions from the prior notification requirements are provided for under the Foreign Exchange Regulations, certain foreign investors seeking to make such acquisition may not be eligible for such exemptions. If such prior notification is filed, the proposed acquisition may not be consummated until the prescribed period expires. In some cases, the Minister may, at its discretion, extend such period, and may recommend or order any modification or abandonment of such acquisition. Consequently, any foreign investor seeking to conduct transactions that constitutes an "inward direct investment" may not be able to consummate such transaction in an expected time frame, in accordance with an intended plan, or at all.

The discussion above is not exhaustive of all possible foreign exchange controls considerations that may apply to a particular investor, and potential investors are advised to satisfy themselves as to the overall foreign exchange controls consequences of the acquisition, ownership and disposition of Shares or voting rights by consulting their own advisors. For a more detailed discussion on the requirements and procedures regarding the prior notifications under the Foreign Exchange Regulations, see "Japanese Foreign Exchange Regulation."

Investors holding less than one "unit" of the Shares will have limited rights as shareholders

Our Articles of Incorporation provide that 100 Shares constitute one "unit." The Companies Act, imposes significant restrictions and limitations on holders of Shares that do not constitute a whole unit. In general, holders of Shares constituting less than one unit do not have the right to vote with respect to those Shares. In addition, Shares constituting less than one unit are not tradable on Japanese stock exchanges on which they are listed. See "Description of the Shares and Certain Regulations—Unit Share System."

Under the unit share system, any holder of Shares constituting less than one unit has the right to request that we purchase such Shares. In addition, any holder of Shares constituting less than one unit may, pursuant to our Articles of Incorporation, require us to sell to it such number of Shares as may be necessary to raise its share ownership to a whole unit.

Rights of shareholders under Japanese law may be different from those under the laws of other jurisdictions

Our corporate affairs are governed mainly by and in accordance with our Articles of Incorporation, our regulations of board of directors, our Share Handling Regulations and the Companies Act. Legal principles relating to our corporate affairs, including the legality of corporate procedures, directors' and officers' fiduciary duties and shareholders' rights may be different from, or less clearly defined than, those that would apply if we were incorporated in another jurisdiction. For example, under the Companies Act, only holders of 3 per cent or more of the total voting rights of our outstanding shares excluding treasury shares are entitled to examine our accounting books and records. Shareholders' rights under Japanese law may not be as extensive as shareholders' rights under the laws of other countries.

Furthermore, there is a degree of uncertainty as to what duties directors of a Japanese joint stock corporation may have in response to an unsolicited takeover attempt, and such uncertainty may be more pronounced than that in the United States and certain other jurisdictions. For example, according to judicial precedents, Japanese courts may permit the directors of the target company to adopt defensive measures if they succeed in proving that the accomplishment of the takeover will cause irrecoverable damages to the target company. Adoption of defensive measures may prevent shareholders from realising the maximum value of their shares or may otherwise adversely affect the interests of shareholders. Furthermore, Japanese courts may not be willing to enforce judgments of U.S. courts against us in actions brought in Japan which are based upon U.S. federal or state securities laws.

TERMS AND CONDITIONS OF THE BONDS

The following terms and conditions of the Bonds will, subject to completion and amendment and save for the paragraphs in italics, be endorsed on the Certificates (as defined herein) evidencing the Bonds.

The ¥150,000,000,000 Zero Coupon Convertible Bonds due 2031 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the "Bonds", which term shall, unless the context requires otherwise, include the Stock Acquisition Rights (as defined below) incorporated in the Bonds) issued by ANA HOLDINGS INC. (the "Company") are constituted by a trust deed (the "Trust Deed") dated 10 December 2021 made between the Company and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include its successors as trustee and any other trustee appointed under the Trust Deed, as trustee for the holders of the Bonds). Each Bond is issued in the denomination of ¥10,000,000 and a stock acquisition right (*shinkabu yoyakuken*) (the "Stock Acquisition Right"), entitling the Bondholder (as defined in Condition 1.2) to acquire fully paid and non-assessable shares of common stock of the Company (the "Shares") as described below, is incorporated in each Bond as an integral part thereof. Copies of the Trust Deed and of the agency agreement (the "Agency Agreement") dated 10 December 2021 relating to the Bonds among, *inter alios*, the Company, the Trustee, Mizuho Trust & Banking (Luxembourg) S.A. as principal agent (the "Principal Agent"), Mizuho Trust & Banking (Luxembourg) S.A. as registrar (the "Registrar") and the other agents referred to therein are available for inspection by the Bondholders by prior appointment during normal business hours at the specified office for the time being of the Trustee, being at the date of issue of the Bonds at Eighth Floor, 100 Bishopsgate, London EC2N 4AG, United Kingdom, and at the specified office(s) of each of the Principal Agent and the Agents (as defined below). References herein to the "Agents" shall, unless the context otherwise requires, include the Principal Agent, the Custodian's Agent and any other or further agent(s) appointed by the Company in connection with the Bonds for the purpose of making payments and transfers and acceptance of notices of the exercise of the Stock Acquisition Rights from time to time.

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of and are bound by all those provisions of the Agency Agreement applicable to them. The statements in these terms and conditions (the "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed. Any terms defined in the Trust Deed and not in these Conditions shall have the same meanings when used herein except where otherwise indicated.

1 Form, Denomination, Issue Price, Title, Status, Transfers of Bonds and Relationship between Bonds and Stock Acquisition Rights

1.1 Form, Denomination and Issue Price

The Bonds are issued in registered form in the denomination of ¥10,000,000 each and are not exchangeable for bonds with stock acquisition rights in bearer form. The issue price of the Bonds (excluding the Stock Acquisition Rights) is 100.0 per cent of the principal amount of the Bonds. The issue price of the Stock Acquisition Rights is zero.

A bond certificate (each, a "Certificate") will be issued in respect of each Bond. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register (the "Register") of holders of Bonds to be kept by the Registrar in accordance with Condition 1.4.1.

1.2 Title

Title to the Bonds will pass only by transfer and registration of title in the Register. The holder of any Bond will (except as otherwise declared by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, or any writing on, or theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

In these Conditions, a "Bondholder" and (in relation to a Bond) "holder" mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first named thereof).

Upon issue, the Bonds will be evidenced by a global certificate (the "Global Certificate") deposited with and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds evidenced by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Bonds.

1.3 Status

The Bonds are direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.

1.4 Transfers of Bonds

1.4.1 *The Register*: The Company will cause to be kept at the specified office of the Registrar, and in accordance with the terms of the Agency Agreement, the Register on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers and redemptions of the Bonds and exercise of the Stock Acquisition Rights.

Each Bondholder shall be entitled to receive one Certificate in respect of each Bond held by such holder.

1.4.2 *Transfers*: A Bond may be transferred upon the surrender (at the specified office(s) of the Principal Agent, the Registrar or any other Agent) of the Certificate evidencing such Bond, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Company), duly completed and executed and any other evidence as the Registrar or the relevant Agent (as the case may be) may reasonably require. No transfer of a Bond will be valid unless and until entered on the Register. Upon such transfer, a new Certificate will be issued to the transferee in respect of the Bond so transferred. All transfers of the Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of the Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Registrar, the Principal Agent and the Trustee. A copy of the current regulations will be made available during normal business hours by the Principal Agent or the Registrar to any Bondholder upon written request.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems, as described in "Summary of Provisions Relating to the Bonds While in Global Form".

1.4.3 *Delivery of New Certificates*: Each new Certificate to be issued pursuant to Condition 1.4.2 shall be available for delivery within three Transfer Business Days (as defined below) of receipt of the duly completed and signed form of transfer, and surrender of the original Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any of the Agents to whom delivery or surrender of such form of transfer and Certificate shall have been made, or if so requested in the form of transfer, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address so specified (at the Company's expense) unless such holder requests otherwise and pays in advance to the Registrar or the relevant Agent (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In these Conditions, "Transfer Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant Agent (as the case may be).

1.4.4 *Formalities Free of Charge*: Registration of a transfer of Bonds and issuance of Certificates in relation thereto shall be effected without charge by or on behalf of the Company, the Registrar or the relevant Agent, but upon (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Agent may require); and (ii) the Company and the Registrar or the relevant Agent being reasonably satisfied that the regulations concerning transfer of Bonds having been satisfied.

1.4.5 *No Registration of Transfer*: No Bondholder may require the transfer of a Bond to be registered:

(i) during the period of seven days ending on (and including) the due date for redemption pursuant to Condition 7.1, 7.5, 7.6 or 7.7;

(ii) after a Conversion Notice (as defined in Condition 3.1) has been deposited with respect to such Bond pursuant to Condition 5.9.1 (unless such Conversion Notice is withdrawn pursuant to Condition 5.9.4 in which event registration of transfer of such Bond may be made on or after the date on which such Conversion Notice is withdrawn);

(iii) after a notice of redemption has been given pursuant to Condition 7.2, 7.3 or 7.4 (except for any Bond held by a Bondholder who has given notice to the Company pursuant to the second paragraph of Condition 7.4); or

(iv) after a notice of redemption is deposited in respect of such Bond pursuant to Condition 7.8.

1.5 Relationship between Bonds and Stock Acquisition Rights

The obligations of the Company in respect of the Bonds and the Stock Acquisition Rights incorporated therein shall arise and shall be extinguished or cease to be exercisable simultaneously subject as provided herein.

The Bonds and the Stock Acquisition Rights incorporated therein may not be transferred or dealt with separately from each other.

2 Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined below) upon the whole or any part of the Company's or such Principal Subsidiary's property or assets, present or future, to secure (i) payment of any sum due in respect of any Relevant Debt or (ii) any payment under any guarantee of any Relevant Debt or (iii) any payment under any indemnity or other like obligation in respect of any Relevant Debt, without in any such case at the same time or prior thereto, according or procuring to be accorded to the Bonds, (x) to the satisfaction of the Trustee or as shall be approved by an Extraordinary Resolution (as defined in Condition 3.1), the same security as is granted to or subsists in respect of such Relevant Debt or such guarantee, indemnity or other like obligation or (y) such other security or guarantee as the Trustee may in its absolute discretion deem to be not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution.

For the purposes of this Condition 2, "Relevant Debt" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, debentures, notes or other similar securities of any person with a stated maturity of more than one year from the creation thereof and which:

(a) either are by their terms payable, or confer a right to receive payment, in any currency other than yen, or are denominated in yen and more than 50 per cent of the aggregate principal amount thereof is initially distributed outside Japan by or with the authorisation of the Company or the relevant Principal Subsidiary; and

(b) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other similar securities market outside Japan.

3 Definitions and Construction of References

3.1 Definitions

In these Conditions (unless the context otherwise requires):

"Account Management Institution" means an account management institution (*koza-kanri-kikan*) which is an entity entitled under the Book-Entry Act to open and maintain an account for another person or entity;

"Additional Amounts" has the meaning provided in Condition 9;

"Additional Shares" has the meaning provided in Condition 5.3;

"Annual Fiscal Period" means a period commencing on 1 April and ending on the following 31 March; provided that, if the Company shall change its financial year so as to end on a date other than 31 March, "Annual Fiscal Period" shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

"Articles of Incorporation" means the articles of incorporation of the Company from time to time in effect;

"Asset Transfer Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the sale or transfer of all or substantially all of the assets of the Company to another entity (the "Asset Transferee"), pursuant to the terms of which the Company's obligations under the Bonds are to be transferred to or assumed by the Asset Transferee;

"Asset Transferee" has the meaning provided in the definition of Asset Transfer Event;

"Auditors" means the independent auditors for the time being of the Company or, if there shall be joint independent auditors, any one or more of such independent auditors or, if they are unable or unwilling to carry out any action requested of them under these Conditions or the Trust Deed, such other auditors or firm of auditors as may be appointed by the Company and promptly notified in writing to the Trustee by the Company to act as such;

"Authorised Officer" means any one of the directors or officers of the Company or the New Obligor (as the case may be) or any other person whom the Company or the New Obligor (as the case may be) shall have notified to the Trustee in writing as being duly authorised to sign any document or certificate on behalf of the Company or the New Obligor (as the case may be);

"Bankruptcy Act" means the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended);

"Base Dividend" has the meaning provided in Condition 5.2.4;

"Board of Directors" of a company means the board of directors of that company within the meaning of the Companies Act;

"Bondholder" and "holder" have the meaning provided in Condition 1.2;

"Bondholders' Optional Redemption Date" has the meaning provided in Condition 7.8;

"Book-Entry Act" means the Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended);

"Certificate" has the meaning provided in Condition 1.1;

"Civil Rehabilitation Act" means the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended);

"Clean-up Redemption Notice" has the meaning provided in Condition 7.3;

"Closed Period" has the meaning provided in Condition 7.11;

"Closing Date" means 10 December 2021;

"Closing Price" means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), for any Trading Day, the last reported selling price (regular way) of the Shares or the shares of common stock of the New Obligor (as the case may be) on the Relevant Stock Exchange on such Trading Day or, if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, the average of the closing bid and offered prices of the Shares or the shares of common stock of the New Obligor (as the case may be) for such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company or the New Obligor (as the case may be);

"Companies Act" means the Companies Act of Japan (Act No. 86 of 2005, as amended);

"Company's Territory" has the meaning provided in Condition 12.2;

"Consolidated Financial Statements" means, in relation to any Fiscal Period of the Company, the unaudited consolidated financial statements of the Company and its Consolidated Subsidiaries prepared in accordance with the Relevant GAAP or, if in respect of such Fiscal Period audited consolidated financial statements have been prepared, the audited consolidated financial statements of the Company and its Consolidated Subsidiaries prepared as aforesaid;

"Consolidated Subsidiary" means, in relation to a Fiscal Period of the Company, Subsidiaries consolidated in the relevant Consolidated Financial Statements;

"Controlling Shareholder" means a shareholder holding, directly or indirectly, 90 per cent (or such other percentage above 90 per cent as provided in the Articles of Incorporation) or more of the Company's voting rights as calculated in accordance with the Companies Act;

"Conversion Notice" means the written notice required to accompany any Bonds deposited for the purposes of the exercise of the Stock Acquisition Rights, the current form of which is set out in the Agency Agreement;

"Conversion Price" has the meaning provided in Condition 5.1.3;

"Corporate Event" has the meaning provided in Condition 6.1;

"Corporate Event Effective Date" has the meaning provided in Condition 6.3;

"Corporate Event Redemption Date" has the meaning provided in Condition 7.5;

"Corporate Event Redemption Price" has the meaning provided in Condition 7.5;

"Corporate Reorganisation Act" means the Corporate Reorganisation Act of Japan (Act No. 154 of 2002, as amended);

"Corporate Split Counterparty" has the meaning provided in the definition of Corporate Split Event;

"Corporate Split Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any corporate split (*shinsetsu bunkatsu* or *kyushu bunkatsu*) in which the Company's obligations under the Bonds are to be transferred to or assumed by the corporation which is the counterparty to such corporate split (the "Corporate Split Counterparty");

"Current Market Price per Share" has the meaning provided in Condition 5.2.9;

"Custodian" means The Law Debenture Trust Corporation p.l.c. at its specified office at Eighth Floor, 100 Bishopsgate, London EC2N 4AG, United Kingdom or such other custodian as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Company, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19 and shall, unless the context otherwise requires, include the nominee of the Custodian;

"Custodian's Agent" means Mizuho Bank, Ltd. at its specified office at 15-1, Konan 2-chome, Minato-ku, Tokyo 108-6009, Japan or such other agent of the Custodian in Japan as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Custodian, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19;

"Delisting Redemption Date" has the meaning provided in Condition 7.6.1;

"Deposit Date" has the meaning provided in Condition 5.9.4;

"Deposit Time" has the meaning provided in Condition 5.9.4;

"Dividend" has the meaning provided in Condition 5.2.4;

"Due Date" has the meaning provided in Condition 9;

"Exercise Period" has the meaning provided in Condition 5.1.4;

"Extraordinary Dividend" has the meaning provided in Condition 5.2.4;

"Extraordinary Resolution" means a resolution passed (i) at a meeting of the Bondholders duly convened (including satisfaction of the quorum requirements set out in the Trust Deed) and held in accordance with the provisions contained in the Trust Deed by a majority consisting of not less than three-quarters of the votes cast thereon, or (ii) by a written resolution or electronic consent in accordance with the provisions contained in the Trust Deed;

"FATCA withholding" has the meaning provided in Condition 9;

"Financial Instruments and Exchange Act" means the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended);

"Fiscal Period" means, as the context may require, (i) a period commencing on 1 April and ending on the following 31 March; or (ii) three month periods each commencing on 1 April, 1 July, 1 October and 1 January; provided that, if the Company shall change its financial year so as to end on a date other than 31 March, the provisions of items (i) and (ii) above shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

"Holding Company" has the meaning provided in the definition of Holding Company Event;

"Holding Company Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the Company to become a wholly-owned subsidiary of another corporation (the "Holding Company") by way of share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*);

"Independent Financial Adviser" means an independent investment bank, securities company, accounting firm or consultancy firm of established repute appointed by the Company at its own expense and approved in writing by the Trustee or, if the Company fails to make such appointment when required to do so and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such Independent Financial Adviser or otherwise in connection with such appointment, as may be appointed by the Trustee in its absolute discretion (without liability for so doing) following notification to the Company, which appointment shall be deemed to be an appointment of the Company;

"Listing" has the meaning provided in Condition 6.4.2;

"Merged Company" means the corporation formed by the relevant Merger Event or the corporation into which the Company shall have merged following a Merger Event;

"Merger Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of

Directors of the Company) for any consolidation or amalgamation (*shinsetsu gappei*) of the Company with, or merger (*kyushu gappei*) of the Company into any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation);

"New Obligor" has the meaning provided in Condition 6.1;

"New Obligor Current Market Price per Share" has the meaning provided in Condition 6.5.3;

"New Stock Acquisition Rights" has the meaning provided in Condition 12.2;

"New Territory" has the meaning provided in Condition 12.2;

"Non-unit Shares" has the meaning provided in Condition 5.1.2;

"Number of Deliverable Shares" has the meaning provided in Condition 6.5.3;

"Number of Held Shares" has the meaning provided in Condition 6.5.3;

"Offeror" has the meaning provided in Condition 7.6.1;

"Optional Redemption Notice" has the meaning provided in Condition 7.2;

"Payment Business Day" has the meaning provided in Condition 8.3;

"Principal Subsidiary" means any Consolidated Subsidiary of the Company (i) whose net sales as shown by the annual non-consolidated financial statements (or, where the Consolidated Subsidiary in question itself prepares consolidated financial statements, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the net sales of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements or (ii) whose total assets as shown by the annual non-consolidated financial statements (or, as the case may be, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent or more of the total assets of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements. A certificate signed by a Representative Director or an Authorised Officer of the Company that in the Company's opinion, a Consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"Proceedings" has the meaning provided in Condition 21.2;

"Record Date" means the date fixed by the Articles of Incorporation or otherwise specified by the Company for the purpose of determining entitlements to dividends or other distributions to, or rights of, holders of Shares; provided, however, that if the Company has fixed no such record date and the context so requires, the "Record Date" shall be construed as a reference to the date of any event in question coming into effect;

"Reference Parity" has the meanings provided in Conditions 7.5, 7.6 and 7.7;

"Register" has the meaning provided in Condition 1.1;

"Registered Account" has the meaning provided in Condition 8.1;

"Relevant Debt" has the meaning provided in Condition 2;

"Relevant GAAP" means the accounting principles which are adopted by the Company or the New Obligor (as the case may be) for the preparation of the Consolidated Financial Statements under the Financial Instruments and Exchange Act, being one of those generally accepted in Japan or International Financial Reporting Standards (as issued by the International Accounting Standards Board (or its successor) or, if applicable, as adopted or endorsed by the Accounting Standards Board of Japan (or its successor));

"Relevant Number of Shares" has the meaning provided in Condition 5.2.4;

"Relevant Securities" has the meaning provided in Condition 5.2.8;

"Relevant Stock Exchange" means Tokyo Stock Exchange, Inc. (or its successor) or, if at the relevant time the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed on Tokyo Stock Exchange, Inc. (or its successor), the principal stock exchange or securities market in Japan on which the Shares or the shares of common stock of the New Obligor (as the case may be) are then listed or quoted or dealt in;

"Representative Director" means a director of the Company (or the New Obligor, as the case may be) who is for the time being a representative director within the meaning of the Companies Act or, where applicable, a representative statutory executive officer of the Company (or the New Obligor, as the case may be) within the meaning of the Companies Act;

"Retroactive Adjustment" has the meaning provided in Condition 5.3;

"Securities" includes, without limitation, the Shares, other shares, options, warrants or other rights (including stock acquisition rights) to subscribe for or purchase or acquire Shares and securities convertible into or exchangeable for Shares;

"Shareholder Determination Date" means (i) any Record Date and (ii) any other date set for the purpose of determination of the holders of Shares in connection with Paragraph 1 of Article 151 of the Book-Entry Act;

"Shareholder Determination Date Restriction Period" means the period from and including the second Tokyo Business Day falling immediately prior to any Shareholder Determination Date to and including such Shareholder Determination Date (provided that if such Shareholder Determination Date falls on a date that is not a Tokyo Business Day, then the Shareholder Determination Date Restriction Period means the period from and including the third Tokyo Business Day falling immediately prior to such Shareholder Determination Date to and including the Tokyo Business Day immediately following such Shareholder Determination Date);

"Squeezeout Effective Date" has the meaning provided in Condition 7.7.1;

"Squeezeout Event" means either (i) the passing of a resolution at a general meeting of shareholders of the Company approving its acquisition of all of the outstanding Shares in exchange for a consideration, following the outstanding Shares being transformed into callable shares (*zenbushutokujoko tsuki shuruikabushiki*) by way of an amendment to the Articles of Incorporation, for the purpose of, including but not limited to, making the Company a wholly-owned subsidiary of another corporation, (ii) the passing of a resolution by the Board of Directors of the Company approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushikitou uriwatashi seikyu*) under the Companies Act, or (iii) the passing of a resolution at a general meeting of shareholders of the Company approving a consolidation of Shares (*kabushiki no heigo*) under the Companies Act after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing;

"Squeezeout Redemption Date" has the meaning provided in Condition 7.7.1;

"Stock Acquisition Date" has the meaning provided in Condition 5.9.4;

"Stock Split" means any kind of stock split in relation to the Shares, including a free share distribution to the holders of Shares, a stock dividend or a sub-division of Shares;

"Subsidiary" means a company, more than 50 per cent of the outstanding shareholders' voting rights of which is at any given time owned by the Company, by one or more other Subsidiaries or by the Company and one or more other Subsidiaries, or any other company which is otherwise considered to be controlled by the Company under the Relevant GAAP (and, for this purpose, "voting rights" means the voting power attached to stocks or shares for the election of directors, officers or trustees of such company, other than voting powers attached to stocks or shares outstanding having such power by reason of the happening of a contingency);

"Tax Redemption Date" has the meaning provided in Condition 7.4;

"Tax Redemption Notice" has the meaning provided in Condition 7.4;

"Tokyo Business Day" has the meaning provided in Condition 5.1.4;

"Trading Day" means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), a day on which the Relevant Stock Exchange is open for business, but does not include a day on which (a) no last selling price (regular way) for the Shares or the shares of common stock of the New Obligor (as the case may be) is reported by the Relevant Stock Exchange and (b) if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, no closing bid or offered price of the Shares or the shares of common stock of the New Obligor (as the case may be) is furnished as provided in the definition of Closing Price;

"Transfer Business Day" has the meaning provided in Condition 1.4.3; and

"yen" and "¥" mean Japanese yen, the lawful currency of Japan.

3.2 Construction of Certain References

References to any statute or provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any ordinances, regulations, instruments or other subordinate legislation made under the relevant statute.

Except where the context requires otherwise, references to the "issue" of Shares shall include the transfer and/or delivery of Shares by the Company, whether newly issued or previously issued and held by or on behalf of the Company (and the words "issue", "issued" and "issuable" shall be construed accordingly), and references to "delivery" used in respect of the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system operated by the Japan Securities Depository Center, Incorporated. The words "substitution" and "grant" used in relation to the exchange of the Company's obligations in respect of the Bonds for those of a New Obligor following a Corporate Event shall be read as including the necessary legal concepts for such exchange to occur under both Japanese law and English law.

The headings in these Conditions are for convenience only and shall be ignored in construing these Conditions.

4 Default Interest

The Bonds do not bear interest unless payment of any amount in respect of any Bond is improperly withheld or refused, in which case such unpaid amount will bear interest (both before and after judgment) from the date of default to the earlier of (i) the day on which all sums due in respect of such Bond up to but excluding that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to but excluding that seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Bondholders under these Conditions) at the rate of interest per annum determined by the Principal Agent as being equal to the offered rate quoted by a leading bank in the Euro-yen market selected by the Principal Agent for deposits in yen for the period of three months, as at 11:00 a.m. (London time) on the date of such default. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

5 Exercise of Stock Acquisition Rights

5.1 Conversion Price, Exercise Period, Shares Issuable and Procedure

5.1.1 *Exercise of Stock Acquisition Rights and Contribution of the Bond*: Subject to and upon compliance with the provisions of this Condition 5, each Bondholder is entitled to exercise the Stock Acquisition Right incorporated in each Bond held by it in accordance with and subject to these Conditions. The Bond, the Certificate in respect of which having been deposited with an Agent for exercise of the relevant Stock Acquisition Right pursuant to Condition 5.9.1, shall be deemed to be acquired by the Company as a capital contribution in kind by such Bondholder at the price equal to the principal amount of the Bond as at the Stock Acquisition Date.

5.1.2 *Number of Shares*: The number of Shares to be acquired by a Bondholder exercising its Stock Acquisition Rights will be determined by dividing the aggregate principal amount of the Bonds deposited by such Bondholder at the same time upon exercise of the Stock Acquisition Rights by the Conversion Price applicable on the Stock Acquisition Date. Fractions of a Share will not be issued upon exercise of any Stock Acquisition Right and no adjustment or cash payment will be made in respect thereof. However, if two or more Stock Acquisition Rights are exercised at any one time by the same Bondholder, the number of Shares which shall be acquired upon exercise of such Stock Acquisition Rights shall be calculated on the basis of the aggregate principal amount of the Bonds in which the Stock Acquisition Rights so exercised are incorporated.

For the avoidance of doubt, if a Bondholder would receive a number of Shares ("Non-unit Shares") not constituting a unit (*tangen*) of Shares or integral multiples thereof upon exercise of the Stock Acquisition Right(s) or upon a Retroactive Adjustment, such Non-unit Shares shall be delivered to the relevant Bondholder in the same manner as the Shares constituting a whole unit of Shares, and no cash amounts shall be paid by the Company in respect of such Non-unit Shares.

As at the date of this Offering Circular, the Company's Articles of Incorporation provide that 100 Shares constitute one unit. Under the book-entry transfer system established pursuant to the Book-Entry Act, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges. Further, a holder of Shares constituting less than one unit cannot exercise any voting rights pertaining to those Shares. A holder of Shares constituting less than one unit may at any time require the Company to purchase such Shares through the relevant Account Management Institution. The Company's Articles of Incorporation currently provide that a holder of Shares constituting less than one unit may also request the Company to sell to such holder of Shares constituting less than one unit which, when added to the Shares held by such holder, shall constitute one full unit.

5.1.3 *Conversion Price*: The price at which Shares shall be acquired upon exercise of the Stock Acquisition Rights (the "Conversion Price") shall initially be ¥2,883 per Share, subject to adjustment in the manner provided in Condition 5.2.

5.1.4 *Exercise Period*: Each Stock Acquisition Right may be exercised at any time during the period from, and including, 24 December 2021 to, and including, the close of business (at the place where the Bond is deposited for exercise of the Stock Acquisition Right) on 26 November 2031, or:

(i) if the relevant Bond shall have been called for redemption pursuant to Condition 7.2, 7.3 or 7.4, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof (unless, in the case of such Bond being called for redemption pursuant to Condition 7.4, the relevant Bondholder has elected that such Bond shall not be redeemed);

(ii) if the relevant Bond shall become due to be redeemed pursuant to Condition 7.5, 7.6 or 7.7, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof;

(iii) if the relevant Bond shall become due to be redeemed pursuant to Condition 7.8, then up to the time when the relevant notice of redemption is deposited at the specified office of an Agent pursuant to Condition 7.8;

(iv) if the relevant Bond shall have been purchased by the Company or a Subsidiary pursuant to Condition 7.9 and cancelled by the Company pursuant to Condition 7.10, then up to the time when such Bond is so cancelled; or

(v) if the relevant Bond shall become due and repayable pursuant to Condition 10, then up to the time when such Bond becomes so due and repayable,

provided that:

(a) in no event shall the Stock Acquisition Rights be exercised after 26 November 2031;

(b) the Stock Acquisition Rights may not be exercised for such period as may be designated by the Company, which period may not exceed 30 days, and which period shall end on a date not later than 14 days after the Corporate Event Effective Date if the Company reasonably determines that such suspension is necessary in order to consummate the relevant transaction in compliance with these Conditions (including Conditions 6.4.1, 7.6 and 7.7); and

(c) the Stock Acquisition Rights may not be exercised where the relevant Stock Acquisition Date (or the next following Tokyo Business Day, if the Stock Acquisition Date would not be a Tokyo Business Day) would fall on a date within any Shareholder Determination Date Restriction Period; provided that if there is a change to the mandatory provisions of Japanese law, regulation or practice relating to the delivery of shares upon exercise of stock acquisition rights through book-entry transfer system established pursuant to the Book-Entry Act, then this Condition 5.1.4(c) and the definition of Shareholder Determination Date Restriction Period may be amended to the extent permitted by applicable law, regulation and practice by the Company to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders and notice thereof (together with the reason for such change) shall be given promptly by the Company to the Trustee in writing and to the Bondholders in accordance with Condition 19.

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of the determination and period referred to in Condition 5.1.4(b) above at least 30 days prior to the commencement of such period.

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of each such Shareholder Determination Date Restriction Period at least two Tokyo Business Days prior to the commencement of such Shareholder Determination Date Restriction Period, provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect.

As at the date of this Offering Circular, the Record Date fixed by the Company's Articles of Incorporation is 31 March.

The term "Tokyo Business Day" means any day (other than a Saturday, Sunday or a day which shall be a legal holiday in Tokyo or a day on which banking institutions in Tokyo are obliged or authorised by law or executive order to close) on which banks are open for business in Tokyo.

The period during which the Stock Acquisition Rights are exercisable pursuant to this Condition 5.1.4 is referred to in these Conditions as the "Exercise Period" (for the avoidance of doubt, the Exercise Period in respect of any Stock Acquisition Right may stop and restart from time to time). Upon final expiration of the Exercise Period, the Stock Acquisition Rights incorporated in the relevant Bonds will lapse and cease to be exercisable or valid for any purposes.

5.1.5 *Rights Attached to Shares Acquired upon Exercise of Stock Acquisition Rights*: Shares acquired upon exercise of the Stock Acquisition Rights shall have the same rights in all respects (including in relation to any distribution of dividends) as the Shares outstanding on the relevant

Stock Acquisition Date (except for any right the Record Date for which precedes such Stock Acquisition Date and any other right excluded by mandatory provisions of applicable law).

5.2 Adjustments of the Conversion Price

Upon the occurrence of any of the events described below, the Conversion Price shall be adjusted as follows:

5.2.1 *Stock Split and Consolidation of Shares*: if the Company shall (a) make a Stock Split, (b) consolidate its outstanding Shares into a smaller number of shares, or (c) re-classify any of its Shares into other securities of the Company, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Stock Acquisition Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5.2.1, shall be entitled to receive the number of Shares and/or other securities of the Company which it would have held or have been entitled to receive after the coming into effect of any of the events described above had the Stock Acquisition Right in respect of such Bond been exercised immediately prior to the coming into effect of such event (or, if the Company has fixed a prior Record Date for the determination of shareholders entitled to receive any such Shares or other securities issued upon any such Stock Split, consolidations or re-classification, immediately prior to such Record Date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the coming into effect of such event (or such Record Date) or any time thereafter. An adjustment made pursuant to this Condition 5.2.1 shall become effective immediately on the relevant event becoming effective or, if a prior Record Date is fixed therefor, immediately after the Record Date; provided that, in the case of a relevant transaction which must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally effective, and which is so approved after the Record Date fixed for the determination of shareholders entitled to receive such Shares or other securities, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date.

If the Company shall make a Stock Split and the Record Date therefor is also:

(i) the Record Date for the allotment, grant, issue or offer of any rights or warrants (including stock acquisition rights) which requires an adjustment of the Conversion Price pursuant to Condition 5.2.2 or 5.2.3; or

(ii) the last date (in the place of issue) of the period during which payment may be made for the issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.5 or 5.2.8; or

(iii) the last date (in the place of issue) of the period during which payment may be made for the issue or transfer of any Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.6 or 5.2.8; or

(iv) the date of grant, issue, transfer or offer of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5.2.7 or 5.2.8,

then (except where such Stock Split gives rise to a Retroactive Adjustment of the Conversion Price under this Condition 5.2.1) no adjustment of the Conversion Price in respect of such Stock Split shall be made under this Condition 5.2.1, but in lieu thereof an adjustment shall be made under Condition 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 or 5.2.8, as the case may be, by including in item "n" of the formula described therein the aggregate number of additional Shares to be delivered pursuant to such Stock Split;

5.2.2 *Issue to All, or a Class of, Shareholders of Rights or Warrants to Acquire Shares*: if the Company shall allot, grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares:

(i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or

(ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration, but excluding the number of Shares, if any, contained in the definition of "n" immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares to be allotted, issued or acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with an allotment, grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares, any such rights and/or warrants which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.3 *Issue to All, or a Class of, Shareholders of Rights or Warrants to Acquire Convertible/ Exchangeable Securities*: if the Company shall grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire any securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights):

(i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or

(ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration, then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or ratio following the exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with a grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights), any such securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights) which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.4 *Distribution to All, or a Class of, Shareholders of Assets (including Extraordinary Dividends)*:

if the Company shall distribute to the holders of Shares (i) evidence of its indebtedness (such as bonds), (ii) shares of capital stock of the Company (other than the Shares), (iii) cash or assets of the Company, or (iv) rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire shares (other than the Shares) or securities of the Company (other than those rights and warrants referred to in Conditions 5.2.2 and 5.2.3), in each of the cases set out in (i) through (iv) above, excluding Dividends other than Extraordinary Dividends, then the Conversion Price in effect on the Record Date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{CMP - fmv}{CMP}$$

where:

NCP	=	the Conversion Price after such adjustment.
OCP	=	the Conversion Price before such adjustment.
CMP	=	the Current Market Price per Share on the Record Date for the determination of shareholders entitled to receive such distribution including a distribution of an Extraordinary Dividend.
fmv	=	(i) in cases other than an Extraordinary Dividend, the fair market value ((a) as determined by the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account), or (b) if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or by an appraiser appointed by such court, and in each of the cases set out in (a) and (b) above, described in a certificate of the Company signed by a Representative Director or an Authorised Officer and delivered by the Company to the Trustee) of the portion of the evidence of indebtedness, shares, cash, assets, rights or warrants so distributed applicable to one Share or, (ii) in the case of an Extraordinary Dividend, the amount of such Extraordinary Dividend divided by the Relevant Number of Shares used in the calculation thereof.

Such adjustment shall become effective immediately after the Record Date for the determination of shareholders entitled to receive such distribution (including a distribution of an Extraordinary Dividend); provided, however, that (a) if such distribution must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally made, and if such distribution is so approved after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date and (b) if the fair market value of the evidence of indebtedness, shares, cash or assets, rights or warrants so distributed cannot be determined until after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such Record Date.

"Base Dividend" means: ¥0

"Dividend" means a "distribution of surplus" within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act.

"Extraordinary Dividend" means, in relation to an Annual Fiscal Period ending on or after the last day of the Annual Fiscal Period in which the Closing Date falls, the part of the amount of any Dividend (such Dividend amount being the historical Dividend amount without making any retroactive adjustment resulting from Stock Splits or otherwise) in respect of any number of Shares amounting to the Relevant Number of Shares in respect of such Dividend, the Record Date for which falls within such Annual Fiscal Period which, when aggregated with the amount of all other Dividends the Record Date for which falls within such Annual Fiscal Period in respect of such number of Shares amounting to the Relevant Number of Shares in respect of each such other Dividend, is in excess of the sum of (i) the Base Dividend and (ii) the amount, if any, previously determined to be an Extraordinary Dividend in respect of that Annual Fiscal Period.

"Relevant Number of Shares" means, in respect of any Dividend, such number of Shares (disregarding fractions of a Share) as a holder of a Bond would be entitled to receive in respect of such Bond (were such Bond, and only such Bond, to be so deposited) for exercise of the Stock Acquisition Right incorporated therein at the Conversion Price in effect at the Record Date in respect of such Dividend.

5.2.5 *Issue to Non-shareholders of Convertible/Exchangeable Securities*: if the Company shall issue any securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights (other than the Bonds or in any of the circumstances described in Conditions 5.2.2 and 5.2.3), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of such convertible or exchangeable securities.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue) of the period during which payment may be made in respect of such convertible or exchangeable securities;

5.2.6 *Issue to Non-shareholders of Shares*: if the Company shall issue or transfer any Shares (other than Shares issued or transferred (i) on conversion or exchange of any convertible or exchangeable securities (including the Bonds) allotted, granted, issued or offered by the Company, (ii) on the exercise of any rights or warrants (including stock acquisition rights) allotted, granted, issued or offered by the Company, (iii) to the extent permitted by the Articles of Incorporation, to any holder of Non-unit Shares for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute a full one unit, (iv) in any of the circumstances described in Conditions 5.2.1, 5.2.2 and 5.2.3, (v) to shareholders of any corporation which merges into the Company upon such merger or which becomes a wholly-owned subsidiary of the Company by a share exchange (*kabushiki-kokan*), in proportion to their shareholding in such corporation immediately prior to such merger or such exchange or (vi) to any corporation or to shareholders of any corporation which transfers its business to the Company following the split of such corporation's business (*kyushu bunkatsu*)), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares, but excluding the number of Shares, if any, contained in the definition of "n" immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares being issued or transferred as aforesaid.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue or transfer) of the period during which payment may be made in respect of the issue or transfer of such Shares;

5.2.7 *Issue to Non-shareholders of Rights or Warrants to Acquire Shares or Convertible/ Exchangeable Securities*: if the Company shall grant, issue or offer any rights or warrants (including stock acquisition rights) entitling non-shareholders to subscribe for, purchase or otherwise acquire Shares or securities convertible into or exchangeable for Shares (other than the Stock Acquisition Rights or in any of the circumstances described in Conditions 5.2.2, 5.2.3, 5.2.4 and 5.2.5) and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue or offer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the date of the grant, issue or offer of such rights or warrants shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the date of the grant, issue or offer of such rights or warrants.

n = the number of Shares to be acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price, or upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of all such rights or warrants.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the place of the grant, issue or offer of such rights or warrants;

5.2.8 *Combined Adjustment*: if the Company shall grant, issue, transfer or offer (as the case may be) securities of a type falling within Condition 5.2.5, 5.2.6 or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto and the date of grant, issue, transfer or offer of such securities or, if applicable, the last day of the period during which payment may be made in respect thereof (in each case, referred to as the "relevant date") is also the relevant date in respect of securities of another type or types (including a different tranche or issue of a same type) falling within Conditions 5.2.5, 5.2.6 and/or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto (all such securities being hereafter referred to as "Relevant Securities"), then any adjustment of the Conversion Price shall not be made separately under each such Condition but in one calculation in accordance with the following formula:

$$NCP = OCP \times \frac{N + v1 + v2 + v3}{N + n1 + n2 + n3}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the relevant date but excluding the number of Shares contained in the definition of "n2" below to the extent that such Shares are then issued and outstanding.

n1 = the number of Shares to be acquired upon conversion or exchange of any convertible or exchangeable securities (included within the Relevant Securities) at the initial conversion or exchange price or rate.

n2 = the number of any Shares (included within the Relevant Securities) being issued or transferred.

n3 = the number of Shares to be acquired on exercise of any rights or warrants (included within the Relevant Securities) at the initial subscription, purchase or acquisition price, or upon conversion or exchange of any convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of such rights or warrants.

v1 = the number of Shares which the aggregate consideration receivable by the Company for such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

v2 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of such Shares (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

v3 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of the total number of Shares to be acquired on exercise of such rights or warrants and (if applicable) upon conversion or exchange of such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the grant, issue, transfer or offer of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

Any such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the relevant place of grant, issue, transfer or offer which is the relevant date.

5.2.9 *Current Market Price per Share*: for the purpose of these Conditions, "Current Market Price per Share" on any date shall be deemed to be the average of the daily Closing Prices of the Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such date.

If, during the said 45 Trading Day period or any period thereafter up to but excluding the date as at which the adjustment of the Conversion Price in question shall be effected, any event (other than the event which requires the adjustment in question, and any event which requires an adjustment with reference to the same Current Market Price per Share) shall occur which gives rise to a separate adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of this Condition 5.2, the Current Market Price per Share as determined above shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall deem to be appropriate and fair in order to compensate for the effect of such event;

5.2.10 *Consideration per Share*: for the purposes of any calculation of the consideration per Share receivable pursuant to Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the following provisions shall be applicable:

(i) in the case of the issue or transfer of Shares for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions or any expenses paid or incurred by or on behalf of the Company for any underwriting of the issue or transfer or otherwise in connection therewith;

(ii) in the case of the issue or transfer of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair market value thereof as determined by the Company in consultation with an Independent Financial Adviser or, if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof. Such determination shall be final and binding on the Company, the Trustee and the Bondholders;

(iii) (a) in the case of the issue by the Company of securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights, the aggregate consideration receivable by the Company shall be deemed to be the consideration for any such securities plus the additional consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate, and (b) in the case of the allotment, grant, issue, transfer or offer of rights or warrants, including stock acquisition rights, to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares, the aggregate consideration receivable by the Company shall be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise thereof at the initial subscription, purchase or acquisition price and (if applicable) upon the following conversion or exchange of such securities at the initial conversion or exchange price or rate. The consideration per Share receivable by the

Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate (if applicable) following the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above);

(iv) in the case of the allotment, grant, issue, transfer or offer of rights or warrants (including stock acquisition rights) entitling holders to subscribe for, purchase or otherwise acquire Shares, the aggregate consideration receivable by the Company shall be deemed to be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above), and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such exercise at the initial subscription, purchase or acquisition price; and

(v) if any consideration referred to in the foregoing provisions of this Condition 5.2.10 is receivable in a currency other than yen, such consideration shall, in any case where there is a fixed rate of exchange between yen and the relevant currency provided for the purposes of the issue of such Shares or the conversion or exchange of such securities or the exercise of such rights or warrants, be translated into yen for the purposes of this Condition 5.2.10 at such fixed rate of exchange and shall, in all other cases, be so translated at the mean of the exchange rate quotations (being quotations for the cross rate through U.S. dollars if no direct rate is quoted) by a leading bank in Japan (selected by the Company) for buying and selling spot units of the relevant currency by telegraphic transfer against yen on the date as at which such consideration is required to be calculated;

5.2.11 *Later Adjustments*: if, at the time of computing an adjustment (the “later adjustment”) of the Conversion Price pursuant to any of Conditions 5.2.2 to 5.2.8 (both inclusive), the Conversion Price already incorporates an adjustment made (or taken into account pursuant to the proviso to Condition 5.6) to reflect the issue or transfer of such Shares, or the allotment, grant, issue, transfer or offer of rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire such Shares or other securities convertible into or exchangeable for such Shares, but such Shares are not outstanding at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such Shares shall be deemed to be outstanding for the purposes of making such computation to the extent that the number of the Shares so deemed to be outstanding exceeds the actual number of Shares in issue as a result thereof at the time of making such computation. For the purposes of determining the number of Shares outstanding in Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the Shares held by the Company as treasury stock on the relevant date shall be deemed not to be outstanding;

5.2.12 *Meaning of “Fixed”*: any reference in this Condition 5.2 to the date on which the consideration is “fixed” shall be construed as a reference to the first day on which such consideration in a cash amount can be ascertained, where the consideration is originally expressed by reference to a formula and not then ascertainable in a cash amount;

5.2.13 *Other Events*: if the Company determines at its sole discretion that a downward adjustment should be made to the Conversion Price as a result of one or more events or circumstances not otherwise referred to in this Condition 5.2, the Company shall, at its own expense, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and, if the adjustment would result in a reduction in the Conversion Price, the date on which such adjustment should take effect and, upon such determination, such downward adjustment (if any) shall be made and shall take effect in accordance with such determination; and

5.2.14 *Modification to Operation of Adjustment Provisions*: notwithstanding the foregoing, where the circumstances giving rise to any adjustment pursuant to this Condition 5.2 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of other circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 5.2 as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result.

5.3 Retroactive Adjustments

If the Stock Acquisition Date in relation to a Stock Acquisition Right shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions of Condition 5.2 and the relevant Stock Acquisition Date falls on a date before the relevant adjustment becomes effective under Condition 5.2 (such adjustment, a "Retroactive Adjustment"), the Company shall procure that the provisions of Condition 5.9.5 shall be applied, *mutatis mutandis*, to such number of Shares ("Additional Shares") as is equal to the excess of the number of Shares which would have been acquired upon exercise of such Stock Acquisition Right if the relevant Retroactive Adjustment had been given effect as at the said Stock Acquisition Date over the number of Shares previously acquired pursuant to such exercise, and in such event and in respect of such Additional Shares, references in Condition 5.9.5 to the "Stock Acquisition Date" shall be deemed to refer to the date upon which such Retroactive Adjustment is first reflected in the Conversion Price.

5.4 Limitation on Reduction of Conversion Price

Notwithstanding the provisions of this Condition 5, the Conversion Price will not be reduced as a result of any adjustment made hereunder to such an extent that, under applicable law then in effect, the Stock Acquisition Rights may not be permitted to be exercised at such lower Conversion Price into legally issued, fully paid and non-assessable Shares.

5.5 Employee Share Schemes

No adjustment will be made to the Conversion Price where Shares or other Securities are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees, former employees, officers, corporate auditors or directors (including directors holding or formerly holding executive office or the personal service company of any such person) of the Company or any of its Subsidiaries or affiliates, their spouses or relatives, or any associated companies of any such person, or to any trustee or trustees for the benefit of any such person, in any such case, pursuant to any employees' or executives' share or option scheme.

5.6 Minimum Adjustments

No adjustment of the Conversion Price shall be required unless such adjustment would result in an increase or decrease in such Conversion Price of at least one yen provided that any adjustment which by reason of this Condition 5.6 is not required to be made shall be carried forward and taken into account (as if such adjustment were made at the time when it would be made but for the provisions of this Condition 5.6) in any subsequent adjustment.

5.7 Calculations

All calculations (including, without limitation, calculations of the Conversion Price and the Current Market Price per Share) under this Condition 5 shall, unless otherwise expressly specified herein, be made to the nearest one-tenth of a yen with five one-hundredths or more of a yen to be considered a full tenth of a yen.

5.8 Notification of Adjustments

Whenever the Conversion Price is adjusted as herein provided, the Company shall promptly notify the Trustee, the Principal Agent, the other Agents, the Registrar, the Custodian and the Custodian's Agent in writing setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the effective date thereof, and shall promptly give notice to the Bondholders in accordance with Condition 19 stating that the Conversion Price has been adjusted and setting forth the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

5.9 Procedure for Conversion

5.9.1 *Conversion Notice*: To exercise a Stock Acquisition Right, the exercising Bondholder shall complete, sign and deposit at the specified office of an Agent at its own expense during normal business hours of the Agent with which the deposit is being made a Conversion Notice, in the form obtainable from any Agent, together with the Certificate evidencing the relevant Bond. No Stock Acquisition Right may be exercised in part only.

5.9.2 *Custodian and Custodian's Agent*: The initial Custodian and its initial specified office are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Custodian and to appoint another Custodian; provided that there shall always be a Custodian, being a non-resident of Japan and having a specified office outside Japan. Notice of any such termination or appointment and of any changes in the specified office of the Custodian will be given to the Bondholders in accordance with Condition 19. The Custodian has, pursuant to the Agency Agreement, initially appointed Mizuho Bank, Ltd. as the Custodian's Agent at its initial specified office set out at the end of these Conditions and may, with the prior written approval of the Trustee, alter such appointment at any time. The Company shall give notice to the Bondholders in accordance with Condition 19 of any change in the Custodian's Agent and/or its specified office. The Custodian shall have no liability to Bondholders for any loss suffered by them as a result of any failure on the part of the Custodian's Agent to perform its functions pursuant to these Conditions and the Agency Agreement, nor shall the Custodian have any obligation to perform those functions should the Custodian's Agent fail to do so. The Custodian shall not be liable for monitoring or supervising the performance by the Custodian's Agent of such functions. The Contracts (Rights of Third Parties) Act 1999 applies to this Condition 5.9.2 for the benefit of the Custodian.

5.9.3 *Conditions Precedent*: As conditions precedent to the exercise of the Stock Acquisition Right, the Bondholder must pay to the relevant Agent pursuant to this Condition 5.9.3 (or make arrangements satisfactory to such Agent or its delegate for the payment of) all stamp, issue, registration or other similar taxes and duties (if any), together with any incidental expenses in connection therewith, arising on such exercise in the country in which the Stock Acquisition Right is to be exercised or payable in any jurisdiction consequent upon the issue or delivery of Shares to or to the order of a person other than the exercising Bondholder (if any) together with an amount sufficient to pay the expenses of delivery pursuant to Condition 5.9.5(ii). The relevant Agent will not be bound to make any payments until the relevant Agent has received the full amount of such taxes and duties due and payable in respect of the Bonds, the Stock Acquisition Rights in respect of which are being exercised, or other arrangements satisfactory to the relevant Agent have been made. Except as aforesaid, the Company will pay the expenses arising on the acquisition of Shares upon exercise of the Stock Acquisition Rights (which for the avoidance of doubt does not include the exercising Bondholder's own costs and expenses for holding such Shares) and all charges of the Agents in connection therewith (including all costs, charges and expenses incurred by any delegate).

The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued or transferred) must provide the relevant Agent with details of the relevant tax authorities to which such Agent must pay moneys received from the Bondholder for payment of taxes and duties. The payment of such moneys received from the Bondholders to the relevant tax authority will be made at the risk and expense of the Bondholder exercising the relevant Stock Acquisition Rights and such Bondholder will be required to submit any necessary duly completed and signed documents that may be required by the Agent in order to effect the payment of such moneys. The relevant Agent shall be entitled to assume without duty to enquire and without liability that any information provided by the Bondholder exercising the relevant Stock Acquisition Rights in connection with any such amounts payable and as to the details of the relevant tax authorities to which the Agent must pay moneys received in settlement of the taxes and duties payable pursuant to this Condition 5.9.3 is true, accurate and complete. The Bondholders (and, if applicable, the person other than the Bondholders to whom the Shares are to be delivered) shall, upon exercising the relevant Stock Acquisition Rights, be deemed to have consented to the relevant Agent disclosing otherwise confidential information for the purposes of the relevant Agent's carrying out the duties herein. Such Agent is under no obligation to determine whether a Bondholder is liable to pay any taxes, stamp, issue, registration or similar taxes and duties or the amounts payable (if any) arising upon exercise of any Stock Acquisition Rights.

5.9.4 *Deposit Date and Stock Acquisition Date*:

(i) The time at which the Certificate evidencing any Bond and the Conversion Notice relating thereto are deposited with an Agent, or on which all conditions precedent to the exercise of the relevant Stock Acquisition Right are fulfilled, whichever shall be later, is hereinafter referred to as the "Deposit Time" applicable to such Bond, and the date in London on which the Deposit Time falls is hereinafter referred to as the "Deposit Date" applicable to such Bond. For the avoidance of doubt, a Deposit Date may not occur during any period when the Stock Acquisition Rights may not be exercised;

(ii) The request for exercise of the Stock Acquisition Right shall be deemed to have been made, and accordingly the exercise of the Stock Acquisition Right and the delivery of the relevant Certificate therefor will become effective, at 23:59 hours (London time) on the Deposit Date applicable to the relevant Bond (and the next calendar day, being the calendar day in Japan on which such time in London falls, is herein referred to as the "Stock Acquisition Date" applicable to such Bond);

(iii) A Conversion Notice once deposited shall not be withdrawn without the consent in writing of the Company; and

(iv) If deposit of the Conversion Notice is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the Agent, such deposit shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

At any time when the relevant Bonds are evidenced by the Global Certificate, the exercising Bondholder shall, in lieu of depositing the Conversion Notice in the manner aforesaid, transmit the Conversion Notice as an electronic instruction to any Agent in accordance with the operating procedures of the relevant clearing systems, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder's account pro tanto. The time at which such duly completed Conversion Notice is received by the Agent through the relevant clearing systems shall be deemed for the purposes of these Conditions to be its time of deposit. With effect from the relevant Stock Acquisition Date, Euroclear or Clearstream, Luxembourg, as the case may be, shall debit the Bondholder's account with the number of the Bonds the Stock Acquisition Rights incorporated in which have been exercised and the Register shall be amended accordingly.

5.9.5 *Delivery of Shares*: The Company shall procure that the relevant Agent shall, with effect as at the Stock Acquisition Date, endorse the Conversion Notice on behalf of the Custodian. With effect from the Stock Acquisition Date (or as soon as practicable thereafter under Japanese law, regulation and practice relating to the delivery of shares and the register of shareholders), the Company shall deem the Custodian or its nominee to have become the holder of record of the number of Shares to be acquired upon such exercise of the Stock Acquisition Right (disregarding any fraction of a Share resulting from such exercise and also disregarding any Retroactive Adjustment of the Conversion Price prior to the time when such Retroactive Adjustment is first reflected in the Conversion Price).

Thereafter, subject to any applicable limitations then imposed by Japanese law or regulation (including any administrative order or guidelines issued by any relevant authority) or the Articles of Incorporation or the share handling regulations of the Company:

(i) as soon as practicable and in any event within 14 days after the Stock Acquisition Date, in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, the Company shall issue and deliver the relevant Shares to the Custodian or its nominee at the account maintained with the Custodian's Agent (as an Account Management Institution), and the Custodian's Agent shall transfer the relevant Shares to or to the order of the exercising Bondholder at such account maintained with an Account Management Institution in Japan as specified in the relevant Conversion Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian's Agent as aforesaid or such instruction given by the exercising Bondholder in the relevant Conversion Notice is inaccurate, incomplete or insufficient for the purposes of such transfer); and

(ii) as soon as practicable, the Company shall deliver to the Custodian's Agent for the account of the Custodian or its nominee, securities (other than the Shares) required to be delivered upon such exercise of the Stock Acquisition Rights, if any, and the Custodian's Agent shall, according to the request made in the relevant Conversion Notice as soon as practicable, and in any event within 21 days after the Stock Acquisition Date, despatch or cause to be despatched to, or to the order of the person named for that purpose in the relevant Conversion Notice and at the place in Japan and in the manner specified in the relevant Conversion Notice (the expense and risk of despatch at any such place being that of the exercising Bondholder), any such securities (other than the Shares) required to be delivered upon exercise (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid) and such assignments and other documents (if any) as may be required by law to effect the transfer thereof;

provided, however, that if such securities (other than the Shares) are subject to the book-entry transfer system established pursuant to the Book-Entry Act, such delivery or despatch will be implemented in accordance therewith.

Any Conversion Notice transmitted electronically is not required to be endorsed and shall be processed in accordance with the operating procedures of the relevant clearing systems.

5.9.6 *Amount of Stated Capital and Additional Paid-in Capital*: With effect as at the Stock Acquisition Date, one-half of the "maximum capital and other increase amount", as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital.

6 Certain Corporate Events

6.1 Corporate Events

In the case of a proposal for:

(i) any Merger Event; or

(ii) any Asset Transfer Event; or

(iii) any Corporate Split Event; or

(iv) any Holding Company Event; or

(v) the passing of a resolution at a general meeting of shareholders of the Company (or, where such a resolution is not required, at a meeting of the Board of Directors of the Company) for any other corporate reorganisation procedure then provided for under Japanese law (the passing of any such resolution and any Merger Event, any Asset Transfer Event, any Corporate Split Event and any Holding Company Event being together referred to in these Conditions as a "Corporate Event") pursuant to which the obligations under the Bonds and/or the Stock Acquisition Rights are proposed to be transferred to or assumed by another entity (such other entity and any Merged Company, any Asset Transferee, any Corporate Split Counterparty and any Holding Company being together referred to as a "New Obligor"),

the following provisions of this Condition 6 shall apply.

6.2 Notice of Proposal

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of a proposed Corporate Event at the same time as it gives notice to the holders of Shares (or, if no such notice is required or if a public announcement of such proposed Corporate Event is made on a date earlier than the date of such notice, promptly after the first public announcement of such proposed Corporate Event) and, as soon as practicable thereafter, of its proposals in relation to the Bonds (including the Stock Acquisition Rights). Such notice shall specify the anticipated Corporate Event Effective Date. If those proposals and/or that date have not been determined, the notice shall state that fact.

6.3 Notice of Passing of Resolution

Upon the occurrence of a Corporate Event, the Company shall forthwith give a further notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of that fact, the Company's proposals in relation to the Bonds (including the Stock Acquisition Rights) and the anticipated effective date of the transaction, and, if such anticipated effective date or proposals are changed or fixed, a further notice to such effect shall be given in the same manner. The effective date of the transaction contemplated by the relevant Corporate Event is referred to herein as its "Corporate Event Effective Date".

6.4 Transfer of Obligations Following a Corporate Event

6.4.1 *Transfer:* If a Corporate Event occurs and

(i) it is legally possible under then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect substitution of the New Obligor for the Company and the grant of the New Stock Acquisition Rights in such a manner as set out in Conditions 6.5 and 12.2;

(ii) a practical structure for such substitution and grant has been or can be established; and

(iii) such substitution and grant can be consummated without the Company or the New Obligor incurring costs or expenses (including taxes) which are in the opinion of the Company unreasonable in the context of the entire transaction,

then the Company shall use its best endeavours to cause the New Obligor to be substituted as the principal obligor under the Bonds and the Trust Deed pursuant to Condition 12.2 and the Trust Deed and for the grant of the New Stock Acquisition Rights in relation to the Bonds in place of the Stock Acquisition Rights in the manner described in Condition 6.5. Such substitution and grant shall take effect on the relevant Corporate Event Effective Date, or, in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, as soon as practicable on or after, but in any event no later than 14 days after, the relevant Corporate Event Effective Date.

6.4.2 *Listing*: In connection with the substitution and grant described in Condition 6.4.1, the Company shall also use its best endeavours to ensure that the shares of common stock of the New Obligor will be listed on any stock exchange in Japan or be quoted or dealt in on any securities market in Japan (such listing, quotation and dealing being hereinafter collectively referred to as "Listing") on the relevant Corporate Event Effective Date.

6.4.3 *Condition*: The obligations of the Company pursuant to this Condition 6.4 shall not apply if the Company delivers a certificate to the Trustee pursuant to Condition 7.5(iv).

6.5 New Stock Acquisition Rights

At the time of the substitution of (or assumption by) the New Obligor as principal obligor under Condition 12.2 and the Trust Deed, New Stock Acquisition Rights will be granted, in place of the Stock Acquisition Rights, to the Bondholders by the New Obligor, in accordance with the following terms:

6.5.1 *Number of the New Stock Acquisition Rights to be Granted*: The number of New Stock Acquisition Rights to be granted will be equal to the number of the Stock Acquisition Rights incorporated in the Bonds outstanding immediately prior to the relevant Corporate Event Effective Date;

6.5.2 *Class of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights*: Upon exercise of the New Stock Acquisition Rights, shares of common stock of the New Obligor shall be issued or transferred;

6.5.3 *Number of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights*: The number of shares of the New Obligor to be issued or transferred upon exercise of the New Stock Acquisition Rights shall be determined by the New Obligor by reference to these Conditions taking into account the terms of the transaction contemplated under the relevant Corporate Event, and

(i) in the case of a Merger Event or a Holding Company Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right would upon its exercise immediately after the Corporate Event Effective Date receive the number of shares of common stock of the New Obligor (the "Number of Deliverable Shares") receivable upon the relevant Corporate Event by a holder of the number of Shares (such number being the "Number of Held Shares") which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately prior to the relevant Corporate Event Effective Date. If securities (other than shares of common stock of the New Obligor) or other property shall be delivered to such holder of the Number of Held Shares upon the taking effect of the Merger Event or the Holding Company Event (as the case may be), such number of shares of common stock of the New Obligor shall form part of the Number of Deliverable Shares as shall be calculated by dividing the fair market value of such securities or properties delivered to such holder of the Number of Held Shares by the New Obligor Current Market Price per Share, such fair market value to be determined by the Company, provided that in determining such fair market value, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of the Independent Financial Adviser; or

(ii) in the case of any other Corporate Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right shall, upon its exercise immediately after the Corporate Event Effective Date, receive an equivalent economic interest to be determined by the Company as that which would have been received by a holder of the number of Shares which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately before the relevant Corporate Event Effective Date, provided that, in determining such equivalent economic interest, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

For the purpose of this Condition 6, the "New Obligor Current Market Price per Share" means (i) the average of the daily Closing Prices of the shares of common stock of the New Obligor for the 30 consecutive Trading Days commencing 45 Trading Days immediately before the relevant Corporate Event Effective Date, or (ii) if such market price shall not be available, such price as is determined by the Company, provided that in determining such price, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

The conversion price for the New Stock Acquisition Rights shall be subject to adjustment which shall be as nearly equivalent as may be practicable to the adjustments provided in Condition 5.2;

6.5.4 *Description of the Asset to be Contributed upon Exercise of the New Stock Acquisition Rights and the Amount or the Calculation Method Thereof*: Upon exercise of each New Stock Acquisition Right, the relevant Bond shall be deemed to be acquired by the New Obligor as a capital contribution in kind by the relevant Bondholder at the price equal to the principal amount of the Bond;

6.5.5 *Exercise Period of the New Stock Acquisition Rights*: The New Stock Acquisition Rights may be exercised at any time during the period from, and including, the later of the relevant Corporate Event Effective Date or the date of implementation of the scheme described in Condition 6.4.1 up to, and including, the last day of the Exercise Period of the Stock Acquisition Rights;

6.5.6 *Other Conditions for the Exercise of the New Stock Acquisition Rights*: No New Stock Acquisition Right may be exercised in part;

6.5.7 *Amount of Stated Capital and Additional Paid-in Capital*: As at the date on which the exercise of a New Stock Acquisition Right becomes effective, one-half of the "maximum capital and other increase amount" as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital; and

6.5.8 *Others*: Fractions of a share of common stock of the New Obligor will not be issued upon exercise of the New Stock Acquisition Rights and no adjustment or cash payment will be made in respect thereof. The holder of each bond assumed (by way of substitution or otherwise only for the purposes of Japanese law), or bond provided, by the New Obligor may not transfer such bond separately from the New Stock Acquisition Rights. In cases where such restriction on transfer of the bond would not be effective under the then applicable law, a stock acquisition right incorporated in a bond equivalent to the Bond may be issued to the holder of each Bond outstanding immediately prior to the Corporate Event Effective Date in place of the Stock Acquisition Right and the Bond.

6.6 No Statutory Put Rights

Each Bondholder by accepting or acquiring any Bond agrees that its remedies if a Corporate Event or a Squeezeout Event occurs shall not include any statutory rights provided by Japanese law to require the Company to repurchase such Bond at fair market value, such rights being waived to the fullest extent permitted by applicable law.

6.7 Subsequent Corporate Events

The above provisions of this Condition 6 shall apply in the same way to any subsequent Corporate Events.

7 Redemption, Purchase and Cancellation

7.1 Final Maturity

Unless the Bonds have previously been redeemed or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised (in each case as provided in these Conditions), the Company will redeem the Bonds at 100 per cent of their principal amount on 10 December 2031. The Bonds may not be redeemed at the option of the Company other than in accordance with this Condition 7.

7.2 Redemption at the Option of the Company upon Increased Share Prices

At any time on or after 10 December 2024, the Company may, but shall not be bound to, redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption, provided, however, that no such redemption may be made unless the Closing Price of the Shares for each of the 20 consecutive Trading Days, the last of which occurs not more than 30 days prior to the date upon which the Optional Redemption Notice (as defined below) is first given, is at least 120 per cent of the Conversion Price in effect on each such Trading Day (taking into account any Retroactive Adjustment not then reflected in the Conversion Price). To exercise such option to redeem, the Company shall give not less than 30 nor more than 60 days' prior notice of such redemption (the "Optional Redemption Notice") to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable); and upon giving such notice, all such Bonds shall be redeemed by the Company on the date fixed for such redemption.

7.3 Redemption at the Option of the Company upon Reduced Outstanding Amounts

The Company may, but shall not be bound to, having given not less than 45 nor more than 60 days' prior notice (the "Clean-up Redemption Notice") to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for such redemption in the Clean-up Redemption Notice, if at any time prior to the date upon which the Clean-up Redemption Notice is first given, the outstanding principal amount of the Bonds is less than 10 per cent of the aggregate principal amount of the Bonds as at the date of issue thereof.

7.4 Redemption for Taxation Reasons

The Company may, but shall not be bound to, at any time, having given not less than 45 nor more than 60 days' prior notice (the "Tax Redemption Notice") to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent of their principal amount on the date fixed for redemption in the Tax Redemption Notice (the "Tax Redemption Date"), if the Company satisfies the Trustee immediately prior to the giving of the Tax Redemption Notice that (i) it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 24 November 2021 and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it; provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due. Prior to the giving of any Tax Redemption Notice, the Company shall deliver to the Trustee a certificate signed by a Representative Director or Authorised Officer stating that the obligation referred to in (i) above has arisen and cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be bound to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Bondholders and the Trustee, and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate. Upon the giving of the Tax Redemption Notice to the Bondholders, the Company shall be bound to redeem the Bonds then outstanding at 100 per cent of their principal amount on the Tax Redemption Date.

Notwithstanding the foregoing, if the Company shall have given a Tax Redemption Notice, and if the outstanding principal amount of the Bonds at the time when such Tax Redemption Notice is given is 10 per cent or more of the aggregate principal amount of the Bonds as at the date of issue thereof, each holder of the Bonds will have the right to elect, and the Tax Redemption Notice shall state that such Bondholder will have the right to elect, that its Bonds should not be redeemed and that the provisions set forth in Condition 9 shall not apply in respect of payment of any amount to be made in respect of the Bonds which will fall after the Tax Redemption Date and payment of all amounts due on such Bonds thereafter shall be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges referred to in Condition 9. Such right of the Bondholder shall be exercised by the Bondholder giving notice to the Company in the form (for the time being current) obtainable from any Agent no later than 20 days prior to the Tax Redemption Date.

7.5 Corporate Event Redemption

Upon or following the occurrence of a Corporate Event, the Company shall give not less than 14 Tokyo Business Days' prior notice to the Bondholders in accordance with Condition 19 to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out below and in accordance with the provisions of this Condition 7.5 (the "Corporate Event Redemption Price"), together with all

Additional Amounts due on the Bonds (if any), on the date (the "Corporate Event Redemption Date") specified for redemption in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given as soon as practicable after the date of occurrence of the Corporate Event), if any of the following conditions is satisfied:

(i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect a scheme provided for by Condition 6.4.1; or

(ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company is not able to effect such a scheme in compliance with Condition 6.4.1; or

(iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing has been obtained for the shares of common stock of the New Obligor, and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or

(iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director or an Authorised Officer stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate. The Trustee and the Bondholders shall be bound to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition set out in this Condition 7.5 and the Trustee shall not be responsible or liable to any person for any loss occasioned by relying, acting and/or not acting based on such certificate.

Any notice of redemption given under this Condition 7.5 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice even if (in the case of Condition 7.5(iii) or 7.5(iv) above) a Listing for the shares of common stock of the New Obligor is subsequently obtained.

If the Corporate Event Redemption Date falls on or prior to 26 November 2031, the Corporate Event Redemption Price shall be determined by reference to the following table:

Corporate Event Redemption Date	Reference Parity (Percentage)														
	60.00	**70.00**	**80.00**	**90.00**	**100.00**	**110.00**	**120.00**	**130.00**	**140.00**	**150.00**	**160.00**	**170.00**	**180.00**	**190.00**	**200.00**
10 December 2021	92.39	95.43	99.44	104.49	110.41	117.12	124.65	132.77	141.45	150.57	160.12	170.00	180.00	190.00	200.00
10 December 2022	93.25	95.96	99.64	104.39	110.08	116.64	124.14	132.29	141.07	150.34	160.03	170.00	180.00	190.00	200.00
10 December 2023	94.09	96.50	99.81	104.16	109.48	115.78	123.23	131.50	140.51	150.06	160.00	170.00	180.00	190.00	200.00
10 December 2024	95.03	97.15	100.19	104.19	108.95	114.28	120.39	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00
10 December 2025	96.02	97.79	100.55	104.36	109.02	114.29	120.39	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00
10 December 2026	97.08	98.42	100.80	104.37	108.93	114.22	120.38	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00
10 December 2027	98.38	99.09	100.90	104.14	108.64	114.04	120.37	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00
8 December 2028	100.00	100.00	100.00	103.20	108.10	113.79	120.11	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00
9 December 2028	95.18	96.73	99.37	103.20	108.09	113.79	120.18	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00
10 December 2029	96.51	97.45	99.48	102.89	107.67	113.51	120.31	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00
10 December 2030	98.12	98.35	99.34	101.83	106.32	112.63	120.21	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00
26 November 2031	100.00	100.00	100.00	100.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00

"Reference Parity" means:

(i) if the consideration payable to holders of the Shares in connection with the relevant Corporate Event consists of cash only, the amount of such cash per Share divided by the Conversion Price in effect on the date of occurrence of the relevant Corporate Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; and

(ii) in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days commencing on the Trading Day immediately following:

(a) the date on which the terms and conditions of the relevant Corporate Event (including the consideration payable or deliverable to holders of the Shares in connection therewith) are approved at a meeting of the Board of Directors of the Company, as required under the Companies Act; or

(b) (if the terms and conditions of the relevant Corporate Event are announced to the public later than that date) the date of such public announcement,

divided by the Conversion Price in effect on the last day of such five consecutive Trading Day period (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

If the Reference Parity or Corporate Event Redemption Date does not appear in the above table, and:

(x) if the Reference Parity falls between two numbers in the first row of the above table and/or the Corporate Event Redemption Date falls between two dates in the above table, then the Corporate Event Redemption Price shall be determined by straight-line interpolation between such two numbers and/or two dates, on the basis of a 365-day year, as the case may be, with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth;

(y) if the Reference Parity is higher than the number in the far right column in the first row of the above table, the Reference Parity shall be deemed to be equal to that number; and

(z) if the Reference Parity is less than the number set forth in the far left column in the first row of the above table, the Corporate Event Redemption Price shall be 100.00 per cent.

If the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, is less than 100.00 per cent, the Corporate Event Redemption Price shall be 100.00 per cent. Conversely, if the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, is more than 200.00 per cent, the Corporate Event Redemption Price shall be 200.00 per cent.

If the Corporate Event Redemption Date falls during the period from (and including) 27 November 2031 to (and excluding) 10 December 2031, the Corporate Event Redemption Price shall be 100.00 per cent.

7.6 Redemption on Delisting of the Shares

7.6.1 *Offers and Redemption*: If (i) any offer is made by a party or parties (the "Offeror") other than the Company in accordance with the Financial Instruments and Exchange Act to all holders of Shares (or all such holders other than the Offeror and/or any company controlled by the Offeror and/or persons associated or acting in concert with the Offeror) to acquire all or a portion of the Shares, (ii) the Company expresses its opinion to support such offer in accordance with the Financial Instruments and Exchange Act, (iii) the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces or admits, that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or may be disqualified from such listing, quotation or dealing, as a result of the acquisition of Shares pursuant to the offer (unless the Company or the Offeror publicly expresses its intention to use its best endeavours to continue such listing, quotation or dealing after such acquisition), and (iv) the Offeror acquires any Shares pursuant to the offer, then the Company shall give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at the redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with the provisions below, together with all Additional Amounts due on the Bonds (if any), on the date (the "Delisting Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice). The Trustee shall be entitled to assume, without being required to take any action and without liability, until it has written notice to the contrary that the Offeror has not so acquired any Shares.

7.6.2 *Redemption Price*: The redemption price applicable to the redemption under this Condition 7.6 shall be calculated in the same manner as provided in Condition 7.5, except that references to the Corporate Event Redemption Date shall be replaced by the Delisting Redemption Date and the Reference Parity shall mean, if the offer price consists of cash only, the offer price in effect on the last day of the offer divided by the Conversion Price in effect on the same day (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the last day of the offer divided by the Conversion Price in effect on the last day of the offer (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply *mutatis mutandis* to the above redemption price without any adjustment.

7.6.3 *Offer Followed by Corporate Event or Squeezeout Event*: Notwithstanding the above provisions of this Condition 7.6, if the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces, that it intends to effect a Corporate Event or Squeezeout Event after the date of acquisition of any Shares pursuant to the offer, then the Company's obligation to redeem the Bonds under this Condition 7.6 shall not apply (but, for the avoidance of doubt, the provisions of Conditions 6 and 7.5, or Condition 7.7, as the case may be, shall be applicable to such Corporate Event or Squeezeout Event, as the case may be) unless such Corporate Event or Squeezeout Event does not occur within 60 days after the date of such acquisition, in which case the Company shall give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the last day of such 60-day period, to redeem all, but not some only, of the Bonds then outstanding at the redemption price set out in Condition 7.6.2 (for the avoidance of doubt, the Reference Parity applicable to such redemption being equal to the Reference Parity that would have been applicable had the Bonds been redeemed under Condition 7.6.1 without being subject to the provisions of this Condition 7.6.3), together with all Additional Amounts due on the Bonds (if any), on the date (for the avoidance of doubt, the Delisting Redemption Date applicable to such redemption being such date) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice).

7.6.4 *Irrevocable Notice*: Any notice of redemption given under this Condition 7.6 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice.

7.6.5 *Notice to Bondholders*: Upon the occurrence of:

(a) any of the events set out in (i) through (iv) of Condition 7.6.1; or

(b) any of the events set out in Condition 7.6.3 which results in the cancellation or revival of the Company's obligation to redeem the Bonds, the Company shall as soon as practicable give notice thereof to the Trustee in writing and to the Bondholders in accordance with Condition 19.

7.7 Squeezeout Redemption

7.7.1 *Redemption:* Upon the occurrence of a Squeezeout Event, the Company shall give notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with Condition 7.7.2, together with all Additional Amounts due on the Bonds (if any), on the date (the "Squeezeout Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice and in any event before the effective date (the "Squeezeout Effective Date") of the acquisition, sale or consolidation of the Shares with respect to the Squeezeout Event, as the case may be; provided however, that if the Squeezeout Effective Date falls earlier than 14 Tokyo Business Days from the date of such notice, the Squeezeout Redemption Date shall be accelerated to the extent necessary to ensure that it shall fall on a date earlier than the Squeezeout Effective Date).

7.7.2 *Redemption Price*: The redemption price applicable to the redemption under this Condition 7.7 shall be calculated in the same manner as provided in Condition 7.5, except that references to the Corporate Event Redemption Date shall be replaced by the Squeezeout Redemption Date and the Reference Parity shall mean, if the assets to be delivered to the holders of Shares consist of cash only (or if the holders of Shares which are being squeezed out are to effectively receive cash only in respect of such Shares), the amount of cash which the holder of a Share would receive in exchange for Shares following the Squeezeout Event, divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the date of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment becoming effective during such period, where the event requiring such Retroactive Adjustment takes place after such period) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply *mutatis mutandis* to the above redemption price without any adjustment.

7.8 Redemption at the Option of the Bondholders

The holder of any Bond is entitled, at its option, to require the Company to redeem such Bond at 100 per cent of its principal amount on 8 December 2028 (the "Bondholders' Optional Redemption Date"). To exercise such option, the holder of such Bond shall complete, execute and deposit at the specified office of an Agent, at such Bondholder's own expense, during normal business hours of such Agent, a notice of redemption in the form (for the time being current) obtainable from any Agent, together with the Certificate in respect of such Bond. Such notice of redemption must be given not less than 30 days nor more than 60 days prior to the Bondholders' Optional Redemption Date. Such notice may only be withdrawn with the consent in writing of the Company; provided, however, that if, prior to the Bondholders' Optional Redemption Date, the Bonds evidenced by any Certificate so deposited become immediately due and payable pursuant to Condition 10, or, upon due presentation of any Certificate on the Bondholders' Optional Redemption Date, payment of the redemption moneys is improperly withheld or refused, such Certificate shall, without prejudice to the exercise of the option contained in this Condition 7.8, be returned to the relevant holder by uninsured first class mail (airmail if overseas) at the address specified by such holder in the relevant notice of redemption.

7.9 Purchase of Bonds by the Company

Subject to the requirements (if any) of any stock exchange on which the Bonds may be listed at the relevant time, the Company and/or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise. Such Bonds may, at the option of the Company or the relevant Subsidiary, be held or resold. The Bonds so purchased, while held by or on behalf of the Company or any of its Subsidiaries, shall not entitle the Bondholder to vote at any meeting of Bondholders or otherwise to exercise any voting rights and shall be deemed not to be outstanding for the purpose of calculating the quorum at a meeting of Bondholders or for voting on any Extraordinary Resolution or for the purposes of these Conditions. Bonds that have been purchased by the Company may, at the option of the Company, be cancelled. Bonds that have been purchased by any Subsidiary may, at the option of such Subsidiary, be delivered to the Company for cancellation.

7.10 Cancellation

All Bonds which are redeemed or with respect to which the Stock Acquisition Rights have been exercised shall forthwith be cancelled and such Bonds may not be reissued or resold. All Certificates in respect of Bonds so cancelled and Certificates in respect of Bonds purchased and cancelled pursuant to Condition 7.9 shall be forwarded to the Principal Agent for cancellation.

7.11 Notice of Redemption

All notices to Bondholders given by or on behalf of the Company pursuant to this Condition 7 will specify the Conversion Price as at the date of the relevant notice, the Closing Price of the Shares as at the latest practicable date prior to the publication of the relevant notice, the applicable date fixed for redemption, the redemption price of the Bonds, the last day on which the Stock Acquisition Rights may be exercised and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the relevant notice. No notice of redemption given under Condition 7.2, 7.3 or 7.4 shall be effective if it specifies a date for redemption which falls during a period (a "Closed Period") in which Stock Acquisition Rights may not be exercised pursuant to Condition 5.1.4(b) or within 15 days following the last day of a Closed Period.

7.12 Priorities among Redemption Provisions

If any notice of redemption is given by the Company pursuant to any of Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, no other notice may be, or as the case may be, is required to be, given pursuant to any other of such Conditions, subject as provided in Condition 7.6.3 and except for such Bonds so elected by the relevant Bondholder not to be redeemed pursuant to Condition 7.4.

If (a) the Company becomes obliged to give notice of redemption pursuant to Condition 7.5 or 7.7, or (b) the events set out in (i) to (iv) of Condition 7.6.1 occur, then a notice pursuant to Condition 7.2, 7.3 or 7.4 may not subsequently be given.

If the Company becomes obliged to redeem the Bonds pursuant to both Condition 7.6 and either Condition 7.5 or 7.7, the procedure pursuant to Condition 7.5 or 7.7, as the case may be, shall apply.

If any notice of redemption is given by the Company pursuant to any of Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, that notice shall take priority over a notice given by a Bondholder pursuant to Condition 7.8 (whether such notice is given before or after any notice of redemption being given by the Company pursuant to Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7) so long as such notice by the Company is given prior to the Bondholders' Optional Redemption Date. If any notice of redemption is given by the Company pursuant to Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7 after a notice of redemption is given by a Bondholder pursuant to Condition 7.8, the Certificate for the relevant Bond shall be deemed to have been surrendered for payment as provided in Condition 8 for the purpose of redemption under Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, as the case may be.

8 Payments

8.1 Method of Payment

Payments in respect of principal, default interest (if any) and premium (if any) will be made (subject to surrender of the Certificates in respect of the relevant Bonds at any specified office outside Japan of the

Registrar or any Agent, if no further payments are due in respect of the Bonds evidenced by the relevant Certificates) to the person shown on the Register at the close of business on the third business day before the due date for payment thereof, by transfer to its Registered Account. All payments are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 9. If an amount which is due in respect of the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

"Registered Account" means a yen account maintained by the payee with a bank in Japan, details of which appear on the Register at the close of business on the third business day before the due date of payment.

In this Condition 8.1, "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar and the Principal Agent.

8.2 Agents

The initial Principal Agent and the initial Registrar and their respective initial specified offices are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Agent, the Registrar or any other Agent and to appoint other or further Agents, provided that it will at all times maintain (i) a Principal Agent; (ii) a Registrar; (iii) an Agent having a specified office in Singapore, so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require; and (iv) such other agents as may be required by the rules of any stock exchange on which the Bonds are listed. Notice of any such termination or appointment and of any changes in the specified offices of the Principal Agent, the Registrar or any other Agent will be given to the Bondholders in accordance with Condition 19.

8.3 Payments on Payment Business Days

If the due date for payment of any amount in respect of any Bond is not a Payment Business Day, then the holder of such Bond shall not be entitled to payment of the amount due until the next following Payment Business Day and no other payment will be made as a consequence of the day on which the relevant Bond may be presented for payment under this Condition 8.3 falling after the due date. "Payment Business Day" means any day on which banks are open for business in the place of the specified office of the Agent at which (where required) the Certificate is presented for payment and (in the case of payment by transfer to a Registered Account as referred to in Condition 8.1) on which dealings in foreign currency may be carried out both in Tokyo and in such place.

9 Taxation

All payments by the Company in respect of the Bonds, subject to Condition 7.4, will be made without withholding of, or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any political subdivision or any authority thereof or therein having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. If such withholding or deduction is so required, the Company will pay such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

(i) to a Bondholder (a) who is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation, or (b) who fails to comply with Japanese tax law requirements in respect of the exemption from such withholding or deduction, or (c) who is otherwise subject to such taxes, duties, assessments or governmental charges by reason of its being connected with Japan (including carrying on a business or maintaining a permanent establishment in Japan) otherwise than by reason only of the holding of any Bond or the receipt of payment in respect of any Bond; or

(ii) in respect of which the relevant Certificate is presented for payment, more than 30 days after the Due Date (as defined below) except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting such Certificate for payment as at the expiry of such 30-day period.

If the Company becomes obliged to pay Additional Amounts in accordance with this Condition 9, then it will have the right to redeem the Bonds in accordance with and subject to Condition 7.4.

No Additional Amounts will be payable for or on account of any deduction or withholding from a payment on, or in respect of, any Bond where such deduction or withholding is imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, any regulation or agreement thereunder, any inter-governmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions or any agreement with the U.S. Internal Revenue Service ("FATCA withholding"). Further, the Company will have no obligation to otherwise indemnify for any such FATCA withholding deducted or withheld by the Company, the Agents or any other party that is not an agent of the Company.

As used herein, the "Due Date" for any payment means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect shall have been duly given to the Bondholders in accordance with Condition 19.

Any reference in these Conditions and the Trust Deed to principal, premium (if any) or default interest in respect of the Bonds shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or any undertakings or covenants given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to its being indemnified and/or secured and/or prefunded to its satisfaction, give notice in writing to the Company that the Bonds are due and repayable at their principal amount together with accrued interest (if any) to the date of payment on the occurrence of any of the following events:

10.1 *Non-Payment*: the Company defaults in the payment of principal of any of the Bonds under Condition 7.4 or 7.8 as and when the same shall become due and payable, and such default is not remedied within 14 days; or

10.2 *Breach of Obligations*: the Company defaults in the performance or observance of any covenant, condition or provision contained in the Trust Deed or in the Bonds and on its part to be performed or observed (other than the covenant to pay principal in respect of any of the Bonds), which default is, in the opinion of the Trustee, incapable of remedy, or if, in the opinion of the Trustee, capable of remedy, is not remedied within 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Company of notice requiring such default to be remedied; or

10.3 *Cross Default on Indebtedness*: the obligation to repay any indebtedness for money borrowed by the Company or any Principal Subsidiary and having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is accelerated or capable of being accelerated prior to its stated maturity as a result of a default in respect of the terms thereof, or any such indebtedness due (on demand or otherwise) having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is not paid when due (on demand or otherwise) (or at the expiration of any applicable grace period as originally provided); or

10.4 *Cross Default on Guarantee/Indemnity*: the Company or any Principal Subsidiary fails to pay or otherwise defaults in making any payment due under any guarantee and/or any indemnity given by it in respect of any obligation or indebtedness for money borrowed having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10); or

10.5 *Initiation of Insolvency Proceedings*: proceedings shall have been initiated against the Company or any Principal Subsidiary seeking with respect to the Company or such Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction and such proceedings shall not have been discharged or stayed within a period of 60 days; or

10.6 *Decree of Insolvency/Dissolution*: a final decree or order is made or issued by a court of competent jurisdiction adjudicating the Company or any Principal Subsidiary bankrupt or insolvent, or approving a petition seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or any Principal Subsidiary or of all or (in the opinion of the Trustee) any material part of the property of any of them, or for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary in its bankruptcy or insolvency; or

10.7 *Resolution for Dissolution*: a resolution is passed for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary except:

10.7.1 (in the case of the Company) in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied) or (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such winding-up, dissolution or liquidation, or, (in the case of a Principal Subsidiary) where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or the Holding Company (as the case may be) in the relevant Principal Subsidiary; or

10.7.2 if the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

10.8 *Institution of Insolvency Proceedings*: the Company or any Principal Subsidiary institutes proceedings seeking adjudication of bankruptcy or seeking with respect to itself a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction, or consents to the institution of any such proceedings, or consents to, or acquiesces in, the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or (in the opinion of the Trustee) any material part of its property, or makes a general assignment for the benefit of its creditors; or

10.9 *Stoppage of Payment*: the Company or any Principal Subsidiary stops payment (within the meaning of the Bankruptcy Act or any applicable law of any other jurisdiction); or

10.10 *Cessation of Business*: the Company or any Principal Subsidiary ceases, or through an official action of its Board of Directors threatens to cease to carry on business, except:

10.10.1 (in the case of the Company) in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which (a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied) or (b) the Bonds are to be redeemed pursuant to Condition 7.5, 7.6 or 7.7 prior to the date or proposed date of such cessation of business, or (in the case of a Principal Subsidiary) where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other

Subsidiary of the Company or Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or Holding Company (as the case may be) in the relevant Principal Subsidiary; or

10.10.2 the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

10.11 *Encumbrancer*: any encumbrancer takes possession of the whole or (in the opinion of the Trustee) any material part of the assets or undertakings of the Company or any Principal Subsidiary or a distress, execution or other similar process is levied or enforced upon or sued out against the whole or (in the opinion of the Trustee) any material part of the assets of the Company or any Principal Subsidiary and is not removed, discharged or paid out within 60 days;

and, in the case of any of the events described in Conditions 10.2, 10.3, 10.4, 10.5 and 10.11 and (if the events relate only to a Principal Subsidiary) Conditions 10.6, 10.7, 10.8, 10.9 and 10.10, the Trustee shall have certified in writing to the Company that the event is, in its opinion, materially prejudicial to the interests of the Bondholders.

For the purposes of Conditions 10.3 and 10.4, any indebtedness which is in a currency other than yen may be translated into yen at the spot rate for the sale of relevant currency against the purchase of yen quoted by any leading bank selected in its sole discretion by the Trustee on any day when the Trustee requests such a quotation for such purpose.

Upon any such notice being given to the Company, the Bonds shall immediately become due and repayable at 100 per cent of their principal amount (together with premium, if any, and default interest) as provided in the Trust Deed.

11 Undertakings

11.1 Undertakings with Respect to the Stock Acquisition Rights

While any Stock Acquisition Rights are, or are capable of being, exercisable, the Company will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of the Bondholders to give such approval:

11.1.1 *Shares:* issue, register and deliver Shares upon exercise of Stock Acquisition Rights in accordance with these Conditions, and keep available free from pre-emptive or other rights for the purpose of effecting the exercise of the Stock Acquisition Rights such number of its Shares (whether authorised and unissued or in issue and held in treasury) as would be required to be delivered upon exercise of all of the Stock Acquisition Rights outstanding from time to time and will ensure that all Shares delivered upon exercise of the Stock Acquisition Rights pursuant to these Conditions will be duly and validly issued and fully-paid and non-assessable;

11.1.2 *Transfers:* not close its register of shareholders or take any action which prevents the transfer of its Shares generally unless, under Japanese law and the Articles of Incorporation as then in effect, the Stock Acquisition Rights may be exercised legally for Shares and the Shares issued upon exercise of the Stock Acquisition Rights, if any, may (subject to any limitation imposed by law) be transferred (as between transferor and transferee although not as against the Company) at all times while such action is effective, nor take any action which prevents exercise of the Stock Acquisition Rights or the issue or transfer of Shares in respect thereof, except as permitted under Condition 5.1.4;

11.1.3 *Financial Year and Record Date:* give notice to the Bondholders in accordance with Condition 19 as soon as practicable after it effects any change in its financial year or in the Record Date (including the setting of new Record Dates) for the payment of any cash dividend;

11.1.4 *Listing:* use its best endeavours to obtain and maintain the listing, quotation or dealing in on the Relevant Stock Exchange for the Shares or, if it is unable to do so having used such best endeavours, use its best endeavours to obtain and maintain the listing, quotation or dealing in of the Shares on such other stock exchange or securities market in Japan as the Company may from time to time reasonably determine and give notice of the identity of such stock exchange or securities market to the Bondholders in accordance with Condition 19; provided that, (i) so long as the Company is not in breach of its obligations under Condition 6 in the case of any Corporate Event where the obligations under the Bonds and/or Stock Acquisition Rights are proposed to be transferred to or assumed by a New Obligor, then the Shares may be delisted with effect from the date falling no earlier than 30 days prior to the relevant Corporate Event Effective Date or such earlier date as may be determined by the Relevant Stock Exchange and (unless shares of common stock of the New Obligor are then listed or quoted or dealt in on any stock exchange or securities market) the Company shall use its best endeavours to cause the obtaining of a listing, quotation or dealing in of the shares of common stock of the New Obligor on any stock exchange or securities market in Japan, and (ii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.5, 7.6 or 7.7 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from (x) delivering a certificate to the Trustee, as provided in Condition 7.5(iv), (y) taking any action provided in items (ii) and (iii) of Condition 7.6.1, or (z) proposing an amendment to the Articles of Incorporation for transforming the Shares into callable shares (*zenbushutokujoko tsuki shuruikabushiki*), approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushikitou uriwatashi seikyu*), proposing a consolidation of Shares (*kabushiki no heigo*) after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing, or announcing or admitting that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or be disqualified from such listing, quotation or dealing after the acquisition or consolidation of Shares pursuant to a Squeezeout Event, as the case may be);

11.1.5 *Other Securities:* procure that no securities of the Company convertible into, or exchangeable for, by their terms, Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), converted into or exchanged for Shares and that no rights or warrants to subscribe for, purchase or otherwise acquire Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), exercised otherwise than, in each case, in accordance with the terms of issue thereof (for the avoidance of doubt, such terms may be amended as a result of any change in or bringing into force of Japanese law, including but not limited to certain tax qualification requirements relating to incentive stock options);

11.1.6 *Capital:* not create or issue any class of share capital other than the Shares, without giving notice to the Bondholders in accordance with Condition 19, at least 14 days prior to the date of such creation or issue;

11.1.7 *Limitation on Reduction of Conversion Price:* not take any action which would result in an adjustment of the Conversion Price if, after giving effect thereto, the Conversion Price would (but for the provisions of Condition 5.4) be decreased to such an extent that the Shares to be acquired on exercise of the Stock Acquisition Right could not, under any applicable law then in effect, be legally issued as fully-paid and non-assessable;

11.1.8 *Corporate Event:* if a Corporate Event occurs, use its best endeavours to obtain all consents which may be necessary or appropriate under Japanese law to enable the relevant company to give effect to the relevant arrangement, and to take all other action, as required by Condition 6 in a timely manner (unless, for the avoidance of doubt, the Bonds are to be redeemed pursuant to Condition 7.5 or 7.6); and

11.1.9 *Consents:* obtain and maintain all consents, clearances, approvals, authorisations, orders, registrations or qualifications (if any) required to be obtained or maintained by the Company on exercise of the Stock Acquisition Rights.

The Trust Deed contains certain other undertakings in relation to the Bonds and the Stock Acquisition Rights.

11.2 Charges

Except as otherwise provided in Condition 5.9, the Company will pay all charges of the Trustee, the Principal Agent, the Registrar, the other Agents, the Custodian and the Custodian's Agent (including the cost of providing notices) and all issue, transfer and other similar taxes payable with respect to the deposit of Bonds pursuant to Condition 5.9.3, and the issue and delivery of Shares and the delivery of any other securities, property or cash pursuant to Condition 5.9.5 following such deposit.

12 Substitution

12.1 Substitution other than under a Corporate Event

The Trustee may, without the consent of the Bondholders, agree with the Company to the substitution in place of the Company (or any previous substitute under this Condition 12) as the principal obligor under the Bonds and the Trust Deed of any Subsidiary of the Company subject to (i) the Bonds continuing to be convertible into Shares as provided in these Conditions, with such amendments as the Trustee shall consider appropriate, (ii) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (iii) satisfaction of such other conditions as are set out in the Trust Deed. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders in accordance with Condition 19.

Further conditions to such substitution are set out in the Trust Deed.

12.2 Substitution under a Corporate Event

Prior to a Corporate Event Effective Date, the Trustee may, if so requested by the Company, agree with the Company, without the consent of Bondholders, to the substitution in place of the Company of the New Obligor subject to a trust deed supplemental to the Trust Deed (which shall include the provisions described below), providing that the Company's obligations under the Bonds and the Trust Deed shall be assumed by the New Obligor by way of substitution (which, for the purposes of Japanese law, may be deemed to be a transfer or assumption of such obligations to or by the New Obligor), and that the New Obligor shall grant stock acquisition rights (the "New Stock Acquisition Rights") to all holders of the Bonds then outstanding, in place of the Stock Acquisition Rights incorporated in the Bonds held by them, being executed on or prior to the relevant Corporate Event Effective Date or (in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date) within 14 days after the relevant Corporate Event Effective Date. The Trustee may enter into such supplemental trust deed without consent of Bondholders only if:

(i) under such supplemental trust deed, the New Obligor agrees, in form and manner satisfactory to the Trustee, to be bound by the Trust Deed and the Bonds (with consequential amendments as the Trustee may deem appropriate) with effect (as specified in this Condition 12.2) as if the New Obligor had been named in the Trust Deed and the Bonds as the principal obligor in place of the Company and providing that the holders of the Bonds then outstanding shall be granted New Stock Acquisition Rights;

(ii) except in the case of a Merger Event, pursuant to such supplemental trust deed the Company guarantees, in a form and manner satisfactory to the Trustee, the payment obligations of the New Obligor under the Trust Deed and the Bonds with effect as specified in this Condition 12.2, provided that no such guarantee will be required if the Company determines and has delivered to the Trustee no later than 10 calendar days prior to the relevant Corporate Event Effective Date a certificate of the Company signed by a Representative Director or an Authorised Officer of the Company that, as at the Corporate Event Effective Date, any rating which would be assigned to the New Obligor's long-term unsecured and unsubordinated debt is unlikely to be lower than the rating then currently assigned to the Company's long-term, unsecured and unsubordinated debt and which certificate the Trustee shall be entitled to rely upon without further investigation and without incurring any liability to any person for doing so. In making this determination, the Company shall consult an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser;

(iii) if the New Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "New Territory") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Company is subject generally (the "Company's Territory"), the New Obligor will give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 9 with the substitution for, or addition to, in relation to the New Obligor, references in Condition 9 to the Company's Territory of references to the New Territory whereupon the Trust Deed and the Bonds will be read accordingly, and corresponding amendments shall be made to Condition 7.4 in relation to payment of Additional Amounts by the New Obligor (and/or the guarantor, if any);

(iv) a Representative Director or an Authorised Officer of the New Obligor certifies that the New Obligor will be solvent immediately after such substitution (if the Trustee receives such certification, the Trustee need not have regard to the New Obligor's financial condition, profits or prospects or compare them with those of the Company);

(v) the Company shall have certified (by a certificate of a Representative Director or an Authorised Officer) to the Trustee that the New Stock Acquisition Rights satisfy the provisions of Condition 6.5;

(vi) the Company and the New Obligor comply with such other requirements as the Trustee may direct in the interests of the Bondholders; and

(vii) such substitution and grant of the New Stock Acquisition Rights become effective on the Corporate Event Effective Date (or in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, within 14 days after the relevant Corporate Event Effective Date).

12.3 Release of Obligations

An agreement by the Trustee pursuant to Condition 12.2 will (except in respect of any guarantee under Condition 12.2), if so expressed, release the Company (or a previous substitute) from any or all of its obligations under the Trust Deed and the Bonds.

12.4 Deemed Amendment

On completion of the formalities set out in Condition 12.2, the New Obligor will be deemed to be named in the Trust Deed and the Bonds as the principal obligor in place of the Company (or of any previous substitute) and the Trust Deed and the Bonds will be deemed to be amended as necessary to give effect to the substitution. In particular and without limitation:

(i) the terms "Stock Acquisition Rights" and "Shares" shall, where the context so requires, include the New Stock Acquisition Rights and shares of common stock to be issued by the New Obligor; and

(ii) references to the Company in Condition 10, in the definition of Principal Subsidiary and in the Trust Deed shall also include any guarantor pursuant to Condition 12.2(ii) except where the context requires otherwise.

13 Prescription

Claims in respect of the Bonds will become void unless made within the period of 10 years from the Due Date for the payment thereof.

14 Replacement of Certificates

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the specified office of the Principal Agent upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Company may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15 Meetings of Bondholders; Modification and Waiver

15.1 Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of any provision of these Conditions or of the Trust Deed. The quorum for any such meeting convened to consider any matter requiring an Extraordinary Resolution shall be two or more persons holding or representing not less than 50 per cent in principal amount of the Bonds for the time being outstanding, or for any adjourned meeting two or more persons being or representing Bondholders (whatever the principal amount of Bonds held or represented) except that at any meeting the business of which includes the modification of certain provisions of the Bonds or of the Trust Deed (including, inter alia, modifying the date of maturity of the Bonds, reducing or cancelling the principal amount of, or any premium payable in respect of, the Bonds, modifying the method or basis of calculating the rate or amount of default interest in respect of the Bonds, altering the currency of payment of the Bonds or (to the extent permitted by applicable law) abrogating or modifying any Stock Acquisition Right), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than 75 per cent, or at any adjourned such meeting not less than 50 per cent, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

Notwithstanding the above provisions, any resolution in writing signed by or on behalf of the holders of not less than 90 per cent in principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of such Bondholders duly convened and held in accordance with the provisions contained in these Conditions and in the Trust Deed. Any resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Bondholders. A meeting of Bondholders may be held electronically in accordance with the procedures set out in the Trust Deed.

15.2 Modification and Waiver

The Trustee may, without the consent of the Bondholders, agree to any modification (except as aforesaid and as set out in the Trust Deed) of the Trust Deed or the Bonds (including these Conditions) or to any waiver or authorisation of any breach, continuing breach or potential breach by the Company of the provisions of the Trust Deed or the Bonds or determine that any Event of Default shall not be treated as such which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification of the Trust Deed or the Bonds (including these Conditions) which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest error or is necessary in order to comply with mandatory provisions of Japanese law or pursuant to Condition 6 or 12. Any such modification, waiver, authorisation or determination shall be binding on the Bondholders and shall be notified to the Bondholders in accordance with Condition 19 as soon as practicable thereafter.

If there is a change to the mandatory provisions of (i) Japanese law which in the reasonable opinion of the Company after obtaining advice from legal advisers (evidenced by (a) a certificate of a Representative Director or an Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing confirming that such change has occurred) would make it necessary to amend and/or supplement the provisions of Conditions 1.1, 1.5, 5, 6, 7.5 and/or 7.7 or (ii) the Financial Instruments and Exchange Act which in the reasonable opinion of the Company (evidenced by (a) a certificate of a Representative Director or Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing confirming that such change has occurred) would make it necessary to amend and/or supplement the provisions of Condition 7.6, the relevant Conditions shall be amended and/or supplemented to reflect that change by means of a trust deed supplemental to the Trust Deed. The Trustee (unless in its sole opinion such supplemental trust deed (i) imposes obligations, responsibilities or liabilities on it which are greater than those it has as Trustee under the Trust Deed or (ii) decreases the protections it has as Trustee under the Trust Deed) shall be obliged (subject to being indemnified and/or secured and/or prefunded by the Company to its satisfaction) to enter into such supplemental trust deed (in a form and substance satisfactory to it) to effect such change (even if, in the opinion of the Trustee, that change may be materially prejudicial to the interests of the Bondholders) without the consent of the Bondholders, but the Trustee shall have no responsibility or liability to any person for so doing and may rely on any opinion or any certificate of a Representative Director or Authorised Officer provided pursuant to this Condition 15.2 without liability to any person and without further investigation. The Company shall forthwith give notice to the Bondholders following the execution of any such supplemental trust deed in accordance with Condition 19.

15.3 Entitlement of the Trustee

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in these Conditions), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the interests of individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

15.4 Authority to the Trustee

To the fullest extent permitted by applicable law, by acquiring the Bond, the Bondholder irrevocably authorises and instructs the Trustee (without its direction whether by Extraordinary Resolution or otherwise) to take any action, step or proceeding before a Japanese court on behalf of and in the name of the Bondholder which the Trustee considers to be necessary or desirable in the interests of the Bondholders. The Trustee shall not be bound to take any such action, step or proceeding unless (a) so directed by an Extraordinary Resolution or so requested in writing by holders of at least one-quarter in principal amount of Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction, and shall incur no liability in taking or refraining from taking such action, step or proceeding. The Trustee shall not take any action, step or proceeding on behalf of a Bondholder in respect of the statutory rights referred to in Condition 6.6, such rights having been irrevocably waived by the Bondholder to the fullest extent permitted by applicable law.

16 Enforcement

At any time after the Bonds shall have become due and repayable, the Trustee may, at its absolute discretion and without further notice, take such proceedings, actions or steps against the Company as it may think fit to enforce repayment of the Bonds, together with accrued default interest, if any, pursuant to Condition 4 and to enforce the provisions of the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings, actions or steps unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder shall be entitled to proceed directly against the Company unless the Trustee, having become bound so to proceed, fails or is unable to do so within a reasonable time following such direction or request or provision of indemnity and/or security and/or prefunding (whichever is the latest) and such failure or inability shall be continuing.

17 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings, actions or steps to enforce the provisions of the Trust Deed or the terms of the Bonds. The Trustee is entitled to enter into business transactions with the Company or any person or body corporate associated with the Company without accounting for any profit resulting therefrom.

The Trustee may rely without liability to Bondholders on any certificate or report prepared by the Auditors or any Independent Financial Adviser or other expert pursuant to these Conditions and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the liability of the Auditors or the Independent Financial Adviser or such other expert (as the case may be) in respect thereof is limited by a monetary cap or otherwise; any such certificate or report shall be conclusive and binding on the Company, the Trustee, and the Bondholders.

18 Independent Financial Adviser

If any doubt shall arise as to the appropriate adjustment to the Conversion Price or in relation to any other matter which is reserved in these Conditions for a decision of an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect of such adjustment to the Conversion Price or other matter shall be conclusive and binding on the Company, the Trustee and the Bondholders in the absence of manifest error.

If the Company shall fail to appoint an Independent Financial Adviser when required to do so and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such Independent Financial Adviser or otherwise in connection with such appointment, the Trustee shall have the power, but shall not be obliged, to make such appointment in its absolute discretion and without liability for so doing, following notification to the Company, in which case such Independent Financial Adviser shall be deemed to have been appointed by the Company.

19 Notices

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register and published in a leading newspaper having general circulation in London (which is expected to be the Financial Times). If publication in any of such newspapers is not practicable, notices will be given in such other newspaper or newspapers as the Company, with the approval of the Trustee, shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

So long as the Bonds are evidenced by the Global Certificate and such Bonds are held on behalf of a clearing system, notices to Bondholders shall be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for mailing and publication required by the Conditions.

20 Contracts (Rights of Third Parties) Act 1999

Except as provided herein, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

21 Governing Law and Submission to Jurisdiction

21.1 Governing Law

The Trust Deed, the Agency Agreement and the Bonds, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

21.2 Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds ("Proceedings") may be brought in such courts. The Company has in the Trust Deed submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission has been made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

21.3 Agent for Service of Process

The Company has irrevocably appointed ALL NIPPON AIRWAYS CO., LTD., London Office, whose office is located at 4th Floor, 12 Hammersmith Grove, London W6 7AP, United Kingdom, as its agent in England to receive service of process in any Proceedings in England. If for any reason ALL NIPPON AIRWAYS CO., LTD., London Office ceases to be able to act as such or no longer has an address in England, the Company irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Trust Deed and Global Certificate contain provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the Conditions set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:

Notices

So long as the Bonds are evidenced by a Global Certificate and such Global Certificate is registered in the name of a nominee on behalf of Euroclear and/or Clearstream, Luxembourg or any other clearing system as shall have been approved by the Trustee (the "Alternative Clearing System"), notices to Bondholders shall be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or, as the case may be the Alternative Clearing System, for communication by it to entitled accountholders in substitution for publication and mailing as required by the Conditions. Such notices shall be deemed to have been given in accordance with the Conditions on the date of delivery to Euroclear and/or Clearstream, Luxembourg or, as the case may be the Alternative Clearing System.

Meetings

The registered holder (as defined in the Conditions) of the Bonds (or any proxy or representative appointed by it) in respect of which a Global Certificate is issued shall (unless such Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each Bond in respect of which such Global Certificate is issued. The Trustee may allow any accountholder (or the representative of such person) of a clearing system entitled to Bonds in respect of which a Global Certificate is issued to attend and speak (but not vote) at a meeting of Bondholders on appropriate proof of his identity.

Exercise of Stock Acquisition Rights

Subject to the requirements of the relevant clearing system, the Stock Acquisition Right incorporated in a Bond in respect of which a Global Certificate is issued may be exercised by the transmission in electronic form to any Agent of one or more Conversion Notices duly completed by, or on behalf of, an accountholder in such system with an entitlement to such Bond and otherwise in accordance with procedures of the relevant clearing systems. Deposit of such Global Certificate with an Agent together with the relevant Conversion Notice shall not be required. The exercise of the Stock Acquisition Right shall be notified by the Agent to the Registrar and the holder of such Global Certificate.

Payments

Payments of principal and premium (if any) and any other amount in respect of Bonds evidenced by a Global Certificate shall be made against presentation of or, if no further payment falls to be made in respect of such Bonds, against presentation and surrender of, such Global Certificate to or to the order of the Principal Agent or such other Agent as shall have been notified to the Bondholders for such purpose.

Each payment will be made to, or to the order of the person whose name is entered in the Register on the close of business on the Clearing System Business Day immediately prior to the date of payment, where "Clearing System Business Day" means Monday to Friday inclusive, except 25 December and 1 January. So long as the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg or, as the case may be the Alternative Clearing System, a "Payment Business Day" for the purposes of Condition 8.3 shall be any day on which dealings in foreign currency may be carried out in Tokyo.

Transfers

Transfers of interests in the Bonds in respect of which a Global Certificate is issued shall be effected through the records of Euroclear and Clearstream, Luxembourg or, as the case may be the Alternative Clearing System, and their respective participants in accordance with the rules and procedures of the relevant clearing system and their respective direct and indirect participants.

Prescription

Claims in respect of the Bonds in respect of which the Global Certificate is issued shall become void unless made within a period of 10 years from the appropriate Due Date (as defined in the Conditions).

Trustee's Powers

In considering the interests of holders of Bonds evidenced by a Global Certificate while such Global Certificate is registered in the name of a nominee for a clearing system the Trustee may, to the extent it considers appropriate to do so in the circumstances, have regard to and rely upon any information made available to it by or on behalf of such clearing system or its operator as to the identity of its accountholders (either individually or by category) with entitlements to such Bonds in respect of which the Global Certificate is issued and may consider such interests, and treat such accountholders, as if such accountholders were the holder of such Bonds in respect of which the Global Certificate is issued.

Cancellation

Cancellation of any Bond in respect of which the Global Certificate is issued pursuant to the Conditions will be effected by a reduction in the principal amount of the Bonds in the Register and the endorsement (for information only) of the Global Certificate by the Principal Agent in the Schedule thereto.

Early Redemption by the Company

The options and obligations of the Company to redeem the Bonds prior to maturity provided for in Conditions 7.2, 7.3, 7.4, 7.5, 7.6 and 7.7 shall be exercised or performed by the Company giving notice to the Bondholders within the time limits set out in and containing the information required of the Company in accordance with the relevant Condition.

Election of Bondholders

The election of the Bondholders provided for in Condition 7.4 may be exercised by the holder of the Bonds evidenced by a Global Certificate by giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and within the time limits relating thereto set out in that Condition and otherwise in accordance with the procedures of the relevant clearing system in the form acceptable thereto from time to time.

Written Resolution/Electronic Consent

While the Global Certificate is registered in the name of any nominee for, or a nominee for any common depositary for, a clearing system, then (a) approval of a resolution proposed by the Company or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of Bonds of not less than 90 per cent in nominal amount of the Bonds then outstanding (an "Electronic Consent" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an extraordinary resolution to be passed at a meeting subject to a special quorum), take effect as an extraordinary resolution passed at a meeting of Bondholders duly convened and held, and shall be binding on all Bondholders whether or not they participated in such Electronic Consent; and (b) where Electronic Consent is not being sought, for the purpose of determining whether a written resolution has been validly passed, subject to certain requirements set out in the Trust Deed, we and the Trustee shall be entitled to rely on consent or instructions given in writing directly to us and/or the Trustee, as the case may be, by accountholders in the relevant clearing system with entitlements to the Bonds evidenced by the Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds are estimated to amount to approximately ¥149.89 billion, and are expected to be used primarily as follows:

(i) approximately ¥50 billion as investment in growth to promote further our Business Structure Reform Plan, including investments in reforming our service model (see "Business—Our Strategies") and establishing our new third brand;

(ii) ¥70 billion to redeem the convertible bonds to be redeemed at maturity on 16 September 2022; and

(iii) the remainder for the repayment of long-term debt.

ANA HOLDINGS INC.

We are one of the leading airline groups in the world, ranking 11th worldwide in terms of market capitalisation, based on stock prices and exchange rates as of 11 November 2021 (according to information from S&P Global Market Intelligence). Prior to the onset of COVID-19, we were also ranked 15th worldwide in terms of the number of revenue passengers in the year ended 31 December 2019, surpassing our largest competitor, the JAL group, which was ranked 26th (according to the World Air Transport Statistics 2020 published by the IATA). For the year ended 31 December 2020, we were ranked 19th worldwide in terms of scheduled passengers carried domestically and ranked 21st worldwide overall (according to the World Air Transport Statistics 2021 published by the IATA). We were also ranked 18th worldwide in terms of scheduled cargo tonnes carried (according to the World Air Transport Statistics 2021 published by the IATA).

Our primary operating segment is our air transportation segment, which accounted for 61.1 per cent of our consolidated operating revenues for the fiscal year ended 31 March 2021 (before intersegment eliminations). Our other operating segments are airline-related, travel services, trade and retail and others. Our airline-related segment consists of group companies that support our air transportation segment, including services such as airport ground support, aircraft maintenance, cargo and logistics, catering (in-flight meals) and contact centre services. Our travel services segment operates as our group's sales and marketing division and travel services which plans and sells travel products combining air tickets, accommodations and other options. Our trade and retail segment carries out aircraft parts procurement, conducts aircraft trading (import, export, leasing and sales), operates airport shops across Japan, and manages other businesses related to air transportation. Our others segment primarily consists of our temporary staffing business and our building and facility maintenance business.

We were the fifth largest airline in Asia in terms of the number of revenue passengers in the year ended 31 December 2019. We are a member of the Star Alliance, a global airline alliance which, as of October 2019 includes 26 member airlines and serves more than 1,300 destinations in 195 countries and regions. As of 30 September 2021, we operated a fleet of 271 aircraft.

We are one of the two largest domestic airline groups in Japan, and our share of the domestic air travel market, the fourth largest market in the world in terms of the number of revenue passengers, was 50 per cent in terms of passenger revenue during the year ended 31 March 2020 according to the MLIT, representing a 12 per cent lead over the JAL group. For ANA brand flights prior to the COVID-19 pandemic, we conducted regularly scheduled flights to 53 airports in Japan and carried 42.9 million revenue passengers on domestic flights during the fiscal year ended 31 March 2020.

Selected Consolidated Financial and Other Information

The following selected consolidated financial and other information should be read in conjunction with our audited annual consolidated financial statements and related notes, our unaudited interim consolidated financial statements and related notes, and "Recent Business" included elsewhere in this Offering Circular. The consolidated statements of operations data and cash flow data for the fiscal years ended 31 March 2019, 2020 and 2021 and the consolidated balance sheet data as at 31 March 2019, 2020 and 2021 have been extracted without material adjustment from our audited annual consolidated financial statements included elsewhere in this Offering Circular (save in respect of breakdown of Air Transportation revenue). The consolidated statements of operations data for the six-month periods ended 30 September 2020 and 2021 and the consolidated balance sheet data as at 30 September 2021 have been extracted without material adjustment from our unaudited interim consolidated financial statements included elsewhere in this Offering Circular.

Our consolidated financial statements have been prepared and presented in accordance with Japanese GAAP, which differ in certain respects from IFRS or generally accepted accounting principles in other jurisdictions. Further, the historical results are not necessarily indicative of results to be expected for future periods.

	As at and for the Fiscal Year Ended 31 March			(Unaudited) As at and for the Six-Month Period Ended 30 September	
	2019	2020	2021	2020	2021
	(Millions of yen, except per Share data)				
Statement of Operations Data					
Operating revenues:					
Air Transportation:					
Domestic passenger	¥ 696,617	¥ 679,962	¥ 203,119	¥ 78,975	¥ 111,896
International passenger	651,587	613,908	44,726	19,627	30,404
Cargo and mail	160,703	136,130	186,882	61,581	154,126
LCC	93,611	81,953	22,071	8,467	13,093
Others	211,899	225,784	147,216	68,100	60,750
Total Air Transportation operating revenues	1,814,417	1,737,737	604,014	236,750	370,269
Airline Related	291,051	299,433	222,139	119,802	97,689
Travel Services	150,746	143,996	45,050	13,803	19,604
Trade and Retail	150,679	144,750	79,958	38,284	38,378
Others	40,958	44,223	36,643	18,535	17,497
Total operating revenues	2,447,851	2,370,139	987,804	427,174	543,437
Adjustments	(389,539)	(395,923)	(259,121)	(135,340)	(112,312)
Consolidated operating revenues	2,058,312	1,974,216	728,683	291,834	431,125
Total operating expenses	2,267,530	2,294,617	1,441,407	702,187	654,973
Adjustments	(374,237)	(381,207)	(247,950)	(129,403)	(107,841)
Consolidated operating expenses	1,893,293	1,913,410	1,193,457	572,784	547,132
Segment profit (loss):					
Air Transportation	160,556	49,550	(447,894)	(277,757)	(113,735)
Airline Related	13,178	18,144	3,691	8,723	1,689
Travel services	606	1,393	(5,084)	(4,001)	(189)
Trade and Retail	3,706	2,909	(4,282)	(2,851)	22
Others	2,275	3,526	(34)	873	677
Adjustments	(15,302)	(14,716)	(11,171)	(5,937)	(4,471)
Consolidated operating income (loss)	165,019	60,806	(464,774)	(280,950)	(116,007)
Other income (expenses), net	(10,996)	(9,305)	(80,598)	13,038	(5,316)
Income (loss) before income taxes	154,023	51,501	(545,372)	(267,912)	(121,323)
Net income (loss)	111,837	25,919	(407,690)	(191,157)	(97,775)
Net income (loss) attributable to non-controlling interests	1,060	(1,736)	(3,066)	(2,680)	1,028
Net income (loss) attributable to owners of the parent	110,777	27,655	(404,624)	(188,477)	(98,803)
Balance Sheet Data					
Total assets	2,687,122	2,560,153	3,207,883	2,744,604	3,080,003
Total current liabilities	685,933	530,546	503,405	514,368	665,230
Total long-term liabilities	891,876	960,737	1,692,158	1,340,031	1,609,314
Shareholders' equity	1,066,644	1,068,663	960,696	879,177	747,230
Total equity (net assets)	1,109,313	1,068,870	1,012,320	890,205	805,459
Per Share Data (Yen)[(1)]					
Net assets per Share	3,285.46	3,171.80	2,141.49	2,645.90	1,700.24
Dividends per Share	75.00	0.00	0.00	0.00	0.00
Net income (loss) per Share	331.04	82.66	(1,082.04)	(563.39)	(210.07)

Note:

(1) Amounts presented on a per-share basis have been rounded to the nearest one-hundredth. The Directors' Share Remuneration Trust are excluded from the issued Shares for calculation of the per Share data.

The following table shows certain other data relating to our business (unaudited):

	(Unaudited) As at and for the Fiscal Year Ended 31 March			(Unaudited) As at and for the Six-Month Period Ended 30 September	
	2019	2020	2021	2020	2021
	(Millions of yen)				
Other Data					
EBITDA[1]	¥ 324,560	¥ 236,545	¥ (288,422)	¥ (190,801)	¥ (37,515)
Return on assets (per cent)[2]	6.4	2.4	(16.0)	–	–
Return on equity (per cent)[3]	10.6	2.6	(39.1)	–	–
Debt/equity ratio (times)[4]	0.7	0.8	1.6	1.5	2.0
Interest-bearing debt[5]	788,649	842,862	1,655,452	1,315,547	1,636,809

Notes:

(1) EBITDA is calculated by adding depreciation and amortisation to operating income.

(2) Return on assets is calculated by dividing operating income plus interest and dividend income by the average of total assets as at the beginning and the end of the period.

(3) Return on equity is calculated by dividing net income attributable to owners of the parent by the average of the sum of shareholders' equity and accumulated other comprehensive income as at the beginning and the end of the period.

(4) Debt/equity ratio is calculated by dividing interest-bearing debt by the sum of shareholders' equity and accumulated other comprehensive income.

(5) Interest-bearing debt is the total of short-term loans, long-term loans, bonds, convertible bonds with stock acquisition rights and finance lease obligations.

	For the fiscal year ended 31 March			For the six-month period ended 30 September	
	2019	2020	2021	2020	2021
	(Millions of yen)				
Reconciliation of EBITDA:					
Depreciation and amortization	¥ 159,541	¥ 175,739	¥ 176,352	¥ 90,149	¥ 78,492
Operating income (loss)	165,019	60,806	(464,774)	(280,950)	(116,007)
EBITDA	¥ 324,560	¥ 236,545	¥(288,422)	¥(190,801)	¥ (37,515)

The ANA brand uses various measures of operating performance in its air transportation segment, including those set forth in the table below. For definitions of these measures, see "Glossary". Operating performance data are unaudited.

	(Unaudited) For the Fiscal Year Ended 31 March			(Unaudited) For the Six-Month Period Ended 30 September	
	2019	**2020**	**2021**	**2020**	**2021**
Domestic Operations					
Domestic passengers:					
Revenue passengers (thousands)	44,325	42,916	12,660	4,673	7,140
Available seat-km (millions)	58,475	58,552	26,896	11,789	15,159
Revenue passenger-km (millions)	40,704	39,502	11,567	4,284	6,635
Passenger load factor (per cent)	69.6	67.5	43.0	36.3	43.8
Unit revenues (yen)	¥ 11.9	¥ 11.6	¥ 7.6	¥ 6.7	¥ 7.4
Passenger yield (yen)	¥ 17.1	¥ 17.2	¥ 17.6	¥ 18.4	¥ 16.9
Domestic cargo:					
Revenue tonne (tonnes)	393,773	373,176	218,032	93,079	120,169
Revenue tonne-km (thousands of tonne-km)	408,275	387,038	240,422	103,959	136,910
Revenue tonne-km yield (yen)	¥ 67.2	¥ 66.0	¥ 86.9	¥ 83.1	¥ 88.4
Domestic mail:					
Revenue tonne (tonnes)	30,482	29,308	23,458	9,851	11,751
Revenue tonne-km (thousands of tonne-km)	30,125	29,030	23,203	9,718	11,444
International Operations					
International passengers:					
Revenue passengers (thousands)	10,093	9,416	427	193	327
Available seat-km (millions)	65,976	68,885	14,465	5,426	9,433
Revenue passenger-km (millions)	50,776	50,219	2,840	1,311	2,247
Passenger load factor (per cent)	77.0	72.9	19.6	24.2	23.8
Unit revenues (yen)	¥ 9.9	¥ 8.9	¥ 3.1	¥ 3.6	¥ 3.2
Passenger yield (yen)	¥ 12.8	¥ 12.2	¥ 15.7	¥ 15.0	¥ 13.5
International cargo:					
Revenue tonne (tonnes)	913,915	866,821	655,019	227,825	476,118
Revenue tonne-km (thousands of tonne-km)	4,318,339	4,222,117	3,251,280	1,047,337	2,516,830
Revenue tonne-km yield (yen)	¥ 28.9	¥ 24.3	¥ 49.4	¥ 48.5	¥ 55.0
International mail:					
Revenue tonne (tonnes)	25,407	22,065	13,686	4,761	8,647
Revenue tonne-km (thousands of tonne-km)	131,516	120,449	71,766	26,323	39,367

Notes:

(1) Domestic passengers figures include the ANA brand's revenue and revenue recognised by the ANA brand from sales on code-sharing flights. International passengers figures include the ANA brand's revenue only.

(2) Records of non-scheduled flights were excluded from both domestic and international figures.

(3) Unit revenues, passenger yield and revenue tonne-km yield amounts were calculated using operating revenues before intersegment eliminations.

(4) Domestic cargo and mail figures include the ANA brand and figures from code-sharing flights.

(5) International cargo and international mail figures include the ANA brand, code-sharing flights, figures from block-space agreements as well as ground transportation figures.

RECENT BUSINESS

The following discussion and analysis of our results of operations and financial condition should be read with "ANA HOLDINGS INC.—Selected Consolidated Financial and Other Information" and the audited consolidated financial statements as at and for the fiscal years ended 31 March 2020 and 2021 and as at and for the fiscal years ended 31 March 2020 and 2019 included in pages F-2 to F-94, and the unaudited interim consolidated financial statements as at 30 September 2021 and for the six-month periods ended 30 September 2020 and 2021 included in pages Q-2 to Q-15 as well as the notes to such consolidated financial statements appearing elsewhere in this Offering Circular. The audited consolidated financial statements and the unaudited interim consolidated financial statements have been prepared and presented in accordance with Japanese GAAP.

Overview

We are an airline group with our Air Transportation business at its core, having international and domestic networks. As at 30 September 2021, we operated a fleet of 271 aircraft.

Our operations are principally divided into the following segments: (i) Air Transportation, (ii) Airline Related, (iii) Travel Services, (iv) Trade and Retail and (v) Others. Air Transportation is our core business, engaging in domestic and international passenger operations, cargo and mail operations and other air transportation services, operating two brands, namely, the ANA brand and the Peach brand. The Airline Related business engages in air transportation related operations such as airport passenger and ground handling services, aircraft and vehicle maintenance services, cargo and logistics, catering and others; Travel Services engages in airline ticketing and travel services; Trade and Retail engages in aircraft parts procurement, aircraft import/export, leasing and sales, planning and procurement for in-flight services and merchandise sales, airport retail operations and other businesses related to air transportation; while businesses such as facility management and business support, not included in reportable segments, are categorised under "Others".

The ANA brand is one of the leading airlines in the world, with its Air Transportation business ranking 19th in terms of the number of passengers within its domestic services and 21st in terms of total number of passengers, according to the statistics published by IATA in 2021.

The ANA brand is a member of the Star Alliance, a global airline alliance which, as at October 2019, includes 26 member airlines and serves approximately 1,300 destinations in 195 countries and regions.

Accounting Policy and Other Changes

Application of accounting standard for revenue recognition, etc.

We have applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, 31 March 2020), etc. effective from the beginning of the three-month period ended 30 June 2021 and we recognise revenue when (or as) we satisfy a performance obligation by transferring promised goods or services (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. We recognise as revenue the amount expected to be received upon exchange of goods or services. Figures for prior accounting periods have not been restated on this basis.

Consolidated Results for the Fiscal Year Ended 31 March 2021 Compared to the Fiscal Year Ended 31 March 2020

Overview

The Japanese economy during the period of the fiscal year ended 31 March 2021 (1 April 2020 to 31 March 2021) decreased due to the effects of COVID-19. While there have been signs of recovery in corporate production activities and capital investment, other indicators such as personal consumption show that consumer weaknesses remain. Similarly, the global airline industry has faced an unprecedented contraction as a result of diminished passenger demand caused by immigration restrictions and stay-at-home orders in many countries. While passenger demand was severely impacted, our international cargo revenue reached a record high as a result of proactively capturing increased demand due to the resumption of economic activities and congestion in marine transportation.

Results

Operating Revenues

Operating revenues for the fiscal year ended 31 March 2021 were ¥728.6 billion, a decrease of 63.1 per cent, or ¥1,245.5 billion, from the fiscal year ended 31 March 2020. This was mainly due to decreased revenues in air transportation business.

Operating Expenses

Operating expenses for the fiscal year ended 31 March 2021 decreased by 37.6 per cent, or ¥719.9 billion, compared to the fiscal year ended 31 March 2020, to ¥1,193.4 billion.

Operating Income (Loss)

As a result of the above, operating loss for the fiscal year ended 31 March 2021 amounted to ¥464.7 billion, compared to ¥60.8 billion of operating income in the fiscal year ended 31 March 2020.

Income (Loss) before Income Taxes

Loss before income taxes for the fiscal year ended 31 March 2021 was ¥545.3 billion, compared to ¥51.5 billion of income before income taxes in the fiscal year ended 31 March 2020.

Net Income (Loss) Attributable to Owners of the Parent

As a result of the above, net loss attributable to owners of the Parent for the fiscal year ended 31 March 2021 amounted to ¥404.6 billion, compared to ¥27.6 billion of net income attributable to owners of the parent in the fiscal year ended 31 March 2020.

Results by Business Segment

In the below analysis of results by business segment, figures for operating revenues and operating income per segment represent the total operating revenues and total operating income for such segment, without taking into account any intersegment eliminations.

Air Transportation

Air transportation operating revenues for the fiscal year ended 31 March 2021 were ¥604.0 billion, a decrease of 65.2 per cent, or ¥1,133.7 billion, from the fiscal year ended 31 March 2020. This was due to a decline in passenger demand on domestic flights since the number of COVID-19 infections increased, despite passenger demand on domestic routes had been gradually recovering. While passenger demand continued to be sluggish on international routes, international cargo operating revenues reached a record high as a result of proactively capturing demand that was boosted by the resumption of economic activity and congestion in marine transportation.

Operating loss in this segment for the fiscal year ended 31 March 2021 was ¥447.8 billion, compared to operating income of ¥49.5 billion in the fiscal year ended 31 March 2020, as a result of decreased passenger demand, offset by reduced fuel costs and airport charges through significantly reduced scale of its flight operations in response to declining demand, as well as efforts to reduce personnel costs including executive compensation, salaries and lump-sum payments.

Domestic Passenger Services

Domestic passenger services were heavily affected by COVID-19, with the number of passengers and revenue decreasing significantly compared to the same period in the previous year. Passenger demand was impacted and correlated to the number of COVID-19 infection cases, and passenger demand had tended to recover after the state of emergency in Japan was lifted in May 2020, though it began to decline again from December 2020 due to the increase in the number of infections.

In terms of the route network, the scale of operations for the three-month period ended 30 June 2020 was 26.7 per cent year on year, but by increasing the number of flights in tandem with the recovery in demand, this number went up to 50.7 per cent for the three-month period ended 30 September 2020, and was 61.4 per cent in the three-month period ended 31 December 2020 due to the effect of the "Go To Travel" campaign. However, in the three-month period ended 31 March 2021, the scale of operations was 44.7 per cent due to reduction of flights in accordance with decreasing demand.

In terms of sales and service, starting in July 2020, we began "Free and Easy Changes Campaign" that would allow our customers to change flight dates and destinations without handling fees, and we expanded the functions that can be used for everything from route searching to reserving and paying for ground transportation such as railroads, buses, and taxis in our originally navigation service named "Airport Access" that supports MaaS (Mobility as a Service).

As a result, the number of passengers on domestic services for the fiscal year ended 31 March 2021 decreased to 12.66 million passengers, a decrease of 70.5 per cent from that of the fiscal year ended 31 March 2020, and revenues decreased to ¥203.1 billion in the fiscal year ended 31 March 2021, a decrease of 70.1 per cent from ¥679.9 billion in the fiscal year ended 31 March 2020.

International Passenger Services

In international passenger services, both the number of passengers and revenue for the fiscal year ended 31 March 2021 decreased significantly from the fiscal year ended 31 March 2020. This was due to the substantial decline in passenger demand due to the continuation of immigration restrictions in countries worldwide caused by the effects of COVID-19. In terms of the route networks, while large scale operation suspensions and reduced flight numbers persist, we have worked to ascertain the demand of personnel stationed overseas, personnel returning to Japan from overseas, etc., and to select which routes to continue operating and to set temporary routes.

Furthermore, since demand is expected to stay at a fixed amount for cargo transportation in particular in December 2020, we started operating a Narita—Shenzhen route, as well as a Haneda—San Francisco route. As a result, the scale of operations for the fiscal year ended 31 March 2021 was 21.0 per cent compared to that of the fiscal year ended 31 March 2020.

In terms of sales and services, we have introduced our discounted fares for one way trips flying out of Japan from August 2020 for drawing in demand for personnel being stationed overseas and foreign exchange students, etc. In January 2021, we launched a new website offering Safe Homecoming Services for passengers returning to Japan, including easy arrangement of transportation options and hotels to help returning passengers safely quarantine.

As a result, the number of passengers on international services for the fiscal year ended 31 March 2021 decreased to 0.42 million passengers, a decrease of 95.5 per cent from that of the fiscal year ended 31 March 2020, while revenues in the fiscal year ended 31 March 2021 decreased to ¥44.7 billion, a decrease of 92.7 per cent from ¥613.9 billion in the fiscal year ended 31 March 2020.

Cargo

With respect to international cargo, the effects of COVID-19 have caused suspensions and reductions of passenger flights on a global scale, and the amount of supplied cargo space trended low. Under this situation supply and demand remained tight, as a result of increase in demand for emergency cargo transport such as masks during the three-month period ended 30 June 2020, recovery of demand for vehicles and vehicle components, as well as semiconductors and other electronic equipment from August 2020 and congestion in marine transportation especially in the three-month period ended 31 March 2021. In these conditions, besides beginning operation of Boeing 777F large cargo aircraft on the Narita-Frankfurt route in October 2020 and the Narita-Bangkok route in December 2020, we have also actively worked to draw in demand by setting temporary cargo flights using freighter plane and passenger plane.

As a result, although the volume of international cargo handled during the year decreased to 655.0 thousand tonnes, a decrease of 24.4 per cent from 866.8 thousand tonnes in the fiscal year ended 31 March 2020, revenues increased to ¥160.5 billion, an increase of 56.3 per cent, or ¥57.8 billion, compared to ¥102.6 billion in the fiscal year ended 31 March 2020.

We commenced delivering Pfizer's COVID-19 vaccine to Japan since February 2021. To do our part in realising a society where people can live with peace of mind through the dissemination of vaccines, we will carry out transport under strict temperature control.

LCC

In LCCs, both the number of passengers and revenue decreased significantly year on year due to the decline in demand caused by the effects of COVID-19. Although passenger demand for domestic routes has been recovering steadily since the emergency restrictions were lifted in May 2020, it began to decline again from December 2020 due to the increase in the number of infections.

In terms of the route network, domestic flights operated at 42.0 per cent capacity for the three-month period ended 30 June 2020 compared to the same period in the previous year. However, in addition to restoring the network in response to increased passenger demand, we opened the Narita-Kushiro and Narita-Miyazaki routes in August 2020, Sapporo (New Chitose)-Naha and Sendai-Naha routes in October 2020, and Nagoya (Chubu Centrair)-Sapporo (New Chitose) and Nagoya (Chubu Centrair)-Sendai routes in December 2020. As a result, the scale of operations grew to 112.4 per cent year on year for the three-month period ended 30 September 2020, and 132.2 per cent for the three-month period ended 31 December 2020. In the three-month period ended 31 March 2021, we opened the Nagoya (Chubu Centrair)-Naha and Nagoya (Chubu Centrair)-Ishigaki routes in January 2021, and Narita-Memanbetsu and Narita-Oita routes in February 2021 but the scale of operations was 78.9 per cent year on year due to suspensions and reductions of flights in accordance with decreasing demand. The suspensions continued on all international routes, but flights to Taipei (Taoyuan) partly resumed in October 2020 due to the easing of immigration restrictions.

In order to provide passengers with reassuring comfort, we started a service in November 2020 that allows customers to apply for a ticket reservation and an infection test for COVID-19 simultaneously on some domestic routes.

As a result, the number of passengers on LCC for the fiscal year ended 31 March 2021 decreased to 2.0 million passengers, a decrease of 71.4 per cent from that of the fiscal year ended 31 March 2020, while revenues in the fiscal year ended 31 March 2021 decreased to ¥22.0 billion, a decrease of 73.1 per cent from ¥81.9 billion in the fiscal year ended 31 March 2020.

Others in Air Transportation

Others in air transportation business revenue was ¥147.2 billion for the fiscal year ended 31 March 2021, a decrease of 34.8 per cent from that of the fiscal year ended 31 March 2020. This was derived mainly from the mileage programme, in-flight sales, maintenance service contracts and other sources.

Airline Related

Operating revenues in this segment for the fiscal year ended 31 March 2021 was ¥222.1 billion, a decrease of 25.8 per cent, or ¥77.2 billion, from the fiscal year ended 31 March 2020, and operating income in the fiscal year ended 31 March 2021 was ¥3.6 billion, a decrease of 79.7 per cent, or ¥14.4 billion, from the fiscal year ended 31 March 2020. This was due to a decrease in contracts for ground handling services such as passenger check in and baggage handling at all airports and a decrease in contracts related to in-flight meals service due to the impact of suspension and reduction of flights of various airlines in response to the spread of COVID-19.

We started selling ANA international Economy Class in-flight meals on the Internet in December 2020 as the impact of COVID-19 continued. It has been well received as a product because it gives people the sense that they are travelling, and we will strive to increase sales by expanding the merchandise line-up.

Travel Services

Travel services have been heavily affected by the spread of COVID-19 with respect to both domestic travel services and overseas travel services. Due to the effects of travel restrictions on overseas travel services, all tours operated by us have been suspended. Through various factors such as the support of “Go To Travel” campaign from July 2020, domestic travel services saw a gradual recovery in demand, turnover of the dynamic package products sold over the Internet exceeding the previous year’s levels during the three-month period ended 31 December 2020 for example, but it began to decline again from December 2020 due to the impact of the increase in infections.

As a result, operating revenues in travel services for the fiscal year ended 31 March 2021 were ¥45.0 billion, a decrease of 68.7 per cent, or ¥98.9 billion, compared to the fiscal year ended 31 March 2020, and operating loss for the fiscal year ended 31 March 2021 was ¥5.0 billion, compared to ¥1.3 billion of operating income in the fiscal year ended 31 March 2020.

As the impact of COVID-19 continues, the "ANA Travelers Online Tour" service was launched to capture new demand. Additionally, we implemented domestic sightseeing flights using our "FLYING HONU" Airbus A380, which we launched for use on our Hawaii route, and, in March 2021, we also launched our "Restaurant on Wings HANEDA," which provides First Class and Business Class meals and services using aircraft grounded at the Haneda Airport.

Trade and Retail

The spread of COVID-19 has significantly impacted our retail division, primarily centred around ANA DUTY FREE SHOP airport tax free store, and ANA FESTA shops in airports. Although ANA FESTA is seeing a steady recovery in tandem with the recovery in domestic passenger service numbers, it began to decline again from December 2020. Furthermore, in the lifestyle industries business, trade in items such as in-flight food, beverages and amenities also decreased significantly.

As a result, operating revenues in trade and retail for the fiscal year ended 31 March 2021 decreased to ¥79.9 billion, a decrease of 44.8 per cent, or ¥64.7 billion, compared to the fiscal year ended 31 March 2020, and operating loss in this segment for the fiscal year ended 31 March 2021 was ¥4.2 billion, compared to ¥2.9 billion of operating income in the fiscal year ended 31 March 2020.

Others

While revenues from real estate related businesses remained strong, due to the impacts of COVID-19, the number of contracts for reception management work decreased in tandem with lounge closures, and income from training projects such as dispatching instructors also decreased.

As a result, operating revenues for the fiscal year ended 31 March 2021 in the others segment decreased to ¥36.6 billion, a decrease of 17.1 per cent, or ¥7.5 billion, compared to the fiscal year ended 31 March 2020, and operating loss for the fiscal year ended 31 March 2021 was ¥0.0 billion, compared to ¥3.5 billion of operating income in the fiscal year ended 31 March 2020.

"avatarin Inc." was established in April 2020 to create new business models and we have validated services that use avatars, which are remote controlled robots, for sightseeing and shopping. We intend to popularise and expand these services and improve the performance of avatars to create new social infrastructure.

Consolidated Results for the Six-Month Period Ended 30 September 2021 Compared to the Six-Month Period Ended 30 September 2020

Results

Operating Revenues

Operating revenues for the six-month period ended 30 September 2021 were ¥431.1 billion, an increase of 47.7 per cent, or ¥139.2 billion, from the six-month period ended 30 September 2020. This was principally due to increased revenues in air transportation business.

Operating Expenses

Operating expenses for the six-month period ended 30 September 2021 decreased by 4.5 per cent, or ¥25.6 billion, compared to the six-month period ended 30 September 2020, to ¥547.1 billion.

Operating Loss

As a result of the above, operating loss for the six-month period ended 30 September 2021 amounted to ¥116.0 billion, compared to ¥280.9 billion of operating loss in the six-month period ended 30 September 2020.

Net Loss Attributable to Owners of the Parent

As a result of the above, net loss attributable to owners of the parent for the six-month period ended 30 September 2021 amounted to ¥98.8 billion, compared to ¥188.4 billion of net loss attributable to owners of the parent in the six-month period ended 30 September 2020.

Results by Business Segment

In the below analysis of results by business segment, figures for operating revenues and operating income per segment represent the total operating revenues and total operating income for such segment, without taking into account any intersegment eliminations.

Air Transportation

Air transportation operating revenues for the six-month period ended 30 September 2021 were ¥370.2 billion, an increase of 56.4 per cent, or ¥133.5 billion, from the six-month period ended 30 September 2020.

Operating loss in this segment for the six-month period ended 30 September 2021 was ¥113.7 billion, compared to operating loss of ¥277.7 billion in the six-month period ended 30 September 2020.

Domestic Passenger Services

In domestic passenger services, despite repeated states of emergency being declared due to rise the number of infections, both the number of passengers and revenue increased compared to the same period in the previous year, when the impact of COVID-19 was the greatest. Adjustments were made to the scale of flight operations in the route network, in response to fluctuations in demand for airline services. In addition, in August 2021, we began code-sharing on some routes operated by Peach Aviation, in order to improve convenience.

In terms of sales and service, the dry ice used to keep in-flight meals cool will be replaced with reusable ice packs, keeping costs down and reducing CO_2 emissions by approximately 1,700 tons per year.

As a result, the number of passengers on domestic services for the six-month period ended 30 September 2021 rose to 7.1 million, an increase of 52.8 per cent from the six-month period ended 30 September 2020, while revenues increased to ¥111.8 billion, an increase of 41.7 per cent from ¥78.9 billion in the six-month period ended 30 September 2020.

International Passenger Services

In international passenger services, passenger demand in all areas remained significantly sluggish due to the re-emergence of COVID-19 and the outbreaks of variants of COVID-19. However, the number of passengers and revenue increased year on year due to the commencement of recovery in business demand, primarily for personnel stationed overseas and personnel returning to Japan and demand for connections between Asia and North America, and due to having captured travel demand for those involved with the Olympic and Paralympic Games held in Tokyo.

In terms of route networks, we resumed North American routes to and from Narita from July 2021, and worked on selecting routes and setting up temporary flights by capturing demand for connections between Asia and North America, which continues to recover.

In terms of sales and service, we launched Face Express, a new check-in procedure that uses facial-recognition technology, from Narita to Mexico City route in July 2021. By registering a photo of their face at an automated baggage check-in machine, passengers can then clear airport security and boarding gates by way of facial recognition, without having to present their boarding pass or passport.

As a result, the number of passengers on international services for the six-month period ended 30 September 2021 rose to 0.3 million passengers, an increase of 69.1 per cent from the six-month period ended 30 September 2020, while revenues increased to ¥30.4 billion, an increase of 54.9 per cent from ¥19.6 billion in the six-month period ended 30 September 2020.

Cargo

In international cargo services, backed by strong demand, in addition to set up dedicated cargo flights using passenger plane, we made the most of our fleet of cargo aircraft by taking actions such as newly introducing Boeing 767F cargo aircraft on the Narita-Beijing route from July 2021. As a result, and due to actively taking on vehicle components, as well as semiconductors and electronic equipment from Japan and Asia, and electronic equipment and vaccine from North America and Europe, cargo volume greatly exceeded the same period in the previous year and revenue hit a record high.

As a result, the volume of international cargo handled during the six-month period ended 30 September 2021 increased to 476.1 thousand tonnes, an increase of 109.0 per cent from 227.8 thousand tonnes in the six-month period ended 30 September 2020, and revenues also increased to ¥138.3 billion, an increase of 172.4 per cent, or ¥87.5 billion, compared to ¥50.8 billion in the six-month period ended 30 September 2020.

LCC

Although LCC continues to be impacted by COVID-19, both the number of passengers and revenue increased compared to the same period in the previous year, when they were most greatly impacted.

In the route network, we launched a new Kansai-Memanbetsu route in July 2021. Going forward, we will continue to expand our network by monitoring trends such as recovery in demand. On international routes, flights have been suspended on all routes since the middle of April 2021 due to continued immigration restrictions in several countries.

In terms of sales and service, in order for travel to not contribute to the spread of COVID-19, from July to September 2021 we ran a service that allowed customers to simultaneously book flight tickets and apply for antigen testing on all domestic routes departing from Narita and Kansai.

As a result, the number of passengers on LCC for the six-month period ended 30 September 2021 rose to 1.5 million passengers, an increase of 90.2 per cent from the six-month period ended 30 September 2020, while revenues increased to ¥13.0 billion, an increase of 54.6 per cent from ¥8.4 billion in the six-month period ended 30 September 2020.

Others in Air Transportation

Others in air transportation business revenue for the six-month period ended 30 September 2021 was ¥60.7 billion, a decrease of 10.8 per cent from the six-month period ended 30 September 2020. Such revenue was derived mainly from revenues from the mileage programme, and in-flight sales and maintenance service contracts.

As a new initiative during the COVID-19 pandemic, we began offering tours in July 2021 at the group training facility, ANA Blue Base, that allowed guests to experience what it is like to work as a pilot, an engineer or a member of the cabin crew.

Airline Related

Operating revenues in this segment for the six-month period ended 30 September 2021 was ¥97.6 billion, a decrease of 18.5 per cent, or ¥22.1 billion, from the six-month period ended 30 September 2020, and operating income was ¥1.6 billion, a decrease of ¥7.0 billion compared to ¥8.7 billion in the six-month period ended 30 September 2020. In addition to a decrease of revenue from ground handling services such as passenger check-in and baggage handling, operating revenues decreased year-on-year as a result of decreased handling volumes for systems development and other work due to reduced investment.

Travel Services

In addition to the suspension of all overseas tours operated by the Group carrying on from the previous year, domestic travel volumes decreased compared to the previous year, when the "Go To Travel" campaign had been in effect. On the other hand, contracting revenue increased as a result of transferring digital marketing and other functions within the Group.

As a result, operating revenues in travel services for the six-month period ended 30 September 2021 were ¥19.6 billion, an increase of 42.0 per cent, or ¥5.8 billion, compared to the six-month period ended 30 September 2020, while operating loss for the six-month period ended 30 September 2021 was ¥0.1 billion compared to ¥4.0 billion of operating loss in the six-month period ended 30 September 2020.

Trade and Retail

As aviation demand gradually recovered, sales increased at shops in airports such as "ANA FESTA," and semiconductor handling volumes in the electronics business increased. Despite the effect of decreasing revenues due to our application of the Accounting Standard for Revenue Recognition from the three-month period ended 30 June 2021, operating revenues exceeded the same period in the previous year.

As a result, operating revenues in trade and retail for the six-month period ended 30 September 2021 increased to ¥38.3 billion, an increase of 0.2 per cent, or ¥0.0 billion, compared to the six-month period ended 30 September 2020, and operating income in this segment for the six-month period ended 30 September 2021 was ¥0.0 billion, compared to ¥2.8 billion of operating loss in the six-month period ended 30 September 2020.

Others

Due to a decrease in turnover in the buildings and facilities maintenance business owing to the impact of COVID-19, operating revenues for the six-month period ended 30 September 2021 in this segment decreased to ¥17.4 billion, a decrease of 5.6 per cent, or ¥1.0 billion, compared to the six-month period ended 30 September 2020, and operating income for the six-month period ended 30 September 2021 decreased to ¥0.6 billion, a decrease of 22.5 per cent, or ¥0.1 billion, compared to the six-month period ended 30 September 2020.

Financial Condition

Consolidated Balance Sheet as at 31 March 2021 Compared to Consolidated Balance Sheet as at 31 March 2020

As at 31 March 2021, total assets amounted to ¥3,207.8 billion, an increase of 25.3 per cent, or ¥647.7 billion, compared to those as at 31 March 2020, principally due to securing liquidity on hand by raising funds.

Total liabilities as at 31 March 2021 amounted to ¥2,195.5 billion, an increase of 47.2 per cent, or ¥704.2 billion, compared to those as at 31 March 2020, principally reflecting interest-bearing debt increase. Outstanding interest-bearing debt increased by 96.4 per cent, or ¥812.5 billion, compared to that as at 31 March 2020, to ¥1,655.4 billion as at 31 March 2021.

Total equity (net assets) as at 31 March 2021 were ¥1,012.3 billion, a decrease of 5.3 per cent, or ¥56.5 billion, compared to those as at 31 March 2020, mainly reflecting the record of net loss attributable to owners of the parent despite of an increase of shareholder's equity by an aggregate of ¥297.6 billion through a public offering of the Shares and a third-party allotment of the Shares. As a result, the equity ratio as at 31 March 2021 amounted to 31.4 per cent, a decrease of 10.0 percentage points compared to that as at 31 March 2020.

Consolidated Balance Sheet as at 30 September 2021 Compared to Consolidated Balance Sheet as at 31 March 2021

As at 30 September 2021, total assets amounted to ¥3,080.0 billion, a decrease of 4.0 per cent, or ¥127.8 billion, compared to 31 March 2021, principally reflecting decrease in liquidity on hand.

Total liabilities as at 30 September 2021 amounted to ¥2,274.5 billion, an increase of 3.6 per cent, or ¥78.9 billion, compared to 31 March 2021, principally reflecting contract liabilities accounted due to our application of the Accounting Standard for Revenue Recognition, etc. and other standards from the beginning of the three-month period ended 30 June 2021. Outstanding interest-bearing debt decreased by 1.1 per cent, or ¥18.6 billion, compared to 31 March 2021, to ¥1,636.8 billion as at 30 September 2021.

Total equity (net assets) as at 30 September 2021 decreased by 20.4 per cent, or ¥206.8 billion, compared to 31 March 2021, to ¥805.4 billion, principally due to a decrease in retained earnings from our application of the Accounting Standard for Revenue Recognition, etc. in addition to the record of net loss attributable to owners of the parent.

Liquidity and Capital Resources

Cash Flows for the Fiscal Year Ended 31 March 2021 Compared to the Fiscal Year Ended 31 March 2020

Net cash used in operating activities for the fiscal year ended 31 March 2021 amounted to ¥270.4 billion, compared to ¥130.1 billion of net cash provided by operating activities in the fiscal year ended 31 March 2020.

Net cash used in investing activities for the fiscal year ended 31 March 2021 was ¥595.7 billion, compared to ¥230.2 billion of net cash used in the fiscal year ended 31 March 2020, mainly due to increase in time and negotiable deposits of more than three months despite capital investment controls.

Net cash provided by financing activities for the fiscal year ended 31 March 2021 was ¥1,098.1 billion, compared to ¥23.8 billion of net cash provided in the fiscal year ended 31 March 2020. This change mainly reflected increase in raising funds.

Cash and cash equivalents as at 31 March 2021 amounted to ¥370.3 billion, an increase of ¥234.3 billion compared to those as at 31 March 2020.

Funding

As at 31 March 2021 and 30 September 2021, our interest-bearing debt amounted to ¥1,655.4 billion and ¥1,636.8 billion, respectively. As at 31 March 2021, ¥668.7 billion of our long-term loans were secured by collateral, and as at the same date, ¥857.5 billion in net book value of assets (of which ¥832.1 billion comprised aircraft (including aircraft spare parts included in inventories)) were pledged as collateral for long-term loans. See Note 6 to the audited consolidated financial statements for the fiscal year ended 31 March 2021.

We generally derive the funds we require for our operations from cash flow from operations, borrowings from financial institutions and issuance of bonds.

Capital Expenditures

The following table sets out information with respect to our capital expenditures by segment for the periods indicated:

	For the Fiscal Year Ended 31 March		
	2019	2020	2021
	(Millions of yen)		
Air Transportation	¥370,778	¥343,476	¥151,196
Airline Related	1,838	6,200	1,564
Travel Services	241	258	134
Trade and Retail	1,156	2,250	1,202
Others	269	141	974
Adjustments	1,582	(964)	1,640
Total consolidated capital expenditure	¥375,864	¥351,361	¥156,710

Our capital expenditures are generally funded by cash flow from operations, borrowings and bond issuances.

Our capital expenditures for the fiscal years ended 31 March 2019, 2020 and 2021 were principally related to acquisition of aircraft and parts, as well as for the development of software for business labour savings.

CAPITALISATION AND INDEBTEDNESS

The following table shows our consolidated capitalisation and indebtedness as at 30 September 2021, which has been extracted without material adjustment from our unaudited interim consolidated financial statements as at the same date, and as adjusted to give effect to the issue of the Bonds:

	As at 30 September 2021	
	Actual	**As adjusted**
	(Millions of yen)	
Short-term debt[2]		
Short-term loans	¥ 100,070	¥ 100,070
Current portion of long-term debt (including current portion of long-term loans, bonds, convertible bonds with stock acquisition rights and finance lease obligations)	138,512	138,512
Total short-term debt	238,582	238,582
Long-term debt[3]:		
Long-term debt (including long-term loans, bonds, convertible bonds with stock acquisition rights and finance lease obligations) (excluding current portion)	1,398,227	1,398,227
The Bonds now being issued	–	150,000
Total long-term debt	1,398,227	1,548,227
Equity (net assets):		
Shareholders' equity:		
Capital stock, no par value:		
Authorised: 1,020,000,000 Shares		
Issued: 484,293,561 Shares[4]	467,601	467,601
Capital surplus	407,328	407,328
Retained earnings	(68,357)	(68,357)
Treasury stock (13,953,672 Shares), at cost	(59,342)	(59,342)
Total shareholders' equity	747,230	747,230
Accumulated other comprehensive income:		
Net unrealised holding gain on securities	31,827	31,827
Deferred gain on derivatives under hedging accounting	32,843	32,843
Defined retirement benefit plans	(15,098)	(15,098)
Foreign currency translation adjustments	2,890	2,890
Total accumulated other comprehensive income	52,462	52,462
Non-controlling interests	5,767	5,767
Total equity (net assets)	805,459	805,459
Total capitalisation and indebtedness[5][6]	¥2,442,268	¥2,592,268

Notes:

(1) The above table should be read in conjunction with our unaudited consolidated financial statements contained herein.

(2) As at 31 March 2021 (the latest date on which information is available), our short-term debt totalled ¥173,036 million, of which ¥37,617 million was secured.

(3) As at 31 March 2021 (the latest date on which information is available), our long-term debt totalled ¥1,482,416 million, of which ¥631,151 million was secured.

(4) All of the issued Shares are fully-paid and non-assessable.

(5) Total capitalisation and indebtedness is the total of total short-term debt, total long-term debt and total equity (net assets).

(6) There has been no material change in our consolidated capitalisation and indebtedness since 30 September 2021, and no material change in secured debt, guarantees and contingent liabilities since 31 March 2021.

Changes in Issued Share Capital

As at the date of this Offering Circular, we had an authorised share capital of 1,020,000,000 Shares. As at 30 September 2021, 484,293,561 Shares were in issue.

The following table shows the changes in our issued share capital during the periods stated:

Date or Period	Event	Number of Shares Issued	Total Number of Shares in Issue
1 October 2017	A 1 for 10 consolidation of Shares	(3,164,782,732)	351,642,525
30 March 2018	Cancellation of treasury stock	(3,144,164)	348,498,361
14 December 2020	Public offering (by book-building method)	126,310,000	474,808,361
13 January 2021	Third party allotment	9,485,200	484,293,561

Dividends

Year-end dividends may be proposed by our Board of Directors and approved by our shareholders at the ordinary general meeting of shareholders held by the end of June in each year. If a year-end dividend is approved at the shareholders' meeting, year-end dividends are distributed to our shareholders and pledgees of record as at 31 March of the relevant year. We do not provide for the payment of interim dividends under our Articles of Incorporation. We may also make dividends other than those described above with the approval of our shareholders at a general meeting of shareholders and subject to certain restrictions. The payment of dividends will also be subject to other factors, including legal restrictions with respect to the payment of dividends. See "Description of the Shares and Certain Regulations—Distribution of Surplus".

The following table sets out the dividends paid to our shareholders and pledgees of record as at the record dates indicated:

Record Date	Dividends per Share
	(Yen)
31 March 2017	60.0[1]
31 March 2018	60.0
31 March 2019	75.0
31 March 2020	–
31 March 2021	–

Note:

(1) On 1 October 2017, we implemented a 1-for-10 stock consolidation of the Shares and as a result the dividends per Share has been adjusted to reflect this stock consolidation.

As COVID-19 infection has caused a tremendous deterioration in our business performance, we have decided not to pay dividends for the fiscal years ended 31 March 2020 and 2021.

Our basic policy is to enhance shareholder returns while ensuring capital for growth investment such as aircraft for future business expansion as well as maintaining financial soundness by taking into account the level of free cash flow.

Japanese Stock Market and Price Range of the Shares

The Shares are listed on the First Section of the Tokyo Stock Exchange. The following table shows the highest and lowest reported prices of the Shares on the Tokyo Stock Exchange, and the highs and lows of the daily closing Nikkei Stock Average (an index of 225 selected stocks listed on its First Section) and of the daily closing level of the Tokyo Stock Price Index ("TOPIX") for the periods indicated:

	Price per Share		Nikkei Stock Average		TOPIX	
Calendar Year	**High**	**Low**	**High**	**Low**	**High**	**Low**
	(Yen)		(Yen)		(Points)	
2016	¥ 353.9	¥ 265	¥19,494.53	¥14,952.02	1,552.36	1,196.28
2017[1]			22,939.18	18,335.63	1,831.93	1,459.07
From 1 January to 30 September	427.6	305	–	–	–	–
From 1 October to 31 December	4,774	4,194	–	–	–	–
2018	4,783	3,537	24,270.62	19,155.74	1,911.07	1,415.55
2019	4,173	3,497	24,066.12	19,561.96	1,747.20	1,471.16
2020:	3,674	2,060	27,568.15	16,552.83	1,819.18	1,236.34
2021:						
First quarter	2,817.5	2,161	30,467.75	27,055.94	2,012.21	1,791.22
Second quarter	2,951	2,258	30,089.25	27,448.01	1,983.54	1,849.04
Third quarter	2,960	2,445	30,670.10	27,013.25	2,118.87	1,880.68
Fourth quarter (until 24 November)	2,974	2,596	29,808.12	27,528.87	2,055.56	1,939.62

Note:

(1) A 1-for-10 consolidation of Shares has been effected with the effective date of 1 October 2017.

On 24 November 2021, the reported closing price of the Shares on the Tokyo Stock Exchange was ¥2,620.5 per Share. The closing Nikkei Stock Average and TOPIX on the same date were ¥29,302.66 and 2,019.12, respectively.

Principal Shareholders and Distribution of Shares

As at 31 March 2021, the 10 largest shareholders of record and the number and percentage of Shares held by them were as follows:

Shareholder	Number of Shares held	Percentage of total Shares in issue
	(Thousands)[1]	(Per cent)
The Master Trust Bank of Japan, Ltd. (Trust account)[2]	33,003	7.01
Custody Bank of Japan, Ltd. (Trust account)[2]	18,675	3.97
Nagoya Railroad Co., Ltd.[3]	7,863	1.67
Custody Bank of Japan, Ltd. (Trust account 5)[2]	7,836	1.66
Custody Bank of Japan, Ltd. (Trust account 6)[2]	6,947	1.48
Custody Bank of Japan, Ltd. (Trust account 1)[2]	6,248	1.33
Custody Bank of Japan, Ltd. (Trust account 2)[2]	4,968	1.06
Custody Bank of Japan, Ltd. (Trust account 7)[2]	4,109	0.87
All Nippon Airways Employee Stock Ownership Association	3,856	0.82
STATE STREET BANK WEST CLIENT—TREATY 505234	3,797	0.81
Total	97,305	20.67

Notes:

(1) Amounts of less than one thousand Shares have been rounded down.

(2) Held by such holders in their trust accounts.

(3) Includes 550 thousand shares held by Nagoya Railroad's employee retirement pension trust.

(4) In addition to the above, there are 13,641 thousand Shares held by us. Furthermore, there are 100 Shares that are registered in our name in the shareholders' register, but are not effectively held by us.

(5) The FIEA requires any person who has become, beneficially and solely or jointly, a holder of more than 5 per cent of the total issued voting Shares to file a report concerning such shareholdings with the director of a competent Local Finance Bureau, and also requires such person to file a similar report concerning 1 per cent or more changes in such substantial shareholdings or any changes in material matters set out in the reports previously filed (see "Description of the Shares and Certain Regulations—Reporting of Substantial Shareholdings"). In connection with shareholdings during the fiscal year ended 31 March 2021, we have received copies of the following reports which may not be reflected in the above table:

- A report relating to a change in shareholding filed on 22 February 2019 by Mizuho Bank, Ltd. and other joint holders, informing of their ownership of Shares amounting to 18,086 thousand Shares as at 15 February 2019, as set out below.
  We were, however, unable to confirm the beneficial ownership of such Shares held by such holders and therefore such holdings are not set out in the above table:

Mizuho Bank, Ltd.	1,675 thousand Shares
Mizuho Securities Co., Ltd.	3,801 thousand Shares
Asset Management One Co., Ltd.	12,609 thousand Shares
Mizuho International plc	0 thousand Shares

- A report relating to a change in shareholding filed on 5 February 2021 by Nomura Securities Co., Ltd. and other joint holders, informing of their ownership of Shares amounting to 34,248 thousand Shares as at 29 January 2021, as set out below.
  We were, however, unable to confirm the beneficial ownership of such Shares held by such holders and therefore such holdings are not set out in the above table:

Nomura Securities Co., Ltd.	11,420 thousand Shares
NOMURA INTERNATIONAL PLC	3,789 thousand Shares
Nomura Asset Management Co., Ltd.	19,038 thousand Shares

- A report relating to a change in shareholding filed on 19 March 2021 by Sumitomo Mitsui Trust Bank, Limited and other joint holders, informing of their ownership of Shares amounting to 26,905 thousand Shares as at 15 March 2021, as set out below.
  We were, however, unable to confirm the beneficial ownership of such Shares held by such holders and therefore such holdings are not set out in the above table:

Sumitomo Mitsui Trust Bank, Limited	1,136 thousand Shares
Sumitomo Mitsui Trust Asset Management Co., Ltd.	17,432 thousand Shares
Nikko Asset Management Co., Ltd.	8,336 thousand Shares

(6) Except as stated above, we are not aware of any change in the information provided above.

The ownership distribution of the Shares by category of our shareholders of record as at 31 March 2021 was as follows:

Category	Number of Shareholders	Number of Shares held	Proportion of Shares Held
		(Units[(1)])	(Per cent)
Government and municipal bodies	3	1,114	0.02%
Japanese financial institutions	120	1,177,681	24.37
Japanese financial instruments and exchange operators	64	52,595	1.09
Other Japanese corporations[(2)]	7,716	505,818	10.47
Foreign corporations and others (including foreign individuals)	5,431	554,811	11.48
Japanese individuals and others[(3)]	621,033	2,539,828	52.56
Total	634,367	4,831,847	100.00%

Notes:

(1) One unit comprises 100 Shares.

(2) Includes 12 units of Shares registered in the name of JASDEC.

(3) We held 13,641,705 Shares as treasury stock, which are included (as 136,417 units of Shares) in Japanese individuals and others.

As at 30 September 2021, our Directors and Audit & Supervisory Board Members together held 91,924 Shares, or 0.02 per cent of the total issued Shares.

As at the date of this Offering Circular, we are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over us.

AIR TRANSPORTATION INDUSTRY

The Domestic Air Transportation Industry

The domestic air travel market in Japan was the fourth largest domestic air travel market in the world in 2019 in terms of the number of revenue passengers (according to the World Air Transport Statistics 2020 published by the IATA). There was an average of approximately 2,340 scheduled flights per day throughout Japan during the fiscal year ended 31 March 2020. The following table sets forth the ten largest domestic air travel markets in the world in 2019 in terms of passenger volume:

Top Ten Domestic Air Travel Markets

	For the year ended 31 December 2019	
	Passengers	**Land area**
	(millions)	**(thousands of square kilometres)**
United States	614	9,147
China	550	9,388
India	125	2,973
Japan	87	364
Indonesia	83	1,811
Brazil	72	8,358
Australia	57	7,692
Russia	55	16,376
Mexico	45	1,943
Turkey	41	769

Note:

(1) Sources: IATA World Air Transport Statistics 2020 (passengers); World Bank (land area)

The disproportionate size of the Japanese domestic air travel market in comparison to country size is due mainly to Japan's large population and it being a generally mountainous country consisting of four main islands and numerous smaller islands. Prior to 2002, the air travel industry in Japan consisted of three major airlines, JAL, JAS and us. In October 2002, JAL and JAS combined their businesses to form the JAL group, and we and the JAL group are currently the two major airlines in the Japanese domestic market. In January 2010, the JAL group filed for commencement of corporate reorganisation proceedings under the Corporate Reorganization Act of Japan (Act No. 154 of 2002, as amended) (the "Corporate Reorganization Act"). Following a return to profitability for the fiscal year ended 31 March 2012, JAL relisted on the Tokyo Stock Exchange in September 2012.

Deregulation

The domestic air transportation industry is regulated by the MLIT. The MLIT is responsible for setting licensing standards, allotting flight slots at domestic airports, overseeing fares and other rates, overseeing conditions of carriage, safety regulations, aircraft standards and registration of aircraft, among other things. In February 2000, in order to encourage competition between airlines, the regulations for air transportation were significantly revised. As part of this revision, the rule requiring a license for each route on which an airline wished to offer services was replaced by a system that only requires approval to operate as an airline, easing entry into the business of air transportation services. In addition, the method of setting fares and changing fare structures, which previously required the MLIT's approval, was replaced by a system requiring only prior notification to the MLIT. This new system generally allows airlines to freely set and change fares (although the MLIT has the power to reject fare changes they deem unfair). Since deregulation, fares have declined on some routes due to increased competition, and the number of discount-type fares has increased. For more information, see "Regulation—Japanese Regulation."

Route Network

As of 31 March 2020, there were over 90 airports in Japan serviced by domestic airlines, and there has been no material change since then.

Almost all domestic flights in Japan pass through one of eight hub airports. These airports, which are set forth below, make up the backbone of the Japanese domestic air travel network.

- Haneda (Tokyo International Airport) is located in Tokyo and is the major domestic hub for all of Japan. Approximately 64.8 million domestic revenue passengers passed through Haneda in the fiscal year ended 31 March 2020, making it one of the busiest airports in the world.
- Narita (Narita International Airport) is located in Chiba, Japan, and is farther from central Tokyo than Haneda. Due to this difference, Narita has historically been a hub for international flights and connections, but in recent years LCCs have increased flights to and from Narita, including to many domestic destinations. A dedicated Terminal 3 for LCCs at Narita was completed during the fiscal year ended 31 March 2015, and a capacity expansion is expected to be completed by 31 March 2022.
- Itami (Osaka International Airport) is one of three airports serving Osaka and the surrounding areas, which constitutes the second largest population centre in Japan.
- Kansai (Kansai International Airport) opened in 1994 as Osaka's main international airport, but also handles domestic routes and serves as a hub for our LCC operations.
- Chubu (Chubu Centrair International Airport) opened in February 2005 as the international and domestic hub for Nagoya and central Japan.
- Sapporo (New Chitose Airport) is located near Sapporo and is the main airport in Hokkaido, the northernmost of Japan's four main islands. The route between Haneda and Sapporo is the most heavily travelled airline route in Japan.
- Fukuoka (Fukuoka Airport) is the largest airport serving Kyushu, the southernmost of Japan's four main islands.
- Naha (Naha Airport) is the main airport for the islands of Okinawa prefecture, which are among the most popular resort locations in Japan.

Due to the high concentration of the Japanese population in the greater Tokyo and, to a lesser extent, Osaka areas, domestic air passenger traffic in Japan is highly concentrated in a number of major airports. During the fiscal year ended 31 March 2020, approximately 64 per cent of all domestic passengers and 43 per cent of all domestic flights originated or terminated at Haneda, whereas approximately 15 per cent of all domestic passengers and 16 per cent of all domestic flights originated or terminated at Itami, which figures include flights between Haneda and Itami according to the MLIT.

The busiest airports in Japan, particularly Haneda and Itami, are generally overcrowded, with no or very limited availability of flight slots for adding flights.

As of 31 March 2020, the number of takeoffs and landings at Haneda was approximately 486,000. Approximately 129,000 of these flight slots were dedicated to international flights, of which about one quarter are night-time slots, and there has been no change since then.

Domestic Passenger Data

The following table sets forth the total number of passengers for the domestic air travel market in Japan for the years ended 31 March 2014 through 2021:

Number of Passengers for Domestic Air Travel Market

	For the year ended 31 March							
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
	(thousands of passengers, except percentage)							
Passengers	92,488	95,197	96,059	98,124	102,119	103,903	101,873	33,768
Year-on-year change (per cent)	7.5	2.9	0.9	2.1	4.1	1.7	(2.0)	(66.9)

Note:
(1) Source: MLIT

Prior to the COVID-19 pandemic, the annual number of domestic air travel passengers had been on an increasing trend. This gradual expansion of the domestic market was due to increased domestic demand in response to lower fares offered by LCCs as well as an increase in domestic flights by international travellers visiting Japan. Following a significant fall in domestic air travel passengers for the year ended 31 March 2021 as a result of COVID-19, domestic air travel activity has gradually recovered, with increasing COVID-19 vaccination rates expected to contribute to a continued recovery.

Small Domestic Airlines and LCCs

In addition to the JAL group and us, a number of new, smaller airlines began to operate on select routes in Japan in anticipation of, and following, a gradual deregulation from the late 1990s to 2000s. Several of these new airlines generally compete with us by offering lower-priced fares and focusing on a small number of high-demand or underserved routes. These airlines include:

- Skymark, which commenced operations in 1998. Following a bankruptcy filing in 2015 during an attempted fleet and service expansion, Skymark's operations have been restructured to focus on routes to Tokyo (Haneda), Sapporo, Kobe, Fukuoka and Naha. We participated in the restructuring in 2015 and acquired a 16.50 per cent equity interest in Skymark and participated in a further equity raise by Skymark in 2021 to shore up its balance sheet following the effects of COVID-19.
- Air Do, which commenced operations in 1998 and services routes between Tokyo (Haneda) and Sapporo, Asahikawa, Hakodate, Kushiro, Memanbetsu and Obihiro. Air Do also operates routes between a limited number of airports in Honshu and Hokkaido.
- Solaseed Air, which commenced operations in 2002 and services routes to destinations in Kyushu as well as Tokyo (Haneda), Nagoya, Kobe, Ishigaki and Naha. On 31 May 2021, Air Do and Solaseed Air announced a planned merger in 2022 in the wake of the impact of COVID-19.
- Star Flyer, which commenced operations in 2006 and services routes to destinations in Kyushu as well as Tokyo (Haneda), Nagoya, Kansai, Yamaguchi-Ube and Naha, and also operates an international route to Taipei (Star Flyer issued class shares to certain companies including us through a third-party allotment on 9 March 2021).
- IBEX Airlines, which commenced operations in 2000 and services routes between Osaka (Itami), Sapporo, Sendai, Nagoya, Hiroshima, Fukuoka and small regional airports. IBEX Airlines does not have any flight slots at Haneda.
- Oriental Air Bridge, which commenced operations in 1961 and services routes originating from Nagasaki and Fukuoka to small regional airports in Kyushu and Komatsu. Oriental Air Bridge does not have any flight slots at Haneda.
- Fuji Dream, which commenced operations in 2009 and services routes between a variety of destinations throughout Hokkaido, Honshu, Shikoku and Kyushu. Fuji Dream does not have any flight slots at Haneda.

Over the past decade, competition from these smaller domestic airlines has intensified on certain routes, partially as a result of the MLIT's redistribution of flight slots at Haneda, as discussed below. As part of our efforts to increase our competitiveness by cost-effectively expanding our domestic network while focusing on the efficient use of our flight slots and aircraft, we have entered into code-sharing arrangements with Air Do, Solaseed Air, Star Flyer, IBEX Airlines and Oriental Air Bridge. To further strengthen our ties with our code-sharing partners, as of 31 March 2021, we have an equity investment in Air Do representing a 13.61 per cent interest, an equity investment in Solaseed Air representing a 17.03 per cent interest and an equity investment in Star Flyer representing a 17.96 per cent interest, and there has been no change since then.

During the year ended 31 March 2020, approximately 64 per cent of all domestic air passengers in Japan either originate from or arrive into Haneda. Therefore, it is of critical importance to secure flight slots at Haneda to compete on a significant scale in the Japanese domestic airline market. The MLIT currently has a policy of supporting smaller airlines so that they may secure additional market share in the Japanese airline industry and increase competition in the market.

Since the completion of a fourth runway at Haneda in October 2010, Haneda's capacity increased by approximately 54,000 annual domestic flight slots. Approximately half of these new flight slots were allocated to our smaller competitors as of 31 March 2020, and there has been no change since then.

The deregulation of the airline industry in Japan has also enabled the creation of LCCs offering lower fares to customers. Although Peach Aviation, a consolidated subsidiary of ours, is the second largest LCC in Japan as of 31 March 2020 in terms of the number of revenue passengers, we face competition from Jetstar Japan, an equity method affiliate of JAL that is partnered with the Jetstar group, an LCC that operates mainly domestic and international short-haul routes in the Asia Pacific market and Spring Airlines Japan, a consolidated subsidiary of JAL which services routes between regions in China, major passenger terminals in Japan and Narita. For more information, see "—LCCs."

Shinkansen and Other Modes of Transport

We and the rest of the Japanese domestic airline industry compete with other modes of transport, including the Shinkansen and other passenger railways and long-distance bus lines. We compete primarily with the Shinkansen for our target passengers, which include passengers that are willing to pay a premium for speed of service and convenience. Shinkansen coverage has expanded over the past decade, including a significant expansion of services in Kyushu extending from Hakata to Kagoshima in 2011, the launch of the Hokuriku service in 2015 which is expected to connect Tokyo and Osaka via Northern coastal cities such as Toyama and Kanazawa, and the Hokkaido service which in its initial stage extended services to Hakodate in 2016 and is expected to extend to Sapporo by 31 March 2030. Additionally, long-distance bus lines offer transport to cities and towns throughout Japan at a much lower fare than the Shinkansen or airlines, but are at a competitive disadvantage with respect to transport time, in particular for medium- and long-distance routes. The following table shows the market share for domestic travel in the year ended 31 March 2016 (the most recent year for which such data is available) for air travel compared to other modes of transport, as well as the total number of passengers, among all modes of transport by range of distance travelled:

Preferred Modes of Transport in Japan

	Under 100km	100km-under 200km	200km-under 300km	300km-under 500km	500km - under 700km	700km – under 1,000km	1,000km and above
	(per cent) (distance are calculated based on the railway distance between Japan Railway stations)						
Air travel	0	0	0	2	12	43	87
Passenger railways	3	11	16	43	64	42	7
Ships	0	0	0	0	0	0	0
Buses	1	2	3	4	4	3	0
Motor vehicles	95	86	81	50	19	11	5
Total	100	100	100	100	100	100	100

Note:
(1) Source: MLIT

The International Air Transportation Industry

The international air transportation industry comprises an expansive network of international flights operated by over 200 airlines. The international air transportation industry is governed by provisions set forth in a series of international conventions, which is overseen by the ICAO, which is the aviation division of the United Nations. In addition, airline companies have formed the IATA, which is a self-regulating body through which international airlines meet and communicate to determine policies and regulations. See "Regulation—International Regulation—International Airline Regulation—International Air Transport Association."

The following table sets forth financial information for the international air transportation industry as a whole:

Financial Information for the International Air Transportation Industry

	For the year ended 31 December				
	2016	2017	2018	2019	2020
	(in billions of dollars, except percentages)				
Revenues	$ 709	$ 755	$ 812	$ 838	$ 372
Passenger	545	581	605	607	189
Cargo	80.8	95.9	113.3	100.8	128.2
Expenses	649	698	766	795	477
Operating income (loss)	60.1	56.6	45.9	43.2	(105.0)
Net income (loss)	34.2	37.6	27.3	26.4	(126.4)
Operating income (loss) margin (per cent)	8.5	7.5	5.7	5.2	(28.2)
Net income (loss) margin (per cent)	4.8	5.0	3.4	3.1	(33.9)

Note:

(1) Source: IATA Industry Statistics April 2021

International Airports in Japan

International air traffic in Japan is primarily routed through Narita and Haneda, which handled 34.6 per cent and 18.1 per cent, respectively, of all international passengers in Japan in the year ended 31 March 2020. Kansai is currently Japan's other major international airport.

The maximum number of flight slots that can be made available at Narita is dependent on the capacity of its runways and an agreement that exists between the MLIT, Narita International Airport Corporation ("NAA"), the public corporation that operates Narita, and the local municipality regarding the airport's operating conditions. Under the current agreement among the three entities, Narita has a maximum capacity of 340,000 flight slots per year. During the year ended 31 March 2020, 258,497 of these flight slots were utilised.

Narita is located approximately 65 kilometres from central Tokyo, which is considerably further than the distance that separates other major urban areas such as New York, London and Paris from their respective international airports. East Japan Railway Company ("JR East"), and Keisei Electric Railway Co., Ltd. ("Keisei"), both offer train transportation from Tokyo to Narita.

Haneda, which is closer to central Tokyo than Narita, completed an expansion including a fourth runway in 2010 in order to increase the number of international flight slots, and an additional substantial increase in the number of available international flight slots due to the opening of new flight paths was completed in preparation for the Tokyo Olympic Games. As of 31 March 2020, the number of international flight slots at Haneda was approximately 129,000 (consisting of 99,000 slots for day time flights and 30,000 slots for night time flights), and there has been no change since then.

International Passenger Data

In the year ended 31 December 2019, approximately 101.1 million passengers travelled on international routes originating or terminating in Japan. The following table sets forth the total number of passengers on international flights originating or terminating in Japan for the years ended 31 December 2011 through 31 December 2020:

International Flights Originating or Terminating in Japan

	For the year ended 31 December									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	(thousands of passengers, except percentages)									
Passengers	47,223	53,819	56,002	60,633	70,543	79,274	88,899	96,234	101,139	15,908
Year-on-year change (per cent)	(6.7)	14.0	4.1	8.3	16.3	12.4	12.1	8.3	5.1	(84.3)

Note:

(1) Source: MLIT

Factors affecting passenger numbers for international flights originating or terminating in Japan include those affecting the international air travel industry at large, as well as those specific to the Japanese market, such as developments in relationships between Japan and other countries. Demand for international air travel has significantly decreased during 2020 due to worldwide border closures and immigration restrictions in response to the ongoing COVID-19 pandemic, and it is currently unclear whether international air travel will recover quickly or at all following the resolution of the pandemic.

Global Airline Alliances

A large number of international and domestic full-service carriers are members of global airline alliances. In addition to the Star Alliance, of which we, our joint venture partners, United Airlines and Lufthansa, Singapore Airlines and other airlines, are members, two other global airline alliances have a majority share of the airline market: the Sky Team alliance, which includes Delta Airlines, Air France, Korean Air and other airlines; and the OneWorld alliance, which includes JAL, American Airlines, British Airways, Cathay Pacific and other airlines. In the year ended 31 December 2019, Star Alliance accounted for 24.9 per cent of revenue passenger km of international scheduled flights, while the Sky Team alliance, the OneWorld alliance, and non-alliance airlines accounted for 16.2 per cent, 16.8 per cent and 42.1 per cent, respectively (according to the World Air Transport Statistics 2020 published by the IATA). In the year ended 31 December 2019, Star Alliance accounted for 21.7 per cent of revenue passenger km of both international and domestic scheduled flights while the Sky Team alliance, the OneWorld alliance, and non-alliance airlines accounted for 16.5 per cent, 15.6 per cent and 46.2 per cent, respectively (according to the World Air Transport Statistics 2020 published by the IATA).

These global airline alliances offer passengers a large number of destinations that can be reached through connecting flights operated by airlines within the same alliance. Because the services, destinations and loyalty programmes offered are often similar, there is significant competition among the alliances.

LCCs

Low-cost carriers are airlines able to offer lower fares to passengers by reducing their operating expenses, such as by minimising operation costs through using the same type of aircraft across its fleet and increasing the frequency of flights and the number of seats available on an aircraft, operating short-haul flights, using airports that have more available flight slots and lower landing fees, offering non-reserved seats and charging for certain services that are typically included in the fare of full-service carriers, such as food and luggage allowance. The LCC segment of the Japanese airline industry has expanded significantly over the past decade, and a dedicated Terminal 3 for LCCs at Narita was completed during the fiscal year ended 31 March 2015, with a further capacity expansion expected to be completed by 31 March 2022.

Internationally, we operate in the LCC market through Peach Aviation, a consolidated subsidiary of ours, and we face competition from Jetstar Japan, an equity method affiliate of JAL that is partnered with the Jetstar group, an LCC that operates mainly domestic and international short-haul routes in the Asia Pacific market and Spring Airlines Japan, a consolidated subsidiary of JAL which services routes between regions in China, major passenger terminals in Japan and Narita. Additionally, JAL commenced cargo operations for ZIPAIR, a wholly owned subsidiary LCC of JAL, in May 2020, and launched its first passenger operations between Narita and Seoul in October 2020, with plans for ZIPAIR's passenger operations to focus mainly on medium- and long-haul international routes.

The Air Cargo Industry

As of December 2019, Narita handled the 7th largest amount of international air freight, on an annual basis, among all airports worldwide according to ACI World Airport Rankings. The following table sets forth the volume of domestic and international cargo in Japan between the years ended 31 March 2015 through 2021.

Volume of Domestic and International Cargo in Japan

	For the year ended 31 March						
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
	(thousands of tonnes, except percentages)						
Domestic cargo	928	918	909	904	823	781	428
Year-on-year change (per cent)	(0.6)	(1.2)	(0.9)	(0.6)	(0.9)	(5.1)	(45.2)
International cargo	3,549	3,413	3,786	4,130	3,934	3,699	3,269
Year-on-year change (per cent)	12.0	(3.8)	10.95	9.1	(4.7)	(6.0)	(11.6)

Note:
(1) Source: MLIT

Demand for both domestic and international air cargo is affected by global and domestic economic conditions, and downturns have historically had an adverse impact on the volume of international trade and domestic commerce. Other events and circumstances that impact the volume of international trade and domestic commerce, such as natural disasters and terrorism, have also negatively affected demand for our cargo services in the past. Demand for international air cargo is also influenced by cyclical changes in demand for semiconductor-related and electronic goods, as these products constitute a significant portion of cargo carried by airlines. On the supply side, capacity for "belly cargo space" (spare cargo space in passenger aircraft) and marine transportation has resulted in supply-demand imbalances and the level of fares for international air cargo.

BUSINESS

Overview

We are one of the leading airline groups in the world, ranking 11th worldwide in terms of market capitalisation, based on stock prices and exchange rates as of 11 November 2021 (according to information from S&P Global Market Intelligence). Prior to the onset of COVID-19, we were also ranked 15th worldwide in terms of the number of revenue passengers in the year ended 31 December 2019, surpassing our largest competitor, the JAL group, which was ranked 26th (according to the World Air Transport Statistics 2020 published by the IATA). For the year ended 31 December 2020, we were ranked 19th worldwide in terms of scheduled passengers carried domestically and ranked 21st worldwide overall (according to the World Air Transport Statistics 2021 published by the IATA). We were also ranked 18th worldwide in terms of scheduled cargo tonnes carried (according to the World Air Transport Statistics 2021 published by the IATA).

Our primary operating segment is our air transportation segment, which accounted for 61.1 per cent of our consolidated operating revenues for the fiscal year ended 31 March 2021 (before intersegment eliminations). Our other operating segments are airline-related, travel services, trade and retail and others. Our airline-related segment consists of group companies that support our air transportation segment, including services such as airport ground support, aircraft maintenance, cargo and logistics, catering (in-flight meals) and contact centre services. Our travel services segment operates as our group's sales and marketing division and travel services which plans and sells travel products combining air tickets, accommodations and other options. Our trade and retail segment carries out aircraft parts procurement, conducts aircraft trading (import, export, leasing and sales), operates airport shops across Japan, and manages other businesses related to air transportation. Our others segment primarily consists of our temporary staffing business and our building and facility maintenance business.

We were the fifth largest airline in Asia in terms of the number of revenue passengers in the year ended 31 December 2019. We are a member of the Star Alliance, a global airline alliance which, as of October 2019 includes 26 member airlines and serves more than 1,300 destinations in 195 countries and regions. As of 30 September 2021, we operated a fleet of 271 aircraft.

We are one of the two largest domestic airline groups in Japan, and our share of the domestic air travel market, the fourth largest market in the world in terms of the number of revenue passengers, was 50 per cent in terms of passenger revenue during the year ended 31 March 2020 according to the MLIT, representing a 12 per cent lead over the JAL group. For ANA brand flights prior to the COVID-19 pandemic, we conducted regularly scheduled flights to 53 airports in Japan and carried 42.9 million revenue passengers on domestic flights during the fiscal year ended 31 March 2020.

For ANA brand flights prior to the COVID-19 pandemic, our international destinations for our passenger services included 46 cities in 22 different countries and regions (other than Japan). Asia constitutes our most important geographic region for our international passenger services, with 71 per cent of our international flights departing from or arriving in China and Asia/Oceania as of 31 March 2020. As of 31 March 2020, 20 per cent of our international flights departed from or arrived in North America and Hawaii, and 9 per cent departed from or arrived in Europe. During the fiscal year ended 31 March 2020, we carried 9.4 million revenue passengers on international flights, and 45 per cent, 38 per cent and 17 per cent of our total available seat-km were on flights that departed from or arrived in China and Asia/Oceania, North America and Hawaii, and Europe, respectively.

We have taken steps to address the concerns of our passengers, including the launch of "ANA Care Promise," a programme including a variety of infection-prevention measures in aircraft cabins and airports with the objective of creating a clean and sanitary environment for our passengers. However, it is difficult to predict when or if demand for air travel will return to pre-pandemic levels. See "Investment Considerations—The outbreak and global spread of the COVID-19 pandemic has resulted in a severe decline in demand for air travel which has adversely impacted our business, financial condition and results of operations and the duration and severity of the COVID-19 pandemic and similar public health threats that we may face in the future, could result in additional adverse effects on our business, financial condition and results of operations."

In October 2020, we announced our Business Structure Reform Plan to adapt our operations to the "post-COVID-19" world. As part of this plan, we intend to implement cost reduction initiatives to reduce fixed costs by an aggregate of ¥400 billion or more for the two-year period ending 31 March 2022 (based on a comparison of the expected annual fixed costs for each of the two years against fixed costs in air transportation business of ¥991 billion for the fiscal year ended 31 March 2020). We also intend to reduce our capital expenditures by approximately ¥328 billion for the three-year period ending 31 March 2023 in total as compared with our pre-COVID-19 original plans of approximately ¥1,035 billion for such period as of January 2020. With respect to our fleet, we retired a total of 35 aircraft during the fiscal year ended 31 March 2021, an increase of 28 from our pre-COVID-19 plans as of January 2020. We recorded business restructuring expense of ¥86.3 billion including an impairment loss for the early retirement of these additional aircraft during the fiscal year ended 31 March 2021. See "—Our Strategies—Pursue our Business Structure Reform Plan to adapt our operations to a 'post-COVID-19' world" and "Investment Considerations—We may not be able to successfully implement the initiatives included in our Business Structure Reform Plan."

Our Strengths

We are the leading airline in Japan's stable and profitable domestic air transportation market with a strong position in the market for international travel to and from Japan

Our largest source of operating revenue is our domestic air transportation operations which reached ¥696.6 billion in operating revenue for the fiscal year ended 31 March 2019 before declining slightly to ¥679.9 billion for the fiscal year ended 31 March 2020 due to the beginning of the COVID-19 pandemic. It declined significantly further to ¥203.1 billion for the fiscal year ended 31 March 2021 due to the ongoing COVID-19 pandemic. For the year ended 31 December 2019, Japan's domestic air travel market was the fourth largest in the world in terms of the number of revenue passengers, according to the IATA, and we had a leading market share of approximately 50 per cent in terms of passenger revenue according to the MLIT, followed by our primary domestic competitor, the JAL group, at approximately 38 per cent. Fluctuations in annual demand in the Japanese domestic air transportation market have generally been less severe than in the international air transportation market due mainly to the market's relative insulation from geo-political and global economic factors that have had significant effects on the demand for international air transportation. As a result, our operating revenues for our domestic air transportation operations have been stable over the past several years, and we believe our leading position in the historically robust domestic air transportation market provides us with a solid foundation to reconfigure and revive our international operations upon the easing of the negative effects of the COVID-19 pandemic. With respect to our international air transportation operations, we have developed an increasingly strong position in the market for international travel to and from Japan based on a combination of our fleet strategy, code-sharing arrangements, participation in the Star Alliance and joint ventures with United Airlines and Lufthansa. Prior to the COVID-19 pandemic, demand for international flights to and from Japan grew at a significant rate due primarily to a steady increase in tourists. From the year ended 31 December 2011 to the year ended 31 December 2019, the number of passengers on international flights originating or terminating in Japan grew from approximately 47.2 million passengers to approximately 101.1 million passengers according to the MLIT. Following the resolution of the COVID-19 pandemic, we believe our dominant position in the Japanese domestic market and proven ability to appeal to international passengers will enable us to capture renewed demand for air travel.

We had a multi-year track record of strong revenue growth, enhanced cash generating capabilities and rising profitability which continued until the impact of the COVID-19 pandemic, and this growth, cash generation and profitability contributed to our stronger financial condition compared to most global full-service carriers

Before the rapid spread of COVID-19 in effectively all countries and areas of the world in early 2020 and the corresponding sharp and historically unprecedented decline in demand for air travel, we experienced an extended period of strong growth across all our business segments. From the fiscal year ended 31 March 2012 to the fiscal year ended 31 March 2020, our average annual revenue growth rate was 4.3 per cent, higher than the other top ten international full-service carriers based in the four key regions (United States, Europe, Asia (ex-China) and Japan) in terms of revenue for the 2019 fiscal year based on each company's public disclosure. During this same period, our leading position in the domestic Japanese market remained stable, and our growth was driven primarily by our international operations. Through our management's strategic efforts, our international operations more than doubled in revenue from the fiscal year ended 31 March 2012 to the fiscal year ended 31 March 2019, and based on revenue growth and other profit-enhancing efforts, our EBITDA increased from ¥216.2 billion to ¥324.5 billion and our operating income increased from ¥97.0 billion to ¥165.0 billion. Supported by this track record of growth in revenues, cash generation and profitability, we had been steadily enhancing our financial condition over the years. As of 31 March 2020, our debt/equity ratio (calculated by dividing interest-bearing debt by the sum of shareholders' equity and accumulated other comprehensive income) was 0.8x and our shareholders' equity ratio (calculated by dividing the sum of shareholders' equity and accumulated other comprehensive income by total assets) was 41.4 per cent, which was stronger than all but one of the other top ten international full-service carriers referred to above. Notwithstanding the effects of COVID-19 as of 31 March 2021, owing to a global offering of the Shares and a third-party allotment of the Shares in December 2020 and January 2021, our net debt/equity ratio (calculated by dividing interest-bearing debt (less cash and deposits and marketable securities) by the sum of shareholders' equity and accumulated other comprehensive income) was 0.7x, as compared to 0.6x as of 31 March 2020. As we had a strong cash position, our debt/equity ratio was 1.6x and our shareholders' equity ratio was 31.4 per cent.

Our management has responded to the unprecedented COVID-19 pandemic with swift and decisive action through drastic cost reduction measures and is committed to additional cost reductions going forward

As the extraordinary scope and impact of the COVID-19 pandemic on the airline industry became clear in early 2020, our management promptly took action to lower operating expenses in response to the precipitous decrease in demand for air travel. To address variable costs, we reduced the number of our flights and suspended unprofitable routes. These flight reductions contributed to reducing our variable costs by approximately ¥418.0 billion for the fiscal year ended 31 March 2021 (as compared to ¥696.7 billion of variable costs that we incurred in the prior fiscal year). With respect to fixed costs, we have implemented emergency cost reduction measures, such as moving previously outsourced tasks in-house, including certain maintenance operations, and reducing our rent for certain airport facilities by consolidating and returning unused space. We have also implemented personnel cost reduction measures, including reducing executive compensation packages and employee salaries and bonuses and furloughing employees, including flight crew. For employees placed on temporary leave, we are utilising a temporary employment subsidy programme implemented by the Japanese government in response to the COVID-19 pandemic whereby we are able to receive a subsidy of up to ¥15,000 per day for each such employee, and this subsidy programme is expected to continue until the end of March 2022. For the year ended 31 March 2021, we recorded ¥43.4 billion of subsidies for employment adjustment pursuant to this programme within other income. In addition, our group's unions have agreed to our voluntary early retirement programme. As a result of these measures, we reduced our fixed costs by approximately ¥172.0 billion for the year ended 31 March 2021 (as compared to ¥1,216.7 billion of fixed costs that we incurred in the prior fiscal year). We have also retired a total of 35 aircraft during the fiscal year ended 31 March 2021 (an increase of 28 from an initially planned 7), and we have delayed aircraft delivery for one Airbus A380, one Boeing 777-9, one Boeing 787-10 and one Airbus A321neo beyond the year ended 31 March 2021, resulting in a group total fleet size of 274 aircraft as of 31 March 2021 as compared to our pre-COVID-19 plan of 309. We recorded business restructuring expense of ¥86.3 billion, including an impairment loss for the early retirement of these additional aircraft during the fiscal year ended 31 March 2021, but we believe that the reduced number of wide-body aircraft will increase the efficiency of our operations going forward. Our management's swift action to reduce costs and develop further cost reduction plans demonstrates our commitment and capability to respond to the unprecedented COVID-19 pandemic, and we expect that these cost reduction initiatives will put downward pressure on our unit costs and contribute to our return to profitability as demand recovers.

We have secured significant liquidity to sustain our operations and provide our management with time to undertake comprehensive cost reduction and business restructuring measures in response to the COVID-19 pandemic

As a result of our cost reduction initiatives, we currently expect our net cash used in operating activities to continue to improve during the remainder of the fiscal year ending 31 March 2022. However, the time period until resolution of the COVID-19 pandemic is inherently uncertain and significant structural reforms will be needed to adapt to the new industry environment. As a result, we have taken measures to secure a substantial amount of additional liquidity. These measures include:

- April 2020: a ¥350.0 billion increase in our bank commitment line (in addition to our existing ¥150.0 billion commitment line (which has subsequently been downsized to ¥148.0 billion)) and a ¥100.0 billion loan agreement with private financial institutions, with the additional ¥350.0 billion increase expiring unutilised in March 2021 and the ¥100.0 billion loan agreement being rolled over in the first quarter of the fiscal year ending 31 March 2022;
- May 2020: a ¥350.0 billion loan agreement with DBJ, a Japanese development bank owned by the Japanese government;
- June 2020: a ¥85.6 billion loan agreement with private financial institutions, guaranteed by JBIC, a policy-based financing institution owned by the Japanese government;
- October 2020: a ¥400.0 billion subordinated loan agreement with private financial institutions and DBJ;

- December 2020 and January 2021: a combination of a global offering of the Shares and a third-party allotment of the Shares totalling an aggregate amount of ¥297.6 billion; and
- June 2021: a ¥20.0 billion issuance of sustainability linked bonds.

Together with the proceeds from this offering, the significant additional liquidity and capital enhancements listed above serve to strengthen our financial base and provide our management the time needed to make structural changes to adapt our operations to the airline industry environment during the COVID-19 pandemic and following its resolution.

Our Strategies

Pursue our Business Structure Reform Plan to adapt our operations to a "post-COVID-19" world

The unprecedented global nature of the COVID-19 pandemic has resulted in dramatic changes in the airline industry over a short period of time, and we expect reduced demand and changes in customer preferences for air travel to persist for a prolonged period. In order to adapt our operations to the "post-COVID-19" world, we will undertake to implement a series of measures, which we refer to herein as the "Business Structure Reform Plan," designed to transform our airline operations in light of these changes.

We will temporarily reduce the size of our operations and implement significant cost reduction measures to better prepare us for a return to growth when demand returns

Although our management has already taken steps to dramatically reduce costs during the fiscal year ended 31 March 2021 as described in "—Our Strengths," we intend to implement additional cost reduction measures and further reduce fixed costs during the fiscal year ending 31 March 2022. The measures aim to adjust the size of our operations downwards in line with the expected decline in demand so that we may better prepare for the implementation of growth initiatives upon the easing of the immediate effects of the COVID-19 pandemic on our industry over time.

With respect to personnel costs, we have conducted a group-wide staff reorganisation to increase efficiency, which will include seconding certain staff to external entities for the remainder of the pandemic. We will also forego new graduate hiring for the fiscal year ending 31 March 2022, as compared to our pre-COVID-19 plan to hire approximately 2,500 new graduates. We also plan to conduct a reduction in force by approximately 5,000 employees by the end of the fiscal year ending 31 March 2023 (as compared to 31 March 2021). While we continue to protect jobs of our group employees, we have reduced personnel expenses by reviewing the compensation packages of our existing employees. With respect to other operating expenses, we have centralised the management of procurement functions across our business in order to reduce procurement and logistics costs. We have moved many previously outsourced tasks in-house, such as certain maintenance and ground-handling operations, and strengthened the shared maintenance functions among ANA, Peach Aviation and other airlines. Additionally, we have reduced and returned office space, and we have furloughed our contracted foreign flight crew.

We also intend to reduce our capital expenditures by approximately ¥328 billion for the three-year period ending 31 March 2023 in total as compared with our pre-COVID-19 original plans of approximately ¥1,035 billion for such period as of January 2020.

We expect that the reduction of our fixed costs as a result of these measures will contribute to our initiative to reduce fixed costs by an aggregate of ¥400 billion or more for the two-year period ending 31 March 2022 based on a comparison of the expected annual fixed costs for each of the two years against fixed costs in air transportation business of ¥991 billion for the fiscal year ended 31 March 2020.

The cost reduction amounts stated above include only those reduced costs which we categorise as having resulted from or are expected to result from our cost reduction measures and are based on assumptions being made as to demand for air travel. However, we will be flexible in adjusting the specific initiatives based on actual demand trends. For example, if we encounter higher-than-expected growth in demand, we may decide to reduce or reverse the levels of operational downsizing. While this would reduce the amount of total cost reduction compared to the targeted amount, we believe the increase in demand will provide us with increased revenues that would more than offset the financial impact of the smaller cost reduction amount. Conversely, if demand levels are weaker than expected during the fiscal year ending 31 March 2022 or beyond, we may consider the implementation of still further cost reduction measures to weather the severe industry conditions for as long as necessary.

We will transform our airline operations by refocusing the ANA and Peach brands and creating a new third brand hybrid carrier

Our flagship ANA brand has historically been the focus of our airline operations and the primary source of revenue for our domestic and international air transportation businesses. Since its debut in 2012, we have expanded our operations into the LCC market with Peach Aviation, which we have differentiated from our ANA brand through lower fares and minimal services. Through our Business Structure Reform Plan, we will refine the distinct focuses of our ANA and Peach brands while also developing a new third brand of carrier and strengthening our cross-brand marketing cooperation. A key tenet of our transformation is to provide a greater range of fare and service options through Peach Aviation and our new third brand, allowing us to maximise coverage of various sources of demand for air travel.

ANA brand. For our flagship ANA brand, in the short-term we will prioritise our domestic operations around destinations with high demand, while managing scale and capacity through the utilisation of smaller aircraft. For our international operations, we plan to gradually resume operations as COVID-19 border restrictions ease, and we will prioritise Haneda as the key hub for our international routes. In the medium term, we will continue to position ANA as a brand with premium quality, while adjusting the mix of various fare levels in response to changes in demand characteristics. With these adjustments, we will aim to appeal to business travellers on medium- and long-haul routes while working to capture demand outside of business travel. Through digital technology, we intend to reform our service model through promoting our integrated service offerings with a focus on simplification and contactless services and pursuing business efficiency while improving customer satisfaction. We also plan to improve the productivity and efficiency of our ground-handling operations and customer boarding processes through additional automation. As the COVID-19 pandemic subsides, we expect there to be an increase in air travel for leisure and visiting friends and relatives, but demand for business travel will likely not recover to pre-COVID-19 levels in the foreseeable future, and we plan to conduct a full review of the class allocation and number of seats of our aircraft. In the medium term, we will carefully plan our route coverage and seek to continue expanding our route network when appropriate and to reduce unit costs.

Peach brand. For our LCC operations through Peach Aviation, in the short-term we intend to expand our domestic routes centred on Narita, Kansai and Chubu. Internationally, we plan to resume our operations flexibly based on demand recovery trends. In the medium term, we will focus on providing low-priced fares and simple operations with minimal services while targeting mainly domestic routes and short-distance international routes to destinations in Asia. We also intend to expand the target passengers for our LCC operations through initiatives such as allowing customers to convert ANA miles to Peach points. Additionally, we will increase the synergies between our brands by improving the convenience and interconnectedness of Peach Aviation and ANA brand flights following the relocation of Peach Aviation's Narita operations to the same terminal as ANA in October 2020. Because our domestic Peach Aviation flights reach a variety of destinations, we plan to increase cooperation with regional entities to design new work and vacation style marketing strategies based on social media trends that can appeal to customers in a post-COVID-19 world. As our international operations resume, we intend to expand medium-distance international routes on our narrow-body A321neo-LR aircraft (an extended range variant of the A320neo family of aircraft). Additionally, we plan to integrate our Peach Aviation flights into our air cargo business to increase our revenue potential.

Third brand. We have historically focused on our flagship ANA brand flights with premium service while making Peach brand flights available for cost-conscious customers, but we believe that the post-COVID-19 world will create new opportunities for hybrid carriers that combine characteristics of the two. In order to adapt to the new industry environment and capture additional demand that falls between the two polar service types, we intend to establish a third brand for our air transportation business to coincide with the eventual resolution of the pandemic. Our new brand will complement our existing group network by targeting cost-conscious passengers with medium-distance international flights between Japan and what we believe will be growth markets in Asia and Oceania. Our new brand will operate primarily on Boeing 787 aircraft with over 300 seats (in contrast with the narrow-body Airbus A320 aircraft used by Peach Aviation). Although we are still in the early execution stages, our new brand will base its operations on the Air Japan Co., Ltd. business assets and institutional knowledge, allowing us to quickly commence operations and control costs when the pandemic-related effects stabilise in a post-COVID-19 world.

We will establish a platform business that utilises customer data assets to create new revenue opportunities.

We have reorganised our group businesses and revamped ANA X as a platform business to expand our non-air revenues along with a potential air travel demand recovery. Our intention is to create a digital market handling a wide range of products including flight tickets, travel, real estate, finance and insurance. We intend to create a mileage-based ecosystem as a means to grow our business work across Japan, and make it possible for users who adopt our application to accumulate and use miles at multiple real-world locations and online. We intend to provide a single, seamless service that will allow users to make reservations, purchase trips and find information on dining, entertainment and shopping, all with a single application. In addition, to secure customers through our non-air businesses, we have adopted a programme that allows customers to become qualified for premium member status through a combination of air and various non-air services. Such measures, together with increasing digitisation of our processes is also expected to improve overall efficiencies and profitability while improving customer satisfaction.

See "Forward-Looking Statements" and "Investment Considerations" for a further discussion of risks and uncertainties, including risks specifically related to the impact of the COVID-19 pandemic on our business, financial condition and results of operations, and other factors that could cause actual results to differ materially because of those risks and uncertainties.

Continue to strengthen our ESG initiatives

In addition to our structural reforms to adapt to a "post-COVID-19" world, we also intend to continue to strengthen our broad ESG initiatives. With respect to our environmental initiatives, as announced in April 2021, our principal goal is to achieve net zero emissions by fiscal year 2050 from aircraft operations, updating our previous target set in July 2020 to reduce CO_2 emissions by 50 per cent by fiscal year 2050 (compared to fiscal year 2005 levels). We have also established new medium-term environmental targets for fiscal year 2030 as part of our path to achieve our long-term targets for fiscal year 2050. Additionally, we plan to incorporate more fuel efficient engines and other equipment into our aircraft, continue to source sustainable aviation fuel and participate in emissions trading markets. With respect to our social initiatives, we intend to focus on appointing female directors, executive officers and managers, expand maternity leave and childcare programmes, employ those with disabilities and continue to issue an annual group-wide human rights report. We have a firm commitment to ESG matters, as illustrated by our issuance of ¥10.0 billion in "green bonds" in October 2018 to fund a portion of the construction costs for ANA Blue Base, an environmentally efficient training centre, and our issuance of ¥5.0 billion in "social bonds" in May 2019 to fund upgrades to improve accessibility at domestic airports in Japan as well as within our offices. To monitor our progress and success with respect to ESG matters going forward, we intend to maintain and improve our recognition on various international sustainability indexes. We also issued another ¥20.0 billion in "sustainability linked bonds" in June 2021 which further reinforces our commitment to our environmental, social and governance goals. We have set the following sustainability performance targets for the bonds: (1) listing on the Dow Jones Sustainability World Index and the Dow Jones Sustainability Asia/Pacific Index; (2) listing on the FTSE4Good Index; (3) listing on the MSCI Japan ESG Select Leaders Index and (4) a rating of "A-" or above on the CDP. If two or more of these four external evaluations regarding ESG have not been achieved at the end of fiscal year ending 31 March 2023, we will make a donation to a generally certified entity that engages in activities to create positive impacts for the environment and/or society. In addition, in recognition of our stellar efforts, we were awarded the Gold Class distinction from the 2021 S&P Global Sustainability Awards, becoming the only company within the aviation industry to receive this recognition. We have recently also launched "SAF Flight Initiative", a new and dedicated programme to reduce CO_2 emissions, which is designed to promote Sustainable Aviation Fuel (SAF) by collaborating with leading companies in this area to decrease our carbon footprint and adhere to the guidelines established by the United Nations Sustainable Development Goals (SDGs) as well as to meet the Group's environmental commitments announced in April 2021. The SAF Flight Initiative builds on our past work in this area and aims to work with leading partners across a range of industries, supporting their efforts to reduce emissions in the value chains as well as to expand the production and use of SAF.

Our History

We were incorporated under the name Japan Helicopter & Aeroplane Transports Co., Ltd. on 27 December 1952 as a joint stock corporation (*kabushiki kaisha*). Our initial business was the provision of helicopter transportation services.

We obtained licenses for the provision of scheduled and non-scheduled domestic air transportation services in 1953 and started flights between Tokyo and Osaka in the same year. In 1957, we changed our name to ALL NIPPON AIRWAYS CO., LTD.

In 1986, we commenced the operation of scheduled international flights with the launch of a route between Tokyo and Guam. By 1989, our international routes increased to include routes to four continents. While capacity restrictions at Narita continued to limit our growth in international flights to and from Tokyo, we expanded our international operations with flights to and from Osaka with the opening of Kansai in September 1994.

Our common stock was listed on the Tokyo Stock Exchange and the Osaka Securities Exchange in October 1961 and on the London Stock Exchange in October 1991.

In 1998, we gained incumbent airline status under the Japan-United States bilateral treaty. This facilitated the expansion of our Japan-U.S. network. In October 1998, we commenced flights between Tokyo and Honolulu and added San Francisco and Chicago as destinations in December 1998 and April 1999, respectively.

On 31 October 1999, we became a member of the Star Alliance.

In 2006, we began operating ANA&JP Express Co., Ltd., a cargo airline joint venture with Japan Post, Nippon Express Co., Ltd., and Mitsui O.S.K. Lines, Ltd.

In June 2007, we transferred the shares of our 14 subsidiaries in the hotel business and related assets to a third party.

In October 2009, we launched the operation of our Okinawa cargo hub.

In February 2011, we announced the creation of A&F Aviation Co., Ltd. which was renamed Peach Aviation in May 2011, an LCC joint venture among us, First Eastern Aviation Holdings Limited and Innovation Network Corporation of Japan, and which began to service routes between Kansai and Fukuoka and Sapporo on 1 March 2012, and between Kansai and Nagasaki on 25 March 2012.

In April 2011, we launched a joint venture with United Airlines to coordinate sales and marketing on flights between the United States and Japan, connecting approximately 360 cities in the United States, Canada, Mexico, the Caribbean and Central and South America, and over 43 cities in Japan.

In August 2011, we formed the LCC joint venture AirAsia Japan with AirAsia, a low-cost airline headquartered in Malaysia.

In September 2011, we took delivery of the first Boeing 787 as the launch customer. The first international flight service took place between Tokyo and Beijing on 14 January 2012 and the operation of the first scheduled flight began on 21 January 2012 between Haneda and Frankfurt.

In April 2012, we merged our regional airline consolidated subsidiary Air Nippon Co., Ltd. into us.

In April 2012, we began operating a joint venture with Lufthansa to benefit from a sales and marketing partnership that covers routes to 154 cities across Japan and Europe.

In April 2013, we implemented a reorganisation to a holding company structure pursuant to which we changed our name to ANA HOLDINGS INC. and transferred our air transportation business to our wholly owned subsidiary, ALL NIPPON AIRWAYS CO., LTD.

In June 2013, we acquired all of AirAsia's interest in AirAsia Japan, and in November 2013, we changed AirAsia Japan's name to Vanilla Air.

In April 2014, we merged our logistics and cargo subsidiaries ANA Logistics Services Co., Ltd. and ANA Cargo Co., Ltd. (with the latter as the surviving entity).

In October 2016, we established ANA X to utilise customer data, including data from our ANA Mileage Club frequent flyer programme, as part of a one-to-one marketing platform that enables us to communicate effectively with each individual customer and develop new businesses and services.

In January 2017, we delisted from the London Stock Exchange.

In April 2017, we purchased additional Peach Aviation shares from the other joint venture partners, which increased our equity ownership in Peach Aviation to 67.0 per cent, making it a consolidated subsidiary. We subsequently increased our ownership percentage to 77.9 per cent following a share purchase from First Eastern Aviation Holdings Limited in April 2018.

In July 2018, we established ANA Business Jet Co. Ltd. as a joint venture with Sojitz Corporation in which we hold a 51.0 per cent equity interest.

In March 2019, we took delivery of our first Airbus A380, the world's largest passenger aircraft, for use on our Hawaii routes.

In October 2019, we merged Vanilla Air into Peach Aviation, with Peach Aviation as the surviving entity.

In January 2020, we entered into a strategic joint venture agreement with Singapore Airlines, another member of the Star Alliance, although the joint venture has not yet received ATI from the applicable regulatory authorities.

In April 2020, we established avatarin Inc., a technology venture intended to accelerate the development, deployment and research of a robotic avatar service platform.

In April 2021, we reorganised the group businesses and revamped ANA X as a platform business to expand our non-air revenues along with a potential air travel demand recovery. We also established ANA Akindo Ltd. to transform our sales operations, which will be focused on growing our business network across Japan.

COVID-19 Pandemic

The global spread of COVID-19 beginning in late 2019 and the response to it have had a significant adverse effect on our business. Government lockdowns, travel restrictions, border closures and concerns about safety have resulted in a significant decrease in demand for our services, and particularly passenger air travel. According to the World Air Transport Statistics 2021 published by the IATA, industry-wide revenue passenger-kilometres dropped by 65.9 per cent year-on-year and the decline in air passenger transport in 2020 was the largest recorded since 1950.

We have taken steps to address the health and safety concerns of our passengers, including the launch of "ANA Care Promise," a programme including a variety of infection-prevention measures in aircraft cabins and airports with the objective of creating a clean and sanitary environment for our passengers. However, due to the global nature of the pandemic and the scale of government travel restrictions, we have almost no ability to control the factors that affect demand for air travel, and it is difficult to predict future developments with respect to the COVID-19 pandemic, including when or if demand for air travel will return to pre-pandemic levels. See "Investment Considerations—The outbreak and global spread of the COVID-19 pandemic has resulted in a severe decline in demand for air travel which has adversely impacted our business, financial condition and results of operations and the duration and severity of the COVID-19 pandemic and similar public health threats that we may face in the future, could result in additional adverse effects on our business, financial condition and results of operations."

Our Operating Segments

Our operating segments are air transportation, airline-related, travel services, trade and retail and others.

Air Transportation

Our air transportation segment consists of domestic and international passenger service and domestic and international cargo operations and mail services. Our domestic and international passenger services mainly focus on our full service carrier ANA brand which operates through ALL NIPPON AIRWAYS CO., LTD., but we also offer regional domestic flights through ANA WINGS CO., LTD. and certain of our international routes are operated by Air Japan Co., Ltd. We also offer domestic and international passenger services through our LCC, Peach Aviation.

Passenger Service

Our domestic and international passenger services comprise the largest portion of our business, and we are one of the leading airline groups in the world in terms of passenger service.

Domestic passenger service

We are one of the two major airlines in the Japanese market, with a market share of 50 per cent measured in terms of passenger revenue according to the MLIT, representing the number one market share ahead of the JAL group, in the domestic market for the year ended 31 March 2020. Prior to the COVID-19 pandemic, we had regularly scheduled flights to more than 50 airports throughout Japan. As of 31 March 2020, we operated more than 1,000 daily flights on approximately 130 routes on our domestic flight network. The main hub of our domestic network is Haneda in Tokyo, with all of our top ten domestic routes, measured in terms of passengers carried, and approximately 50 per cent of all of our domestic flights in the fiscal year ended 31 March 2020, originating or terminating there. We also have smaller hubs in Tokyo at Narita, in Nagoya at Chubu, in Osaka at Itami and Kansai, in Sapporo at New Chitose, in Fukuoka at Fukuoka and in Okinawa at Naha.

The following table shows our top ten domestic routes in terms of passengers carried (including code-share flights operated by our partner airlines) and our market share for those routes for the year ended 31 March 2020:

Our Top Ten Domestic Routes

	For the year ended 31 March 2020			
Route	**Distance[(1)]**	**Our Passengers[(2)]**	**Total Passengers**	**Market Share[(2)] (per cent)**
	(km)	**(thousands, except percentages)**		
Tokyo (Haneda)—Sapporo (New Chitose)	894	3,741	8,807	42.5
Tokyo (Haneda)—Fukuoka	1,041	3,543	8,364	42.4
Tokyo (Haneda)—Osaka (Itami)	514	2,836	5,291	53.6
Tokyo (Haneda)—Okinawa (Naha)	1,687	2,688	5,868	45.8
Tokyo (Haneda)—Hiroshima	790	1,165	1,863	62.6
Tokyo (Haneda)—Matsuyama	859	971	1,464	66.3
Tokyo (Haneda)—Kansai	678	883	1,253	70.5
Tokyo (Haneda)—Nagasaki	1,143	783	1,619	48.4
Tokyo (Haneda)—Kagoshima	1,111	765	2,337	32.7
Tokyo (Haneda)—Kumamoto	1,086	729	1,834	39.8

Source: MLIT

Notes:

(1) Distance is calculated based on the Japan Civil Aviation Bureau license distance.

(2) Company calculations. Revenue passengers on ANA flights and code-share flights operated by our partner airlines.

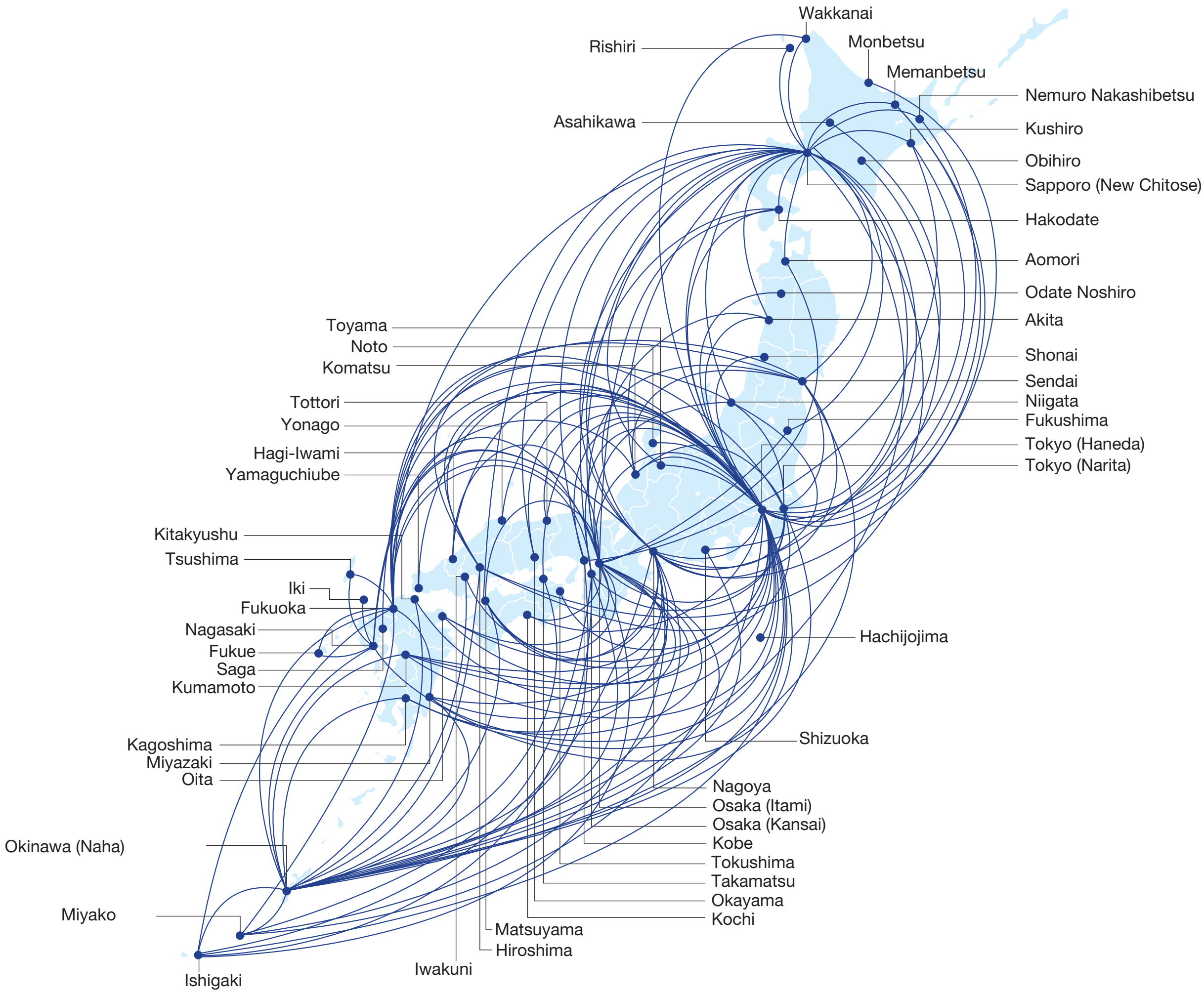
The first four routes in the above table also ranked in the top fifteen routes of airport pairs for domestic traffic in the world based on the number of revenue passengers in the year ended 31 December 2019 (according to the World Air Transport Statistics 2020 published by the IATA).

We also provide additional flights to our customers through a code-sharing arrangement with Air Do, a small domestic airline specialising in routes involving destinations in Hokkaido. Under this arrangement, we may sell up to a certain percentage of seats under the NH code on flights operated by Air Do, which helps increase the number of flights we offer to customers. We have similar code-sharing arrangements with Solaseed Air, Star Flyer, IBEX Airlines and Oriental Air Bridge. To further strengthen our ties with our code-sharing partners, as of 31 March 2021, we have an equity investment in Air Do representing a 13.61 per cent interest, an equity investment in Solaseed Air representing a 17.03 per cent interest and an equity investment in Star Flyer representing a 17.96 per cent interest, and there has been no change since then. Code-sharing allows us to offer new flight routes without using our own flight slots and also enhances the efficiency of our aircraft deployment. Accordingly, we believe code-sharing with smaller domestic airlines allows us to maintain or expand the coverage of our network in a way that enables the optimal use of our resources.

In addition, starting on 27 August 2021, we began offering code-share on select flights operated by Peach Aviation as part of our Business Structure Reform Plan.

The following map shows our network of domestic routes as of August 2021, including routes offered through code-sharing arrangements with Air Do, Solaseed Air, Star Flyer, IBEX Airlines and Oriental Air Bridge:

Route Map for ANA Domestic Routes



Includes routes suspended due to COVID-19.
Includes code-share routes operated by Air Do, Solaseed Air, Star Flyer, IBEX Airlines and Oriental Air Bridge.
Includes seasonal operated routes.

Our ANA brand domestic flights are primarily operated through ALL NIPPON AIRWAYS CO., LTD., but we also offer regional domestic flights through ANA WINGS CO., LTD. We also offer domestic passenger services through our LCC, Peach Aviation.

Other enhanced services. We have taken several additional steps to increase the convenience of our domestic passenger service and differentiate our services from our competitors. Examples of steps we have taken include:

- *improving the check-in process*. In June 2020 we began offering an online check-in service for our domestic passengers that is available to more passengers (such as those with infants) and allows passengers to check-in online from 24 hours prior to the departure of their flight and then proceed directly to the security checkpoint at the airport.
- *renewing our domestic lounges and improving our services for certain members of the ANA Mileage Club and Premium Class passengers*. We offer improved exclusive lounge spaces, as well as a priority security check line and an exclusive counter at many of Japan's airports, including Haneda, Itami, New Chitose, Fukuoka and Naha.
- *introducing Japan's first self-service baggage drop system*. We have introduced ANA Baggage Drop, a self-service baggage drop machine, at Haneda, Itami, New Chitose, Fukuoka

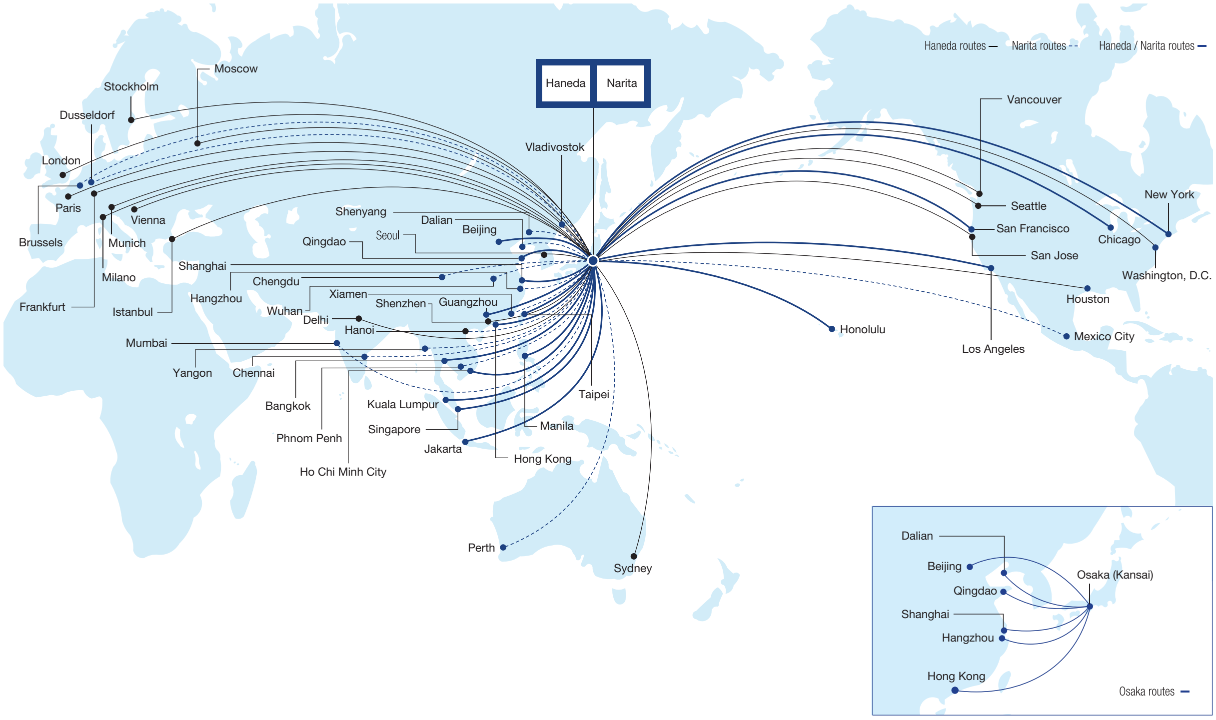
and Naha airports, allowing passengers to drop off their checked baggage quickly and easily before a flight.

International passenger service

As of 31 March 2020, we operated more than 1,200 flights per week on about 65 routes on our international flight network. Our main international hubs are Haneda and Narita in Tokyo, with a smaller hub in Osaka at Kansai.

The following map shows our international routes as of August 2021.

Route Map for ANA International Routes



Includes routes suspended due to COVID-19.

We categorise our international flights into five geographical regions based on destination, namely North America, Europe, China, Asia/Oceania and Hawaii. Seven of our top ten routes, measured in terms of passengers carried, are to destinations in Asia/Oceania, and we generated the greatest amount of operating revenues during the fiscal year ended 31 March 2020 from our routes to Asia/Oceania, followed by our routes to North America, Europe, China and Hawaii. The following is a description of our operations in each of our geographical regions as of 31 March 2020, although many of these flights have been temporarily suspended due to the ongoing COVID-19 pandemic:

North America. Prior to the COVID-19 pandemic, we served North America with approximately 200 weekly flights to New York, Washington D.C., Chicago, Houston, Seattle, San Francisco, San Jose, Los Angeles, Mexico City and Vancouver from Haneda or Narita, as applicable. Our flights are generally scheduled at convenient times for catching connecting flights to and from other parts of North America operated by United Airlines, a Star Alliance member and our partner in a joint venture we began to operate in 2011.

Europe. Prior to the COVID-19 pandemic, we served Europe with approximately 110 weekly flights to London, Paris, Brussels, Dusseldorf, Frankfurt, Munich and Vienna from Haneda or Narita, as applicable. Our flights are generally scheduled at convenient times for catching connecting flights to and from other parts of Europe operated by Lufthansa, a Star Alliance member and our partner in a joint venture we began to operate in 2012.

China. Prior to the COVID-19 pandemic, we served China with approximately 330 weekly flights to the cities of Beijing, Shanghai, Dalian, Shenyang, Qingdao, Hangzhou, Wuhan, Chengdu, Xiamen and Guangzhou.

Asia/Oceania. Prior to the COVID-19 pandemic, we served Asia/Oceania with approximately 530 weekly flights to Seoul, Taipei, Hong Kong, Manila, Hanoi, Ho Chi Minh City, Phnom Penh, Bangkok, Yangon, Kuala Lumpur, Singapore, Jakarta, Sydney, Perth, Delhi, Mumbai, Chennai and Vladivostok.

Hawaii. Flights to Honolulu continue to experience steady demand from Japanese vacationers. However, we face significant competition on this route from the JAL group and other international airlines, which places pressure upon the profit margins of this route. In recent years, we have introduced Airbus A380 service on our Narita-Honolulu route in order to capture wider customer segments through the use of this ultra-wide body aircraft.

Other enhanced services. We have taken several additional steps to increase the convenience of our international passenger service and differentiate our services from our competitors. For example, in addition to our existing lounges at many airports, we established our lounge at the Daniel K. Inouye International Airport in Honolulu, which includes a direct connection to the upper deck on the Airbus A380. Since 19 July 2021, we are also offering additional contactless services, based on an innovative facial recognition technology (Face Express), as part of a new check-in procedure introduced on international flights departing from Narita. We also have plans to introduce it at Haneda.

Code-sharing arrangements. We have entered into partnerships with other international airlines, including Star Alliance members, Vietnam Airlines and Philippine Airlines. Our code-share partnerships generally take the form of code-sharing agreements and/or frequent flyer programme partnerships. We believe that code-sharing is an effective method of expanding the reach of our route network or maintaining our presence in a market while allowing for greater flexibility in aircraft allocation, as it allows two or more airlines to maintain a route presence using fewer aircraft. In accordance with the code-sharing arrangements, a marketing airline will receive the difference between the pre-fixed amount agreed with the operating airline and the price offered to the marketing airline's customers. The revenue of the marketing airline will depend on the number of passengers introduced to us. We generate revenues from code-sharing arrangements as both the marketing airline and the operating airline.

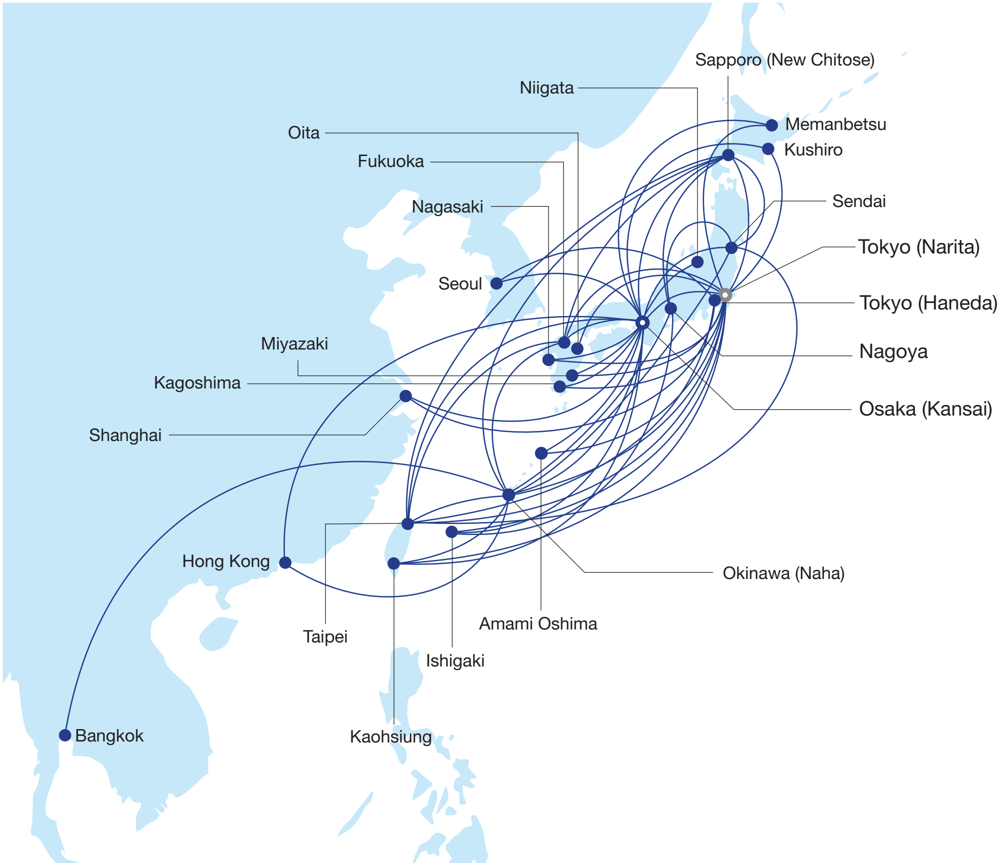
LCC

As part of our air transportation segment, we operate in the LCC market through Peach Aviation, a consolidated subsidiary of ours that merged with Vanilla Air during the fiscal year ended 31 March 2020. As of 31 March 2020, our revenues from our LCC operations (before intersegment eliminations) constituted 4.7 per cent of the total revenues for our air transportation segment.

Through Peach Aviation, we offer passenger flight services primarily from hubs at Narita and Kansai to a number of domestic destinations as well as the following international destinations: Seoul, Taipei, Kaohsiung, Hong Kong, Shanghai and Bangkok. As with many other LCCs, tickets for our Peach Aviation passenger services are generally priced lower than our main ANA brand flights, and various features that are standard on our main ANA brand flights require the payment of an additional fee, such as checked luggage, seat selection and in-flight meals. Through the different level of service and the differentiated branding, we seek to appeal to customers that are mainly interested in lower-priced flights without cannibalising ticket sales of our main ANA brand flights or damaging the full-service reputation of the ANA brand.

The following map shows our LCC routes as of August 2021.

Route Map for LCC Routes



Includes routes suspended due to COVID-19.

Fuel efficiency

In order to increase the efficiency of our flights and reduce costs, over the past several years we have bolstered our fleet with new, more fuel-efficient aircraft models such as the Boeing 787 and Airbus A320neo/A321neo, which collectively comprised 38.3 per cent of our group's fleet as of 31 March 2021.

Joint ventures and strategic alliances

In order to expand the number of destinations offered to our passengers and to coordinate schedules, sales and marketing efforts, we have entered into joint ventures with United Airlines and Lufthansa, both of which are Star Alliance members, and each of these partnerships have been granted anti-trust immunity ("ATI"). ATI effectively allows the airlines in a joint venture to offer passengers an increased level of service through a greater number of connecting flights and lower fares. The joint ventures allow us to increase the number of code-sharing arrangements with the participating airlines and to offer additional airports from which passengers may transfer on their way to their destinations.

In April 2011, we began to operate a joint venture with United Airlines that extended the number of destinations we offer to 125 cities in the United States, Mexico, the Caribbean and Central and South America and Asia (excluding mainland China and India). In May 2012, we entered into a joint venture agreement with United Airlines to engage in activities such as joint route planning and scheduling, joint pricing, revenue management and sales, frequent flyer programmes coordination as well as revenue sharing in accordance with the revenue reallocation model under the agreement.

In December 2011, we entered into a joint venture agreement with Lufthansa to engage in activities such as route planning and scheduling, joint pricing, revenue management and sales, frequent flyer programmes coordination, as well as revenue sharing in accordance with the revenue reallocation model under the agreement.

We have also entered into a strategic joint venture agreement with Singapore Airlines in January 2020, although the joint venture has not yet received ATI from the applicable regulatory authorities.

In addition to our joint ventures, we also have strategic partnerships and capital alliances with other airlines that we believe are well-positioned for growth, including our acquisition of 8.8 per cent of the outstanding shares of Vietnam Airlines, the leading airline in Vietnam, in 2016 (with our current holding being 5.6 per cent of the outstanding shares) and our acquisition of 9.5 per cent of the outstanding shares of PAL Holdings Inc., the parent of Philippine Airlines Inc., the largest airline in the Philippines, in 2019. On 3 September 2021, Philippine Airlines Inc. announced the voluntary decision to undergo financial restructuring under the U.S. Chapter 11 process, as part of a set of agreements entered into with creditors and which will allow it to restructure and reorganise its finances impacted by the COVID-19 pandemic and on 1 October 2021, it received U.S. court approval on a final basis to access its debtor-in-possession financing totalling U.S.$505 million, a core feature of the flag carrier's restructuring plan. Vietnam Airlines is subject to a government rescue plan following significant losses sustained as a result of the COVID-19 pandemic, with equity injections led by the State Capital Investment Corporation having diluted our stake in Vietnam Airlines from 8.8 per cent to 5.6 per cent.

Star Alliance

As a result of increases in competition among airlines, especially those operating in the international market, airlines have formed business alliances among themselves to provide benefits for customers of alliance members. On 31 October 1999, we became a member of the Star Alliance, a leading global airline alliance. As of October 2019, the Star Alliance offered more than 19,000 flights per day to more than 1,300 destinations in 195 countries and regions.

As a *Star Alliance* member, we are able to offer our customers benefits and services including:

- reciprocal mileage programmes, allowing customers to earn and redeem miles on any member airline;
- access to a global network of routes and destinations;
- access to lounges of any of the 26 member airlines;
- the Star Alliance Gold programmes, which extends benefits such as priority check-in, lounge service and excess baggage allowance to top-tier customers of each member airline;
- increased numbers of connections without additional check-ins; and
- access to special travel deals, such as regional air passes, throughout the world.

ANA Mileage Club

We launched the ANA Mileage Club in 1997 as a means of building customer loyalty among our regular passengers. The number of members has been growing steadily, from approximately 32.6 million members as of 31 March 2018 to approximately 34.5 million members, 36.6 million members and 37.4 million members as of 31 March 2019, 31 March 2020 and 31 March 2021, respectively.

Besides acquiring frequent flyer miles by flying with us, ANA Mileage Club members can also collect frequent flyer miles by flying on partner airlines, including Star Alliance members and twelve other airlines as of August 2021, and by using the services of non-airline partners, which include numerous hotel groups as well as a number of major credit card companies, rental car companies, retail stores and restaurants. Under our agreements with these partner airlines and other partner vendors, we receive a fee for every frequent flyer mile credited to a member's account through the purchase of goods or services from the partner. Frequent flyer miles can be used to obtain flight tickets or other services from us or other services from our non-airline partners, or can be converted to earn travel rewards with Star Alliance member airlines and other partner airlines. We pay a pre-agreed fee to the partner when frequent flyer miles are redeemed for goods or services provided by it.

The frequent flyer miles accumulated through the ANA Mileage Club are valid until the end of the 36th month following the month during which they were earned.

We are also planning to secure future growth through the launch of a mileage-based ecosystem (see diagram below), through our new application. We are planning to make this available as early as the 2022 fiscal year which will make it possible for users to accumulate and use miles at multiple real-world locations and online.

Cargo

Our sales and marketing for our international and domestic cargo business is operated through ANA Cargo Inc. Our cargo operations have become an increasingly important part of our air transportation segment over the past decade, representing 7.4 per cent and 30.0 per cent of the operating revenues for our air transportation segment for the fiscal years ended 31 March 2020 and 2021, respectively. In particular, the impact of COVID-19 has further accelerated our focus to capture cargo demand with higher unit prices through efforts including the increase in the number of freighter flights and the use of passenger aircraft for cargo-only flights. While our passenger demand was severely impacted, cargo revenue reached a record high and for the six-month period ended 30 September 2021, we saw the highest-ever first half international cargo revenue of ¥138.3 billion. We actively responded to strong demand by operating additional one-time cargo flights and utilising passenger aircraft to fly cargo dedicated flights. Currently, our main ground processing bases for our cargo operations are located at Narita and Haneda for international cargo and Haneda for domestic cargo.

The following table sets forth the operating revenues according to destination region for our international cargo operations within the air transportation segment for the fiscal years ended 31 March 2019, 2020 and 2021.

	For the year ended 31 March		
	2019	2020	2021
	(in millions of yen)		
North America	44,107	36,205	62,969
Europe	18,709	16,093	19,782
China	28,087	22,063	30,970
Asia/Oceania	29,695	24,856	44,754
Other	4,415	3,479	2,025
Total	125,015	102,697	160,503

For the fiscal year ended 31 March 2021, our total international and domestic cargo volume was 655,019 tons and 218,032 tons, respectively, and approximately 50 per cent of our international cargo was carried on our freighter aircraft, with the remaining cargo carried in the belly cargo hold of our passenger aircraft. As of 31 March 2021, our freighter fleet consisted of nine Boeing 767-300F aircraft and two Boeing 777F aircraft.

As part of our existing joint ventures with United Airlines and Lufthansa, we launched cargo joint venture operations in 2016 and 2014, respectively. In 2019, we began large freighter operations using the Boeing 777F which allows us to deliver commodities that are only loadable on large cargo aircraft, such as semiconductor manufacturing equipment and completed cars, and we intend to pursue shipments for a variety of other products that require a large cargo aircraft as well, such as oversize items, hazardous materials and other specialty items.

For our international cargo operations, as of 31 March 2021, we operated approximately 120 scheduled cargo flights using freighter aircraft each week, with operations focused around Narita to improve operational efficiencies (with flights to and from the Okinawa hub suspended). Export cargo from Japan consists primarily of shipments of automotive goods, electronic devices and semiconductors. Import cargo to Japan consists primarily of shipments of automotive goods, electronic devices, semiconductors, consumer goods and medical goods. Trilateral cargo via Japan consists primarily of shipments of consumer goods, electronic devices and semiconductors. We are subject to intense competition from other airlines including express delivery services companies such as FedEx, UPS and DHL as well as international cargo transportation companies that operate cargo services by sea, in particular among Asia and Japan.

Our domestic air cargo operations target areas where value can be added by the speed of delivery, such as express delivery services and the transportation of fresh produce.

The following map shows our freighter routes as of August 2021.

Route Map for Freighter Routes

Includes routes suspended due to COVID-19.

Mail

Our mail business involves the transportation of mail for the postal services of Japan and most of the countries to which we fly.

Domestic mail operations

We are certified as a mail carrier by Japan Post and work aggressively to secure special shipments and meet additional demand brought about by enhancements in Japan Post's parcel delivery system.

International mail operations

Our major market for international mail is the United States. Mail originating from Japan consists of mail that we carry for Japan Post, while mail originating from overseas consists primarily of mail that we carry for the postal services of the countries to which we fly.

Other

Other revenues from our air transportation operations primarily include revenues from sales of frequent flyer miles through our ANA Mileage Club frequent flyer programme to our partner airlines, in-flight sales of merchandise, maintenance service contracts and ground-handling service contracts.

Airline-related

Our airline-related segment consists of air transportation-related operations and functions primarily to support our air transportation segment with services such as airport passenger and ground-handling services, maintenance services, airport ground support, aircraft and vehicle maintenance, cargo and logistics, catering (in particular in-flight meals) and contact centre services.

We strive to develop this business segment through contract services with airports and for overseas airlines and to create value through the efficient utilisation of customer data. Revenues in this segment consist primarily of revenues from providing aircraft line maintenance, including providing regular maintenance for aircraft between flights, and ground services, including passenger check-in and baggage handling, for our group airlines and other airlines at airports throughout Japan.

Travel Services

Our travel services segment provides air travel services including ANA air tickets as well as travel products that combine air tickets, accommodations and other options. We offer a wide variety of travel services, including travel packages such as the *ANA Traveler's* program.

The following table sets forth the operating revenues for our travel services segment for the fiscal years ended 31 March 2019, 2020 and 2021.

	For the year ended 31 March		
	2019	**2020**	**2021**
	(in millions of yen)		
Package tours (domestic)	¥119,362	¥112,711	¥38,530
Package tours (international)	¥ 20,979	¥ 20,925	¥ 492
Other	¥ 10,405	¥ 10,360	¥ 6,028
Total	¥150,746	¥143,996	¥45,050

We develop and sell travel-related products that primarily use our air transportation services. Our travel services subsidiary also acts as a sales agent for tickets on our flights.

We offer both domestic and international package tours to our customers. Our popular destinations include Hokkaido, Okinawa and Kyushu, and we are currently focusing on Tokyo to regain travel demand. We also offer more customised domestic travel packages through our dynamic package service which allows travellers to customise certain aspects of their desired travel plan, including flights, hotels and destinations.

Prior to the COVID-19 pandemic, our most popular international package tour destination was Hawaii. Although our international package tour sales have significantly decreased as a result of the COVID-19 pandemic, we expect to continue offering a variety of international package tours to our customers following the resolution of the COVID-19 pandemic.

Trade and Retail

Our trade and retail segment includes our group companies that perform aircraft parts procurement, conduct aircraft trading (import, export, leasing, sales), manage planning and procurement for in-flight services and merchandise sales, operate airport shops across Japan (ANA DUTY FREE SHOP and ANA FESTA) and manage other businesses related to air transportation. The trade and retail segment also includes our businesses related to trading in non-airline products (such as paper, pulp, food import and sales and import and export of semi-conductors and electronic components), advertising agency services and our ANA online shopping website.

Others

Our others segment primarily derives revenue from our temporary staffing business which is operated by ANA Business Solutions Co., Ltd. and our building and facility maintenance business which is operated by ANA SKY BUILDING SERVICE CO., LTD.

Fleet

As of 31 March 2021, we operated a fleet of 274 aircraft. The following table sets forth the composition of our fleet as of 31 March 2021:

Composition of Fleet

	As of 31 March 2021		
	Number of aircraft		
Type of aircraft(1)	Number owned	Number leased	Number of seats
Boeing 777-300	11	9	212-514
Boeing 777-200	8	4	392/405
Boeing 787-9	30	6	215-395
Boeing 787-8	31	5	169-335
Boeing 767-300	20	–	202/270
Boeing 737-800	24	15	166
Airbus A321neo	–	17	194
Airbus A320neo	11	3	146/188
Airbus A320-200	–	33	180
De Havilland Canada DASH8-400	24	–	74
Others	16	7	120-520
	175	99	
Total	274		–

Notes:

(1) All of the aircraft in this chart are owned or leased by ANA HOLDINGS INC. (or Peach Aviation, with respect to the A320neo and the A320-200).

(2) Excludes 17 aircrafts owned or leased by us which have been leased to third parties.

Over the years, we have been rationalising our fleet by replacing older aircraft with new, more fuel-efficient aircraft such as the Boeing 787 and Airbus A320neo/A321neo. As of 31 March 2021, we operated 74 Boeing 787s, 14 Airbus A320neos and 17 A321neos, which collectively comprised 38.3 per cent of our group's fleet.

We initially planned to introduce 16 aircraft into our fleet during the fiscal year ended 31 March 2021, including one Airbus A380, one Boeing 777-9, one Boeing 787-10, six Boeing 787-9s and seven Airbus A321neos, but we have delayed the delivery schedule for one Airbus A380, one Boeing 777-9, one Boeing 787-10 and one Airbus A321neo beyond the fiscal year ended 31 March 2021 due to the COVID-19 pandemic. See "Investment Considerations—Considerations Relating to Our Business—The procurement and maintenance of our fleet is subject to the risk of the inability of, or delay or refusal by, aircraft manufacturers to fulfil their obligations, particularly with respect to Boeing or Airbus, each of which produce a significant portion of our new aircraft currently on order and our current fleet" As part of our fleet rationalisation process, we initially planned to retire seven aircraft from our fleet during the fiscal year ended 31 March 2021, including one Boeing 777-200, one Boeing 767-300, three Boeing 737-700s and two Boeing 737-500s, but we have instead retired a total of 35 aircraft during the fiscal year ended 31 March 2021 due to our reduced operations as a result of the COVID-19 pandemic. We recorded business restructuring expense of ¥86.3 billion including an impairment loss for the early retirement of these additional aircraft during the fiscal year ended 31 March 2021.

We plan to introduce 17 aircraft into our fleet during the fiscal year ending 31 March 2022, including one Airbus A380, one Boeing 787-10, eight Boeing 787-9s, five Airbus A321neos and two Airbus A320neos.

We are constantly reviewing our aircraft procurement plans in light of the fluctuations of the passenger and cargo markets, the number of flight slots available to us at airports, our flight schedules, our financial condition and the status of the negotiations with aircraft manufacturers. Therefore, our actual aircraft procurement could differ from the above plans.

We are able to obtain freighter aircraft at substantially lower cost compared to purchasing new freighter aircraft by converting existing Boeing 767-300ER passenger aircraft into freighter aircraft, based on the longer life cycle of freighter aircraft compared to passenger aircraft.

Generally, the market for used aircraft has been weak for large aircraft, and we may record significant losses in the future in connection with disposing of retired large aircraft. The market for small aircraft is stronger as LCCs and regional airlines generally utilise small aircraft in their fleets.

Sales and Marketing

We sell airline tickets directly through our website, ANA SKY WEB, the ANA World Wide website and the website of Peach Aviation. Sales through our website have been increasing, with approximately 50 per cent of ANA brand domestic ticket sales and approximately 20 per cent of ANA brand international ticket sales sold via our website for the fiscal year ended 31 March 2020. We will seek to increase sales through our website going forward, but corporate customers that purchase business class and high price airline tickets will continue to be serviced by travel agencies reflecting such customers' needs. In addition, cooperation from travel agencies is necessary in countries where our brand is not as well-known. We will continue to have a balanced sales channel reflecting the needs of our customers.

Our ticket sales arrangements through our joint ventures with United Airlines and Lufthansa, which greatly enhance our sales and marketing presence in the United States and Europe, also account for a portion of our ticket sales. For the fiscal year ended 31 March 2020, 7 per cent and 2 per cent of ANA brand international ticket sales were made through our joint ventures with United Airlines and Lufthansa, respectively, including as a result of our code-sharing arrangements. A small proportion of our airline ticket sales are made through the offices of other airlines.

We employ a variety of marketing methods for our domestic and international passenger service operations. In the past, we mainly utilised television and radio commercials, newspaper and magazine advertisements and websites. In recent years, we have utilised the data of customers accumulated internally and have targeted individual preferences with effective communications to improve recognition of our brand.

Competition

Domestic Passenger Service

We face competition in the domestic passenger service market principally from the JAL group. For the year ended 31 March 2020, we held a 50 per cent domestic market share, measured in terms of passenger revenue according to the MLIT, while the JAL group held a 38 per cent domestic market share. Competition with the JAL group is intense, in particular on high demand routes such as Tokyo (Haneda)–Sapporo (New Chitose), Tokyo (Haneda)–Fukuoka, Tokyo (Haneda)–Okinawa (Naha) and Tokyo (Haneda)–Osaka (Itami). We compete with the JAL group in pricing, services, convenience of flight schedule and brand strength.

Although Japan has been less affected by the global trend of LCCs increasing their market presence as compared to other markets, LCCs have become more active in Japan over the past decade and had a market share of approximately 11 per cent of the Japanese airline market in terms of the number of revenue passengers as of 31 March 2020 and 2021 according to the MLIT. Although Peach Aviation, a consolidated subsidiary of ours, is the largest LCC in Japan as of 31 March 2021 in terms of the number of revenue passengers, we face competition from Jetstar Japan, an equity method affiliate of JAL that is partnered with the Jetstar group, an LCC that operates mainly domestic and international short-haul routes in the Asia Pacific market and Spring Airlines Japan, a consolidated subsidiary of JAL which commenced operations in 2014 and services routes between regions in China, major passenger terminals in Japan and Narita.

Since the 1990s, the domestic airline market has gradually become deregulated, which has created opportunities for new airlines to enter the market. Currently, there are seven such small domestic airlines in operation (Skymark, Air Do, Solaseed Air, Star Flyer, IBEX Airlines, Oriental Air Bridge and Fuji Dream), and although they do not claim to be LCCs, some of them share some of the attributes of LCCs which enable them to reduce costs and pricing. These smaller competitors generally compete with us by offering lower-priced fares and focusing their service on a small number of high-demand or underserved routes.

In addition to other airlines, we face competition from other forms of transportation. Our most direct competition is the Shinkansen, which is highly competitive in terms of travel time over shorter routes, as well as convenience in terms of the proximity of airports versus rail stations, security measures and check-in times. See "Investment Considerations—Considerations Relating to Our Business—We face substantial competition in the domestic transportation market from the JAL group, LCCs, other small domestic airlines and the Shinkansen high-speed rail service" and "Air Transportation Industry—The Domestic Air Transportation Industry."

International Passenger Service

The international airline market is highly competitive. Although many major airlines, such as Delta Airlines, British Airways, Air France and Cathay Pacific operate routes to Japan, we face particularly strong competition on our routes between Tokyo and other Asian cities, Honolulu and major cities in Europe and the United States from the JAL group as well as non-Japanese airlines. There is also strong competition among the primary three global alliances: the Star Alliance, which includes us, United Airlines, Lufthansa and Singapore Airlines, the OneWorld alliance, which includes the JAL group, and the Sky Team alliance. We also face competition from LCCs including Jetstar group and AirAsia group, and in the future we may face increased competition from ZIPAIR, a wholly owned subsidiary LCC of JAL that is expected to focus mainly on medium- and long-haul international routes. See "Investment Considerations—Considerations Relating to Our Business—Competition in the international airline market is intense and susceptible to price discounting" and "Air Transportation Industry—The International Air Transportation Industry."

Cargo

In our domestic cargo operations, we compete primarily with the JAL group. We also compete in our domestic cargo operations with ground transportation, including the trucking industry and rail service. We believe that airlines have a competitive advantage in terms of speed of delivery compared to these other transportation services, in particular on long-hauls. However, in general, cargo delivery by air is more expensive than delivery by ground transportation.

In our international cargo operations, we compete not only with the JAL group, but also with NCA and major international passenger airlines, cargo airlines and air delivery services, such as FedEx, United Parcel Service of America, Inc. and DHL. See "Investment Considerations—Considerations Relating to Our Business—Our cargo operations are subject to various risks inherent in such business" and "Air Transportation Industry—The Air Cargo Industry."

Insurance

We carry insurance coverage for aircraft damage, third party liability, passenger liability, cargo liability, war, terrorism, hijacking, civil commotions and certain other perils. We believe our insurance coverage is generally of the type and amount consistent with industry practice. Our insurance policies do not cover any of our losses due to the COVID-19 pandemic.

Although insurance premium levels have decreased significantly from the high levels experienced immediately following the 11 September 2001 terrorist attacks in the United States, there can be no assurance that our insurance premiums will not increase significantly in the future, or that insurance coverage will remain available at all or will not be limited, particularly if future terrorist attacks involving aircraft occur.

Information Technology

We currently use a variety of software programs for various aspects of our operations, including reservation and ticketing, flight control, resource assignment, security and general administration.

Our proprietary software systems are developed and maintained by ANA Systems Co., Ltd., a wholly owned subsidiary, as well as outside vendors. We maintain a data centre in Tokyo that is housed in an earthquake-resistant building and equipped with redundant host servers, mirrored database servers and an emergency power generator. Back-up copies of important data are also maintained at a remote site outside of Tokyo.

Safety

Safety is the foundation of our group management and maintaining safety is the primary mission of every business in our group across our brands and business categories. All of our employees work together for flight safety, for which mutual understanding and reliance are essential. Towards that end, we display the "ANA Group Safety Principles" and the "Course of ANA Group Safety Action," which are pledges shared by all group employees, at every group workplace to build a strong awareness of safety in daily duties. This primary emphasis on safety forms the cornerstone of our business.

The ANA Group Safety Principles comprise the following: (i) safety is the group's promise to the public and is the foundation of our business; (ii) safety is assured by an integrated management system and mutual respect; and (iii) safety is enhanced through individual performance and dedication.

The Course of ANA Group Safety Action comprises the following: (i) strictly observe rules and regulations, and all actions must be based on safety; (ii) as a professional, place safety as the No. 1 priority while keeping in mind one's health; (iii) address any questions and sincerely accept opinions of others; (iv) information must accurately be reported and shared in a timely manner; (v) continuous self-improvement for prevention and avoiding recurrent incidents; and (vi) lessons are learned from experience, and we must increase our skills for risk awareness.

Facilities

Haneda is our principal base of operations for both international and domestic flights while Narita continues to play an important role in our group strategy.

The substantial majority of our airport facilities, including terminal buildings, check-in and ticketing counters, transfer desks, boarding bridges and other facilities at Haneda, Narita and other airports in Japan, are properties, or are operated on properties, under lease. Details of our principal non-aircraft properties are set forth under "—Properties."

Operational Services

At Japanese main airports, we provide the majority of the operational services we require for the handling of passengers and cargo, and at other local airports, the majority of our ground-handling requirements are subcontracted to other companies. At overseas airports, the majority of our ground-handling requirements are subcontracted to other airlines.

Runway, ramp and terminal facilities are provided by airport operators that charge airlines for the use of these facilities, principally through landing, parking and passenger charges. Navigation services are provided to aircraft by air traffic controllers in countries through whose airspace they fly or by international bodies. Navigation charges are generally based on distance flown and weight of aircraft.

Our ability to obtain flight slots at airports for the purpose of producing schedules attractive to passengers is vital to our business. Allocation of domestic and international flight slots at Haneda and Narita and other high traffic airports in Japan is determined by the MLIT. International flight slots in the majority of overseas airports we service are allocated by the authorities in the jurisdiction in which such airports are located in accordance with the IATA guidelines. For more information on the allocation of domestic and international flight slots, see "Regulation—International Regulation—International Airline Regulation—Allocation of Flight Slots at Airports Outside Japan" and "Regulation—Japanese Regulation—Allocation of Flight Slots at Airports in Japan."

Jet Fuel

We obtain a substantial proportion of our jet fuel from large Japanese oil companies through jet fuel contracts that are renegotiated every one to three years. We also purchase aircraft fuel on the spot market. At overseas airports that we service, we generally contract with one or more suppliers at each airport for our jet fuel needs at that airport. Under our jet fuel contracts, our purchase price for jet fuel fluctuates in accordance with the market price for either crude oil or jet fuel. We pay for a large portion of our jet fuel for both international and domestic flights in U.S. dollars.

Aircraft Maintenance

Our maintenance facilities are centred at Haneda and Narita. In addition to serving our own maintenance needs, we provide other airlines with aircraft heavy maintenance, engine overhaul and component maintenance services.

Properties

The following table sets forth our principal properties other than aircraft as of 31 March 2021:

Company Properties

Name of Properties	Location	Book value (in millions of yen)					Number of employees
		Buildings and Structures	Machines and vehicles	Tools, Instruments and Equipment	Land (m^2)	Total	
Headquarters	Minato-ku, Tokyo	73,547	673	378	50,283 (281,895) [256,662]	124,881	175

Notes:
(1) The above property belongs to the air transportation segment.
(2) The above monetary amounts do not include consumption taxes, etc.
(3) The fractions for above land square area numbers were truncated after the decimal point.
(4) The numbers in [ ] show land square areas currently being leased.

Subsidiary Properties

Name of Subsidiaries (Main location)	Segment	Description of Properties	Book value (in millions of yen)						Number of employees
			Buildings and Structures	Machines and Vehicles	Tools, Instruments and Equipment	Land (m^2)	Lease Assets	Total	
ALL NIPPON AIRWAYS CO., LTD. (Minato-ku, Tokyo)	Air Transportation	Offices, airport facilities, etc.	28,057	29,337	15,946	–	728	74,068	15,078
Overseas Courier Service Co., Ltd. (Koto-ku, Tokyo)	Airline-related	Cargo handling facilities, etc.	5,027	544	92	3,785 (6,640)	5	9,453	326
ANA CATERING SERVICE CO., LTD. (Ota-ku, Tokyo)	Airline-related	In-flight meal preparation plant	3,632	256	57	– [7,890]	2,339	6,284	1,123

Notes:
(1) The above monetary amounts do not include consumption taxes, etc.
(2) The fractions for the above land square are numbers were truncated after the decimal point.
(3) The numbers in [ ] show the land square areas currently being leased.
(4) The book value of the principal buildings and land leased to ALL NIPPON AIRWAYS CO., LTD. are as follows:

Name of Property	Main Location	Book value (in millions of yen)	
		Buildings and Structures	Land (m^2)
ALL NIPPON AIRWAYS CO., LTD.			
Headquarters, sales branch, benefit facilities	Minato-ku, Tokyo	15,532	8,568 (33,820)
Domestic airport and related facilities (Maintenance Center, Operation Support Centre, etc.)	Ota-ku, Tokyo	32,643	21,251 (156,978)
Training Centre, etc.	Ota-ku, Tokyo	25,236	20,463 (91,097)

Employees

The table below sets forth, on a consolidated basis, the number of full-time employees as of 31 March 2019, 2020 and 2021 broken down by operating segment:

Number of Employees

	As of 31 March		
	2019	2020	2021
Air transportation segment	18,001	18,671	18,840
Airline-related segment	19,780	21,458	21,949
Travel services segment	1,388	1,319	1,302
Trade and retail segment	1,507	1,529	1,504
Others segment	2,603	2,687	2,810
Group-wide	187	185	175
Total	43,466	45,849	46,580

Substantially all of our non-management employees are unionised. As of June 2021, our flight crew members are organised into three unions with a total of approximately 2,270 members. All of our flight crew unions are aligned with a national union for flight crew, the Air Line Pilots' Association of Japan. As of June 2021, our group employees in other job categories, including cabin crew, ground operators and maintenance personnel, are organised into 22 unions.

Our flight crew members are generally more active in labour negotiations with us than our other unionised employees. While we have not had any significant dispute with our unionised employees during the past five years, there can be no assurance that we will be able to avert or otherwise quickly resolve strikes in the future and we may receive notices of strikes from our unions at any time.

As part of our Business Structure Reform Plan, our group's unions have agreed to the reduction and elimination of bonuses and the decreases in wages for the fiscal year ended 31 March 2021 and the fiscal year ending 31 March 2022. See "Business—Our Strategies—Pursue our Business Structure Reform Plan to adapt our operations to a 'post-COVID-19' world."

Stock Ownership Programme

We have a trust for delivery of the Shares to our Directors to provide share compensation to our Directors (excluding Outside Directors) and reinforce our Directors' incentives to improve the medium-to-long term value of our group. As of 31 March 2021, the trust for delivery of the Shares to our Directors held 178 thousand Shares.

Legal Proceedings

We are currently a party to a number of proceedings, including proceedings by competition authorities in Korea, Canada and the Netherlands with respect to alleged price fixing in international air cargo services. However, we are not aware of any pending or threatened litigation or other legal or regulatory proceedings that would, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition, except those described below. Beginning in November 2007 and continuing into March 2008, approximately 30 purported class action complaints against over 10 airlines and airline holding companies, including us, were filed in the federal courts for the Central and Northern District of California. The complaints alleged price fixing in passenger fares and fuel surcharges for passenger fares on routes between the United States and Asia Pacific destinations in violation of federal antitrust law. In January 2019, we announced that we had reached an agreement in principle with the passenger plaintiffs for a settlement of US$57.8 million, which we recorded as a component of litigation settlement fees related to anti-trust law claims within other income, net for the fiscal year ended 31 March 2019.

In the event we are subject to an adverse judgment in these or any future civil litigations related to alleged or other illegal price fixing in the airline industry, we may be required to pay substantial civil damages, which may materially and adversely affect our financial condition and results of operations.

In addition to these specifically identified legal proceedings, as an international airline with global operations, from time to time we become involved in various other claims and legal actions involving passengers, customers, suppliers, employees and government agencies arising in the ordinary course of business. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within our control. The ultimate resolutions of any legal proceedings are inherently unpredictable, and our financial condition and results of operations could be adversely affected in any particular period by the unfavourable resolution of one or more of these matters.

MANAGEMENT AND EMPLOYEES

Management

Our Board of Directors carries the ultimate responsibility for the management and administration of our affairs. Our Articles of Incorporation provide for not more than 20 Directors. Directors are elected at a general meeting of shareholders. The normal term of office of any Director expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ending within one year after such Director's election, although they may serve any number of consecutive terms. The Board of Directors may elect a Chairman of the Board of Directors, a Vice Chairman, a President, and one or more Senior Executive Vice Presidents and Executive Vice Presidents from among its members. The Board of Directors also elects from among its members one or more Representative Directors, each of whom has the authority individually to represent us.

Our Articles of Incorporation also provide for not more than five Audit & Supervisory Board Members, who are elected at a general meeting of shareholders. The normal term of office of any Audit & Supervisory Board Member expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ending within four years after such Audit & Supervisory Board Member's election, although they may serve any number of consecutive terms.

Under Japanese laws, Audit & Supervisory Board Members are not required to be, and are not, certified public accountants, and may not at the same time be directors or employees of us or any of our subsidiaries. The Audit & Supervisory Board Members form the Audit & Supervisory Board. In addition, under Japanese laws, the number of the Audit & Supervisory Board Members must be three or more, and at least half of them are required to be persons who have never been directors, accounting advisors, executive officers or employees of us or any of our subsidiaries within 10 years prior to assuming the position of Audit & Supervisory Board Members. Audit & Supervisory Board Members have the duties of supervising the administration by the Directors of our affairs and of examining our financial statements and business reports to be submitted by a Representative Director to the general meetings of shareholders and of reporting their opinions thereon to the shareholders. They are required to attend meetings of the Board of Directors in general and to express their opinions when or if necessary at such meetings but they are not entitled to vote. In addition, they are required to elect from among themselves at least one full-time Audit & Supervisory Board Member. Audit & Supervisory Board Members also have a statutory duty to provide their report to the Audit & Supervisory Board, which must submit its auditing report to the relevant Directors and the independent auditor. The Audit & Supervisory Board will also determine matters relating to the duties of the Audit & Supervisory Board Members, such as audit policy and methods of investigation of our affairs.

In addition, under the Securities Listing Regulations of the Tokyo Stock Exchange, listed companies in Japan, including us, are required to have at least one independent officer. Such independent officer is required to be an outside Director or outside Audit & Supervisory Board Member (as defined under the Companies Act) who is unlikely to have conflicts of interest with shareholders of the relevant company.

In addition to Audit & Supervisory Board Members, we must appoint by a resolution of a general meeting of shareholders independent certified public accountants as an independent auditor, who has the statutory duties of auditing the financial statements to be submitted by a Representative Director to the general meetings of shareholders and reporting thereon to the relevant Audit & Supervisory Board Members and the relevant Director. Currently, our independent auditor is Deloitte Touche Tohmatsu LLC.

The below table sets out a list of our Directors and Audit & Supervisory Board Members as at the date of this Offering Circular:

Name	Title
Directors	
Shinichiro Ito	Chairman of the Board of Directors
Shinya Katanozaka(1)	President and Chief Executive Officer
Koji Shibata(1)	Executive Vice President
Naoto Takada	Executive Vice President
Ichiro Fukuzawa	Executive Vice President
Tatsuhiko Mitsukura	Executive Vice President
Yuji Hirako	Director
Ado Yamamoto(2)	Director
Izumi Kobayashi(2)	Director
Eijiro Katsu(2)	Director
Audit & Supervisory Board Members	
Nozomu Kano(3)	Audit & Supervisory Board Member (Full time Member)
Toyoyuki Nagamine	Audit & Supervisory Board Member (Full-time Member)
Akihiko Miura	Audit & Supervisory Board Member (Full-time Member)
Shingo Matsuo(3)	Audit & Supervisory Board Member (Part-time Member)
Eiji Ogawa(3)	Audit & Supervisory Board Member (Part-time Member)

Notes:

(1) Representative Directors.
(2) Outside Director under the Companies Act.
(3) Outside Audit & Supervisory Board Member under the Companies Act.

All of our Directors, other than the outside Director, are engaged in our business on a full-time basis.

The business address for our Directors and Audit & Supervisory Board Members is Shiodome City Center, 1-5-2 Higashi-Shimbashi, Minato-ku, Tokyo 105-7140, Japan.

Remuneration of Management and Other Relationships

Remuneration

The following table sets out the remuneration paid to our Directors and Audit & Supervisory Board Members in the fiscal year ended 31 March 2021:

		Aggregate amount by type of remuneration				
	Aggregate remuneration	Basic Salary	Stock Option	Bonus	Share-based reward	Number of relevant officers
	(Millions of yen except Number of relevant officers)					
Directors (excluding outside directors)	275	191	–	–	84	7
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	59	59	–	–	–	3
Outside Directors and outside Audit & Supervisory Board Members	99	99	–	–	–	7

Notes:

(1) The upper limit of the remuneration of Directors (¥960 million per year) was resolved at the 66th Ordinary General Meeting of Shareholders held on 20 June 2011.
(2) The upper limit of the remuneration of Audit & Supervisory Board Members (¥180 million per year) was resolved at the 74th Ordinary General Meeting of Shareholders held on 21 June 2019.
(3) The amount of share-based reward is separate from that in (1) above and is calculated based on the dispensation resolved at the 70th Ordinary General Meeting of Shareholders held on 29 June 2015.

Our Articles of Incorporation provide that we may enter into liability limitation contracts with any of our outside Directors and outside Audit & Supervisory Board Members to limit the maximum amount of such damages to the total amount stipulated in Article 423, Paragraph 1 of the Companies Act.

As at 31 March 2021, none of our Directors had an interest in any transaction which was unusual in its nature or conditions or significant to our business which was effected by us. As at 31 March 2021, there were no outstanding loans granted by any of our group companies to our Directors, and no guarantees provided by any of our group companies for the benefit of any of our Directors.

Employees

The following table sets out the number of our full-time employees (including secondees from outside of our group) as at 31 March 2019, 2020 and 2021, according to reporting segments:

	As at 31 March		
Segment	2019	2020	2021
Air Transportation	18,001	18,671	18,840
Airline Related	19,780	21,458	21,949
Travel Services	1,388	1,319	1,302
Trade and Retail	1,507	1,529	1,504
Total of reporting segments	40,676	42,977	43,595
Others	2,603	2,687	2,810
Group (common to all companies)	187	185	175
Total	43,466	45,849	46,580

Substantially all of our non-management employees are unionised. As of June 2021, we had 25 unions amongst 22 companies within our group, comprising pilots organised into three unions and our employees in other job categories, including flight attendants, being organised into 22 unions. These 22 unions for our employees other than the pilots all belong to the ANA Group Workers Union. All of the unions and the ANA Group Workers Union all belong to the Japan Federation of Aviation Industry Unions. The three unions for pilots also all belong to the Air Line Pilots' Association of Japan.

We believe that its employee relations are generally good.

Our pilots are generally more active in labour negotiations with us than our other unionised employees. Historically, issues of contention raised by our pilots generally concerned job security, equality of compensation, the reflection of individual contribution in bonuses, career advancement paths and other working conditions. While we have not had any significant dispute with its other unionised employees during the past five years, there can be no assurance that these employees, which include flight attendants, maintenance personnel and ground crews, will not become increasingly active in labour negotiations in the future.

Stock Ownership Programme

In 2016, we introduced a trust for delivery of Shares to Directors as a share remuneration (the Directors' Share Remuneration Trust) with a view to improving its operating performance, increasing its corporate value and raising the Directors' awareness of shareholder-oriented management. Under the trust, funds are contributed by us and Shares acquired by the Directors' Share Remuneration Trust are distributed to the Directors (other than outside Directors) in a lump after their retirement to the extent such retired Directors meet certain beneficiary requirements, and the amount of Shares so distributed is determined based on, among other things, the achievement of the Group's operating performance. See Note 3(o) of the Notes to Consolidated Financial Statements in respect of the audited consolidated financial statements for the fiscal years ended 31 March 2020 and 2021 for further details.

Stock Option Plans

We currently have no stock option plans.

SUBSIDIARIES AND AFFILIATES

As at 30 September 2021, we had 56 consolidated subsidiaries (of which 47 were domestic consolidated subsidiaries and nine were overseas consolidated subsidiaries), 77 non-consolidated subsidiaries (one of which was a subsidiary accounted for by the equity method) and 42 affiliates (13 of which were affiliates accounted for by the equity method). The following is a breakdown of our subsidiaries and affiliates by operating segment as at 30 September 2021:

- in the Air Transportation segment, we had four consolidated subsidiaries, one non-consolidated subsidiary and three affiliates, one of which was an affiliate accounted for by the equity method;
- in the Airline Related segment, we had 30 consolidated subsidiaries, 11 non-consolidated subsidiaries and five affiliates, two of which were affiliates accounted for by the equity method;
- in the Travel Services segment, we had six consolidated subsidiaries and three affiliates, one of which was an affiliate accounted for by the equity method;
- in the Trade and Retail segment, we had eight consolidated subsidiaries, 63 non-consolidated subsidiaries and two affiliates, both of which were affiliates not accounted for by the equity method; and
- in the Others segment, we had eight consolidated subsidiaries, two non-consolidated subsidiaries, one of which was a subsidiary accounted for by the equity method, and 29 affiliates, nine of which were affiliates accounted for by the equity method.

The following table sets out certain information as at 30 September 2021 with respect to our principal subsidiaries:

Subsidiary	Location	Principal business	Percentage of voting rights directly or indirectly held by us(1)	Paid-in Capital
			(Per cent)	(Millions of yen, unless otherwise indicated)
Air Transportation				
ALL NIPPON AIRWAYS CO., LTD.	Tokyo	Air transportation	100.0	25,000
ANA WINGS CO., LTD.	Tokyo	Air transportation	100.0	50
Air Japan Co., Ltd.	Chiba	Air transportation	100.0	50
Peach Aviation Limited	Osaka	Air transportation	77.9	7,515
Airline Related				
ANA AIRPORT SERVICES Co., Ltd.	Tokyo	Airport ground handling service	100.0	100
ANA OSAKA AIRPORT CO., LTD.	Osaka	Airport ground handling service	100.0	100
ANA NARITA AIRPORT SERVICES CO., LTD.	Chiba	Airport ground handling service	100.0	60
ANA Base Maintenance Technics Co., Ltd.	Tokyo	Aircraft repair and maintenance,	100.0	50
ANA Cargo Inc.	Tokyo	Cargo operation	100.0	100
OVERSEAS COURIER SERVICE CO., LTD.	Tokyo	International express shipping	91.5	100
INFINI TRAVEL INFORMATION, INC.	Tokyo	Travel reservation and ticket systems (GDS)	60.0	4,000

Subsidiary	Location	Principal business	Percentage of voting rights directly or indirectly held by us[1]	Paid-in Capital
			(Per cent)	(Millions of yen, unless otherwise indicated)
ANA Systems Co., Ltd.	Tokyo	IT systems software development	100.0	80
ANA CATERING SERVICE CO., LTD.	Tokyo	Catering service	100.0	100
ANA TELEMART CO., LTD.	Tokyo	Call centre for reservation and inquiry	100.0	50
Travel Services				
ANA Akindo Co., Ltd.	Tokyo	Airline ticket sales	100.0	100
ANA X Inc.,	Tokyo	Travel services and platform business	100.0	25
Trade and Retail				
ALL NIPPON AIRWAYS TRADING CO., LTD.	Tokyo	Trading and retailing	100.0	1,000
ANA FOODS CO., LTD.	Tokyo	Food trading	100.0 (100.0)	323
ANA FESTA CO., LTD.	Tokyo	Airport shop management	100.0 (100.0)	50
Others				
ANA Business Solutions Co., Ltd.	Tokyo	Personnel dispatch and training	100.0	100
ANA SKY BUILDING SERVICE CO., LTD.	Tokyo	Building and facility maintenance	93.6 (45.0)	80

Note:

(1) Figures in parentheses denote indirect holding.

REGULATION

The airline industry is subject to a high degree of both domestic and international regulation relating to most aspects of an airline company's operations.

Japanese Regulation

Licensing

The Civil Aeronautics Act requires any company which is engaged in the air transport service business, which means any business using aircraft to transport passengers or cargo for remuneration, to obtain a license from the Minister of Land, Infrastructure, Transport and Tourism (the "Minister"), or from the Director-General of the Regional Civil Aviation Bureau. Prior to 1 February 2000, a license to conduct an air transport service business was required with respect to each route on which an airline wished to conduct operations. In February 2000, the Civil Aeronautics Act was amended so that an airline currently is only required to hold a single license allowing it to operate an air transport service business. The following table shows the date and type of licenses acquired for each of the current airline companies in our group:

Airline company	Date licensed	Type of license
ALL NIPPON AIRWAYS CO., LTD.	1 February 2000	International; domestic
Air Japan Co., Ltd.	1 February 2000	International
ANA WINGS CO., LTD.	6 March 2002	Domestic
Peach Aviation Limited	7 July 2011	International; domestic

There is no expiration date for an air transport service license. However, such license may be revoked by the Minister for the breach of certain provisions of the Civil Aeronautics Act. In addition, such license shall become invalid if the airline or its holding company falls within any of the following categories:

(i) any person who does not have Japanese nationality;

(ii) any foreign state or foreign public entity or any other entity similar thereto;

(iii) any corporation or other entity organised under the laws of a foreign state; or

(iv) any corporation of which the representative is any of those listed in (i) to (iii) above or of which one-third or more of the officers are any of such persons or entities or one-third or more of voting rights are held by such persons or entities.

If registering all Shares held by foreigners (meaning a person or entity listed in (i) to (iii) above) in the Company's register of shareholders upon receipt of the all shareholders notice from JASDEC would result in the voting rights held by foreigners accounting for one-third or more of the Company's outstanding voting rights, the Company may refuse to register Shares held by foreigners in the Company's register of shareholders in the manner prescribed under the Civil Aeronautics Act. As at 31 March 2021, foreigners held Shares representing 11.82 per cent of the Company's total voting rights (based on units of Shares, according to the records of the register of shareholders on such date). For more information, see "Description of the Shares and Certain Regulations—Right to Refuse Registration of Shares Held by Foreigners." None of the licenses of the airline companies in our group has ever been revoked nor have they become invalid.

Regulatory History

In 1972, the Minister of Transport of Japan (currently the Minister of Land, Infrastructure, Transport and Tourism) published an order, known as the "Aeronautics Constitution," which created "business fields" for each Japanese airline in order to shelter the Japanese airline industry from competition and to stabilise the operations of Japanese airlines. Under the Aeronautics Constitution, ALL NIPPON AIRWAYS CO., LTD. principally conducted domestic aviation services, JAL principally conducted international aviation services and domestic trunk route services and JAS, named Toa Domestic Airlines at the time, principally conducted local aviation services in a system that was known as the "45-47 system."

In 1986, the Minister modified the 45-47 system due to requests from the United States for a more open and competitive air transport business across the Pacific. This revision allowed all Japanese airline companies to conduct international air transport businesses. However, the number of airline companies permitted to provide domestic aviation services was limited to two or three for each route. The domestic air transportation business in Japan was therefore restricted to ALL NIPPON AIRWAYS CO., LTD., JAL and JAS. This regulation was known as the "Double and Triple Track Rule."

The Double and Triple Track Rule was abandoned in response to strengthening demand for air transportation services and domestic and international pressure for a more open and competitive air transport industry. In 1997, the domestic air transportation business was opened to new entrants, resulting in the launch of several new airlines. However, at that time, airline companies were still required to obtain a license for each route flown and the grant of licenses was conditional upon the level of demand for the route. As a result of such barriers to entry, the number of new airline companies and their share of the domestic air transport market was limited.

On 1 February 2000, the licensing system was amended, as mentioned above, to allow airlines to operate on all of their routes under a single license, as opposed to requiring a license for each route, further deregulating Japan's domestic airline industry. This system remains in force.

Freight Charges and Fares

The Civil Aeronautics Act requires airline companies in our group to file the prices for freight charges and fares for their domestic air transport services with the Minister in advance and to obtain approval from the Minister for freight charges and fares for their international air transport services. With respect to freight charges and fares on domestic air transportation, the Minister can order airline companies in our group to change its freight charges or fares when it is deemed by the Minister that (i) they are unfair to particular customers, (ii) they are extremely unsuitable to current social and economic circumstances and may make it extremely difficult for customers to use their services, or (iii) they have the potential to cause unfair competition. To the Company's knowledge, the Minister has not issued an order to change freight charges or fares to airline companies in our group in the past.

Conditions of Carriage

The Civil Aeronautics Act requires airline companies in our group to obtain approvals from the Minister for its conditions of carriage and subsequent approvals for any changes to such airline's conditions of carriage. There is no expiration date for such approvals. The conditions of carriage must conform to the following standards:

- there shall be no danger of adversely affecting the fair and proper interest of the public; and
- there shall be provisions defining, amongst others, (i) the airline's liability regarding its air transport services, (ii) the airline's receipt and return of freight charges and fares, (iii) the airline's boarding tickets, (iv) the class and scope of the airline's cargo and (v) receipt, delivery and storage of cargo.

Plan of Operation

The Civil Aeronautics Act requires airline companies in our group to file a plan of operation with the Minister in advance in order to conduct scheduled domestic and international air transport services. Airline companies in our group are required to notify the Minister of any differences between actual operation and a previously filed plan of operation.

Allocation of Flight Slots at Airports in Japan

The Civil Aeronautics Act requires the airline companies in our group to obtain approval for flight slots from the Minister through ordinances issued every five years in principle, which period may be shortened at the discretion of the MLIT by amending the respective ordinance, to conduct domestic scheduled air transport services at certain high-traffic airports as designated by the MLIT. These airports currently include Haneda, Itami, Kansai, Fukuoka and Narita.

Approval standards are as follows:

- the plan of operation is suitable to safe air transport; and
- the airline company uses the high-traffic airport appropriately and reasonably in light of passenger convenience by promoting fair competition among, or greater diversity of, airline companies.

The Minister may refuse to grant approval for flight slots where such allocation will not contribute to the promotion of fair competition or greater diversity of airline companies. As some flight slots may be allocated and/or re-allocated to newly established airlines, the ANA brand expects to face increasing competition in the future for available flight slots.

Exemption from Application of the Japanese Antitrust Act

Under the Civil Aeronautics Act, an exemption from application of the Japanese Antitrust Act is provided to airline companies for the following conduct:

- conclusion of an agreement with other airline companies to continue carriage of passengers necessary for the livelihood of local residents in cases where it is determined by the MLIT that continuation of air transport services will become unprofitable or difficult due to decreased demand; and
- conclusion of an agreement for joint air transport services, or a freight agreement or other agreement related to air transport services that improve convenience in routes between a location in Japan and a location in a foreign country, or between different locations in foreign countries.

Registration of Aircraft

The Civil Aeronautics Act requires airline companies to carry an aircraft's certificate of registration on the aircraft during flight. The Civil Aeronautics Act also requires that all aircraft registered in Japan must not be owned by (i) any person who does not have Japanese nationality, (ii) any foreign state or foreign public entity or any other entity similar thereto, (iii) any corporation or other entity organised under the laws of a foreign state, or (iv) any corporation of which the representative is any of those listed in (i) to (iii) above or of which one-third or more of the officers are such persons or entities or one-third or more of voting rights are held by such persons or entities.

Standards of Aircraft

Aircraft are required to meet certain safety and environmental specifications prescribed by the Civil Aeronautics Act. Such specifications include, among others, standards relating to (i) airworthiness such as structure, cabin strength, engine endurance and performance and security equipment, (ii) noise level, and (iii) exhaust control ability. Airworthiness certificates are issued in respect of aircraft that satisfy these specifications and all aircraft must carry these certificates during flights. There is no expiration date for air transport service licenses, but such licenses may be cancelled by the MLIT if, upon inspection, an aircraft does not meet the required specifications. For more information, see "—Japanese Regulation—Environmental Protection and Anti-Noise Standards."

Insurance

When the Minister deems that the public welfare may be adversely affected with regard to airlines, it may order them to obtain insurance to fund reparations for damages or injuries due to aircraft accidents. We believe that we currently maintain insurance coverage in amounts and of the type generally consistent with industry practice.

Approved Facilities

The Civil Aeronautics Act requires airlines to obtain approval for facilities where they maintain aircraft used by them.

Flight Personnel

The Civil Aeronautics Act sets out certain criteria to be satisfied for qualification as flight crew including (a) technical knowledge (e.g., laws relating to air transport and meteorology), (b) flying skill and good judgement, (c) aviation experience and (d) medical fitness.

Under the Civil Aeronautics Act, for each flight, at least two flight crew members with sufficient experience and skill to operate the aircraft are required to be on board.

Aircraft Finance

In Japan, the Company may not create a pledge (*shichi-ken*) over its aircraft, and any use of its aircraft as collateral should be created under the Aircraft Mortgage Act of Japan (Act No. 66 of 1953, as amended) (the "Aircraft Mortgage Act"). The Aircraft Mortgage Act permits the Company to continue to use the aircraft that have been pledged as collateral.

Environmental Protection and Anti-Noise Standards

The Civil Aeronautics Act provides for aircraft standards relating to certain exhaust control ability and anti-noise requirements which must be met by aircraft operating in Japan.

In relation to aircraft noise limits, the Ordinance for Enforcement of the Civil Aeronautics Act (Ministry of Transport Ordinance No. 56 of 1952, as amended) (the "Ordinance for Enforcement of the Civil Aeronautics Act"), sets out the detailed requirements, specifying figures, depending on the particular type of aircraft, in terms of effective perceived noise decibels. In relation to aircraft exhaust, the Ordinance for Enforcement of the Civil Aeronautics Act, depending on the type of aircraft, also sets certain maximum exhaust limits that such aircraft may emit, specifying the figures in terms of chemical compounds. The MLIT will not issue airworthiness certificates for aircraft not meeting these exhaust control ability or anti-noise requirements. In addition, airlines must honour agreements with airports which impose on them limited hours for operation of their flights. For example, at Narita, arrivals and departures are restricted in principle between 12:00 a.m. and 6:00 a.m.

Additional laws and guidelines also apply to the noise and exhaust which aircraft emit, including the Act Regarding Prevention of Air Pollution of Japan (Act No. 97 of 1968, as amended), the Act Regarding Protection of Ozone Layer by Means of Regulations on Specified Matter of Japan (Act No. 53 of 1988, as amended) and the Environmental Standards Regarding Aircraft Noise published by the Ministry of Environment in 1973, as amended.

Safety

The Civil Aeronautics Act requires airlines to establish the safety management manual, and to submit it to the Minister. When an event which affects normal flight operations of any aircraft specified by ordinances of the MLIT occurs, the airline is required to file with the Minister a report to that effect. The Minister organises matters pertaining to such reports or any other information on transport safety, and makes such information available to the public every fiscal year. In addition, airlines are required to prepare a safety report and make such report available to the public every fiscal year. In order to supervise airline companies properly in terms of safety of their operations, the Minister conducts safety inspections on airline companies on a periodic or arbitral basis by requesting the submission of reports or by on-site inspection.

International Regulation

International Airline Regulation

Japan is currently a party to (i) the Convention on International Civil Aviation, an international framework agreement which sets forth principles governing international civil aviation and subjects participant countries to a common legal framework to be implemented in each country's respective national airspace and applied in their relations with one another, (ii) the International Air Services Transit Agreement, an international agreement which established the principle of the right of transit for air travel, and (iii) various bilateral treaties relating to airline industry regulations.

Bilateral Treaties

Bilateral treaties between nations, which include so-called "open skies" agreements, generally contain principles governing the designation of airlines for the operation of specified routes, the capacities offered by such airlines and procedures for the agreement of tariffs. Most bilateral treaties require the approval of the aviation authorities of both nations involved. Where air services over or into the territory of another state are conducted in accordance with a bilateral agreement between the states in question, the volume of permitted international air services between the states is set by the terms of such agreement. As these agreements are negotiated between the states, there is very little, if anything, that we can do to increase the volume of international air services permitted under bilateral agreements. Our inability to increase the volume of permitted international air services may have an adverse effect on our business. In addition, there can be no assurance that existing bilateral aviation agreements between Japan and other states will continue, and a suspension or revocation of one or more such agreements could have a material adverse effect on our operations and financial results. Despite such bilateral aviation agreements, there is always the possibility that executive authorities of other states may suspend access to international routes or airspace.

International Air Transport Association

In 1945, a consortium of international airline companies formed the IATA. The role of the IATA is to establish regulations for the air transport profession including matters relating to on-board services, travel documentation, safety, security, navigation and flight operations, the development of communication standards, and administrative procedures, among others. We are currently a member of the IATA.

Allocation of Flight Slots at Airports Outside Japan

Allocation of space at airports that we service outside of Japan is governed by the relevant authorities in the jurisdictions in which such airports are located. Airports outside of the United States, including those within the jurisdiction of the European Union and most airports in Asia, allocate this space in the form of flight slots. In the United States, with the exception of airports such as John F. Kennedy airport (New York) and O'Hare airport (Chicago) which allocate access in the form of flight slots, access to airports is controlled by other regulations based on the allotment of boarding gates. Flight slots or boarding gates at virtually all international airports (including those in Japan) are allocated under general guidelines set by the IATA and interpreted by the relevant governing jurisdiction.

Alliance Agreement

Our alliances with other airlines may be subject to antitrust and other similar laws and regulations. The most important of these alliances is our membership in the Star Alliance, a global airline alliance which, as at October 2019, includes 26 member airline companies and serves more than 1,300 destinations in 195 countries and regions. For more information on the Star Alliance, see "Business—Our Operating Segments—Air Transportation—Passenger Service—Star Alliance."

International Environmental Regulation

Our operations are subject to international regulatory regimes and foreign laws governing protection of the environment, including regulation of greenhouse gases and other air emissions, noise reduction, water discharges, aircraft drinking water, storage and use of petroleum and other regulated substances, and the management and disposal of hazardous waste, substances and materials.

In 2016, the ICAO formally adopted a global, market-based emissions offset program known as CORSIA. This program establishes a medium term goal for the aviation industry of achieving carbon-neutral growth in international aviation beginning in 2021, based on a 2019 baseline. A pilot phase of the offset program will begin in 2021, followed by a first phase of the program beginning in 2024 and a second phase beginning in 2027. Countries can voluntarily participate in the pilot and first phase, and Japan has agreed to participate in these voluntary phases. Participation in the second phase is mandatory for certain countries, including Japan. In 2017, the ICAO also adopted new aircraft certification standards to reduce CO_2 emissions from aircraft. The new aircraft certification standards apply to new aircraft types in 2020 and to new in-production aircraft starting in 2023 but no later than 2028. These standards will not apply to existing in-service aircraft. However, exemption from the certification requirement could affect how these aircraft are treated under other programs governing CO_2 emissions.

We may face additional regulation of aircraft emissions and become subject to further taxes, charges or additional requirements to obtain permits or purchase allowances or emission credits for greenhouse gas emissions in various jurisdictions. For example, the EU Emissions Trading System ("EU ETS"), is a "cap and trade" emissions regulation system that assigns emissions allowances to market participants and enables participants to trade in such allowances. The EU ETS is currently applicable to flights within the EU, but if the system is expanded to apply to flights outside of the EU, we may encounter difficulties or incur costs in achieving compliance and consistency with respect to EU ETS and the ICAO's CORSIA program. Additionally, with respect to our initiatives to utilise sustainable aviation fuel, airports may decide to impose charges for such usage.

JAPANESE FOREIGN EXCHANGE REGULATION

General

The Foreign Exchange Regulations govern certain aspects, in particular, relating to the acquisition and holding of Shares by "exchange non-residents" and by "foreign investors" (as these terms are defined below). However, in general, the Foreign Exchange Regulations currently in effect do not affect transactions between exchange non-residents for the purchase or sale of Shares outside Japan using currencies other than yen.

"Exchange residents" are defined in the Foreign Exchange Regulations as:

(i) individuals who reside within Japan; or

(ii) corporations whose principal offices are located within Japan.

"Exchange non-residents" are defined in the Foreign Exchange Regulations as:

(i) individuals who do not reside in Japan; or

(ii) corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as exchange residents. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

"Foreign investors" are defined in the Foreign Exchange Regulations as:

(i) individuals who are exchange non-residents;

(ii) corporations or other entities that are organised under the laws of foreign countries or whose principal offices are located outside Japan (for this purpose, branches of such corporations or other entities located within Japan are included in this (ii)) (excluding partnerships falling within (iv));

(iii) corporations of which 50 per cent or more of the total voting rights are held, directly or indirectly, by individuals and/or entities falling within (i) and/or (ii) above;

(iv) partnerships engaging in investment activities formed under the Civil Code of Japan (Act No. 89 of 1896, as amended), investment limited partnerships formed under the Limited Partnership Act for Investment of Japan (Act No. 90 of 1998, as amended), or any similar partnerships under the laws of foreign countries, where either (a) 50 per cent or more of the total contributions to such entities are made by exchange non-residents or certain other foreign investors prescribed under the Foreign Exchange Regulations or (b) a majority of the managing partner or general partners of such partnerships are exchange non-residents or certain other foreign investors prescribed under the Foreign Exchange Regulations; or

(v) corporations or other entities of which a majority of either (i) directors or other officers (including those who have the same degree or more control over such corporations or such other entities as directors or other officers) or (ii) directors or other officers (including those who have the same degree or more control over such corporations or such other entities as directors or other officers) having the power of representation are individuals who are exchange non-residents.

Acquisition of Shares

In general, the acquisition by an exchange non-resident of shares of a Japanese corporation from an exchange resident requires post facto reporting by the exchange resident to the Minister of Finance of Japan through the Bank of Japan. No such reporting requirement is imposed, however, if:

(i) the aggregate purchase price of the relevant shares is ¥100 million or less;

(ii) the acquisition is effected through any bank, financial instruments business operator or other entity prescribed by the Foreign Exchange Regulations acting as an agent or intermediary; or

(iii) the acquisition constitutes an Inward Direct Investment described below.

Prior Notification Requirements on Inward Direct Investment in Shares of Listed Corporations

If a foreign investor acquires shares or voting rights of a Japanese corporation that is listed on a Japanese stock exchange, such as Shares, or that is traded on an over-the-counter market in Japan and, as a result of the acquisition, the foreign investor, in combination with any of its existing holdings of the shares or voting rights, and any shares or voting rights managed by such foreign investor under discretionary investment management agreements (including those held or managed by certain related entities of such foreign investor), directly or indirectly holds 1 per cent or more of (i) the total issued shares or (ii) the total voting rights of the relevant corporation, then such acquisition constitutes an "inward direct investment" (the "Inward Direct Investment"). In general, any foreign investor intending to make an Inward Direct Investment by acquisition of shares or voting rights of a corporation engaging in certain business sectors designated by the Foreign Exchange Regulations (*Shitei-Gyoshu*) (including those in which we are engaging) (the "Designated Business Sectors"), must, except where any of certain exemptions applies, file a prior notification of the acquisition with the Minister of Finance and any other competent Ministers. If such prior notification is filed, the proposed acquisition may not be consummated until 30 days have passed from the date of filing, although this period will be shortened unless such Ministers deem it necessary to review the proposed acquisition, and may be shortened to five business days, if the proposed acquisition is determined not to raise concerns from a national security or certain other factors' perspective. On the other hand, if the Ministers deem it necessary to continue to review the proposed acquisition, they may extend such period up to five months. The Ministers may also recommend any modification or abandonment of the proposed acquisition and, if such recommendation is not accepted, they may order the modification or abandonment of such acquisition.

Exemption for Prior Notification Requirements

Under the Foreign Exchange Regulations, in the case of an acquisition of shares or voting rights, any foreign investors which fall under the definition of foreign financial institutions (the "Foreign Financial Institutions"), will be exempted from the prior notification requirements mentioned above without any upper limit on the number of shares or voting rights to be acquired or held, on condition that they comply with the following exemption conditions (the "Common Exemption Conditions").

In general, "Common Exemption Conditions" are set out in the relevant public notices as follows:

(i) foreign investors or their related persons (as defined in the Foreign Exchange Regulations) are not to become directors or audit and supervisory board members of the investee corporation or its certain related corporations;

(ii) foreign investors will not propose by themselves or through other shareholders to the general meeting of shareholders the transfer or other disposition or discontinuation of the investee corporation's business activities in the Designated Business Sectors; and

(iii) foreign investors will not access non-public information about the investee corporation's or its certain related corporations' technology in relation to business activities in the Designated Business Sectors.

Under the Foreign Exchange Regulations, any foreign investors (other than the Foreign Financial Institutions), excluding disqualified investors such as those with a record of sanctions for violation of the FEFTA and state-owned enterprises (except those who are accredited by the authorities) ("Eligible Foreign Investors"), will also be exempted from the prior notification requirements mentioned above without any upper limit on the number of shares or voting rights to be acquired or held, on condition that they comply with the Common Exemption Conditions, unless the investment proposed to be conducted by them constitutes the Inward Direct Investment in a corporation engaging in certain types of Designated Business Sector designated as being a substantial threat to national security. On the other hand, Eligible Foreign Investors which intend to invest in a corporation engaging in certain types of Designated Business Sectors further set out in the relevant public notice as being a substantial threat to national security (in which our business sectors are not currently included) (the "Core Sectors"), will be exempted from the prior notification requirements, on condition that they comply with the following additional exemption conditions (the "Exemption Conditions on Core Sectors"), as well as the Common Exemption Conditions, unless and until such investment results in holdings, in combination with any of its existing holdings of the shares or voting rights, and any shares or voting rights managed by such Eligible Foreign Investor under discretionary investment management agreements (including those held or managed by certain related entities of such Eligible Foreign Investor), directly or indirectly, of 10 per cent or more of (i) the total issued shares or (ii) the total voting rights of the relevant corporation.

In general, "Exemption Conditions on Core Sectors" are set out in the relevant public notices as follows:

(i) regarding business activities in the Core Sectors, foreign investors will not, or will not cause its representative to, attend the investee corporation's or its certain related corporations' board of directors, executive board or other committees that make important decisions on these activities; and

(ii) regarding business activities in the Core Sectors, foreign investors will not make proposals, by themselves or through persons designated by them, in writing or electronic form, to (a) the investee corporation's or its certain related corporations' board of directors, executive board or other committees that make important decisions on these activities or (b) the members of such board or committees, requiring responses and/or actions by certain deadlines.

Consent at the General Meeting of Shareholders

In addition to the acquisition of shares or voting rights mentioned above, if a foreign investor who directly or indirectly holds 1 per cent or more of the total voting rights of a Japanese corporation that is listed on a Japanese stock exchange and engages in the Designated Business Sectors, such as the Company, intends to consent, at the general meeting of shareholders, to certain proposals having material influence on the management of such corporation such as (i) election of such foreign investor or its related persons (as defined in the Foreign Exchange Regulations) as directors or audit and supervisory board members of the relevant corporation or (ii) transfer or discontinuation of its business, such consent also constitutes an Inward Direct Investment, and in certain circumstances, such foreign investor must file a prior notification with the Minister of Finance and any other competent Ministers. In such cases, the exemptions from the prior notification requirements described above are not available.

Post Investment Reports

Further to the prior notifications, under the Foreign Exchange Regulations, foreign investors conducting Inward Direct Investments may be required to submit post investment reports to the Minister of Finance and any other competent Ministers within 45 days from the transaction settlement date, even if such Inward Direct Investments are not subject to the prior notification requirements or are exempted from such requirements. For instance, post investment reports with respect to the acquisition of shares or voting rights of corporations engaging in Designated Business Sectors which are not in the Core Sectors, where the prior notification requirement for such acquisition has been exempted, will generally be required when the ratio of the total number of shares or voting rights held directly or indirectly by foreign investors in combination with any of its existing holdings of the shares or voting rights and shares or voting rights managed by such foreign investor under discretionary investment management agreements (including those held or managed by certain related entities of such foreign investor) after the acquisition to the number of (i) the total issued shares or (ii) the total voting rights of the relevant corporation reaches:

(i) 1 per cent or more to less than 3 per cent for the first time;

(ii) 3 per cent or more to less than 10 per cent for the first time; or

(iii) 10 per cent or more for each transaction.

Dividends and Proceeds from Sales of Shares

Under the Foreign Exchange Regulations, dividends paid on and the proceeds from sales in Japan of Shares held by exchange non-residents may generally be converted into any foreign currency and repatriated abroad. However, under the Foreign Exchange Regulations, certain procedures may be required for the transfer of funds out of Japan or may be prohibited, depending on the location of the recipient, the purpose of such fund transfer and other factors.

DESCRIPTION OF THE SHARES AND CERTAIN REGULATIONS

Set out below is certain information concerning the Shares, including brief summaries of certain provisions of the Company's Articles of Incorporation and Share Handling Regulations and of the Companies Act relating to joint stock corporations (kabushiki kaisha), and certain related legislation, all as currently in effect.

General

All issued Shares are fully-paid and non-assessable, and are in book-entry transfer form.

The Shares are subject to the Japanese book-entry transfer system for listed shares of Japanese companies under the Book-Entry Act. Under this system, shares of all Japanese companies listed on any Japanese stock exchange are dematerialised, and shareholders of listed shares must have accounts at account management institutions to hold their shares unless such shareholders have an account at JASDEC, the only institution that is designated by the relevant authorities as a clearing house which is permitted to engage in the clearing operations of shares of Japanese listed companies under the Book-Entry Act. "Account management institutions" are financial instruments business operators (i.e., securities firms), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Act, and only those financial institutions that meet further stringent requirements under the rules of JASDEC (the "JASDEC rules") can open accounts directly at JASDEC. For the purpose of the description under "Description of the Shares and Certain Regulations" the Company assumes that the relevant person has no account at JASDEC.

Under the Book-Entry Act, any transfer of shares is effected through book entry, and the title to the shares passes to the transferee at the time when the transferred number of the shares is recorded in the transferee's account at an account management institution. The holder of an account at an account management institution is presumed to be the legal owner of the shares held in such account.

Under the Companies Act and the Book-Entry Act, in order to assert against the Company shareholders' rights to which shareholders as at a given record date are entitled (such as the rights to vote at a general meeting of shareholders or receive dividends), a shareholder must have its name and address registered in the Company's register of shareholders, except in limited circumstances. Under the Japanese book-entry transfer system, such registration is generally made upon the Company's receipt of necessary information from JASDEC through an "all shareholders notice" (*sou-kabunushi tsuchi*). Shareholders are required to file their names and addresses with the Company, generally through the account management institution and JASDEC. On the other hand, in order to assert shareholders' rights to which shareholders are entitled regardless of record dates, such as minority shareholders' rights, including the right to propose a matter to be considered at a general meeting of shareholders but excluding shareholders' rights to request the Company to purchase or sell Shares constituting less than one unit upon a shareholder's request, JASDEC shall issue to the Company a notice of certain information (*kobetsukabunushi tsuchi*), which information includes the name and address of such shareholder. Under the Book-Entry Act, a shareholder must exercise its shareholder's right within four weeks after issue of the notice above.

Non-resident shareholders are also required to appoint a standing proxy in Japan or provide a mailing address in Japan and to file their standing proxy or a mailing address with the Company, generally through the account management institution and JASDEC. Japanese securities firms and commercial banks customarily act as standing proxies and provide related services for standard fees. Notices from the Company to non-resident shareholders are delivered to such standing proxies or mailing addresses.

The Company's transfer agent is Sumitomo Mitsui Trust Bank, Limited, located at 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan.

Right to Refuse Registration of Shares Held by Foreigners

Under the Civil Aeronautics Act, if registering all Shares held by foreigners (meaning (i) a person who does not have Japanese nationality, (ii) a foreign state, or a foreign public entity or an entity similar thereto, and (iii) a corporation or other entity organised under the laws of a foreign state, as prescribed under the Civil Aeronautics Act) in the Company's register of shareholders upon receipt of the all shareholders notice from JASDEC would result in the voting rights held by foreigners accounting for one-third or more of the Company's outstanding voting rights, the Company will register Shares held by foreigners in the Company's register of shareholders in the following manner:

(i) the Company will register Shares held by the foreigners whose names are registered in the Company's register of shareholders at the time the Company receives the all shareholders notice, and the number of unit of Shares so registered (the "Number of Preferentially Registered Shares"), will be the smaller of (x) the number of the unit of Shares registered as Shares held by each such foreigner in the Company's register of shareholders at the time the Company receives the all shareholders notice, or (y) the number of the unit of each such foreigner's Shares in such all shareholders notice.

(ii) if registering in accordance with (i) above would not result in voting rights held by foreigners accounting for one-third or more of the Company's outstanding voting rights:

  (a) the Shares held by foreigners will be further registered to the extent that the voting rights held by such foreigners would account for less than the limit of one-third of the Company's outstanding voting rights ("1/3 Limit"), and the number of unit of Shares so registered will be calculated on a pro rata basis by using the number of Shares held by the foreigners that are not registered in accordance with (i) above; and

  (b) if the 1/3 Limit has not been reached after registering in accordance with (a) above, the Company will determine the unit of Shares held by the foreigners to be registered by way of a lottery.

(iii) notwithstanding (i) and (ii) above, if registering in accordance with (i) above would result in the voting rights held by foreigners accounting for one-third or more of the Company's outstanding voting rights:

  (a) the number of the unit of Shares to be registered will be calculated on a pro rata basis by using the Number of Preferentially Registered Shares, to the extent that the voting rights held by foreigners fall within 1/3 Limit; and

  (b) if the 1/3 Limit has not been reached after registering in accordance with (a) above, the Company will determine the number of the unit of Shares held by foreigners to be registered by way of a lottery.

The Company is required to give prompt notice to the foreigners holding any Shares which are not registered in the Company's register of shareholders in accordance with the above.

Under the Civil Aeronautics Act, the Company is required to give public notice as to the percentage of its voting rights held by foreigners at the time of an ordinary general meeting of shareholders if such percentage is not less than 25 per cent. As at 31 March 2021, foreigners held Shares representing 11.82 per cent of the Company's total voting rights (based on units of Shares, according to the records of the register of shareholders on such date). Under the Japanese book-entry transfer system, JASDEC publicises the total number and the percentage of Shares held by foreigners every business day.

In order to ensure compliance with the above, a foreigner who opens an account at an account management institution is required under the Japanese book-entry transfer system to present materials to the account management institution verifying that such person is a "foreigner." The account management institution is, in turn, required to notify JASDEC that the account holder is a "foreigner."

Distribution of Surplus

General

Under the Companies Act, distribution of cash or other assets by a joint stock corporation to its shareholders, including dividends, takes the form of distribution of Surplus (as defined in "—Restriction on Distribution of Surplus"). The Company may make distributions of Surplus to its shareholders any number of times per fiscal year, subject to certain limitations described in "—Restriction on Distribution of Surplus."

Distributions of Surplus are required in principle to be authorised by a resolution of a general meeting of shareholders, but may also be made pursuant to a resolution of the Board of Directors but only if all the requirements described in (a) through (d) below are met:

(a) the Company's Articles of Incorporation provide that the Board of Directors has the authority to decide to make distributions of Surplus;

(b) the Company appoints an independent auditor and form an Audit & Supervisory Board under the Companies Act;

(c) the normal term of office of each of Directors of the Company terminates on or prior to the date of conclusion of the ordinary general meeting of shareholders relating to the last fiscal year ending within the period of one year from the election of such Director; and

(d) the Company's non-consolidated annual financial statements and certain documents for the latest fiscal year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice.

At present, the requirement described in (a) above is not met. The Companies Act enables a company to make distributions of Surplus in cash as an interim dividend by a resolution of its board of directors if its articles of incorporation so provide. However, the Company's Articles of Incorporation do not have a provision to that effect.

Under the Company's Articles of Incorporation, a year-end dividend may be distributed to shareholders of record as at 31 March of each year pursuant to a resolution of a general meeting of shareholders. The Company is not obliged to pay any dividends unclaimed for a period of three years after the date on which they first became payable.

Distributions of Surplus may be made in cash or (except for interim dividends) in kind in proportion to the number of Shares held by each shareholder. A resolution of a general meeting of shareholders or the Board of Directors authorising a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of Surplus is to be made in kind, the Company may, pursuant to a resolution of a general meeting of shareholders, grant a right to its shareholders to require the Company to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by a special resolution of a general meeting of shareholders. See "—Voting Rights" with respect to a "special resolution."

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of Shares generally goes ex-dividend on the business day immediately prior to the record date.

Restriction on Distribution of Surplus

When the Company makes a distribution of Surplus, it must, until the sum of its additional paid-in capital and legal reserve reaches one-quarter of its stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed in accordance with an ordinance of the Ministry of Justice.

The amount of Surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

"A"	=	the total amount of other capital surplus and other retained earnings, as each such amount appears on the Company's non-consolidated balance sheet as at the end of the last fiscal year,
"B"	=	(if the Company has disposed of its treasury stock after the end of the last fiscal year) the amount of the consideration for such treasury stock received by the Company less the book value thereof,
"C"	=	(if the Company has reduced its stated capital after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any),
"D"	=	(if the Company has reduced its additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any),
"E"	=	(if the Company has cancelled its treasury stock after the end of the last fiscal year) the book value of such treasury stock,
"F"	=	(if the Company has distributed Surplus to its shareholders after the end of the last fiscal year) the total book value of the Surplus so distributed, and
"G"	=	certain other amounts set forth in ordinances of the Ministry of Justice, including (if the Company has reduced Surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction and (if the Company has distributed Surplus to its shareholders after the end of the last fiscal year) the amount set aside in its additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice.

The aggregate book value of Surplus distributed by the Company may not exceed a prescribed distributable amount (the "Distributable Amount"), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the followings:

(a) the book value of the Company's treasury stock;

(b) the amount of consideration for the Company's treasury stock disposed of by it after the end of the last fiscal year; and

(c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the Company's non-consolidated balance sheet as at the end of the last fiscal year) all or certain part of such exceeding amount as calculated in accordance with ordinances of the Ministry of Justice.

If the Company has become at its option a company with respect to which consolidated balance sheets should also be taken into consideration in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*), it will be required to further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of shareholders' equity appearing on its non-consolidated balance sheet as at the end of the last fiscal year and certain other amounts set forth by an ordinance of the Ministry of Justice over (y) the total amount of shareholders' equity and certain other amounts set forth by an ordinance of the Ministry of Justice appearing on its consolidated balance sheet as at the end of the last fiscal year.

If the Company has prepared interim financial statements as described below, and if such interim financial statements have been approved by the Board of Directors or (if so required by the Companies Act) by a general meeting of shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for the Company's treasury stock disposed of by it, during the period in respect of which such interim financial statements have been prepared. The Company may prepare non-consolidated interim financial statements consisting of a balance sheet as at any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. Interim financial statements prepared by the Company must be audited by the Audit & Supervisory Board Members and the independent auditor, as required by the Companies Act and ordinances of the Ministry of Justice.

Capital and Reserves

When the Company issues new Shares, the entire amount of money or other assets paid or contributed by subscribers for such Shares is required to be accounted for as stated capital, although the Company may account for an amount not exceeding one-half of the amount of such subscription money or other assets as additional paid-in capital by resolution of the Board of Directors.

The Company may reduce its additional paid-in capital or legal reserve generally by resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. On the other hand, the Company may reduce its stated capital generally by special resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as additional paid-in capital. In addition, the Company may reduce its Surplus and increase either (i) stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case, by resolution of a general meeting of shareholders.

Stock Splits

The Company may at any time split the issued Shares into a greater number of Shares by resolution of its Board of Directors. When a stock split is to be made, so long as the only class of the Company's outstanding stock is its common stock, it may increase the number of authorised shares to the extent that the ratio of such increase in authorised shares does not exceed the ratio of such stock split by amending its Articles of Incorporation, which amendment may be made without approval by shareholders.

Before a stock split, the Company must give public notice of the stock split, specifying the record date therefor, not less than two weeks prior to such record date. Under the JASDEC rules relating to the Japanese book-entry transfer system, the Company must also inform JASDEC of certain matters regarding a stock split promptly after a resolution of its Board of Directors determining such stock split. On the effective date of the stock split, the numbers of Shares recorded in all accounts held by holders of Shares at account management institutions or JASDEC will be increased in accordance with the applicable ratio.

Consolidation of Shares

The Company may at any time consolidate Shares into a smaller number of Shares by a special resolution of the general meeting of shareholders. When a consolidation is to be made, the Company must give public notice at least two weeks (or, in certain circumstances where any fractions of shares are left as a result of consolidation, 20 days) prior to the effective date of the consolidation. The Company must disclose the reason for the consolidation at the general meeting of shareholders.

Under the Japanese book-entry transfer system, on the effective date of the consolidation, the numbers of Shares recorded in all accounts held by holders of Shares at account management institutions or JASDEC will be decreased in accordance with the applicable ratio.

Unit Share System

The Company's Articles of Incorporation provide that 100 Shares constitute one "unit."

Under the unit share system, a shareholder has one vote for each unit of Shares held by it, except as stated in "—Voting Rights." Shares constituting less than one unit will carry no voting rights and be excluded for the purposes of calculating the quorum for voting purposes. Moreover, holders of Shares constituting less than one unit will have no other shareholder rights except for certain rights specified in the Companies Act, an ordinance of the Ministry of Justice or the Company's Articles of Incorporation, including the right to receive distribution of Surplus.

Under the Japanese book-entry transfer system, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit and, accordingly, may not be sold on the Japanese stock exchanges, unless a different trading unit is designated by the relevant Japanese stock exchange.

Holders of Shares constituting less than one unit may at any time request the Company to purchase Shares held by them. Pursuant to the Company's Articles of Incorporation and Share Handling Regulations, any such holders may also request the Company to sell to such holder Shares constituting less than one unit which, when added to Shares held by such holder, shall constitute a full one unit. Under the Japanese book-entry transfer system, such requests must be made to the Company through the relevant account management institutions and JASDEC. Such purchase or sale of Shares will be effected at the last trading price of Shares on the relevant stock exchange on the day such request is made (or, if there is no trading in Shares on the stock exchange or if the stock exchange is not open on such day, the price at which Shares are first traded on such stock exchange thereafter). The request of such purchase or sale may not be withdrawn without the Company's consent.

General Meetings of Shareholders

The ordinary general meeting of shareholders of the Company is customarily held in June each year. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary. Notice of a general meeting of shareholders stating, among others, the place, time and purpose thereof must be given to each shareholder having voting rights (or, in the case of a non-resident shareholder, to its standing proxy or mailing address in Japan) at least two weeks prior to the date set for the meeting. Such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders. The record date for an ordinary general meeting of shareholders is 31 March of each year.

Any shareholder holding at least 300 voting rights or 1 per cent of the total number of voting rights for six months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a request to a Representative Director at least eight weeks prior to the date of such meeting (provided that, the Company will be able to limit the number of proposals with respect to the matters proposed by each shareholder to 10). If the Company's Articles of Incorporation so provide, any of the minimum percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened. The Company's Articles of Incorporation currently do not include any such provisions.

Voting Rights

A holder of Shares constituting one or more units is, in principle, entitled to one voting right for each unit of Shares. However, in general, neither the Company nor any corporate or certain other entity, one-quarter or more of the total voting rights of which are directly or indirectly held by the Company, has voting rights in respect of Shares held by the Company or such entity.

Except as otherwise provided by law or in the Company's Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by the holder of a majority of the total number of voting rights represented at the meeting. The Company's Articles of Incorporation provide that the quorum for election of its Directors and Audit & Supervisory Board Members is one-third of the total number of voting rights. The Company's shareholders are not entitled to cumulative voting in the election of its Directors. The shareholders may exercise their voting rights in writing or through proxies, provided that the proxies are, in principle, also shareholders who have voting rights.

The Companies Act provides that certain important matters shall be approved by a "special resolution" of a general meeting of shareholders, with such approval requiring approval of at least two-thirds of the voting rights represented at the meeting. Under the Company's Articles of Incorporation, the quorum for a special resolution is one-third of the total number of voting rights. Such important matters include:

(i) repurchase of Shares by the Company from a specific shareholder other than any of the Company's subsidiaries;

(ii) consolidation of Shares;

(iii) issuance or transfer of new Shares or existing Shares held by the Company as treasury stock to persons other than the shareholders at a "specially favourable" price;

(iv) issuance of stock acquisition rights (including those incorporated in bonds with stock acquisition rights) to persons other than the shareholders under "specially favourable" conditions;

(v) removal of any of the Company's Audit & Supervisory Board Members;

(vi) exemption from a portion of liability of the Company's Directors, Audit & Supervisory Board Members or independent auditor;

(vii) distribution of Surplus in kind with respect to which shareholders are not granted the right to require the Company to make distribution in cash instead of in kind;

(viii) reduction of stated capital;

(ix) any amendment to the Company's Articles of Incorporation (except for such amendments that may be made without the approval of shareholders under the Companies Act, such as (i) an increase of the number of authorised Shares by the same ratio as that of a stock split, (ii) a reduction of the number of Shares per unit of shares and (iii) termination of the unit share system);

(x) transfer of the whole or a substantial part of the Company's business;

(xi) transfer of the whole or a part of the Company's equity interests in any of the Company's subsidiaries which meets certain requirements;

(xii) taking over of the whole of the business of another company;

(xiii) dissolution or merger or consolidation;

(xiv) corporate split;

(xv) establishment of a parent and wholly-owned subsidiary relationship by way of a share transfer (*kabushiki-iten*) or a share exchange (*kabushiki-kokan*); and

(xvi) a partial share exchange (kabushiki-kofu) for the purpose of making another corporation a subsidiary.

However, under the Companies Act, no shareholder approval, whether by an ordinary resolution or a special resolution at a general meeting of shareholders, is required for any matter described in (viii) through (xvi) above, and such matter may be decided by the Board of Directors, if it satisfies certain criteria prescribed by the Companies Act as are necessary to determine that its impact is immaterial.

Liquidation Rights

In the event of the Company's liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among holders of Shares in proportion to the respective numbers of Shares held by them.

Issue of Additional Shares and Pre-emptive Rights

Holders of Shares have no pre-emptive rights. Authorised but unissued Shares may be issued, or existing Shares held by the Company as treasury stock may be sold, at such times and upon such terms as the Board of Directors determines, subject to the limitations as to the issuance of new shares or sale of existing shares held by the Company as treasury stock at a "specially favourable" price mentioned in "—Voting Rights." The Board of Directors may, however, determine that shareholders be given subscription rights regarding a particular issuance of new shares or sale of existing shares held by the Company as treasury stock, in which case such rights must be given on uniform terms to all holders of Shares as at a record date of which not less than two weeks' prior public notice must be given. Each of the shareholders to whom such rights are given must also be given at least two weeks' prior notice of the date on which such rights expire.

In the case of an issuance of Shares or a sale of existing Shares held by the Company as treasury stock or an issuance of stock acquisition rights (*shinkabu yoyakuken*) whereby any subscriber (including its subsidiaries and other companies set forth in ordinances of the Ministry of Justice) will hold more than 50 per cent of the voting rights of all shareholders, and if shareholders who hold one-tenth or more of the voting rights of all shareholders object to such issuance or sale, an approval by a resolution of a general meeting of shareholders is generally required before the payment date pursuant to the Companies Act. In addition, in the case of an issuance of shares or a sale of existing shares held by the Company as treasury stock or an issuance of stock acquisition rights by a listed company such as the Company by way of an allotment to a third party which would dilute the outstanding voting shares by 25 per cent or more or cause change of the controlling shareholder, in addition to resolution of the board of directors, an approval by a resolution of a general meeting of shareholders or otherwise, or an affirmative opinion by a person independent of our management is generally required pursuant to the rules of the Japanese stock exchanges.

Stock Acquisition Rights

The Company may issue stock acquisition rights. Holders of stock acquisition rights are entitled to acquire Shares from the Company, upon payment of the applicable exercise price, and subject to other terms and conditions thereof. The Company may also issue bonds with stock acquisition rights (*shinkabu yoyakuken-tsuki shasai*). The issuance of stock acquisition rights and bonds with stock acquisition rights may be authorised by the Board of Directors unless it is made under "specially favourable" conditions, as described in "—Voting Rights" or, in certain circumstances, may be required to obtain an approval of the shareholders or an affirmative opinion by an independent person as described above.

Record Date

As mentioned above, 31 March is the record date for the payment of year-end dividends and the determination of shareholders entitled to vote at the ordinary general meeting of shareholders.

In addition, by a resolution of the Board of Directors and after giving at least two weeks' prior public notice, the Company may at any time set a record date in order to determine the shareholders who are entitled to certain rights pertaining to Shares.

Under the JASDEC rules relating to the Japanese book-entry transfer system, the Company is required to give notice of each record date to JASDEC promptly after the resolution of the Board of Directors determining such record date. JASDEC is required to promptly give the Company notice of the names and addresses of holders of Shares, the numbers of Shares held by them and other relevant information as at such record date.

Acquisition by the Company of Shares

The Company may acquire Shares (i) from a specific shareholder other than any of the Company's subsidiaries (pursuant to a special resolution of a general meeting of shareholders), (ii) from any of the Company's subsidiaries (pursuant to a resolution of the Board of Directors), or (iii) by way of purchase on any Japanese stock exchange on which Shares are listed or by way of tender offer (in either case pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors). In the case of (i) above, any other shareholder may make a request to the Company that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the higher of (x) the last trading price of Shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted (or, if there is no trading in Shares on the stock exchange or if the stock exchange is not open on such day, the price at which Shares are first traded on such stock exchange thereafter) and (y) if Shares are subject to a tender offer on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted, the price of Shares under the agreement with respect to such tender offer on such day.

The total amount of the purchase price of Shares may not exceed the Distributable Amount, as described in "—Distribution of Surplus—Restriction on Distribution of Surplus."

The Company may hold Shares acquired in compliance with the provisions of the Companies Act, and may generally dispose of or cancel such Shares by resolution of its Board of Directors.

Request by Controlling Shareholder to Sell All Shares

A shareholder holding, directly or indirectly, 90 per cent (or such other percentage above 90 per cent as may be provided in the Company's Articles of Incorporation) or more of the Company's voting rights has the right to request, subject to approval by the Company's Board of Directors, that the other shareholders and (if the controlling shareholder so determines) all holders of stock acquisition rights of the Company (in each case, other than the Company and, if the controlling shareholder so determines, the controlling shareholder's wholly owned subsidiaries) sell to the controlling shareholder all Shares and all stock acquisition rights, as the case may be, held by them (*kabushiki tou uriwatashi seikyu*). If the approval is granted by resolution of the Company's Board of Directors, the Company will be required to give public notice thereof to all holders and registered pledgees of Shares (and stock acquisition rights, as the case may be) not later than 20 days prior to the effective date of such sales, as proposed by the controlling shareholder.

Disposal of Shares by the Company

The Company is not required to send notices to a shareholder if delivery of notices to such shareholder fails to arrive for five consecutive years or more at his or her address registered in the Company's register of shareholders or otherwise notified to the Company.

In the above case, if the relevant shareholder to whom delivery of notices has failed also fails to receive distributions of Surplus on Shares continuously for five years or more at his or her address registered in the Company's register of shareholders or otherwise notified to the Company, then the Company may in general dispose of such Shares at their then market price and hold or deposit the proceeds of such disposition on behalf of the relevant shareholder.

Reporting of Substantial Shareholdings

The FIEA and its related regulations require any person who has become, beneficially and solely or jointly, a holder of more than 5 per cent of the total issued shares of capital stock of a company that is listed on any Japanese stock exchange to file a report with the Director of the relevant Local Finance Bureau of the Ministry of Finance within five business days. With certain exceptions, a similar report must also be filed in respect of any subsequent change of 1 per cent or more in the holding or of any change in material matters set forth in any previously filed reports. For this purpose, shares issuable to such person upon conversion of convertible securities or exercise of warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of shares held by the holder and the issuer's total issued shares of capital stock. Any report so filed will be made available for public inspection. Reports are required to be filed through the EDINET system, which is an electronic disclosure system operated by the Financial Services Agency.

JAPANESE TAXATION

The following is a summary of the principal Japanese tax consequences to Bondholders and owners of Shares, acquired upon exercise of the Stock Acquisition Rights incorporated in the Bonds who are non-resident individuals or non-Japanese corporations having no permanent establishment in Japan ("non-resident Holders"). The statements regarding Japanese tax laws set out below are based on the laws in force and interpreted by the Japanese taxation authorities as at the date hereof and are subject to changes in the applicable Japanese laws or tax treaties or arrangements or in the interpretation thereof after that date.

This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the Bonds and Shares acquired upon exercise of the Stock Acquisition Rights, including specifically the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident, and any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

Bonds

Receipts of premium (if any) upon redemption of the Bonds are subject to Japanese income tax (including corporate income tax) but are not subject to any withholding tax. If the recipient is a resident or a corporation of a country with which Japan has an income tax treaty, Japanese tax treatment may be modified by any applicable provisions of such income tax treaty. Bondholders are advised to consult with their legal, accounting or other professional advisers as to the applicable tax treatment.

Gains derived from the sale of Bonds, whether within or outside Japan, by a non-resident Holder thereof are, in general, not subject to Japanese income tax. Exercise of the Stock Acquisition Rights is not a taxable event in general.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired Bonds as legatee, heir or donee even if the individual is not a Japanese resident.

Shares

Generally, a non-resident Holder of Shares is subject to Japanese withholding tax on dividends paid by the Company. Stock splits are not subject to Japanese income tax.

The rate of Japanese withholding tax applicable to dividends paid by the Company to a non-resident Holder of Shares is 20 per cent, subject to any applicable income tax treaty. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the Shares) to any corporate or individual shareholders (including those shareholders who are non-resident individuals or non-Japanese corporations), except for any individual shareholder who holds 3 per cent or more of the total issued shares of the relevant Japanese corporation, the said 20 per cent withholding tax rate is reduced to 15 per cent. A special reconstruction surtax (2.1 per cent of the original applicable tax rate) will be added to the withholding tax rates until 31 December 2037. The withholding tax under Japanese tax law mentioned above may be exempted or reduced under an applicable tax treaty between Japan and the country of tax residence of a non-resident Holder.

Gains derived from the sale of Shares, whether within or outside Japan, by a non-resident Holder thereof are, in general, not subject to Japanese income tax.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired Shares as legatee, heir or donee even if the individual is not a Japanese resident.

SUBSCRIPTION AND SALE

Subscription Agreement

Pursuant to a subscription agreement dated 24 November 2021 in respect of the Bonds (the "Subscription Agreement") among us, Nomura International plc, Goldman Sachs International (together, the "Joint Lead Managers") and SMBC Nikko Capital Markets Limited and Mizuho International plc (together with the Joint Lead Managers, the "Managers"), the Managers have agreed with us, subject to the satisfaction of certain conditions, severally but not jointly, to purchase the aggregate principal amount of the Bonds as indicated in the table below at the issue price (the "Issue Price") of 100.0 per cent of the principal amount of the Bonds and to offer the Bonds at its Offer Price as stated on the cover page of this Offering Circular (the "Offer Price").

	Aggregate Principal Amount of the Bonds
Joint Lead Managers	
Nomura International plc	¥ 71,250,000,000
Goldman Sachs International	71,250,000,000
Co-Managers	
SMBC Nikko Capital Markets Limited	3,750,000,000
Mizuho International plc	3,750,000,000
Total	¥150,000,000,000

No selling concession or combined management and underwriting commission will be payable by us with respect to the offering of the Bonds. The difference between the Offer Price and the Issue Price will be distributed among the Managers in a manner agreed by them.

We have agreed to pay certain costs in connection with the issue and offering of the Bonds. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement or to terminate the Subscription Agreement in certain circumstances prior to payment to the Company as set out therein. We have agreed to indemnify the Managers against certain liabilities in connection with the issue and offering of the Bonds.

Lock-up Arrangements

In connection with the issue and offering of the Bonds, we have agreed that it will not, and will procure that none of our directors or officers or any person acting on our direction will, for a period beginning on the date of the Subscription Agreement and ending on the date 180 calendar days after the Closing Date:

(i) issue, offer, pledge, lend, sell, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any of our Shares or any other capital stock or any securities convertible into or exercisable or exchangeable for, or that constitutes the right to receive, our Shares or any other capital stock or any securities convertible into or exercisable or exchangeable for Shares;

(ii) enter into a transaction (including a derivative transaction) that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of our Shares or any other capital stock, or that has an effect on the market in the Shares similar to that of a sale;

(iii) deposit any Shares (or any securities convertible into or exercisable or exchangeable for our Shares or any other capital stock or which carry rights to subscribe or purchase our Shares or any other capital stock) in any depositary receipt facility; or

(iv) publicly announce any intention to do any of the above,

without the prior written consent of the Managers, other than:

(a) the issue and sale by us of the Bonds, the issue or transfer of Shares upon exercise of the Stock Acquisition Rights;

(b) the sale of Shares by us to any holder of Shares constituting less than one unit for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute one full unit of Shares;

(c) the issue of Shares by us as a result of any stock split or the pro rata allocation of Shares or the stock acquisition rights to holders of Shares without any consideration and the issue or transfer of Shares upon exercise of such stock acquisition rights;

(d) the issue or transfer of Shares upon exercise of stock acquisition rights (including those incorporated in the bonds with stock acquisition rights) which have been issued and outstanding as at the date of the Subscription Agreement, or the issue or transfer of Shares upon acquisition thereof at our option; and

(e) any other issue or sale of Shares required by the Japanese laws and regulations.

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds or the Shares, or the possession, circulation or distribution of this Offering Circular or any other material relating to us, the Bonds or the Shares where action for such purpose is required. Accordingly, neither the Bonds nor any Shares may be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds or the Shares may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

United States

The Bonds are being offered and sold outside of the United States in reliance on Regulation S. Neither the Bonds nor the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by us have been or will be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. In addition, until 40 days after the commencement of the offering, an offer or sale of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by us within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Prohibition of Sales to EEA Retail Investors

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Offering Circular in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

  (ii) a customer within the meaning of the Insurance Distribution Directive where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in the Prospectus Regulation; and

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds.

Prohibition of Sales to UK Retail Investors

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Offering Circular in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or

(ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or

(iii) not a qualified investor as defined in the Prospectus Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; and

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds.

In addition, each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

(b) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Switzerland

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Bonds. The Bonds may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act ("FinSA") and no application has or will be made to admit the Bonds to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Bonds constitutes a prospectus pursuant to the FinSA, and neither this Offering Circular nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Japan

The Bonds have not been and will not be registered under the FIEA. Accordingly, each Manager has represented and agreed that, in connection with the initial offering of the Bonds, it has not, directly or indirectly, offered or sold and shall not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the account or benefit of, any resident of Japan or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines in Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Singapore

Each Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the "MAS"). Accordingly, each of the Managers has represented, warranted and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This Offering Circular has not been registered as a prospectus with the MAS. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds may not be circulated or distributed, nor may the Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term or provision as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Section 309B Notification—we have determined, and hereby notify all persons (including all relevant persons (as defined in Section 309A(1) of the SFA)) that the Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Hong Kong

Each Manager has represented and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong ("C(WUMP)O") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Other Relationships

Certain of the Managers or their affiliates may purchase the Bonds and be allocated the Bonds for asset management and/or proprietary purposes but not with a view to distribution.

In connection with the offering of the Bonds, any Manager may for its own account enter into asset swaps, credit derivatives, or other derivatives relating to the Bonds and/or components of the Bonds and/or the Shares at the same time as the offer and sale of the Bonds or in secondary market transactions including facilitating short sales of the Shares by investors who are allocated Bonds. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of Bonds). As a result of such transactions any of the Managers may hold long or short positions in the Bonds and/or the Shares and/or derivatives relating thereto. No disclosure will be made of any such positions.

Certain of the Managers or their respective affiliates have in the past provided, are currently providing and may in the future provide, investment and commercial banking, underwriting, advisory and other services to the Company and its subsidiaries and affiliates for which they have received, expect to receive or may receive (as the case may be) customary compensation.

GENERAL INFORMATION

1 The Bonds have been accepted for clearance through Euroclear and through Clearstream, Luxembourg. The ISINs is XS2413708442 and Common Codes is 241370844.

2 The Securities Identification Code for the Shares given by Securities Identification Code Committee of Japan is 9202.

3 Approval in-principle has been received for the listing and quotation of the Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Approval in-principle for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Company or the Bonds. The Bonds will be traded on the SGX-ST in a minimum board lot size of ¥200,000 with a minimum of 100 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the relevant Global Certificate is exchanged for definitive Certificates, we will appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, an announcement of such exchange will be made by us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore.

4 We have obtained all necessary consents, approvals and authorisations in Japan, if any, in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by a resolution of our Board of Directors dated 24 November 2021.

5 Save as disclosed in this Offering Circular, there has been no significant change in our financial or trading position and no material adverse change in our prospects since 31 March 2021.

6 Save as disclosed in this Offering Circular, neither we nor any other member of our group are, or have been involved in, any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on our financial position or profitability nor are we aware that any such proceedings are pending or threatened.

7 Website links to our latest annual report including the audited consolidated annual financial statements in English, and our latest unaudited consolidated annual and quarterly financial statements in English (being English summaries of our published *Kessan tanshin* (preliminary results announcement) in Japanese) may be obtained, and copies of the Trust Deed and the Agency Agreement will be available for inspection, at the specified offices of each of the Agents during normal business hours, so long as any of the Bonds is outstanding.

8 Our consolidated financial statements as at and for the fiscal years ended 31 March 2020 and 2021, included in this Offering Circular, have been audited by Deloitte Touche Tohmatsu LLC, our independent auditor, as stated in their audit reports appearing herein.

9 Our unaudited interim consolidated financial statements as at and for the six-month period ended 30 September 2021, included in this Offering Circular, have been reviewed by Deloitte Touche Tohmatsu LLC, our independent accountant, as stated in their review report appearing herein.

10 Except to the extent provided in Condition 6, the Conditions do not provide for participating rights in the event of a take-over of us.

11 The Trustee is entitled under the Trust Deed to rely on reports and certificates addressed and/or delivered to it by our independent auditor whether or not the same are subject to any limitation on the liability of our independent auditor and whether by reference to a monetary cap or otherwise.

INDEX TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ANA HOLDINGS INC.:

Opinion

We have audited the consolidated financial statements of ANA HOLDINGS INC. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

	Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
1	<u>Revenue recognition in the air transportation business</u> As disclosed in Note 18(c), Segment information—Information about sales, profit, assets and other items, the Group recorded operating revenues of 604,014 million yen in the Air Transportation segment for the year ended March 31, 2021, which accounted for 61.1% of total operating revenues of all combined reportable segments. The operating revenues in the Air Transportation segment mainly consisted of revenues from the domestic and international passenger operations, which were core businesses for the Group and amounted to 203,119 million yen and 44,726 million yen, or 20.6% and 4.5% of total segment revenues, respectively. In addition, the majority of advance ticket sales in the amount of 44,718 million yen, which were	Our audit procedures performed to test the revenue recognition related to the domestic and international passenger operations based on the involvement of our IT specialists included the following, among others: • We identified and evaluated the design and operating effectiveness of automated controls over revenue recognition related to processes such as the creation of sales data, the matching of the sales data with boarding data and the creation of revenue data transferred into the accounting system by inspecting system design and other documents and reperforming controls using data extracted from the systems to determine whether the IT systems are functioning effectively.

	Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
	included in current liabilities on the consolidated balance sheet, represented considerations received for services that had not yet been rendered. Operating revenue is an important metric to management, and revenues from the domestic and international passenger operations comprise an important portion of this metric. On a daily basis there is a large volume of reservations, ticketing, boarding, billing and other transactions related to these operations, and these transactions depend on automated processing or system interfaces using multiple Information Technology ("IT") systems, including systems outsourced to service organizations. Proper processing of these revenues in accordance with the Group's accounting policy requires evaluating that the IT systems consistently function in an effective manner and that the information involved is appropriately secured. Moreover, a large portion of data processing for these transactions is input from websites by customers and devices at travel agencies, or linked from boarding gates, so the only physical evidence of these transactions is limited to financial institutions' transaction records. Therefore, our performance of audit procedures is highly dependent on information generated through the automated processing or system interfaces using the IT systems. For these reasons, we identified the consistent effectiveness of automated processing by the IT systems related to the domestic and international passenger operations and the reliability of information generated by those systems as a key audit matter.	• We evaluated the design and operating effectiveness of general IT controls, which supported the consistent operation of automated controls throughout the audit period, by inspecting test results for program changes made to the relevant IT systems and evidence of approval for granting access rights to data and other information resources. • We evaluated whether general IT controls that exist at service organizations over the IT systems, and that were outsourced could be relied upon by obtaining relevant service auditor's reports on controls over the outsourced operations and reading descriptions of the scope, period and procedures to test general IT controls. • We compared revenue data generated from the application systems with the amounts recorded in the accounting system. We also compared revenue data or underlying sales data with financial institutions' transaction records. • We tested the accuracy and completeness of information and data, such as the number of travelers, sales data and revenue data, generated from the application systems used in our audit procedures by inspection of system design and other documents and by reperformance procedures using data extracted from the systems.
2	<u>Accounting estimates affected by the COVID-19 pandemic</u> Primarily in response to the huge reduction in passenger air travel demand due to the COVID-19 pandemic, the Group recorded a decrease in operating revenues of 1,245,533 million yen or 63.1% from the previous year and operating losses of 464,774 million yen in the consolidated statement of operations for the year ended March 31, 2021, and reported net cash used in operating activities in the amount of 270,441 million yen in the consolidated statement of cash flows for the year then ended. Under such circumstances, management concluded that a material uncertainty did not exist over the Group's ability to continue as a going concern since the Group had procured funds necessary to secure liquidity on hand. The Group also recorded	Our audit procedures performed to test significant assumptions used in the future plans, which are the basis for the assessment of whether a material uncertainty existed in the going concern assumption and the valuation of deferred tax assets, included the following, among others: • We compared the Group's assumptions regarding the duration of the COVID-19 pandemic, the speed of air travel demand recovery and the market growth rate in the post-COVID-19 environment with those in market outlook publications and other related industry reports from external institutions. We obtained an understanding of and considered assumptions used in the external market outlooks and other reports, and we compared them to each other. We also assessed the historical relationships of

	Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
	deferred tax assets in the amount of 219,618 million yen on the consolidated balance sheet as of March 31, 2021, which were determined based on the estimate of future taxable income. As disclosed in Note 11, Income taxes, a material portion of that amount related to deferred tax assets recognized for tax losses carried forward in the amount of 128,363 million yen. Management's assessment over the going concern assumption and judgment on the recoverability of deferred tax assets were based on the Group's future plans that included the COVID-19 pandemic's impact on demand for passenger air travel. Specifically, assumptions used in the future plans below involve high estimation uncertainty and rely on management's judgment, and will have a significant impact on cash flows and estimates of future taxable income. Therefore, we identified these accounting estimates as a key audit matter. • Management estimates of the severity and duration of the impact of the COVID-19 pandemic on demand for passenger air travel involve a high level of uncertainty. As disclosed in Note 4(1), Significant Accounting Estimates—Recoverability of deferred tax assets, the recoverability of deferred tax assets is determined based on the business plans of ANA HOLDINGS INC. and ALL Nippon Airways Co., Ltd.; these business plans were developed using assumptions that the international and domestic air travel demand would recover to the 2019 level at the end of the years ended March 31, 2024 and 2022, respectively. • The assumptions related to the market growth rate, seat occupancy rate and revenue per passenger in the post-COVID-19 environment used in the development of the future plans involve a high degree of difficulty in the estimate because the Group may not use previous experience as a basis for these estimates. • Passenger carrying capacity in the future plans, which is determined based on aircraft investment plans and headcount plans, involves uncertainty because it is a future event and the Group plans or has already proceeded with early retirements of aircraft and employees. • The Group has developed various expense reduction measures responding to a drastically changing business environment	the seat occupancy rate and revenue per passenger with passenger carrying capacity and air travel demand. Then, we evaluated whether the assumptions reflecting the changes expected to occur in the post-COVID-19 environment fell within a reasonable range. • We tested the aircraft investment plans to determine whether they reflected early retirement of aircraft that had already occurred, and we compared them with the financing plans and plans for new routes. We also inspected the documents related to advance payments for aircraft that had an existing contract. In addition, we tested the feasibility of the headcount plans by determining whether they were consistent with passenger carrying capacity in the future plans and comparing them with the historical number of employees hired. • We obtained an understanding of specific expense reduction measures by inspecting decision-making documents by the Board of Directors and performing inquiries of relevant responsible company personnel. For measures that had been already implemented, we tested whether assumptions used in the future plans were consistent with actual results of such measures. • For the fuel price outlook, which is another significant assumption, we compared the Group's outlook with market predictions, available external data and historical data.

	Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
	and included them in the future plans in conjunction with a decrease in expenses due to lower passenger air travel demand. These expense reduction measures are dependent on management decisions and the Group's ability to execute the measures. The feasibility of those measures also has a significant impact on financing plans and estimates of future taxable income. • Fuel comprises a material portion of the Group's expenses or cost of sales and has significant price fluctuation risks due to a characteristic of its airline business, and greater-than-expected fuel price fluctuations would have a significant impact on the financing plans and estimates of future taxable income.	
3	<u>Recording business restructuring expenses</u> The Group recorded business restructuring expenses of 86,350 million yen in the consolidated statement of operations for the year ended March 31, 2021. Business restructuring expenses were losses incurred from those measures which management had implemented to reform the Group's cost structure primarily in response to the huge decrease in passenger air travel demand due to the COVID-19 pandemic. These expenses mainly consisted of a loss on sale of aircraft and an impairment loss resulting from early retirement of 28 large passenger aircrafts in addition to initial plan of the retirement. As described in Note 4(2), Significant Accounting Estimates—Impairment of the assets to be sold, and Note 22, Impairment loss, and Note 23, Supplementary information for the consolidated statement of operations: the breakdown of business restructuring expenses—impairment losses, the Group recorded impairment losses on property and equipment held for sale of 71,344 million yen, a large portion of which was impairment losses related to the early retirement of aircraft in the amount of 66,524 million yen. For the purpose of an impairment testing, those assets expected to be sold are grouped on an individual basis separately from other assets or asset groups as the decision to dispose of them have been made. The recoverable amount is then calculated from the net selling price at disposal, which is determined by the market value less estimated cost to sell. Normally, the market value of an aircraft is calculated based on a price that assumes the aircraft will be reused. However, as	Our audit procedures performed to test impairment losses related to the early retirement of aircraft, a key element of business restructuring expenses, included the following, among others: • We examined the reasonableness of the Group's judgment that these assets should be separated from other assets or asset groups and grouped individually for the purpose of impairment testing given the Group's decision to sell aircraft designated for early retirement. We inspected decision-making documents by the Board of Directors and performed inquiries of relevant responsible company personnel. • With the assistance of our fair value specialists, we evaluated the reasonableness of management judgment to use the estimated sales price instead of the market value calculated based on a price that assumes the aircraft will be reused, and tested the estimated sales price. • We compared the estimated sales prices to the Group's most recent sales history for the same aircraft model and obtained information about the status of sales negotiations. • We performed retrospective reviews to evaluate the reasonableness of estimates by comparing the estimated sales price with actual sales prices for the aircraft which had been sold or whose sales contracts had been fixed subsequent to the recognition of impairment losses.

	Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
	the actual prices significantly differ from estimated selling prices that are based on the assumption that the aircraft will be reused because of the decreased passenger air travel demand due to COVID-19, the Group determines the market value of its aircraft that has yet to be sold by using the estimated sales price based on recent sales transactions of comparable assets to assess the impairment loss. As the calculation of the market value involves estimates and judgments made by management and significantly affects the measurement of an impairment loss, we identified this matter above as a key audit matter.	

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/s/ Deloitte Touche Tohmatsu LLC
Tokyo, Japan
June 28, 2021

Consolidated Financial Statements
Consolidated Balance Sheet

ANA HOLDINGS INC. and its consolidated subsidiaries
As of March 31, 2021

As of March 31	Yen (Millions) 2021	Yen (Millions) 2020	U.S. dollars (Thousands) (Note 2) 2021
ASSETS			
Current assets:			
Cash and deposits (Notes 16 and 21)	¥ **464,739**	¥ 109,447	$ **4,197,805**
Marketable securities (Notes 5 and 16)	**500,980**	129,200	**4,525,155**
Notes and accounts receivable (Note 16)	**107,573**	98,944	**971,664**
Accounts receivable from and advances to unconsolidated subsidiaries and affiliates	**3,763**	2,851	**33,989**
Lease receivables and investments in leases (Note 8)	**19,112**	22,823	**172,631**
Inventories (Notes 6, 8 and 23)	**38,855**	67,312	**350,961**
Prepaid expenses and other	**91,511**	141,123	**826,582**
Allowance for doubtful accounts	**(231)**	(538)	**(2,086)**
Total current assets	**1,226,302**	571,162	**11,076,704**
Property and equipment:			
Land (Note 8)	**48,748**	53,886	**440,321**
Buildings and structures (Note 8)	**301,266**	306,084	**2,721,217**
Aircraft (Note 8)	**1,943,795**	2,120,347	**17,557,537**
Machinery and equipment	**101,014**	112,343	**912,419**
Vehicles	**33,525**	32,741	**302,818**
Furniture and fixtures	**64,772**	65,428	**585,060**
Lease assets (Note 13)	**10,660**	11,170	**96,287**
Construction in progress	**198,389**	180,005	**1,791,970**
Total	**2,702,169**	2,882,004	**24,407,632**
Accumulated depreciation	**(1,255,862)**	(1,301,678)	**(11,343,708)**
Net property and equipment	**1,446,307**	1,580,326	**13,063,923**
Investments and other assets:			
Investment securities (Notes 5 and 16)	**129,930**	108,156	**1,173,606**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 7)	**34,245**	42,322	**309,321**
Lease and guaranty deposits	**15,526**	18,501	**140,240**
Deferred tax assets (Note 11)	**219,618**	99,824	**1,983,723**
Goodwill	**22,346**	24,461	**201,842**
Intangible assets	**87,839**	101,062	**793,415**
Other assets	**25,770**	14,339	**232,770**
Total investments and other assets	**535,274**	408,665	**4,834,920**
TOTAL (Note 18)	¥ **3,207,883**	¥ 2,560,153	$ **28,975,548**

As of March 31	Yen (Millions) 2021	2020	U.S. dollars (Thousands) (Note 2) 2021
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term loans (Notes 8 and 16)	**¥ 100,070**	¥ 429	**$ 903,893**
Current portion of long-term debt (Notes 8 and 16)	**72,966**	107,878	**659,073**
Accounts payable (Note 16)	**182,241**	196,391	**1,646,111**
Accounts payable to unconsolidated subsidiaries and affiliates	**2,508**	4,325	**22,653**
Advance ticket sales	**44,718**	111,827	**403,920**
Accrued expenses	**39,286**	36,974	**354,855**
Income taxes payable	**10,696**	8,441	**96,612**
Other current liabilities (Note 10)	**50,920**	64,281	**459,940**
Total current liabilities	**503,405**	530,546	**4,547,059**
Long-term liabilities:			
Long-term debt (Notes 8 and 16)	**1,482,416**	734,555	**13,390,082**
Liability for retirement benefits (Note 9)	**160,885**	163,384	**1,453,211**
Deferred tax liabilities (Note 11)	**222**	112	**2,005**
Asset retirement obligations (Note 10)	**1,153**	1,224	**10,414**
Other long-term liabilities	**47,482**	61,462	**428,886**
Total long-term liabilities	**1,692,158**	960,737	**15,284,599**
Contingent liabilities (Note 15)			
Equity (Note 14):			
Common stock: Authorized-510,000,000 shares; Issued-484,293,561 shares in 2021 and 348,498,361 shares in 2020	**467,601**	318,789	**4,223,656**
Capital surplus	**407,329**	258,470	**3,679,243**
Retained earnings	**145,101**	550,839	**1,310,640**
Treasury stock-13,950,901 shares in 2021 and 13,978,652 shares in 2020	**(59,335)**	(59,435)	**(535,949)**
Accumulated other comprehensive income:			
Unrealized gain on securities	**38,468**	22,120	**347,466**
Deferred gain (loss) on derivatives under hedge accounting	**21,652**	(14,595)	**195,574**
Foreign currency translation adjustments	**2,666**	2,668	**24,080**
Defined retirement benefit plans	**(16,249)**	(17,828)	**(146,770)**
Total	**1,007,233**	1,061,028	**9,097,940**
Non-controlling interests	**5,087**	7,842	**45,948**
Total equity	**1,012,320**	1,068,870	**9,143,889**
TOTAL	**¥ 3,207,883**	¥ 2,560,153	**$ 28,975,548**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Operations

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2021

Year Ended March 31	Yen (Millions) 2021	Yen (Millions) 2020	U.S. dollars (Thousands) (Note 2) 2021
Operating revenues (Note 18)	¥ **728,683**	¥ 1,974,216	$ **6,581,907**
Cost of sales (Notes 9 and 23)	**1,000,000**	1,583,434	**9,032,607**
Gross (loss) profit	**(271,317)**	390,782	**(2,450,700)**
Selling, general and administrative expenses (Notes 9 and 19)	**193,457**	329,976	**1,747,421**
Operating (loss) income (Note 18)	**(464,774)**	60,806	**(4,198,121)**
Other income (expenses):			
Interest income	**663**	958	**5,988**
Dividend income	**1,446**	2,073	**13,061**
Equity in earnings of unconsolidated subsidiaries and affiliates	**—**	1,210	**—**
Foreign exchange gain, net	**4,143**	473	**37,422**
Gain on sales of assets	**3,422**	6,746	**30,909**
Gain on donation of non-current assets	**2,405**	3,553	**21,723**
Interest expenses	**(16,689)**	(6,291)	**(150,745)**
Equity in losses of unconsolidated subsidiaries and affiliates	**(3,630)**	—	**(32,788)**
Loss on sales of assets	**(2,825)**	(302)	**(25,517)**
Loss on disposal of assets	**(5,609)**	(7,133)	**(50,663)**
Commission fee (Note 23)	**(7,742)**	(20)	**(69,930)**
Loss on valuation of derivatives (Note 23)	**(8,044)**	(603)	**(72,658)**
Impairment loss (Note 22)	**(4,231)**	(25,159)	**(38,216)**
Business restructuring expense (Note 23)	**(86,350)**	—	**(779,965)**
Other, net (Note 23)	**42,443**	15,190	**383,370**
Other income (expenses), net	**(80,598)**	(9,305)	**(728,010)**
(Loss) income before income taxes	**(545,372)**	51,501	**(4,926,131)**
Income taxes (Note 11):			
Current	**3,990**	24,407	**36,040**
Deferred	**(141,672)**	1,175	**(1,279,667)**
Total income taxes	**(137,682)**	25,582	**(1,243,627)**
Net (loss) income	**(407,690)**	25,919	**(3,682,503)**
Net loss attributable to non-controlling interests	**(3,066)**	(1,736)	**(27,693)**
Net (loss) income attributable to owners of the parent	¥ **(404,624)**	¥ 27,655	$ **(3,654,809)**

	Yen 2021	Yen 2020	U.S. dollars (Note 2) 2021
Per share of common stock (Notes 3, 14 and 20):			
Basic net (loss) income	¥ **(1,082.04)**	¥ 82.66	$ **(9.77)**
Cash dividends applicable to the year	**—**	—	**—**

Net income per share assuming full dilution is not disclosed as the Company had no potentially dilutive shares outstanding during the years ended March 31, 2021 and 2020.

Consolidated Statement of Comprehensive Income

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2021

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
Year Ended March 31	**2021**	2020	**2021**
Net (loss) income	**¥(407,690)**	¥ 25,919	**$(3,682,503)**
Other comprehensive income (loss) (Note 12):			
Unrealized gain (loss) on securities	**16,253**	(15,369)	**146,806**
Deferred gain (loss) on derivatives under hedge accounting	**36,242**	(25,227)	**327,359**
Foreign currency translation adjustments	**31**	(221)	**280**
Defined retirement benefit plans	**1,606**	539	**14,506**
Share of other comprehensive income (loss) in affiliates	**323**	(383)	**2,917**
Total other comprehensive income (loss) (Note 12)	**54,455**	(40,661)	**491,870**
Comprehensive loss	**¥(353,235)**	¥(14,742)	**$(3,190,633)**
Total comprehensive loss attributable to:			
Owners of the parent	**¥(350,452)**	¥(12,749)	**$(3,165,495)**
Non-controlling interests	**(2,783)**	(1,993)	**(25,137)**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2021

	Thousands	Yen (Millions)											
							Accumulated other comprehensive income						
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total equity
Balance at March 31, 2019	334,629	¥ 318,789	¥ 258,448	¥ 548,439	¥ (59,032)	¥ 1,066,644	¥ 37,622	¥ 10,636	¥ 2,873	¥ (18,362)	¥ 32,769	¥ 9,900	¥ 1,109,313
Net income attributable to owners of the parent				27,655		27,655							27,655
Cash dividends ¥75.00 per share (Note 14)				(25,105)		(25,105)							(25,105)
Purchase of treasury stock (Note 14)	(125)				(453)	(453)							(453)
Disposal of treasury stock (Note 14)	15				50	50							50
Change in the parent's ownership interest due to transactions with non-controlling interests			22			22							22
Changes in scope of consolidation				(150)		(150)							(150)
Net changes in the year						—	(15,502)	(25,231)	(205)	534	(40,404)	(2,058)	(42,462)
Total changes during the fiscal year		—	22	2,400	(403)	2,019	(15,502)	(25,231)	(205)	534	(40,404)	(2,058)	(40,443)
Balance at March 31, 2020	334,519	318,789	258,470	550,839	(59,435)	1,068,663	22,120	(14,595)	2,668	(17,828)	(7,635)	7,842	1,068,870
Issuance of new shares	**135,795**	**148,812**	**148,812**			**297,624**							**297,624**
Net loss attributable to owners of the parent				**(404,624)**		**(404,624)**							**(404,624)**
Purchase of treasury stock (Note 14)	**(5)**				**(13)**	**(13)**							**(13)**
Disposal of treasury stock (Note 14)	**32**		**(1)**		**113**	**112**							**112**
Change in the parent's ownership interest due to transactions with non-controlling interests			**48**			**48**							**48**
Changes in scope of consolidation				**(660)**		**(660)**							**(660)**
Changes in scope of equity method				**(454)**		**(454)**							**(454)**
Net changes in the year						**—**	**16,348**	**36,247**	**(2)**	**1,579**	**54,172**	**(2,755)**	**51,417**
Total changes during the fiscal year		**148,812**	**148,859**	**(405,738)**	**100**	**(107,967)**	**16,348**	**36,247**	**(2)**	**1,579**	**54,172**	**(2,755)**	**(56,550)**
Balance at March 31, 2021	**470,342**	**¥ 467,601**	**¥ 407,329**	**¥ 145,101**	**¥ (59,335)**	**¥ 960,696**	**¥ 38,468**	**¥ 21,652**	**¥ 2,666**	**¥ (16,249)**	**¥ 46,537**	**¥ 5,087**	**¥ 1,012,320**

	Thousands	U.S. dollars (Thousands) (Note 2)											
							Accumulated other comprehensive income						
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total equity
Balance at March 31, 2020	334,519	$2,879,495	$2,334,658	$ 4,975,512	$(536,853)	$ 9,652,813	$199,801	$(131,830)	$24,098	$(161,033)	$ (68,963)	$ 70,833	$ 9,654,683
Issuance of new shares	**135,795**	**1,344,160**	**1,344,160**			**2,688,320**							**2,688,320**
Net loss attributable to owners of the parent				**(3,654,809)**		**(3,654,809)**							**(3,654,809)**
Purchase of treasury stock (Note 14)	**(5)**				**(117)**	**(117)**							**(117)**
Disposal of treasury stock (Note 14)	**32**		**(9)**		**1,020**	**1,011**							**1,011**
Change in the parent's ownership interest due to transactions with non-controlling interests			**433**			**433**							**433**
Changes in scope of consolidation				**(5,961)**		**(5,961)**							**(5,961)**
Changes in scope of equity method				**(4,100)**		**(4,100)**							**(4,100)**
Net changes in the year						**—**	**147,665**	**327,404**	**(18)**	**14,262**	**489,314**	**(24,884)**	**464,429**
Total changes during the fiscal year		**1,344,160**	**1,344,584**	**(3,664,872)**	**903**	**(975,223)**	**147,665**	**327,404**	**(18)**	**14,262**	**489,314**	**(24,884)**	**(510,793)**
Balance at March 31, 2021	**470,342**	**$4,223,656**	**$3,679,243**	**$ 1,310,640**	**$(535,949)**	**$ 8,677,590**	**$347,466**	**$ 195,574**	**$24,080**	**$(146,770)**	**$420,350**	**$ 45,948**	**$ 9,143,889**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2021

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
Year Ended March 31	**2021**	2020	**2021**
Cash flows from operating activities:			
(Loss) income before income taxes	**¥ (545,372)**	¥51,501	**$(4,926,131)**
Adjustments for:			
Depreciation and amortization (Note 18)	**176,352**	175,739	**1,592,918**
Impairment loss (Note 22)	**75,575**	25,159	**682,639**
Amortization of goodwill (Note 18)	**2,115**	4,006	**19,103**
Loss on disposal and sales of property and equipment	**10,759**	689	**97,181**
Loss (gain) on sales and valuation of investment securities	**8,058**	(269)	**72,784**
Loss on sales of shares of subsidiaries and affiliates	**—**	7	**—**
(Decrease) increase in allowance for doubtful accounts	**(251)**	419	**(2,267)**
(Decrease) increase in liability for retirement benefits	**(44)**	5,503	**(397)**
Interest and dividend income	**(2,109)**	(3,031)	**(19,049)**
Interest expenses	**16,689**	6,291	**150,745**
Subsidies for employment adjustment	**(43,470)**	—	**(392,647)**
Foreign exchange (gain) loss	**(2,454)**	273	**(22,166)**
(Increase) decrease in notes and accounts receivable	**(5,107)**	82,312	**(46,129)**
Decrease (increase) in other current assets	**52,880**	(9,284)	**477,644**
Decrease in notes and accounts payable	**(25,160)**	(38,045)	**(227,260)**
Decrease in advance ticket sales	**(67,109)**	(107,123)	**(606,169)**
Other, net	**49,496**	(14,510)	**447,077**
Subtotal	**(299,152)**	179,637	**(2,702,122)**
Interest and dividends received	**2,427**	3,831	**21,922**
Interest paid	**(12,466)**	(6,371)	**(112,600)**
Proceeds from subsidy income	**38,001**	—	**343,248**
Income taxes refunded (paid)	**749**	(46,928)	**6,765**
Net cash (used in) provided by operating activities	**(270,441)**	130,169	**(2,442,787)**
Cash flows from investing activities:			
Increase in time deposits	**(372,626)**	(55,819)	**(3,365,784)**
Proceeds from withdrawal of time deposits	**162,300**	50,789	**1,465,992**
Purchases of marketable securities	**(437,280)**	(175,070)	**(3,949,778)**
Proceeds from redemption of marketable securities	**154,870**	159,200	**1,398,879**
Purchases of property and equipment	**(134,174)**	(317,604)	**(1,211,941)**
Proceeds from sales of property and equipment	**54,415**	151,652	**491,509**
Purchases of intangible assets	**(22,536)**	(33,757)	**(203,558)**
Purchases of investment securities	**(7,168)**	(8,339)	**(64,745)**
Proceeds from sales of investment securities	**746**	1,309	**6,738**
Proceeds from withdrawal of investments in securities	**2,527**	—	**22,825**
Other, net	**3,167**	(2,579)	**28,606**
Net cash used in investing activities	**(595,759)**	(230,218)	**(5,381,257)**
Cash flows from financing activities:			
Increase in short-term loans, net	**97,747**	98	**882,910**
Proceeds from long-term loans	**827,988**	96,684	**7,478,890**
Repayment of long-term loans	**(98,949)**	(82,035)	**(893,767)**
Proceeds from issuance of bonds	**—**	69,586	**—**
Repayment of bonds	**(20,000)**	(30,000)	**(180,652)**
Repayment of finance lease obligations	**(4,668)**	(4,609)	**(42,164)**
Payment for purchases of investments in subsidiaries with no changes in scope of consolidation	**—**	(96)	**—**
Proceeds from issuance of shares	**296,098**	—	**2,674,537**
Proceeds from share issuance to non-controlling shareholders	**318**	—	**2,872**
Net decrease (increase) of treasury stock	**99**	(405)	**894**
Payment for dividends	**—**	(25,105)	**—**
Other, net	**(461)**	(249)	**(4,164)**
Net cash provided by financing activities	**1,098,172**	23,869	**9,919,356**
Effect of exchange rate changes on cash and cash equivalents	**2,649**	(274)	**23,927**
Net increase (decrease) in cash and cash equivalents	**234,621**	(76,454)	**2,119,239**
Cash and cash equivalents at beginning of year	**135,937**	211,838	**1,227,865**
Net (decrease) increase resulting from changes in scope of consolidation	**(236)**	553	**(2,131)**
Cash and cash equivalents at end of year (Note 21)	**¥ 370,322**	¥ 135,937	**$ 3,344,973**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2021

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of ANA HOLDINGS INC. (hereinafter referred to as the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the consolidated financial statements of the previous fiscal year to conform to the classifications used in the current fiscal year.

2. Translation of financial statements

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of readers outside of Japan, have been translated into U.S. dollars at the rate of ¥110.71 = US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2021. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at that or any other rate. Translations of U.S. dollars are rounded down to the nearest thousand and, therefore, the totals shown in tables do not necessarily agree with the sums of the individual amounts.

3. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements as of March 31, 2021 include the accounts of the Company and its 56 (62 in 2020) significant subsidiaries (collectively, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 14 (16 in 2020) unconsolidated subsidiaries and significant affiliates are accounted for by the equity method.

The difference between the cost and the underlying net assets at dates of acquisition of consolidated subsidiaries and companies accounted for by the equity method is amortized using the straight-line method over a period of 10 to 15 years.

Investments in 97 (95 in 2020) subsidiaries and affiliates which are not consolidated or accounted for by the equity method are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

Certain subsidiaries have fiscal years ending on December 31 and February 28, and necessary adjustments for significant transactions, if any, are made in consolidation.

(b) Foreign currency translation

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except for payables and receivables hedged by qualified forward exchange contracts, and differences arising from the translation are included in the consolidated statement of operations.

The balance sheet accounts of consolidated foreign subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of equity excluding non-controlling interests which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences arising from the translation are presented as foreign currency translation adjustments in equity.

(c) Marketable securities and investment securities

Marketable securities and investment securities are classified into three categories: trading, held-to-maturity or available-for-sale. Under the accounting standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as available-for-sale securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in equity. Non-marketable securities classified as available-for-sale securities are carried at cost, determined by the moving-average method. See Note 5 "Marketable securities and investment securities" for additional information.

(d) Allowance for doubtful accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

(e) Inventories

Inventories include aircraft spare parts, supplies and stock in trade of consolidated subsidiaries, and are stated at cost, principally determined by the moving-average method. The net book value of inventories in the consolidated balance sheet is written down when their net realizable value is less than book value. See Note 6 "Inventories" and Note 23 "Supplementary information for the consolidated statement of operations" for additional information.

(f) Property and equipment (excluding leased assets)

Property and equipment, excluding leased assets, are stated at cost less accumulated depreciation. Depreciation of property and equipment is computed based on the estimated useful lives. Major assets are depreciated by the following method:

Buildings	Straight-line method
Aircraft	Straight-line method

The Company and certain subsidiaries employ principally the following useful lives for major property and equipment, based upon the Company's estimate of durability:

Buildings	3–50 years
Aircraft	9–20 years

Major additions and improvements are capitalized at cost. Maintenance and repairs, including minor remodels and improvements, are charged to income as incurred.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. The assets of the Group are grouped by individual property in the case of rental real estate, assets determined to be sold and idle assets, and by management accounting categories in the case of business assets. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition. See Note 22 "Impairment loss" for additional information.

(g) Intangible assets and amortization (excluding leased assets)

Intangible assets are amortized principally by the straight-line method. Cost of software purchased for internal use is amortized by the straight-line method over five years, the estimated useful life of purchased software.

(h) Retirement benefits

The retirement benefit plans of the Group cover substantially all employees other than directors and corporate auditors. Under the terms of this plan, eligible employees are entitled, upon mandatory retirement or earlier voluntary severance, to lump-sum payments or annuity payments based on their compensation at the time of leaving and years of service with the Company and subsidiaries.

The Company and certain significant domestic subsidiaries have trustee employee pension funds to provide coverage for part of the lump-sum benefits or annuity payments.

The Company and certain consolidated subsidiaries sponsor defined contribution pension plans as well as defined benefit pension plans.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and are recognized in profit or loss over the average remaining service years of employees.

(i) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences. See Note 11 “Income taxes” for additional information.

(j) Leases

Leased assets arising from transactions under finance lease contracts are depreciated to a residual value of zero by the straight-line method using the term of the contract as the useful life.

(k) Derivatives

The Group uses derivatives, such as forward foreign currency exchange contracts, interest rate swaps, and commodity options and swaps to limit its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. The Group does not use derivatives for trading purposes.

Derivative financial instruments are carried at fair value with changes in unrealized gains or losses charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which an unrealized gain or loss is deferred. Receivables and payables hedged by qualified forward exchange contracts are translated at the corresponding foreign exchange contract rates. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expenses.

(l) Revenue recognition

Passenger revenues, cargo and other operating revenues are recorded when services are provided.

(m) Cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits and negotiable certificates of deposit, all of which mature or become due within three months of the date of acquisition. See Note 21 “Supplementary cash flow information” for additional information.

(n) Per share information

Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Diluted net income per share is not presented as the effect of including potential common shares is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statement of operations are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

(o) Share remuneration plan for directors

The Company has transactions for delivery of the Company's treasury stock through a trust as a share remuneration plan (the "Trust for Delivery of Shares to Directors") in order to improve its operating performance, increase its corporate value, and raise the directors' awareness of shareholder oriented management.

(1) Transaction outline

Trust for Delivery of Shares to Directors is a system in which funds are contributed by the Company, and shares acquired are distributed to the Company's directors in accordance with the Company's operating performance, etc.

(2) The Company's treasury stock remaining in the trust

The Company's treasury stock remaining in the trust is recorded at book value (excluding associated expenses) of the trust and is reflected as treasury stock in equity. The book value was ¥717 million for the previous fiscal year and ¥608 million for the current fiscal year. The number of shares was 209 thousand shares for the previous fiscal year and 178 thousand shares for the current fiscal year.

(p) Unapplied new accounting standard

"Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan ("ASBJ") Statement No. 29 – March 31, 2020)

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30 – March 31, 2020)

(1) Overview

The International Accounting Standards Board ("IASB") and Financial Accounting Standards Board ("FASB") issued a new revenue standard, "Revenue from Contracts with Customers" (International Financial Reporting Standard 15 ("IFRS 15") and Accounting Standard Codification 606 ("Topic 606") issued by the IASB and FASB, respectively), on May 2014.

Against the background of the fact that IFRS 15 will be effective from periods beginning on or after January 1, 2018 and Topic 606 will be effective from periods beginning on or after December 15, 2017, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The ASBJ's primary policy for developing its accounting standard for revenue recognition was to include the basic principles of IFRS 15 for the purpose of comparability between financial statements in accordance with Japanese GAAP and those in accordance with IFRS or accounting principles generally accepted in the United States of America. Also, for particular items for which industrial practice should be taken into consideration, alternative means are to be provided to the extent that comparability is maintained.

(2) Application date

The Company will apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and when the control of the promised good or service gives the customer, the Company will recognize the revenue in terms of the amount expected to be received in exchange for them. The main changes due to the application of "Accounting Standards for Revenue Recognition" are as follows.

The Company operates the ANA Mileage Club and the mileage granted in response to the use of passenger transportation services, etc. can be used to receive services provided by the Group and the partner companies in the future. In order to prepare for the use of the granted mileage, the estimated future expenditure was recorded as accounts payable, but the method has been changed to identify the granted mileage as a performance obligation and allocate the transaction price.

In addition, the Company will adopt the method of recognizing the cumulative effect on the application start date, which is accepted as a transitional measure. The impact of the application of this accounting standard on the consolidated financial statements is currently being evaluated.

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30 – July 4, 2019)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31 – July 4, 2019)

"Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 – July 4, 2019)

"Accounting Standard for Financial Instruments" (ASBJ Statement No. 10 – July 4, 2019)

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 – March 31, 2020)

(1) Overview

The IASB and FASB established almost the same detailed implementation guidance for Fair Value Measurement (IFRS 13 and Topic 820 issued by the IASB and FASB, respectively).

The ASBJ has since made efforts to align Japanese GAAP to International Accounting Standards, so as to incorporate the aforementioned implementation guidance for Fair Value Measurement and Disclosures. This resulted in the issuance of ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement."

The ASBJ's primary policy for developing its Accounting Standard for Fair Value Measurement was to include the basic principles of IFRS 13 for the purpose of comparability between financial statements in accordance with Japanese GAAP and those in accordance with IFRS or accounting principles generally accepted in the United States of America. Also, for particular items for which industrial practice should be taken into consid- eration, alternative means are to be provided to the extent that comparability is maintained.

(2) Application date

The Company will apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and the application of the accounting standard is not expected to have a significant impact on the consolidated financial statements for the next fiscal year.

(q) Changes in presentation method

(Accounting Standard for Disclosure of Accounting Estimates)

The Group has adopted the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020), and has included notes to significant accounting estimates in the consolidated financial statements. However, it does not describe the details related to the previous fiscal year.

4. Significant Accounting Estimates

(1) Recoverability of deferred tax assets

(i) Amount recorded in the consolidated financial statements

	Yen (Millions)	U.S. dollars (Thousands)
	2021	**2021**
Deferred tax assets	**¥ 219,618**	**$ 1,983,723**

(ii) Other information of accounting estimates

The Group recorded deferred tax assets of ¥219,618 million ($1,983,723 thousand) related to tax loss carryforwards, etc. for the current consolidated fiscal year due to a significant decrease in demand for airline passengers associated with the spread of the novel coronavirus (COVID-19).

The Company and certain of its domestic subsidiaries apply the consolidated corporate-tax system, and the corporations subject to the consolidated corporate-tax system make judgments on the recoverability based on the future taxable income, etc. of the tax consolidated group with regard to corporate taxes (national taxes), and make judgments on the recoverability of deferred tax assets based on the future taxable income, etc. of each corporation with regard to local taxes. With respect to tax loss carryforwards, the Company estimates the expected year and amount to be deducted from the total of tax loss carryforwards based on the estimated future taxable income and record the amount expected to be recovered as deferred tax assets.

The future taxable income of ANA Holdings Inc. and All Nippon Airways Co., Ltd., which constitutes a significant portion of the future taxable income that provides a basis for scheduling the amount expected to be deducted, is estimated based on a future plan that assumes that the demand for domestic passengers and international passengers will recover to the pre-pandemic level of 2019 by the end of the fiscal years ending March 31, 2022 and March 31, 2024, respectively.

These assumptions are highly uncertain, and if the impact of COVID-19 is prolonged, it may have a significant impact on the consolidated financial statements for the following fiscal year or thereafter.

(2) Impairment of the assets to be sold

(i) Amounts recorded in the consolidated financial statements

	Yen (Millions)	U.S. dollars (Thousands)
	2021	**2021**
Aircraft to be sold	**¥ 7,713**	**$ 69,668**
Land, buildings and structures, etc. to be sold	**8,664**	**78,258**

(ii) Other information of accounting estimates

During the current consolidated fiscal year, the Company decided to implement "Transformative Measures to a New Business Model" in order to respond to the significant decrease in air passenger demand due to the impact of COVID-19, and decided on the early retirement of certain aircraft and selling the training facilities to implement cost structure reform, which is one of the main response measures. As a result, the Company identified indicators of impairment for aircraft and training facilities to be sold, and recognized an impairment loss of ¥71,344 million ($644,422 thousand) in business restructuring expense recorded during the current consolidated fiscal year, using net realizable value as the correctable amount. Of such amount, impairment loss related to the aircraft and training facilities for which the sale is not completed at the end of the current consolidated fiscal year is ¥59,743 million ($539,635 thousand).

Considering the impact of the decrease in air passenger demand due to the spread of COVID-19, net realizable value of aircraft is not calculated based on the assumption of reuse as aircraft, but is calculated by deducting estimated disposal costs from the estimated realizable value reasonably calculated based on the Company's most recent actual sales results. Net realizable value of training facilities is calculated based on the real estate appraisal value presented by outside experts using the sales comparison approach.

(3) Goodwill impairment related to the Air Transportation Business

(i) Amount recognized in the consolidated financial statements

	Yen (Millions)	U.S. dollars (Thousands)
	2021	**2021**
Goodwill related to the Air Transportation Business	**¥ 22,002**	**$ 198,735**

(ii) Other information of accounting estimates

During the current consolidated fiscal year, due to the significant decline in air travel demand resulting from the impact of COVID-19, the Company identified indicators of impairment with respect to the goodwill that occurred when the Company made Peach Aviation Limited a consolidated subsidiary in April 2017. With respect to such goodwill, the Company determined that no impairment loss was recognized because the undiscounted future cash flows from Peach Aviation's air transportation business exceeded the book values.

These undiscounted future cash flows were determined by the management's best estimate and judgment, based on the business plan with the assumption that the negative impact of COVID-19 on the growth rate and the unit price of passenger revenue, etc. will gradually decrease after 2021.

This assumption may be affected by the changes in uncertain economic conditions in the future and, if review of such assumption becomes necessary, it may have a material effect on the consolidated financial statements for subsequent consolidated fiscal years.

5. Marketable securities and investment securities

Marketable and investment securities at March 31, 2021 and 2020 are summarized as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Current:			
Negotiable certificates of deposits	**¥ 500,980**	¥ 129,200	**$ 4,525,155**
Other	**—**	—	**—**
Total	**¥ 500,980**	¥ 129,200	**$ 4,525,155**
Non-current:			
Marketable equity securities	**¥ 106,657**	¥ 84,141	**$ 963,390**
Other	**23,273**	24,014	**210,215**
Total	**¥ 129,930**	¥ 108,156	**$ 1,173,606**

The costs and aggregate fair values of marketable and investment securities at March 31, 2021 and 2020 were as follows:

	Yen (Millions)			
As of March 31, 2021	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Negotiable certificates of deposit	**¥ 500,980**	**¥ —**	**¥ —**	**¥ 500,980**
Marketable equity securities	**51,583**	**55,610**	**(536)**	**106,657**
Held-to-maturity	**1,855**	**3,061**	**—**	**4,916**

	Yen (Millions)			
As of March 31, 2020	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Negotiable certificates of deposit	¥ 129,200	¥ —	¥ —	¥ 129,200
Marketable equity securities	51,453	36,211	(3,523)	84,141
Held-to-maturity	938	1,632	—	2,570

As of March 31, 2021	U.S. dollars (Thousands) Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Negotiable certificates of deposit	**$ 4,525,155**	**$ —**	**$ —**	**$ 4,525,155**
Marketable equity securities	**465,929**	**502,303**	**(4,841)**	**963,390**
Held-to-maturity	**16,755**	**27,648**	**—**	**44,404**

The proceeds, realized gains, and realized losses on the available-for-sale securities sold during the years ended March 31, 2021 and 2020 were as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Proceeds	**¥ 746**	¥ 1,309	**$ 6,738**
Gain on sales	**37**	1,122	**334**
Loss on sales	**—**	—	**—**

The breakdown of securities for which fair value cannot be reliably determined at March 31, 2021 and 2020 is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Available-for-sale	**¥ 21,418**	¥ 23,076	**$ 193,460**

The redemption schedule of available-for-sale securities with maturities and held-to-maturity securities at March 31, 2021 and 2020 is summarized as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Bonds:			
Within 1 year	**¥ —**	¥ —	**$ —**
Over 1 year to 5 years	**—**	—	**—**
Over 5 years to 10 years	**—**	—	**—**
Over 10 years	**—**	—	**—**
Other securities with maturities:			
Within 1 year	**500,980**	129,200	**4,525,155**
Over 1 year to 5 years	**2,837**	5,299	**25,625**
Over 5 years to 10 years	**2,222**	2,025	**20,070**
Over 10 years	**—**	—	**—**
Total:			
Within 1 year	**¥ 500,980**	¥ 129,200	**$ 4,525,155**
Over 1 year to 5 years	**2,837**	5,299	**25,625**
Over 5 years to 10 years	**2,222**	2,025	**20,070**
Over 10 years	**—**	—	**—**

6. Inventories

Inventories at March 31, 2021 and 2020 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Inventories (Merchandise)	**¥ 11,625**	¥ 13,490	**$ 105,004**
Inventories (Supplies)	**27,230**	53,822	**245,957**
Total	**¥ 38,855**	¥ 67,312	**$ 350,961**

7. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2021 and 2020 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Investments in capital stock	**¥ 29,346**	¥ 37,508	**$ 265,070**
Advances	**4,899**	4,814	**44,250**
Total	**¥ 34,245**	¥ 42,322	**$ 309,321**

8. Short-term loans and long-term debt

Short-term loans and current portion of long-term debt at March 31, 2021 and 2020 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Short-term loans	**¥ 100,070**	¥ 429	**$ 903,893**
Current portion of long-term loans	**69,443**	84,057	**627,251**
Current portion of bonds	**—**	20,000	**—**
Current portion of finance lease obligations	**3,523**	3,821	**31,821**
Total	**¥ 173,036**	¥ 108,307	**$ 1,562,966**

The average interest rates on the above short-term loans were 0.47% and 1.43% per annum in 2021 and 2020, respectively.

Long-term debt at March 31, 2021 and 2020 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Bonds:			
1.22% notes due 2024	¥ **30,000**	¥ 30,000	$ **270,978**
1.20% notes due 2026	**15,000**	15,000	**135,489**
0.99% notes due 2036	**20,000**	20,000	**180,652**
0.26% notes due 2020	**—**	20,000	**—**
0.88% notes due 2037	**10,000**	10,000	**90,326**
Convertible bonds with stock acquisition rights due 2022	**70,000**	70,000	**632,282**
Convertible bonds with stock acquisition rights due 2024	**70,000**	70,000	**632,282**
0.82% notes due 2038	**10,000**	10,000	**90,326**
0.47% notes due 2028	**10,000**	10,000	**90,326**
0.27% notes due 2026	**5,000**	5,000	**45,163**
0.84% notes due 2039	**15,000**	15,000	**135,489**
0.27% notes due 2025	**30,000**	30,000	**270,978**
0.28% notes due 2029	**10,000**	10,000	**90,326**
0.69% notes due 2039	**10,000**	10,000	**90,326**
	305,000	325,000	**2,754,945**
Loans, principally from banks:			
Secured, bearing interest from 0.07% to 2.11% in 2021 and 0.07% to 2.11% in 2020, maturing in installments through 2057	**668,770**	287,827	**6,040,737**
Unsecured, bearing interest from 0.46% to 4.58% in 2021 and 0.46% to 2.23% in 2020, maturing in installments through 2031	**568,925**	213,130	**5,138,876**
	1,237,695	500,957	**11,179,613**
Finance lease obligations:			
Finance lease agreements expiring through 2031	**12,687**	16,476	**114,596**
	1,555,382	842,433	**14,049,155**
Less current portion	**72,966**	107,878	**659,073**
Total	¥ **1,482,416**	¥ 734,555	$ **13,390,082**

The details of the convertible bonds with stock acquisition rights are as follows:

	Zero coupon convertible bonds due 2022
Class of shares to be issued	Common stock
Total issue price of stock acquisition rights	Zero
Initial conversion price	¥5,180 ($46.78) per share
Total issue price	¥70,000 million ($632,282 thousand)
Total issue price of shares issued upon the exercise of stock acquisition rights	—
Percentage of stock acquisition rights granted	100.0%
Exercise period	October 3, 2017 through September 2, 2022

If all of these outstanding warrants had been exercised at March 31, 2021, 13,757,050 shares of common stock would have been issued.

	Zero coupon convertible bonds due 2024
Class of shares to be issued	Common stock
Total issue price of stock acquisition rights	Zero
Initial conversion price	¥5,100 ($46.06) per share
Total issue price	¥70,000 million ($632,282 thousand)
Total issue price of shares issued upon the exercise of stock acquisition rights	—
Percentage of stock acquisition rights granted	100.0%
Exercise period	October 3, 2017 through September 5, 2024

If all of these outstanding warrants had been exercised at March 31, 2021, 13,972,892 shares of common stock would have been issued.

The conversion price of the convertible bonds is subject to adjustments to reflect stock splits and certain other events.

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that security and guarantees for future and present indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligation becomes due or in the event of default and certain other specified events, to offset cash deposits against such obligations due to the bank.

The following assets were pledged as collateral for short-term and long-term debt at March 31, 2021 and 2020:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Assets at net book value:			
Aircraft (including aircraft spare parts included in inventories)	**¥ 832,114**	¥ 510,607	**$ 7,516,159**
Land and buildings	**2,588**	2,956	**23,376**
Lease receivables and investments in leases	**11,012**	12,751	**99,467**
Others	**11,875**	11,135	**107,262**
Total	**¥ 857,591**	¥ 537,449	**$ 7,746,283**

The aggregate annual maturities of long-term debt after March 31, 2021 are as follows:

	Yen (Millions)	U.S. dollars (Thousands)
Years ending March 31		
2022	¥ 72,966	$ 659,073
2023	137,639	1,243,239
2024	118,036	1,066,172
2025	146,147	1,320,088
2026	96,525	871,872
Thereafter	984,069	8,888,709
Total	¥ 1,555,382	$ 14,049,155

9. Retirement benefit plans

The Company and certain consolidated subsidiaries provide defined contribution pension plans as well as defined benefit pension plans, i.e., defined benefit corporate pension plans and lump-sum payment plans for the benefit of employees. Premium severance pay may be paid at the time of retirement of eligible employees in certain cases.

Certain consolidated subsidiaries adopting defined benefit corporate pension plans and lump-sum payment plans use a simplified method for calculating retirement benefit expenses and liabilities.

(a) The changes in the defined benefit obligation for the years ended March 31, 2021 and 2020 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Balance at the beginning of the fiscal year	**¥ 225,286**	¥ 223,723	**$ 2,034,920**
Service cost	**10,628**	10,216	**95,998**
Interest cost	**1,702**	1,687	**15,373**
Actuarial gains	**4,467**	2,119	**40,348**
Benefits paid	**(18,474)**	(12,958)	**(166,868)**
Other	**571**	499	**5,157**
Balance at the end of the fiscal year	**¥ 224,180**	¥ 225,286	**$ 2,024,929**

(b) The changes in plan assets for the years ended March 31, 2021 and 2020 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Balance at the beginning of the fiscal year	**¥ 62,717**	¥ 65,990	**$ 566,498**
Expected return on plan assets	**831**	782	**7,506**
Actuarial gains (losses)	**3,171**	(1,510)	**28,642**
Employer contributions	**2,619**	2,611	**23,656**
Benefits paid	**(5,272)**	(5,156)	**(47,619)**
Other	**(2)**	—	**(18)**
Balance at the end of the fiscal year	**¥ 64,064**	¥ 62,717	**$ 578,664**

(c) A reconciliation between the liability recorded in the consolidated balance sheet and the balances of the defined benefit obligation and plan assets at March 31, 2021 and 2020 is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Funded defined benefit obligation	**¥ 71,964**	¥ 74,336	**$ 650,022**
Plan assets at fair value	**(64,064)**	(62,717)	**(578,664)**
	7,900	11,619	**71,357**
Unfunded defined benefit obligation	**152,216**	150,950	**1,374,907**
Net liability arising from defined benefit obligation in the consolidated balance sheet	**¥ 160,116**	¥ 162,569	**$ 1,446,265**
Liability for retirement benefits	**¥ 160,885**	¥ 163,384	**$ 1,453,211**
Asset for defined benefits	**(769)**	(815)	**(6,946)**
Net liability arising from defined benefit obligation in the consolidated balance sheet	**¥ 160,116**	¥ 162,569	**$ 1,446,265**

(d) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Service cost	**¥ 10,628**	¥ 10,216	**$ 95,998**
Interest cost	**1,702**	1,687	**15,373**
Expected return on plan assets	**(831)**	(782)	**(7,506)**
Recognized actuarial losses	**2,947**	3,569	**26,619**
Amortization of past service cost	**851**	847	**7,686**
Net periodic benefit costs	**¥ 15,297**	¥ 15,537	**$ 138,171**

Note: Additional severance for the voluntary retirement scheme is recorded as a part of special loss (business restructuring expense) besides the above table.

(e) Amounts recognized in other comprehensive income (before income tax effect) related to the defined retirement benefit plans for the years ended March 31, 2021 and 2020 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Past service cost	**¥ 851**	¥ 847	**$ 7,686**
Actuarial gains (losses)	**1,651**	(60)	**14,912**
Total	**¥ 2,502**	¥ 787	**$ 22,599**

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) related to the defined retirement benefit plans at March 31, 2021 and 2020 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Unrecognized actuarial losses	**¥ (15,730)**	¥ (17,378)	**$ (142,082)**
Unrecognized past service cost	**(7,427)**	(8,281)	**(67,085)**
Total	**¥ (23,157)**	¥ (25,659)	**$ (209,168)**

(g) Plan assets

(1) Components of plan assets

Plan assets at March 31, 2021 and 2020 consisted of the following:

	2021	2020
Bonds	**45%**	43%
General accounts	**13**	13
Stocks	**11**	10
Cash and deposits	**4**	4
Other	**27**	30
Total	**100%**	100%

(2) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets has been estimated based on the anticipated allocation to each plan asset class and the expected long-term returns on plan assets held in each category.

(h) Assumptions used for the years ended March 31, 2021 and 2020 are set forth as follows:

	2021	2020
Discount rates	**0.1 - 1.2%**	0.1 - 1.2%
Expected rates of return on plan assets	**1.0 - 2.5%**	1.0 - 2.5%

(i) Defined contribution pension plans

The contributions to the defined contribution pension plans of the Company and certain consolidated subsidiaries were ¥4,467 million ($40,348 thousand) and ¥4,381 million for the years ended March 31, 2021 and 2020, respectively.

10. Asset retirement obligations

(a) Asset retirement obligations recorded on the consolidated balance sheet

(1) Overview of asset retirement obligations

The Company and its domestic subsidiaries enter into agreements with national government entities that allow for the use of Japanese government property and have entered into real estate lease contracts with such entities for the Head Office, sales branches, airport branches, and certain other offices. As the Company and its domestic subsidiaries have restoration obligations for such properties at the end of each lease period, related legal obligations required by law and the contracts are recorded on the consolidated balance sheet as asset retirement obligations.

(2) Calculation of asset retirement obligations

The Group estimates the expected period of use as 1 to 30 years and calculates the amount of asset retirement obligations with a discount rate of 0% to 2.27%.

The following table indicates the changes in asset retirement obligations for the years ended March 31, 2021 and 2020:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Balance at the beginning of the fiscal year	**¥ 1,255**	¥ 3,853	**$ 11,335**
Liabilities incurred due to the acquisition of property and equipment	**42**	57	**379**
Accretion expense	**14**	19	**126**
Liabilities settled	**(104)**	(513)	**(939)**
Other	**1,556**	(2,161)	**14,054**
Balance at the end of the fiscal year	**¥ 2,763**	¥ 1,255	**$ 24,957**

(b) Asset retirement obligations not recorded on the consolidated balance sheet

The Company and its domestic subsidiaries enter into agreements with national government entities that allow for the use of Japanese government property, and have entered into real estate lease contracts with such entities for land and offices at airport facilities, including Tokyo International Airport, Narita International Airport, New Chitose Airport, Chubu Centrair International Airport, Osaka International Airport, Kansai International Airport, Fukuoka Airport, and Naha Airport, etc. The Company and its domestic subsidiaries have restoration obligations when they vacate and clear such facilities. However, as the above airports are considered to be critical infrastructure, it is beyond the control of the Company alone to determine when to vacate and clear such facilities, and it is also impossible to make reasonable estimates as there are currently no relocation plans for the above properties. Therefore, the Company and its domestic subsidiaries do not record asset retirement obligations for the related liabilities.

11. Income taxes

The Company and certain of its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of 30.62% for the years ended March 31, 2021 and 2020.

The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and certain of its domestic subsidiaries.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Deferred tax assets:			
Tax loss carryforwards(*2,*3)	**¥ 145,675**	¥ 4,114	**$ 1,315,825**
Liability for retirement benefits	**49,763**	50,286	**449,489**
Impairment loss(*3)	**19,824**	564	**179,062**
Prepaid expenses	**10,242**	9,901	**92,511**
Deferred loss on hedging instruments	**—**	8,723	**—**
Accrued bonuses to employees	**1,311**	6,608	**11,841**
Other provisions	**8,429**	6,537	**76,135**
Loss on investment in subsidiaries	**5,879**	6,091	**53,102**
Long-term unearned revenue	**4,419**	5,270	**39,915**
Loss on valuation of inventories	**5,630**	4,763	**50,853**
Unrealized gain on inventories and property and equipment	**4,364**	4,673	**39,418**
Other	**27,743**	24,149	**250,591**
Total gross deferred tax assets	**283,279**	131,679	**2,558,748**
Valuation allowance for tax loss carryforwards(*2,*3)	**(17,312)**	(2,883)	**(156,372)**
Valuation allowance for the sum of deductible temporary differences, etc.(*3)	**(16,997)**	(11,385)	**(153,527)**
Subtotal of valuation allowances(*1)	**(34,309)**	(14,268)	**(309,899)**
Total net deferred tax assets	**248,970**	117,411	**2,248,848**
Deferred tax liabilities:			
Unrealized gain on securities	**(16,717)**	(10,981)	**(150,998)**
Deferred gain on hedging instruments	**(9,299)**	(2,681)	**(83,994)**
Retained earnings of subsidiaries and affiliates	**(1,809)**	(2,388)	**(16,339)**
Other	**(1,749)**	(1,649)	**(15,798)**
Total gross deferred tax liabilities	**(29,574)**	(17,699)	**(267,130)**
Net deferred income taxes	**¥ 219,396**	¥ 99,712	**$ 1,981,718**

(*1) Valuation allowances increased by ¥20,041 million ($181,022 thousand). The main reason for the increase in valuation allowances is an increase ¥14,429 million ($130,331 thousand) in the valuation allowance for tax loss carryforwards.

(*2) Tax loss carryforwards and associated deferred tax assets by deadline of carryforward:

Current fiscal year (As of March 31, 2021)

	Yen (Millions)						
	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years	Total
Tax loss carryforwards(*a)					**¥ 201**	**¥ 145,474**	**¥ 145,675**
Valuation allowance					**(201)**	**(17,111)**	**(17,312)**
Deferred tax assets(*b)					**¥ —**	**¥ 128,363**	**¥ 128,363**

	U.S. dollars (Thousands)						
	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years	Total
Tax loss carryforwards(*a)					**$ 1,815**	**$ 1,314,009**	**$ 1,315,825**
Valuation allowance					**(1,815)**	**(154,556)**	**(156,372)**
Deferred tax assets (*b)					**$ —**	**$ 1,159,452**	**$ 1,159,452**

(*a) Tax loss carryforwards reflect the amounts resulting from multiplying the statutory tax rate.

(*b) The Group recorded deferred tax assets of ¥128,363 million ($1,159,452 thousand) related to tax loss carryforwards for the current consolidated fiscal year due to a significant decrease in demand for airline passengers associated with the spread of COVID-19.

The Company and certain of its domestic subsidiaries apply the consolidated corporate-tax system, and the corporations subject to the consolidated corporate-tax system make judgments on the recoverability based on the future taxable income, etc. of the tax consolidated group with regard to corporate taxes (national taxes), and make judgments on the recoverability of deferred tax assets based on the future taxable income, etc. of each corporation with regard to local taxes. With respect to tax loss carryforwards, based on the estimated future taxable income, we schedule the expected year and amount to be deducted from tax loss carryforwards, and record the amount expected to be recovered as deferred tax assets.

The future taxable income of ANA Holdings Inc. and All Nippon Airways Co., Ltd., which constitutes a significant portion of the future taxable income that provides a basis for scheduling the amount expected to be deducted, is estimated based on a future plan that assumes that the demand for domestic passengers and international passengers will recover to the pre-pandemic level of 2019 by the end of the fiscal years ending March 31, 2022 and March 31, 2024, respectively.

(*3) Changes in presentation

"Tax loss carryforward" and "Impairment loss" which were included in "Other" in the past year have been presented as separate accounts in the current fiscal year due to their increased financial materiality.

Also, "Valuation allowance for tax loss carryforwards" and "Valuation allowance for the sum of deductible temporary differences, etc." have been presented as a separate accounts in the current fiscal year as the amounts are now material to warrant separate presentation.

A reconciliation of the difference between the normal effective statutory tax rate and the actual effective income tax rate for the years ended March 31, 2021 and 2020 is as follows:

	2021	2020
Normal effective statutory tax rate	**30.62%**	30.62%
Reconciliation:		
Impairment loss	**—**	13.49
Amortization of goodwill	**(0.12)**	2.38
Expenses not deductible for income tax purposes	**(0.02)**	1.30
Inhabitants tax per capita levy	**(0.04)**	0.39
Income taxes for prior periods	**0.02**	(0.81)
Changes in valuation allowance	**(3.87)**	3.54
Other, net	**(1.34)**	(1.24)
Actual effective income tax rate	**25.25%**	49.67%

12. Other comprehensive income

The following table presents reclassification and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2021 and 2020:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Unrealized gain (loss) on securities:			
Amount arising during the fiscal year	**¥ 13,936**	¥ (19,764)	**$ 125,878**
Reclassification adjustments to profit or loss	**8,058**	(764)	**72,784**
Amount of unrealized gain (loss) on securities before tax effect	**21,994**	(20,528)	**198,663**
Tax effect	**(5,741)**	5,159	**(51,856)**
Total	**16,253**	(15,369)	**146,806**
Deferred gain (loss) on derivatives under hedge accounting:			
Amount arising during the fiscal year	**57,286**	(41,013)	**517,441**
Reclassification adjustments to profit or loss	**(4,925)**	4,424	**(44,485)**
Amount of deferred gain (loss) on derivatives under hedge accounting before tax effect	**52,361**	(36,589)	**472,956**
Tax effect	**(16,119)**	11,362	**(145,596)**
Total	**36,242**	(25,227)	**327,359**
Foreign currency translation adjustments:			
Amount arising during the fiscal year	**31**	(221)	**280**
Total	**31**	(221)	**280**
Defined retirement benefit plans:			
Amount arising during the fiscal year	**(1,296)**	(3,629)	**(11,706)**
Reclassification adjustments to profit or loss	**3,798**	4,416	**34,305**
Amount of defined retirement benefit plans before tax effect	**2,502**	787	**22,599**
Tax effect	**(896)**	(248)	**(8,093)**
Total	**1,606**	539	**14,506**
Share of other comprehensive income (loss) in affiliates:			
Amount arising during the fiscal year	**227**	(381)	**2,050**
Reclassification adjustments to profit or loss	**96**	(2)	**867**
Total	**323**	(383)	**2,917**
Total other comprehensive income (loss)	**¥ 54,455**	¥ (40,661)	**$ 491,870**

13. Leases

As lessee

(a) Finance leases

Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet.

Tangible fixed lease assets include mainly aircraft, flight equipment, host computers, and peripheral equipment. Intangible lease assets include software. The depreciation method for leased assets is described in Note 3 (j) "Leases."

(b) Operating leases

The amount of outstanding future lease payments under non-cancelable operating leases are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Current portion of operating lease obligations	**¥ 65,907**	¥ 62,649	**$ 595,312**
Long-term operating lease obligations	**295,600**	318,817	**2,670,038**
Total	**¥361,507**	¥381,466	**$3,265,350**

As lessor

(a) Operating leases

The amount of outstanding future lease receivables under non-cancelable operating leases are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Current portion of operating lease receivables	**¥ 2,169**	¥ 2,170	**$ 19,591**
Long-term operating lease receivables	**13,269**	15,373	**119,853**
Total	**¥15,438**	¥17,543	**$139,445**

14. Supplementary information for the consolidated statement of changes in equity

Supplementary information for the consolidated statement of changes in equity for the year ended March 31, 2021 consisted of the following:

(a) Dividends

Under the Companies Act of Japan (the "Companies Act"), the appropriation of unappropriated retained earnings of the Company with respect to a financial period is made by resolution of the Company's shareholders at a general meeting to be held subsequent to the close of the financial period and the accounts for that period do not therefore reflect such appropriation.

(1) Dividends paid to shareholders

There are no applicable items.

(2) Dividends with a shareholders' cut-off date within the current fiscal year but an effective date within the subsequent fiscal year

There are no applicable items.

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(b) Type and number of outstanding shares

	Number of shares (Thousands)			
As of March 31, 2021 Type of shares	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock:				
Common stock(*1)	**348,498**	**135,795**	**—**	**484,293**
Total	**348,498**	**135,795**	**—**	**484,293**
Treasury stock:				
Common stock (*2, *3,*4)	**13,978**	**5**	**32**	**13,950**
Total	**13,978**	**5**	**32**	**13,950**

(*1) The increase of 135,795 thousand shares of common stock is the total of 126,310 thousand shares issued through a public offering with the subscription payment date on December 14, 2020, and 9,485 thousand shares issued through a third-party allotment with the subscription payment date on January 13, 2021, as the allotment to be taken in relation to the offering due to over-allotment.

(*2) The increase of 5 thousand shares of treasury stock is that the Company purchased from holders of fractional shares.

(*3) The decrease of 32 thousand shares of treasury stock is the total of 1 thousand shares that the Company sold to the holders of fractional shares at their request, and 31 thousand shares in the Company that were sold by the Trust for Delivery of Shares to Directors.

(*4) Treasury stock includes 178 thousand shares held by the Trust for Delivery of Shares to Directors.

	Number of shares (Thousands)			
As of March 31, 2020 Type of shares	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock:				
Common stock	348,498	—	—	348,498
Total	348,498	—	—	348,498
Treasury stock:				
Common stock(*1, *2,*3)	13,868	125	15	13,978
Total	13,868	125	15	13,978

(*1) The increase of 125 thousand shares of treasury stock is the total of 8 thousand shares that the Company purchased from holders of fractional shares, and 116 thousand shares in the Company that were purchased by the Trust for Delivery of Shares to Directors.

(*2) The decrease of 15 thousand shares of treasury stock is the total of 0 thousand shares that the Company sold to the holders of fractional shares at their request, and 14 thousand shares in the Company that were sold by the Trust for Delivery of Shares to Directors.

(*3) Treasury stock includes 209 thousand shares held by the Trust for Delivery of Shares to Directors.

15. Contingencies

The Group was contingently liable as a guarantor of loans, principally to affiliates, totaling ¥982 million ($8,870 thousand) at March 31, 2021.

The Group was contingently liable as a guarantor for a stock transfer agreement between third parties, totaling ¥6,111 million ($55,198 thousand) at March 31, 2021.

The Group was contingently liable as a guarantor of loans, principally to affiliates, totaling ¥2,080 million at March 31, 2020.

The Group was contingently liable as a guarantor for a stock transfer agreement between third parties, totaling ¥6,111 million at March 31, 2020.

16. Financial instruments and related disclosures

Overview

(a) Group policy for financial instruments

The Group limits its fund management to short-term time deposits and raises funds through borrowings from financial institutions, including banks. The Group uses derivatives for the purpose of reducing the risks described below and does not enter into derivatives for speculative or trading purposes.

(b) Types of financial instruments and related risk

Trade receivables (notes and accounts receivable) are exposed to credit risk in relation to customers.

Marketable securities and investment securities are exposed to the risk of market price fluctuations. Those securities are composed mainly of the shares of other companies with which the Group has business relationships.

Substantially all trade payables have payment due dates within one year.

Borrowings are taken out principally for the purpose of making capital investments, and certain long-term debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk for long-term interest-bearing debt at variable rates, the Group utilizes interest rate swap transactions as hedging instruments. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expenses.

For derivatives, in order to reduce the foreign currency exchange rate risk arising from receivables and payables denominated in foreign currencies, the Group enters into forward foreign exchange contracts for specific receivables and payables denominated in foreign currencies, mainly for aircraft purchase commitments. In addition, the Group enters into commodity derivative transactions such as swaps and options to mitigate fluctuation risk of the commodity prices of fuel and to stabilize operating profit.

1) Management of credit risks (risks such as breach of contract by customers)

The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment term and balances of major customers by each business administration department to identify the default risk of customers at an early stage.

As for derivatives, the Group believes that the credit risks are extremely low, as it enters into derivative transactions only with reputable financial institutions with sound credit profiles.

2) Management of market risks (fluctuation risks of foreign currency exchange rates and interest rates)

In order to reduce foreign currency exchange rate risks, the Group principally utilizes forward foreign exchange contracts for receivables and payables denominated in foreign currencies. In order to mitigate the interest rate fluctuation risks related to debt, the Group utilizes interest rate swap transactions. In addition, the Group enters into commodity derivative transactions such as swaps and options to mitigate fluctuation risk related to commodity prices for fuel.

As for marketable securities and investment securities, the Group periodically reviews the fair values and the financial conditions of the issuers to identify and mitigate risks of impairment.

There are internal management regulations for derivative transactions which set forth transaction authority and limits on transaction amounts.

The Group enters into derivative transactions in accordance with such policies. Moreover, the Group reports plans and results of methods and ratios for offsetting risks at the quarterly meetings of the Board of Directors.

3) Management of liquidity risks related to financing (risks that the Group cannot meet the due dates of payables)

The Group manages liquidity risks by establishing a financial plan in order to procure and invest funds that are necessary for the operation of the Group over a certain period of time, in accordance with the Group's business operating plan and budget.

(c) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value estimates. In addition, the notional amounts of derivatives presented in Note 17 "Derivatives and hedging activities" are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated fair value of financial instruments

The carrying values of financial instruments on the consolidated balance sheet at March 31, 2021 and 2020, and their estimated fair values, are shown in the following tables. The following tables do not include financial instruments for which fair value cannot be reliably determined (Please refer to Note 2 below).

As of March 31, 2021	Yen (Millions) Carrying value	Fair value	Differences
Assets:			
Cash and deposits	¥ **464,739**	¥ **464,739**	¥ **—**
Notes and accounts receivable	**107,573**	**107,573**	**—**
Marketable securities and investment securities	**609,492**	**612,553**	**3,061**
Total assets	¥ **1,181,804**	¥ **1,184,865**	¥ **3,061**
Liabilities:			
Accounts payable	¥ **182,241**	¥ **182,241**	¥ **—**
Short-term loans	**100,070**	**100,070**	**—**
Bonds	**165,000**	**153,833**	**11,167**
Convertible bonds with stock acquisition rights	**140,000**	**135,520**	**4,480**
Long-term loans	**1,237,695**	**1,890,992**	**(653,297)**
Total liabilities	¥ **1,825,006**	¥ **2,462,656**	¥ **(637,650)**
Derivatives*	¥ **31,177**	¥ **31,177**	¥ **—**

As of March 31, 2020	Yen (Millions) Carrying value	Fair value	Differences
Assets:			
Cash and deposits	¥ 109,447	¥ 109,447	¥ —
Notes and accounts receivable	98,944	98,944	—
Marketable securities and investment securities	214,279	216,849	2,570
Total assets	¥ 422,670	¥ 425,240	¥ 2,570
Liabilities:			
Accounts payable	¥ 196,391	¥ 196,391	¥ —
Short-term loans	429	429	—
Bonds	185,000	183,874	1,126
Convertible bonds with stock acquisition rights	140,000	135,415	4,585
Long-term loans	500,957	501,213	(256)
Total liabilities	¥ 1,022,777	¥ 1,017,322	¥ 5,455
Derivatives*	¥ (20,664)	¥ (20,664)	¥ —

As of March 31, 2021	U.S. dollars (Thousands) Carrying value	Fair value	Differences
Assets:			
Cash and deposits	$ **4,197,805**	$ **4,197,805**	$ **—**
Notes and accounts receivable	**971,664**	**971,664**	**—**
Marketable securities and investment securities	**5,505,302**	**5,532,950**	**(27,648)**
Total assets	$ **10,674,771**	$ **10,702,420**	$ **(27,648)**
Liabilities:			
Accounts payable	$ **1,646,111**	$ **1,646,111**	$ **—**
Short-term loans	**903,893**	**903,893**	**—**
Bonds	**1,490,380**	**1,389,513**	**100,867**
Convertible bonds with stock acquisition rights	**1,264,565**	**1,224,098**	**40,466**
Long-term loans	**11,179,613**	**17,080,588**	**(5,900,975)**
Total liabilities	$ **16,484,563**	$ **22,244,205**	$ **(5,759,642)**
Derivatives*	$ **281,609**	$ **281,609**	$ **—**

* The value of assets and liabilities arising from derivatives is shown as a net value, and the amount in parentheses represents a net liability position.

Notes:

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets

(a) Cash and deposits

The carrying values of cash and deposits approximate fair value because of their short maturities.

(b) Notes and accounts receivable

The carrying values of notes and accounts receivable approximate fair value because of their short maturities.

(c) Marketable securities and investment securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from financial institutions for certain debt instruments. The information on the fair values of marketable and investment securities by classification is included in Note 5 “Marketable securities and investment securities” of the notes to the consolidated financial statements.

Liabilities

(a) Accounts payable

The carrying values of accounts payable approximate fair value because of their short maturities.

(b) Short-term loans

The carrying values of short-term loans approximate fair value because of their short maturities.

(c) Bonds

The fair value of bonds issued by the Company is measured at the present value of the total of principal and interest discounted by an interest rate determined by taking into account the remaining period of each bond and current credit risk.

(d) Long-term loans

The fair values of long-term loans are determined by discounting the cash flows related to the debt at the Group’s assumed corporate borrowing rate.

2. Financial instruments for which it is extremely difficult to determine the fair value

	Yen (Millions)		U.S. dollars (Thousands)
As of March 31, 2021	**2021**	2020	**2021**
Unlisted stocks	**¥21,418**	¥23,076	**$193,463**

Because no quoted market price is available and the fair value cannot be reliably determined, the above financial instruments are not included in the fair value tables above.

3. The redemption schedule for receivables and available-for-sale and held-to-maturity securities with maturities at March 31, 2021 and 2020 is summarized as follows:

	Yen (Millions)			
As of March 31, 2021	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	**¥ 464,010**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable	**107,573**	**—**	**—**	**—**
Held-to-maturity bonds	**—**	**—**	**—**	**1,855**
Other securities with maturities	**500,980**	**2,837**	**2,222**	**—**
Total	**¥1,072,563**	**¥ 2,837**	**¥ 2,222**	**¥ 1,855**

	Yen (Millions)			
As of March 31, 2020	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	¥ 108,572	¥ —	¥ —	¥ —
Notes and accounts receivable	98,944	—	—	—
Held-to-maturity bonds	—	—	—	—
Other securities with maturities	129,200	5,299	2,025	—
Total	¥ 336,716	¥ 5,299	¥ 2,025	¥ —

	U.S. dollars (Thousands)			
As of March 31, 2021	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	**$4,191,220**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable	**971,664**	**—**	**—**	**—**
Held-to-maturity bonds	**—**	**—**	**—**	**16,755**
Other securities with maturities	**4,525,155**	**25,625**	**20,070**	**—**
Total	**$9,688,040**	**$ 25,625**	**$ 20,070**	**$ 16,755**

4. The redemption schedule for bonds, loans, and other interest-bearing liabilities at March 31, 2021 and 2020 is summarized as follows:

	Yen (Millions)			
As of March 31, 2021	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans	**¥ 100,070**	**¥ —**	**¥ —**	**¥ —**
Bonds	**—**	**60,000**	**40,000**	**65,000**
Convertible bonds with stock acquisition rights	**—**	**140,000**	**—**	**—**
Long-term loans	**69,443**	**290,219**	**272,127**	**605,906**
Total	**¥ 169,513**	**¥ 490,219**	**¥ 312,127**	**¥ 670,906**

	Yen (Millions)			
As of March 31, 2020	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans	¥ 429	¥ —	¥ —	¥ —
Bonds	20,000	30,000	70,000	65,000
Convertible bonds with stock acquisition rights	—	140,000	—	—
Long-term loans	84,057	228,056	138,900	49,944
Total	¥ 104,486	¥ 398,056	¥ 208,900	¥ 114,944

As of March 31, 2021	U.S. dollars (Thousands) Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans	**$ 903,893**	**$ —**	**$ —**	**$ —**
Bonds	**—**	**541,956**	**361,304**	**587,119**
Convertible bonds with stock acquisition rights	**—**	**1,264,565**	**—**	**—**
Long-term loans	**627,251**	**2,621,434**	**2,458,016**	**5,472,911**
Total	**$1,531,144**	**$4,427,955**	**$2,819,320**	**$6,060,030**

17. Derivatives and hedging activities

The Group operates internationally and is exposed to the risk of fluctuations in foreign currency exchange rates, interest rates, and jet fuel prices. In order to manage these risks, the Group utilizes forward exchange contracts to hedge certain foreign currency transactions related to purchase commitments, principally of flight equipment, and foreign currency receivables and payables. Also, the Group utilizes interest rate swaps to minimize the impact of interest rate fluctuations related to outstanding debt. In addition, the Group also enters into a variety of swaps and options in its management of risk exposure related to jet fuel prices. The Group does not use derivatives for speculative or trading purposes.

The Group has developed internal hedging guidelines to control various aspects of derivative transactions, including authorization levels and transaction volumes. The Group enters into derivative transactions in accordance with these internal guidelines. Derivative and hedging transactions initiated by respective operational departments have been examined by the accounting department and these transactions, including their measures and ratios, are generally monitored by management on a quarterly basis. Assessment of hedge effectiveness is examined at inception and, on an ongoing basis, periodically.

The Group is also exposed to credit-related losses in the event of non-performance by counterparties in regard to derivative financial instruments; however, it is not expected that any counterparties will fail to meet their obligations, as the majority of the counterparties are internationally recognized financial institutions.

Summarized below are the notional amounts and estimated fair values of the derivative financial instruments outstanding at March 31, 2021 and 2020 for which hedged accounting has been applied.

(a) Derivative transactions to which hedge accounting is not applied

(1) Currency-related transactions

		Yen (Millions)		
		Notional amount		
As of March 31, 2021		Total	Maturing after one year	Fair value
Forward foreign exchange contracts:				
Sell:				
	USD	¥ —	¥ —	¥ —
	EUR	—	—	—
	Other	—	—	—
Buy:				
	USD	—	—	—
	EUR	—	—	—
	Other	—	—	—
Total		¥ —	¥ —	¥ —

		Yen (Millions)		
		Notional amount		
As of March 31, 2020		Total	Maturing after one year	Fair value
Forward foreign exchange contracts:				
Sell:				
	USD	¥ —	¥ —	¥ —
	EUR	—	—	—
	Other	—	—	—
Buy:				
	USD	102	102	0
	EUR	—	—	—
	Other	—	—	—
Total		¥ 102	¥ 102	¥ 0

		U.S. dollars (Thousands)		
		Notional amount		
As of March 31, 2021		Total	Maturing after one year	Fair value
Forward foreign exchange contracts:				
Sell:				
	USD	$ —	$ —	$ —
	EUR	—	—	—
	Other	—	—	—
Buy:				
	USD	—	—	—
	EUR	—	—	—
	Other	—	—	—
Total		$ —	$ —	$ —

(2) Commodity-related transactions

As of March 31, 2021	Yen (Millions) Notional amount Total	Yen (Millions) Notional amount Maturing after one year	Yen (Millions) Fair value
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed	¥ —	¥ —	¥ —
Commodity (crude oil) option contracts, accounted for by the deferral method:	—	—	—
Sell:			
Crude oil (Put)	—	—	—
Buy:			
Crude oil (Call)	—	—	—
Total	¥ —	¥ —	¥ —

As of March 31, 2020	Yen (Millions) Notional amount Total	Yen (Millions) Notional amount Maturing after one year	Yen (Millions) Fair value
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed	¥ 1,002	¥ —	¥ (423)
Commodity (crude oil) option contracts, accounted for by the deferral method:			
Sell:			
Crude oil (Put)	430	—	(98)
Buy:			
Crude oil (Call)	555	—	(53)
Total	¥ 1,988	¥ —	¥ (576)

As of March 31, 2021	U.S. dollars (Thousands) Notional amount Total	U.S. dollars (Thousands) Notional amount Maturing after one year	U.S. dollars (Thousands) Fair value
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed	$ —	$ —	$ —
Commodity (crude oil) option contracts, accounted for by the deferral method:			
Sell:			
Crude oil (Put)	—	—	—
Buy:			
Crude oil (Call)	—	—	—
Total	$ —	$ —	$ —

(b) Derivative transactions to which hedge accounting is applied

(1) Currency-related transactions

As of March 31, 2021		Yen (Millions) Notional amount Total	Maturing after one year	Fair value
Forward foreign exchange contracts for accounts receivable, accounted for by the deferral method:				
Sell:				
	USD	¥ **56**	¥ **—**	¥ **(1)**
	EUR	**30**	**—**	**0**
	Other	**—**	**—**	**—**
Forward foreign exchange contracts for accounts payable, accounted for by the deferral method:				
Buy:				
	USD	**364,685**	**195,023**	**22,562**
	EUR	**103**	**—**	**8**
	Other	**0**	**—**	**0**
Currency option contracts for accounts payable, accounted for by the deferral method:				
Sell:				
	USD (Put)	**48,186**	**31,039**	**(421)**
Buy:				
	USD (Call)	**53,145**	**34,181**	**2,667**
Forward foreign exchange contracts, accounted for as part of accounts receivable:				
Sell:				
	USD	**82**	**—**	**(*)**
	EUR	**10**	**—**	**(*)**
	Other	**—**	**—**	**(*)**
Forward foreign exchange contracts, accounted for as part of accounts payable:				
Buy:				
	USD	**7,279**	**—**	**(*)**
	EUR	**2,772**	**—**	**(*)**
	Other	**0**	**—**	**(*)**
Currency swap contracts for accounts payable, accounted for as part of accounts payable:				
Receive/USD and pay/JPY		**—**	**—**	**(*)**
Total		**¥476,352**	**¥260,244**	**¥24,815**

As of March 31, 2020		Yen (Millions) Notional amount Total	Maturing after one year	Fair value
Forward foreign exchange contracts for accounts receivable, accounted for by the deferral method:				
Sell:				
	USD	¥ 418	¥ —	¥ (1)
	EUR	—	—	—
	Other	—	—	—
Forward foreign exchange contracts for accounts payable, accounted for by the deferral method:				
Buy:				
	USD	359,747	143,267	11,983
	EUR	500	—	(4)
	Other	16	—	(1)
Currency option contracts for accounts payable, accounted for by the deferral method:				
Sell:				
	USD (Put)	46,402	30,696	(978)
Buy:				
	USD (Call)	51,225	33,896	2,163
Forward foreign exchange contracts, accounted for as part of accounts receivable:				
Sell:				
	USD	217	—	(*)
	EUR	—	—	(*)
	Other	6	—	(*)
Forward foreign exchange contracts, accounted for as part of accounts payable:				
Buy:				
	USD	9,469	—	(*)
	EUR	110	—	(*)
	Other	1	—	(*)
Currency swap contracts for accounts payable, accounted for as part of accounts payable:				
Receive/USD and pay/JPY		—	—	(*)
Total		¥ 468,115	¥ 207,861	¥ 13,162

As of March 31, 2021		U.S. dollars (Thousands) Notional amount Total	Maturing after one year	Fair value
Forward foreign exchange contracts for accounts receivable, accounted for by the deferral method:				
Sell:				
	USD	**$ 505**	**$ —**	**$ (9)**
	EUR	**270**	**—**	**(1)**
	Other	**—**	**—**	**—**
Forward foreign exchange contracts for accounts payable, accounted for by the deferral method:				
Buy:				
	USD	**3,294,056**	**1,761,566**	**203,793**
	EUR	**930**	**—**	**72**
	Other	**0**	**—**	**0**
Currency option contracts for accounts payable, accounted for by the deferral method:				
Sell:				
	USD (Put)	**435,245**	**280,363**	**(3,802)**
Buy:				
	USD (Call)	**480,037**	**308,743**	**24,089**
Forward foreign exchange contracts, accounted for as part of accounts receivable:				
Sell:				
	USD	**740**	**—**	**(*)**
	EUR	**90**	**—**	**(*)**
	Other	**—**	**—**	**(*)**
Forward foreign exchange contracts, accounted for as part of accounts payable:				
Buy:				
	USD	**65,748**	**—**	**(*)**
	EUR	**25,038**	**—**	**(*)**
	Other	**2**	**—**	**(*)**
Currency swap contracts for accounts payable, accounted for as part of accounts payable:				
Receive/USD and pay/JPY		**—**	**—**	**(*)**
Total		**$4,302,700**	**$2,350,681**	**$224,144**

Note: Calculation of fair value is based on the data obtained from financial institutions.

(*) The estimated fair value of forward foreign exchange contracts is included in the estimated fair value of accounts payable, as the amounts in such derivative contracts accounted for as part of accounts receivable and payable are aggregated with the receivables and payables denominated in foreign currencies that are subject to hedge accounting. See Note 16 "Financial instruments and related disclosures" for additional information.

(2) Interest-related transactions

As of March 31, 2021	Yen (Millions) Notional amount Total	Maturing after one year	Fair value
Interest rate swap hedging long-term loans:			
Receive/floating and pay/fixed	**¥53,413**	**¥35,608**	**(*)**

As of March 31, 2020	Yen (Millions) Notional amount Total	Maturing after one year	Fair value
Interest rate swap hedging long-term loans:			
Receive/floating and pay/fixed	¥82,333	¥53,413	(*)

As of March 31, 2021	U.S. dollars (Thousands) Notional amount Total	Maturing after one year	Fair value
Interest rate swap hedging long-term loans:			
Receive/floating and pay/fixed	**$482,458**	**$321,633**	**(*)**

(*) Interest rate swap contracts are used as hedges and meet specific matching criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the long-term loans. The estimated fair value of interest rate swap contracts is included in the estimated fair value of long-term loans.

(3) Commodity-related transactions

As of March 31, 2021	Yen (Millions) Notional amount Total	Maturing after one year	Fair value
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed	**¥ 50,519**	**¥ 23,618**	**¥ 5,063**
Commodity (crude oil) option contracts, accounted for by the deferral method:			
Sell:			
Crude oil (Put)	**26,806**	**12,045**	**(281)**
Buy:			
Crude oil (Call)	**35,258**	**16,211**	**1,579**
Total	**¥ 112,584**	**¥ 51,875**	**¥ 6,362**

As of March 31, 2020	Yen (Millions) Notional amount Total	Maturing after one year	Fair value
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed Commodity (crude oil) option contracts, accounted for by the deferral method:	¥ 69,132	¥ 27,452	¥(24,304)
Sell:			
Crude oil (Put)	33,120	15,468	(7,229)
Buy:			
Crude oil (Call)	42,798	20,103	(1,717)
Total	¥ 145,051	¥ 63,025	¥(33,250)

As of March 31, 2021	U.S. dollars (Thousands) Notional amount Total	Maturing after one year	Fair value
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed Commodity (crude oil) option contracts, accounted for by the deferral method:	**$ 456,318**	**$213,332**	**$ 45,732**
Sell:			
Crude oil (Put)	**242,128**	**108,797**	**(2,538)**
Buy:			
Crude oil (Call)	**318,471**	**146,427**	**14,262**
Total	**$1,016,927**	**$468,566**	**$ 57,465**

Note: The calculation of fair value is based on the data obtained from financial institutions.

18. Segment information

(a) Description of reportable segments

The reportable segments of the Company and its consolidated subsidiaries are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The Group's reportable segments are categorized under "Air Transportation," "Airline Related," "Travel Services," and "Trade and Retail."

The "Air Transportation" segment conducts domestic and international passenger operations, cargo and mail operations, and other transportation services. The "Airline Related" segment conducts air transportation-related operations, such as airport passenger and ground handling services and maintenance services. The "Travel Services" segment conducts operations centering on the development and sales of travel plans. It also conducts planning and sales of branded travel packages using air transportation. The "Trade and Retail" segment conducts mainly import and export operations of goods related to air transportation and is involved in in-store and non-store retailing.

(b) Methods of measurement for the amounts of sales, profit, assets, and other items for each reportable segment

The accounting policies of the reportable segments are substantially the same as those described in Note 3 "Summary of significant accounting policies."

Segment performance is evaluated based on operating income or loss. Intersegment sales and transfers are based on current market prices.

(c) Information about sales, profit, assets, and other items

	Yen (Millions)				
	Reportable Segments				
As of and for the year ended March 31, 2021	Air Transportation	Airline Related	Travel Services	Trade and Retail	Subtotal
Operating revenues:					
Operating revenues from external customers	**¥ 571,709**	**¥ 36,162**	**¥39,453**	**¥68,883**	**¥ 716,207**
Intersegment revenues or transfers	**32,305**	**185,977**	**5,597**	**11,075**	**234,954**
Total	**¥ 604,014**	**¥222,139**	**¥45,050**	**¥79,958**	**¥ 951,161**
Segment profit (loss)	**¥ (447,894)**	**¥ 3,691**	**¥ (5,084)**	**¥ (4,282)**	**¥ (453,569)**
Segment assets	**2,935,753**	**141,530**	**31,681**	**52,548**	**3,161,512**
Other items:					
Depreciation and amortization	**168,952**	**5,073**	**516**	**1,367**	**175,908**
Amortization of goodwill	**2,001**	**—**	**—**	**114**	**2,115**
Increase in property and equipment and intangible assets	**151,196**	**1,564**	**134**	**1,202**	**154,096**

	Yen (Millions)			
As of and for the year ended March 31, 2021	Other	Total	Adjustments	Consolidated
Operating revenues:				
Operating revenues from external customers	**¥12,476**	**¥ 728,683**	**¥ —**	**¥ 728,683**
Intersegment revenues or transfers	**24,167**	**259,121**	**(259,121)**	**—**
Total	**¥36,643**	**¥ 987,804**	**¥(259,121)**	**¥ 728,683**
Segment profit (loss)	**¥ (34)**	**¥ (453,603)**	**¥ (11,171)**	**¥ (464,774)**
Segment assets	**24,930**	**3,186,442**	**21,441**	**3,207,883**
Other items:				
Depreciation and amortization	**444**	**176,352**	**—**	**176,352**
Amortization of goodwill	**—**	**2,115**	**—**	**2,115**
Increase in property and equipment and intangible assets	**974**	**155,070**	**1,640**	**156,710**

Notes:

1. "Other" refers to all business segments that are not included in the reportable segments, such as facility management, business support, and other operations.

2. Adjustments are as follows:

   (a) Adjustments to segment profit or loss consist of corporate expenses.

   (b) Adjustments to segment assets consist of long-term investments (investment securities and stocks of subsidiaries and affiliates) in consolidated subsidiaries of ¥175,565 million and eliminations of intersegment transactions of ¥(154,124) million.

   (c) Adjustments to increase in property and equipment and intangible assets mainly consist of the elimination of intersegment transactions.

3. Segment profit or loss is reconciled to operating loss on the consolidated statement of operations.

	Yen (Millions)				
	Reportable Segments				
As of and for the year ended March 31, 2020	Air Transportation	Airline Related	Travel Services	Trade and Retail	Subtotal
Operating revenues:					
Operating revenues from external customers	¥1,658,763	¥ 49,804	¥134,759	¥115,269	¥1,958,595
Intersegment revenues or transfers	78,974	249,629	9,237	29,481	367,321
Total	¥1,737,737	¥299,433	¥143,996	¥144,750	¥2,325,916
Segment profit	¥ 49,550	¥ 18,144	¥ 1,393	¥ 2,909	¥ 71,996
Segment assets	2,305,293	147,275	42,405	57,219	2,552,192
Other items:					
Depreciation and amortization	168,296	5,323	553	1,305	175,477
Amortization of goodwill	3,889	3	—	114	4,006
Increase in property and equipment and intangible assets	343,476	6,200	258	2,250	352,184

	Yen (Millions)			
As of and for the year ended March 31, 2020	Other	Total	Adjustments	Consolidated
Operating revenues:				
Operating revenues from external customers	¥15,621	¥1,974,216	¥ —	¥1,974,216
Intersegment revenues or transfers	28,602	395,923	(395,923)	—
Total	¥44,223	¥2,370,139	¥(395,923)	¥1,974,216
Segment profit	¥ 3,526	¥ 75,522	¥ (14,716)	¥ 60,806
Segment assets	25,276	2,577,468	(17,315)	2,560,153
Other items:				
Depreciation and amortization	262	175,739	—	175,739
Amortization of goodwill	—	4,006	—	4,006
Increase in property and equipment and intangible assets	141	352,325	(964)	351,361

Notes:

1. "Other" refers to all business segments that are not included in the reportable segments, such as facility management, business support, and other operations.

2. Adjustments are as follows:

   (a) Adjustments to segment profit consist of the elimination of intersegment transactions of ¥(9,979) million and corporate expenses of ¥(4,734) million.

   (b) Adjustments to segment assets consist of long-term investments (investment securities and stocks of subsidiaries and affiliates) in consolidated subsidiaries of ¥157,553 million and eliminations of intersegment transactions of ¥(174,868) million.

   (c) Adjustments to increase in property and equipment and intangible assets mainly consist of the elimination of intersegment transactions.

3. Segment profit is reconciled to operating income on the consolidated statement of operations.

As of and for the year ended March 31, 2021	U.S. dollars (Thousands)				
	Reportable Segments				
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Subtotal
Operating revenues:					
Operating revenues from external customers	**$ 5,164,023**	**$ 326,637**	**$356,363**	**$622,193**	**$ 6,469,216**
Intersegment revenues or transfers	**291,798**	**1,679,857**	**50,555**	**100,036**	**2,122,247**
Total	**$ 5,455,821**	**$2,006,494**	**$406,918**	**$722,229**	**$ 8,591,464**
Segment profit (loss)	**$ (4,045,650)**	**$ 33,339**	**$ (45,921)**	**$ (38,677)**	**$ (4,096,910)**
Segment assets	**26,517,505**	**1,278,384**	**286,162**	**474,645**	**28,556,697**
Other items:					
Depreciation and amortization	**1,526,077**	**45,822**	**4,660**	**12,347**	**1,588,907**
Amortization of goodwill	**18,074**	**—**	**—**	**1,029**	**19,103**
Increase in property and equipment and intangible assets	**1,365,694**	**14,126**	**1,210**	**10,857**	**1,391,888**

As of and for the year ended March 31, 2021	U.S. dollars (Thousands)			
	Other	Total	Adjustments	Consolidated
Operating revenues:				
Operating revenues from external customers	**$112,690**	**$ 6,581,907**	**$ —**	**$ 6,581,907**
Intersegment revenues or transfers	**218,291**	**2,340,538**	**(2,340,538)**	**—**
Total	**$330,981**	**$ 8,922,446**	**$(2,340,538)**	**$ 6,581,907**
Segment profit (loss)	**$ (307)**	**$ (4,097,217)**	**$ (100,903)**	**$ (4,198,121)**
Segment assets	**225,182**	**28,781,880**	**193,668**	**28,975,548**
Other items:				
Depreciation and amortization	**4,010**	**1,592,918**	**—**	**1,592,918**
Amortization of goodwill	**—**	**19,103**	**—**	**19,103**
Increase in property and equipment and intangible assets	**8,797**	**1,400,686**	**14,813**	**1,415,499**

Notes:

1. "Other" refers to all business segments that are not included in the reportable segments, such as facility management, business support, and other operations.

2. Adjustments are as follows:

   (a) Adjustments to segment profit or loss consist of corporate expenses.

   (b) Adjustments to segment assets consist of long-term investments (investment securities and stocks of subsidiaries and affiliates) in consolidated subsidiaries of $1,585,809 thousand and eliminations of intersegment transactions of $(1,392,141) thousand.

   (c) Adjustments to increase in property and equipment and intangible assets mainly consist of the elimination of intersegment transactions.

3. Segment profit or loss is reconciled to operating loss on the consolidated statement of operations.

(d) Information about geographical areas

Net sales to third parties by countries or areas grouped according to geographical classification for the years ended March 31, 2021 and 2020 are summarized as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Japan	**¥546,616**	¥1,631,052	**$4,937,367**
Overseas	**182,067**	343,164	**1,644,539**
Total	**¥728,683**	¥1,974,216	**$6,581,907**

Notes:

1. "Overseas" consists substantially of the Americas, Europe, China, and Asia.

2. Net sales of "Overseas" represents sales made in countries or areas other than Japan.

(e) Information about impairment loss on long-lived assets

As of and for the year ended March 31, 2021	Yen (Millions)						
	Reportable Segments						
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Impairment loss	**¥ 73,742**	**¥ —**	**¥ 1,172**	**¥ 661**	**¥—**	**¥—**	**¥ 75,575**

As of and for the year ended March 31, 2020	Yen (Millions)						
	Reportable Segments						
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Impairment loss	¥ 22,665	¥2,494	¥ —	¥ —	¥—	¥—	¥ 25,159

As of and for the year ended March 31, 2021	U.S. dollars (Thousands)						
	Reportable Segments						
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Impairment loss	**$666,082**	**$ —**	**$10,586**	**$5,970**	**$—**	**$—**	**$682,639**

(f) Information about amortization and the remaining balance of goodwill

As of and for the year ended March 31, 2021	Yen (Millions)						
	Reportable Segments						
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Amortization of goodwill	**¥ 2,001**	**¥ —**	**¥ —**	**¥ 114**	**¥—**	**¥—**	**¥ 2,115**
Balance at the end of the fiscal year	**¥ 22,002**	**¥ —**	**¥ —**	**¥ 344**	**¥—**	**¥—**	**¥ 22,346**

As of and for the year ended March 31, 2020	Yen (Millions)						
	Reportable Segments						
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Amortization of goodwill	¥ 3,889	¥ 3	¥ —	¥ 114	¥—	¥—	¥ 4,006
Balance at the end of the fiscal year	¥ 24,003	¥ —	¥ —	¥ 458	¥—	¥—	¥ 24,461

As of and for the year ended March 31, 2021	U.S. dollars (Thousands)						
	Reportable Segments						
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Amortization of goodwill	**$ 18,074**	**$ —**	**$ —**	**$1,029**	**$—**	**$—**	**$ 19,103**
Balance at the end of the fiscal year	**$198,735**	**$ —**	**$ —**	**$3,107**	**$—**	**$—**	**$201,842**

19. Selling, general and administrative expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2021 and 2020 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Commissions	**¥ 39,125**	¥ 103,495	**$ 353,400**
Advertising	**5,943**	11,830	**53,680**
Employees' salaries and bonuses	**31,299**	39,446	**282,711**
Provision of allowance for doubtful accounts	**47**	46	**424**
Provision for accrued bonuses to employees	**1,098**	3,879	**9,917**
Retirement benefit expenses	**2,866**	3,329	**25,887**
Depreciation	**26,968**	27,616	**243,591**
Outsourcing expenses	**28,580**	30,227	**258,151**

20. Amounts per share

Amounts per share at and for the years ended March 31, 2021 and 2020 are as follows:

	Yen		U.S. dollars
	2021	2020	**2021**
Net assets per share	**¥ 2,141.49**	¥ 3,171.80	**$ 19.34**
Net (loss) income per share	**(1,082.04)**	82.66	**(9.77)**

Notes:

1. Net income per share assuming full dilution is not disclosed as the Company had no potentially dilutive shares outstanding during the years ended March 31, 2021 and 2020.

2. The basis for calculating net income per share is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
Year ended March 31	**2021**	2020	**2021**
Net (loss) income attributable to common shareholders	**¥ (404,624)**	¥ 27,655	**$(3,654,809)**
Amount not attributable to common shareholders	**—**	—	**—**
Net (loss) income attributable to common stock	**(404,624)**	27,655	**(3,654,809)**
Weighted-average number of shares outstanding during the fiscal year (in thousands)	**373,945**	334,559	**373,945**

3. The basis for calculating net assets per share is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
As of March 31	**2021**	2020	**2021**
Net assets	**¥1,012,320**	¥1,068,870	**$ 9,143,889**
Amounts deducted from total net assets:			
Non-controlling interests	**(5,087)**	(7,842)	**(45,948)**
Net assets attributable to common stock at the end of the fiscal year	**¥1,007,233**	¥1,061,028	**$ 9,097,940**
Number of shares of common stock at the end of the fiscal year used to determine net assets per share (in thousands)	**470,342**	334,519	**470,342**

The average number of shares of the Company held by the Trust for Delivery of Shares to Directors for the years ended March 31, 2021 and 2020 were 183 thousand and 173 thousand, respectively. The shares held by the trust were deducted from the weighted-average number of shares outstanding during each of the years ended March 31, 2021 and 2020.

The number of shares of the Company held by the Trust for Delivery of Shares to Directors at March 31, 2021 and 2020 were 178 thousand and 209 thousand, respectively. The shares held by the trust were deducted from the number of shares of common stock at the end of each of the years ended March 31, 2021 and 2020, which were used to determine net assets per share.

21. Supplementary cash flow information

A reconciliation of the difference between cash and deposits stated in the consolidated balance sheet at March 31, 2021 and 2020 and cash and cash equivalents in the consolidated statement of cash flows is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Cash and deposits	**¥ 464,739**	¥ 109,447	**$ 4,197,805**
Time deposits with maturities of more than three months	**(241,397)**	(31,120)	**(2,180,444)**
Marketable securities	**500,980**	129,200	**4,525,155**
Marketable securities with maturities of more than three months	**(354,000)**	(71,590)	**(3,197,543)**
Cash and cash equivalents	**¥ 370,322**	¥ 135,937	**$ 3,344,973**

22. Impairment loss

The Group reviewed its long-lived assets for impairment for the years ended March 31, 2021 and 2020. As a result, the Group recognized impairment losses of ¥75,575 million ($682,639 thousand) and ¥25,159 million, included in other expenses, for the years ended March 31, 2021 and 2020, respectively. The details are as follows:

For the year ended March 31, 2021			Yen (Millions)	U.S. dollars (Thousands)
Application	Location	Category	Impairment loss	
Assets expected to be sold	Tokyo	Aircrafts, buildings, and other assets	**¥71,344**	**$644,422**
Dormitory/company housing	Tokyo, Chiba	Land, buildings, and other assets	**2,159**	**19,501**
Business assets	Tokyo, Chiba, other	Software, buildings, furniture and fixtures, and other assets	**2,072**	**18,715**
		Total	**¥75,575**	**$682,639**

Note: The Group grouped its operating assets for impairment testing based on management accounting categories, and also grouped lease assets, assets to be disposed of by sale, and idle assets on an individual basis.

Regarding the assets expected to be sold, in order to deal with the drastic decrease in air passenger demand due to COVID-19, we have decided to implement the “Changes to the ANA Group’s New Business Model”. Based on this model, we have retired some of the aircrafts and sold some of the training facilities to achieve the conversion of the cost structure. For this reason, the book value was reduced to the recoverable amount in the current consolidated fiscal year, and the reduced amount was recorded as an impairment loss of ¥71,344 million ($644,422 thousand) as an extraordinary loss (Business restructuring expense). Details are as follows: ¥66,524 million ($600,885 thousand) for aircrafts, ¥4,619 million ($41,721 thousand) for buildings, and ¥201 million ($1,815 thousand) for other assets.

The net selling price of the aircrafts is reasonably calculated based on our latest sales record, not the price assuming reuse as an aircraft, considering the impact of decrease in air passenger demand due to COVID-19. It is calculated by deducting the estimated processing cost from the estimated selling price. In addition, the net selling price of the training facility is calculated based on the real estate appraisal value using the sales comparison approach by an outside expert.

Regarding the dormitory/company housing which are scheduled to be sold, the book value was reduced to the recoverable amount in the current consolidated fiscal year, and the reduced amount was recorded as an impairment loss of ¥2,159 million ($19,501 thousand) as an extraordinary loss. Details are as follows: ¥1,082 million ($9,773 thousand) for land, ¥1,064 million ($9,610 thousand) for buildings, and ¥13 million ($117 thousand) for other assets.

Regarding business assets, the book value was reduced to the recoverable amount in the current consolidated fiscal year due to the decline in profitability, and the reduced amount was recorded as an extraordinary loss as an impairment loss of ¥2,072 million ($18,715 thousand). Details are as follows: ¥731 million ($6,602 thousand) for software, ¥627 million ($5,663 thousand) for buildings, ¥177 million ($1,598 thousand) for furniture and fixtures, and ¥537 million ($4,850 thousand) for other assets.

The recoverable value of the assets expected to be sold is measured by the net selling price and calculated based on the estimated selling price. For business assets, among asset groups in which profit and loss resulting from operating activities continues to be negative, the book value is reduced to the recoverable value for assets for which the total amount of future cash flows before discount is less than the book value, and the amount is recorded as an extraordinary loss as an impairment loss.

For the year ended March 31, 2020			Yen (Millions)
Application	Location	Category	Impairment loss
Assets expected to be sold	Miami, Florida	Machinery, intangible assets, lease assets, and other assets	¥ 2,494
Others	Peach Aviation Limited	Goodwill	22,665
		Total	¥25,159

Note: The Group grouped its operating assets for impairment testing based on management accounting categories, and also grouped lease assets, assets to be disposed of by sale and idle assets on an individual basis. Business assets in Miami, Florida were written-down to recoverable amounts, based on the updated business plan. As a result, an impairment loss of ¥2,494 million was recognized. Details are as follows: ¥1,767 million for machinery, ¥693 million for lease assets, and ¥32 million for other assets. Also, goodwill for Peach Aviation Limited, a consolidated subsidiary of the Company, were written-down to recoverable amounts, based on their value in use. As a result, an impairment loss of ¥22,665 million was recognized. The recoverable amount of these assets was measured at its net selling price or their value in use. The net selling price is determined by estimates of selling cost and selling price. The value in use is calculated by discounting the future cash flows at discount rates of 11.5%.

23. Supplementary information for the consolidated statement of operations

(a) Write-downs of inventories

Inventories were valued using prices after write-downs of book value due to a decrease in net selling value. Write-downs of inventories included in cost of sales are as follows:

Yen (Millions)		U.S. dollars (Thousands)
2021	2020	**2021**
¥4,172	¥1,181	**$37,684**

Note: Figures in parentheses represent gains from the reversal of write-downs.

(b) Other income (expenses), net

	Yen (Millions)		U.S. dollars (Thousands)
	2021	2020	**2021**
Employment adjustment subsidy	**¥43,470**	¥ —	**$392,647**
Compensation payments received	**1,770**	17,897	**15,987**
Gain on sales of investment securities	**31**	1,122	**280**
Valuation loss on investments in securities	**(8,384)**	(853)	**(75,729)**
Other (*)	**5,556**	(2,976)	**50,185**
Other, net (*)	**¥42,443**	¥15,190	**$383,370**

(*) "Commission fee" and "Loss on valuation of derivatives" included in "Other, net" under "Other income (expenses)" in the previous fiscal year have been presented separately in the current fiscal year, as the amounts are now material. To reflect this change in the presentation method, consolidated financial statements for the previous fiscal year have been reclassified. As a result, ¥14,567 million presented in "Other, net" under "Other income (expenses)" in the consolidated statement of operations for the previous fiscal year has been reclassified into ¥(20) million of "Commission fee" and ¥(603) million of "Loss on valuation of derivatives" and ¥15,190 million of "Other, net."

(c) Business restructuring expense

The Group recorded business restructuring expense of ¥86,350 million ($779,965 thousand) for the current consolidated fiscal year.

The main components include an impairment loss of ¥71,344 million ($644,422 thousand) related to the early retirement of aircraft implemented as part of the business restructuring, a loss on sales and disposal of fixed assets of ¥8,578 million ($77,481 thousand), and other items such as early retirement buyout payment.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ANA HOLDINGS INC.:

Opinion

We have audited the consolidated financial statements of ANA HOLDINGS INC. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/s/ Deloitte Touche Tohmatsu LLC
Tokyo, Japan
July 15, 2020

Consolidated Financial Statements
Consolidated Balance Sheet

ANA HOLDINGS INC. and its consolidated subsidiaries
As of March 31, 2020

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
ASSETS	**2020**	2019	**2020**
Current assets:			
Cash and deposits (Notes 15 and 20)	¥ **109,447**	¥ 68,301	$ **1,005,669**
Marketable securities (Notes 4 and 15)	**129,200**	225,360	**1,187,172**
Notes and accounts receivable (Note 15)	**98,944**	187,529	**909,161**
Accounts receivable from and advances to unconsolidated subsidiaries and affiliates	**2,851**	4,204	**26,196**
Lease receivables (Note 7)	**22,823**	26,491	**209,712**
Inventories (Notes 5, 7 and 22)	**67,312**	62,130	**618,505**
Prepaid expenses and other	**141,123**	126,672	**1,296,728**
Allowance for doubtful accounts	**(538)**	(457)	**(4,943)**
Total current assets	**571,162**	700,230	**5,248,203**
Property and equipment:			
Land (Note 7)	**53,886**	54,270	**495,139**
Buildings and structures (Note 7)	**306,084**	268,082	**2,812,496**
Aircraft (Note 7)	**2,120,347**	1,961,881	**19,483,111**
Machinery and equipment	**112,343**	105,594	**1,032,279**
Vehicles	**32,741**	30,858	**300,845**
Furniture and fixtures	**65,428**	56,015	**601,194**
Lease assets (Note 12)	**11,170**	12,330	**102,637**
Construction in progress	**180,005**	286,635	**1,654,001**
Total	**2,882,004**	2,775,665	**26,481,705**
Accumulated depreciation	**(1,301,678)**	(1,228,595)	**(11,960,654)**
Net property and equipment	**1,580,326**	1,547,070	**14,521,051**
Investments and other assets:			
Investment securities (Notes 4 and 15)	**108,156**	120,619	**993,806**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 6)	**42,322**	42,790	**388,881**
Lease and guaranty deposits	**18,501**	24,330	**169,999**
Deferred income taxes (Note 10)	**99,824**	85,307	**917,247**
Goodwill	**24,461**	51,132	**224,763**
Intangible assets	**101,062**	104,048	**928,622**
Other assets	**14,339**	11,596	**131,755**
Total investments and other assets	**408,665**	439,822	**3,755,076**
TOTAL (Note 17)	¥ **2,560,153**	¥ 2,687,122	$ **23,524,331**

LIABILITIES AND NET ASSETS	Yen (Millions) 2020	2019	U.S. dollars (Thousands) (Note 2) 2020
Current liabilities:			
Short-term loans (Notes 7 and 15)	¥ **429**	¥ 336	$ **3,941**
Current portion of long-term debt (Notes 7 and 15)	**107,878**	112,651	**991,252**
Accounts payable (Note 15)	**196,391**	229,712	**1,804,566**
Accounts payable to unconsolidated subsidiaries and affiliates	**4,325**	4,544	**39,740**
Advance ticket sales	**111,827**	218,950	**1,027,538**
Accrued expenses	**36,974**	60,590	**339,740**
Income taxes payable	**8,441**	21,374	**77,561**
Other current liabilities (Note 9)	**64,281**	37,776	**590,655**
Total current liabilities	**530,546**	685,933	**4,874,997**
Long-term liabilities:			
Long-term debt (Notes 7 and 15)	**734,555**	675,662	**6,749,563**
Liability for retirement benefits (Note 8)	**163,384**	158,209	**1,501,277**
Deferred income taxes (Note 10)	**112**	110	**1,029**
Asset retirement obligations (Note 9)	**1,224**	3,371	**11,246**
Other long-term liabilities	**61,462**	54,524	**564,752**
Total long-term liabilities	**960,737**	891,876	**8,827,869**
Contingent liabilities (Note 14)			
Net assets (Note 13)**:**			
Common stock: Authorized-510,000,000 shares; Issued-348,498,361 shares in 2020 and 2019	**318,789**	318,789	**2,929,238**
Capital surplus	**258,470**	258,448	**2,374,988**
Retained earnings	**550,839**	548,439	**5,061,462**
Treasury stock-13,978,652 shares in 2020 and 13,868,935 shares in 2019	**(59,435)**	(59,032)	**(546,126)**
Accumulated other comprehensive income:			
Unrealized gain on securities	**22,120**	37,622	**203,252**
Deferred gain (loss) on derivatives under hedge accounting	**(14,595)**	10,636	**(134,108)**
Foreign currency translation adjustments	**2,668**	2,873	**24,515**
Defined retirement benefit plans	**(17,828)**	(18,362)	**(163,815)**
Total	**1,061,028**	1,099,413	**9,749,407**
Non-controlling interests	**7,842**	9,900	**72,057**
Total net assets	**1,068,870**	1,109,313	**9,821,464**
TOTAL	¥ **2,560,153**	¥ 2,687,122	$ **23,524,331**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2020

	Yen (Millions) 2020	Yen (Millions) 2019	U.S. dollars (Thousands) (Note 2) 2020
Operating revenues (Note 17)	¥ **1,974,216**	¥ 2,058,312	$ **18,140,365**
Cost of sales (Note 22)	**1,583,434**	1,559,876	**14,549,609**
Gross profit	**390,782**	498,436	**3,590,756**
Selling, general and administrative expenses (Notes 8 and 18)	**329,976**	333,417	**3,032,031**
Operating income (Note 17)	**60,806**	165,019	**558,724**
Other income (expenses):			
Interest income	**958**	767	**8,802**
Dividend income	**2,073**	2,159	**19,048**
Equity in earnings of unconsolidated subsidiaries and affiliates	**1,210**	1,559	**11,118**
Foreign exchange gain (loss), net	**473**	(1,761)	**4,346**
Gain on sales of assets	**6,746**	2,554	**61,986**
Gain on donation of non-current assets	**3,553**	2,512	**32,647**
Interest expenses	**(6,291)**	(6,995)	**(57,805)**
Loss on sales of assets	**(302)**	(641)	**(2,774)**
Loss on disposal of assets	**(7,133)**	(11,117)	**(65,542)**
Impairment loss (Note 21)	**(25,159)**	(1,997)	**(231,177)**
Other, net (Note 22)	**14,567**	1,964	**133,850**
Other income (expenses), net	**(9,305)**	(10,996)	**(85,500)**
Income before income taxes	**51,501**	154,023	**473,224**
Income taxes (Note 10)**:**			
Current	**24,407**	47,354	**224,267**
Deferred	**1,175**	(5,168)	**10,796**
Total income taxes	**25,582**	42,186	**235,063**
Net income	**25,919**	111,837	**238,160**
Net income (loss) attributable to non-controlling interests	**(1,736)**	1,060	**(15,951)**
Net income attributable to owners of the parent	¥ **27,655**	¥ 110,777	$ **254,111**

	Yen 2020	Yen 2019	U.S. dollars (Note 2) 2020
Per share of common stock (Notes 3, 13 and 19)**:**			
Basic net income	¥ **82.66**	¥ 331.04	$ **0.75**
Cash dividends applicable to the year	**—**	75.00	**—**

Net income per share assuming full dilution is not disclosed as the Company had no potentially dilutive shares outstanding during the years ended March 31, 2020 and 2019. See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2020

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
	2020	2019	**2020**
Net income	**¥ 25,919**	¥ 111,837	**$ 238,160**
Other comprehensive income (loss) (Note 11)**:**			
Unrealized gain (loss) on securities	**(15,369)**	13,115	**(141,220)**
Deferred gain (loss) on derivatives under hedge accounting	**(25,227)**	14,115	**(231,801)**
Foreign currency translation adjustments	**(221)**	(382)	**(2,030)**
Defined retirement benefit plans	**539**	2,930	**4,952**
Share of other comprehensive income (loss) in affiliates	**(383)**	15	**(3,519)**
Total other comprehensive income (loss) (Note 11)	**(40,661)**	29,793	**(373,619)**
Comprehensive income (loss)	**¥ (14,742)**	¥ 141,630	**$ (135,458)**
Total comprehensive income (loss) attributable to:			
Owners of the parent	**¥ (12,749)**	¥ 140,613	**$ (117,146)**
Non-controlling interests	**(1,993)**	1,017	**(18,312)**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2020

	Thousands	Yen (Millions)											
							Accumulated other comprehensive income						
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total net assets
Balance at April 1, 2018	334,632	¥ 318,789	¥ 268,208	¥ 457,746	¥ (59,015)	¥ 985,728	¥ 24,467	¥ (3,471)	¥ 3,201	¥ (21,264)	¥ 2,933	¥ 11,891	¥ 1,000,552
Net income attributable to owners of the parent				110,777		110,777							110,777
Cash dividends ¥60.00 per share (Note 13)				(20,084)		(20,084)							(20,084)
Purchase of treasury stock (Note 13)	(10)				(41)	(41)							(41)
Disposal of treasury stock (Note 13)	7				24	24							24
Change in the parent's ownership interest due to transactions with non-controlling interests			(9,760)			(9,760)							(9,760)
Net changes in the year						—	13,155	14,107	(328)	2,902	29,836	(1,991)	27,845
Total changes during the fiscal year		—	(9,760)	90,693	(17)	80,916	13,155	14,107	(328)	2,902	29,836	(1,991)	108,761
Balance at March 31, 2019	334,629	318,789	258,448	548,439	(59,032)	1,066,644	37,622	10,636	2,873	(18,362)	32,769	9,900	1,109,313
Net income attributable to owners of the parent				**27,655**		**27,655**							**27,655**
Cash dividends ¥75.00 per share (Note 13)				**(25,105)**		**(25,105)**							**(25,105)**
Purchase of treasury stock (Note 13)	**(125)**				**(453)**	**(453)**							**(453)**
Disposal of treasury stock (Note 13)	**15**				**50**	**50**							**50**
Change in the parent's ownership interest due to transactions with non-controlling interests			**22**			**22**							**22**
Changes in scope of consolidation				**(150)**		**(150)**							**(150)**
Net changes in the year						**—**	**(15,502)**	**(25,231)**	**(205)**	**534**	**(40,404)**	**(2,058)**	**(42,462)**
Total changes during the fiscal year		**—**	**22**	**2,400**	**(403)**	**2,019**	**(15,502)**	**(25,231)**	**(205)**	**534**	**(40,404)**	**(2,058)**	**(40,443)**
Balance at March 31, 2020	**334,519**	**¥ 318,789**	**¥ 258,470**	**¥ 550,839**	**¥ (59,435)**	**¥1,068,663**	**¥ 22,120**	**¥ (14,595)**	**¥ 2,668**	**¥ (17,828)**	**¥ (7,635)**	**¥ 7,842**	**¥ 1,068,870**

	Thousands	U.S. dollars (Thousands) (Note 2)											
							Accumulated other comprehensive income						
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total net assets
Balance at March 31, 2019	334,629	$2,929,238	$2,374,786	$5,039,410	$(542,423)	$9,801,010	$345,695	$ 97,730	$26,398	$(168,721)	$301,102	$ 90,967	$10,193,080
Net income attributable to owners of the parent				**254,111**		**254,111**							**254,111**
Cash dividends $0.68 per share (Note 13)				**(230,680)**		**(230,680)**							**(230,680)**
Purchase of treasury stock (Note 13)	**(125)**				**(4,162)**	**(4,162)**							**(4,162)**
Disposal of treasury stock (Note 13)	**15**				**459**	**459**							**459**
Change in the parent's ownership interest due to transactions with non-controlling interests			**202**			**202**							**202**
Changes in scope of consolidation				**(1,378)**		**(1,378)**							**(1,378)**
Net changes in the year						**—**	**(142,442)**	**(231,838)**	**(1,883)**	**4,906**	**(371,257)**	**(18,910)**	**(390,168)**
Total changes during the fiscal year		**—**	**202**	**22,052**	**(3,703)**	**18,551**	**(142,442)**	**(231,838)**	**(1,883)**	**4,906**	**(371,257)**	**(18,910)**	**(371,616)**
Balance at March 31, 2020	**334,519**	**$2,929,238**	**$2,374,988**	**$5,061,462**	**$(546,126)**	**$9,819,562**	**$203,252**	**$(134,108)**	**$24,515**	**$(163,815)**	**$ (70,155)**	**$ 72,057**	**$ 9,821,464**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2020

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
	2020	2019	**2020**
Cash flows from operating activities:			
Income before income taxes	¥ **51,501**	¥ 154,023	$ **473,224**
Adjustments for:			
Depreciation and amortization (Note 17)	**175,739**	159,541	**1,614,802**
Impairment loss (Note 21)	**25,159**	1,997	**231,177**
Amortization of goodwill (Note 17)	**4,006**	4,031	**36,809**
Loss on disposal and sales of property and equipment	**689**	9,204	**6,330**
Gain on sales and valuation of investment securities	**(269)**	(149)	**(2,471)**
Loss on sales of shares of subsidiaries and affiliates	**7**	343	**64**
Increase in allowance for doubtful accounts	**419**	51	**3,850**
Increase in liability for retirement benefits	**5,503**	4,801	**50,565**
Interest and dividend income	**(3,031)**	(2,926)	**(27,850)**
Interest expenses	**6,291**	6,995	**57,805**
Foreign exchange loss (gain)	**273**	(534)	**2,508**
Decrease (increase) in notes and accounts receivable	**82,312**	(7,195)	**756,335**
Increase in other current assets	**(9,284)**	(20,788)	**(85,307)**
Increase (decrease) in notes and accounts payable	**(38,045)**	3,355	**(349,581)**
Increase (decrease) in advance ticket sales	**(107,123)**	37,597	**(984,314)**
Other, net	**(14,510)**	12,694	**(133,327)**
Subtotal	**179,637**	363,040	**1,650,620**
Interest and dividends received	**3,831**	3,447	**35,201**
Interest paid	**(6,371)**	(7,175)	**(58,540)**
Income taxes paid	**(46,928)**	(63,164)	**(431,204)**
Net cash provided by operating activities	**130,169**	296,148	**1,196,076**
Cash flows from investing activities:			
Increase in time deposits	**(55,819)**	(45,811)	**(512,900)**
Proceeds from withdrawal of time deposits	**50,789**	30,794	**466,681**
Purchases of marketable securities	**(175,070)**	(176,060)	**(1,608,655)**
Proceeds from redemption of marketable securities	**159,200**	196,582	**1,462,831**
Purchases of property and equipment	**(317,604)**	(336,807)	**(2,918,349)**
Proceeds from sales of property and equipment	**151,652**	84,917	**1,393,476**
Purchases of intangible assets	**(33,757)**	(39,057)	**(310,181)**
Purchases of investment securities	**(8,339)**	(18,978)	**(76,624)**
Proceeds from sales of investment securities	**1,424**	153	**13,084**
Other, net	**(2,694)**	(4,404)	**(24,754)**
Net cash used in investing activities	**(230,218)**	(308,671)	**(2,115,390)**
Cash flows from financing activities:			
Increase in short-term loans, net	**98**	156	**900**
Proceeds from long-term loans	**96,684**	69,710	**888,394**
Repayment of long-term loans	**(82,035)**	(87,903)	**(753,790)**
Proceeds from issuance of bonds	**69,586**	19,876	**639,400**
Repayment of bonds	**(30,000)**	(10,000)	**(275,659)**
Repayment of finance lease obligations	**(4,609)**	(5,602)	**(42,350)**
Payment for purchases of investments in subsidiaries with no changes in scope of consolidation	**(96)**	(11,326)	**(882)**
Net increase of treasury stock	**(405)**	(17)	**(3,721)**
Payment for dividends	**(25,105)**	(20,084)	**(230,680)**
Other, net	**(249)**	(1,290)	**(2,287)**
Net cash provided by (used in) financing activities	**23,869**	(46,480)	**219,323**
Effect of exchange rate changes on cash and cash equivalents	**(274)**	332	**(2,517)**
Net decrease in cash and cash equivalents	**(76,454)**	(58,671)	**(702,508)**
Cash and cash equivalents at beginning of year	**211,838**	270,509	**1,946,503**
Net increase resulting from changes in scope of consolidation	**553**	—	**5,081**
Cash and cash equivalents at end of year (Note 20)	¥ **135,937**	¥ 211,838	$ **1,249,076**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2020

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of ANA HOLDINGS INC. (hereinafter referred to as the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the consolidated financial statements of the previous fiscal year to conform to the classifications used in the current fiscal year.

2. Translation of financial statements

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of readers outside of Japan, have been translated into U.S. dollars at the rate of ¥108.83 = US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2020. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at that or any other rate. Translations of U.S. dollars are rounded down to the nearest thousand and, therefore, the totals shown in tables do not necessarily agree with the sums of the individual amounts.

3. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements as of March 31, 2020 include the accounts of the Company and its 62 (62 in 2019) significant subsidiaries (collectively, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 16 (16 in 2019) unconsolidated subsidiaries and significant affiliates are accounted for by the equity method.

The difference between the cost and the underlying net assets at dates of acquisition of consolidated subsidiaries and companies accounted for by the equity method is amortized using the straight-line method over a period of 10 to 15 years.

Investments in 95 (94 in 2019) subsidiaries and affiliates which are not consolidated or accounted for by the equity method are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

Certain subsidiaries have fiscal years ending on December 31 and February 29, and necessary adjustments for significant transactions, if any, are made in consolidation.

(b) Foreign currency translation

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except for payables and receivables hedged by qualified forward exchange contracts, and differences arising from the translation are included in the consolidated statement of income.

The balance sheet accounts of consolidated foreign subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences arising from the translation are presented as foreign currency translation adjustments in net assets.

(c) Marketable securities and investment securities

Marketable securities and investment securities are classified into three categories: trading, held-to-maturity or available-for-sale. Under the accounting standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as available-for-sale securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost, determined by the moving-average method. See Note 4 "Marketable securities and investment securities" for additional information.

(d) Allowance for doubtful accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

(e) Inventories

Inventories include aircraft spare parts, supplies and stock in trade of consolidated subsidiaries, and are stated at cost, principally determined by the moving-average method. The net book value of inventories in the consolidated balance sheet is written down when their net realizable value is less than book value. See Note 5 "Inventories" and Note 22 "Supplementary information for the consolidated statement of income" for additional information.

(f) Property and equipment (excluding leased assets)

Property and equipment, excluding leased assets, are stated at cost less accumulated depreciation. Depreciation of property and equipment is computed based on the estimated useful lives. Major assets are depreciated by the following method:

Buildings	Straight-line method
Aircraft	Straight-line method

The Company and certain subsidiaries employ principally the following useful lives for major property and equipment, based upon the Company's estimate of durability:

Buildings	3–50 years
Aircraft	9–20 years

Major additions and improvements are capitalized at cost. Maintenance and repairs, including minor remodels and improvements, are charged to income as incurred.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. The assets of the Group are grouped by individual property in the case of rental real estate, assets determined to be sold and idle assets, and by management accounting categories in the case of business assets. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition. See Note 21 "Impairment loss" for additional information.

(g) Intangible assets and amortization (excluding leased assets)

Intangible assets are amortized principally by the straight-line method. Cost of software purchased for internal use is amortized by the straight-line method over five years, the estimated useful life of purchased software.

(h) Retirement benefits

The retirement benefit plans of the Group cover substantially all employees other than directors and corporate auditors. Under the terms of this plan, eligible employees are entitled, upon mandatory retirement or earlier voluntary severance, to lump-sum payments or annuity payments based on their compensation at the time of leaving and years of service with the Company and subsidiaries.

The Company and certain significant domestic subsidiaries have trustee employee pension funds to provide coverage for part of the lump-sum benefits or annuity payments.

The Company and certain consolidated subsidiaries sponsor defined contribution pension plans as well as defined benefit pension plans.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and are recognized in profit or loss over the average remaining service years of employees.

(i) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences. See Note 10 "Income taxes" for additional information.

(j) Leases

Leased assets arising from transactions under finance lease contracts are depreciated to a residual value of zero by the straight-line method using the term of the contract as the useful life.

(k) Derivatives

The Group uses derivatives, such as forward foreign currency exchange contracts, interest rate swaps, and commodity options and swaps are to limit its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. The Group does not use derivatives for trading purposes.

Derivative financial instruments are carried at fair value with changes in unrealized gains or losses charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which an unrealized gain or loss is deferred. Receivables and payables hedged by qualified forward exchange contracts are translated at the corresponding foreign exchange contract rates. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expenses.

(l) Revenue recognition

Passenger revenues, cargo and other operating revenues are recorded when services are provided.

(m) Cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits and negotiable certificates of deposit, all of which mature or become due within three months of the date of acquisition. See Note 20 “Supplementary cash flow information” for additional information.

(n) Per share information

Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Diluted net income per share is not presented as the effect of including potential common shares is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

(o) Share remuneration plan for directors

The Company has transactions for delivery of the Company’s treasury stock through a trust as a share remuneration plan (the “Trust for Delivery of Shares to Directors”) in order to improve its operating performance, increase its corporate value, and raise the directors’ awareness of shareholder oriented management.

(1) Transaction outline

Trust for Delivery of Shares to Directors is a system in which funds are contributed by the Company, and shares acquired are distributed to the Company’s directors in accordance with the Company’s operating performance, etc.

(2) The Company’s treasury stock remaining in the trust

The Company’s treasury stock remaining in the trust is recorded at book value (excluding associated expenses) of the trust and is reflected as treasury stock in net assets. The book value was ¥340 million for the previous fiscal year and ¥717 million for the current fiscal year. The number of shares was 107 thousand shares for the previous fiscal year and 209 thousand shares for the current fiscal year.

(p) Unapplied new accounting standard

“Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 29 – March 31, 2020) “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 – March 31, 2020) “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 – March 31, 2020)

(1) Overview

The International Accounting Standards Board (“IASB”) and Financial Accounting Standards Board (“FASB”) issued a new revenue standard, “Revenue from Contracts with Customers” (International Financial Reporting Standard 15 (“IFRS 15”) and Accounting Standard Codification 606 (“Topic 606”) issued by the IASB and FASB, respectively), on May 2014.

Against the background of the fact that IFRS 15 will be effective from periods beginning on or after January 1, 2018 and Topic 606 will be effective from periods beginning on or after December 15, 2017, the ASBJ issued ASBJ Statement No. 29, “Accounting Standard for Revenue Recognition,” and ASBJ Guidance

No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The ASBJ's primary policy for developing its accounting standard for revenue recognition was to include the basic principles of IFRS 15 for the purpose of comparability, between financial statements in accordance with Japanese GAAP and those in accordance with IFRS or accounting principles generally accepted in the United States of America. Also, for particular items for which industrial practice should be taken into consideration, alternative means are to be provided to the extent that comparability is maintained.

(2) Application date

The Company will apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance on its consolidated financial statements in future applicable periods.

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30 – July 4, 2019) "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 – July 4, 2019) "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10 – July 4, 2019)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31 – July 4, 2019)

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 – March 31, 2020)

(1) Overview

The IASB and FASB established almost the same detailed implementation guidance for Fair Value Measurement (IFRS 13 and Topic 820 issued by IASB and FASB, respectively).

The ASBJ has since made efforts to align Japanese GAAP to International Accounting Standards, so as to incorporate the aforementioned implementation guidance for Fair Value Measurement and Disclosures. This resulted in them issuing ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement."

The ASBJ's primary policy for developing its Accounting Standard for Fair Value Measurement was to include the basic principles of IFRS 13 for the purpose of comparability, between financial statements in accordance with Japanese GAAP and those in accordance with IFRS or accounting principles generally accepted in the United States of America. Also, for particular items for which industrial practice should be taken into consideration, alternative means are to be provided to the extent that comparability is maintained.

(2) Application date

The Company will apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance on its consolidated financial statements in future applicable periods.

"Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31 – March 31, 2020)

(1) Overview

Regarding "key sources of estimation uncertainty," required to be disclosed in accordance with "Presentation of Financial Statements"

(International Accounting Standards 1 ("IAS 1"), issued by the IASB in 2003, the ASBJ was requested that it should consider to require disclosure of such note information for the purpose of enhancing usability of Financial Statements.

In response to such requests, the ASBJ developed and issued ASBJ Statement No. 31. The ASBJ's primary policy for developing its accounting standards is not requiring the expansion of individual notes but leading a company to determine the specific content of disclosure in light of the purpose of disclosure by showing their principle and the purpose of disclosure.

(2) Application date

The Company will apply the accounting standard on March 31, 2021.

"Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24 – March 31, 2020)

(1) Overview

The ASBJ revised and issued "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections," in order to enhance note information on accounting principles and procedures that were adopted when the provisions of relevant accounting standards are not clear.

Also, in consideration of affect on accounting practices, the guidance is subject to applicable No. 24 of annotations on the accounting principles.

(2) Application date

The Company will apply the accounting standard on March 31, 2021.

(q) Additional information

Accounting estimates associated with the spread of COVID-19

Demand for air transportation in Japan and overseas decreased rapidly toward the end of the current fiscal year due to immigration restrictions imposed by various countries and the impact of the voluntary restraint of staying home within Japan resulting from the spread of COVID-19.

Accounting estimates in the current fiscal year, such as the valuation of goodwill and the recoverability of deferred tax assets, are based on the certain assumption that the situation will continue until the second quarter of the next fiscal year and the demand will pick up gradually afterwards.

4. Marketable securities and investment securities

Marketable and investment securities at March 31, 2020 and 2019 are summarized as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Current:			
Negotiable certificates of deposits	**¥ 129,200**	¥ 225,360	**$ 1,187,172**
Other	**—**	—	**—**
Total	**¥ 129,200**	¥ 225,360	**$ 1,187,172**
Non-current:			
Marketable equity securities	**¥ 84,141**	¥ 88,385	**$ 773,141**
Other	**24,014**	32,234	**220,656**
Total	**¥ 108,156**	¥ 120,619	**$ 993,806**

The costs and aggregate fair values of marketable and investment securities at March 31, 2020 and 2019 were as follows:

As of March 31, 2020	Yen (Millions) Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Negotiable certificates of deposit	**¥ 129,200**	**¥ —**	**¥ —**	**¥ 129,200**
Marketable equity securities	**51,453**	**36,211**	**(3,523)**	**84,141**
Held-to-maturity	**938**	**1,632**	**—**	**2,570**

As of March 31, 2019	Yen (Millions) Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Negotiable certificates of deposit	¥ 225,360	¥ —	¥ —	¥ 225,360
Marketable equity securities	35,574	52,916	(105)	88,385
Held-to-maturity	—	—	—	—

As of March 31, 2020	U.S. dollars (Thousands) Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Negotiable certificates of deposit	**$ 1,187,172**	**$ —**	**$ —**	**$ 1,187,172**
Marketable equity securities	**472,783**	**332,729**	**(32,371)**	**773,141**
Held-to-maturity	**8,618**	**14,995**	**—**	**23,614**

The proceeds, realized gains, and realized losses on the available-for-sale securities sold during the years ended March 31, 2020 and 2019 were as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Proceeds	**¥ 1,309**	¥ 559	**$ 12,027**
Gain on sales	**1,122**	333	**10,309**
Loss on sales	**—**	—	**—**

The breakdown of securities for which fair value cannot be reliably determined at March 31, 2020 and 2019 is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Available-for-sale	**¥23,076**	¥32,234	**$212,037**

The redemption schedule of available-for-sale securities with maturities and held-to-maturity securities at March 31, 2020 and 2019 is summarized as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Bonds:			
Within 1 year	¥ **—**	¥ —	$ **—**
Over 1 year to 5 years	**—**	—	**—**
Over 5 years to 10 years	**—**	—	**—**
Over 10 years	**—**	—	**—**
Other securities with maturities:			
Within 1 year	**129,200**	225,360	**1,187,172**
Over 1 year to 5 years	**5,299**	—	**48,690**
Over 5 years to 10 years	**2,025**	6,389	**18,607**
Over 10 years	**—**	—	**—**
Total:			
Within 1 year	¥ **129,200**	¥ 225,360	$ **1,187,172**
Over 1 year to 5 years	**5,299**	—	**48,690**
Over 5 years to 10 years	**2,025**	6,389	**18,607**
Over 10 years	**—**	—	**—**

5. Inventories

Inventories at March 31, 2020 and 2019 consisted the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Inventories (Merchandise)	¥ **13,490**	¥ 13,707	$ **123,954**
Inventories (Supplies)	**53,822**	48,423	**494,551**
Total	¥ **67,312**	¥ 62,130	$ **618,505**

6. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2020 and 2019 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Investments in capital stock	¥ **37,508**	¥ 38,565	$ **344,647**
Advances	**4,814**	4,225	**44,234**
Total	¥ **42,322**	¥ 42,790	$ **388,881**

7. Short-term loans and long-term debt

Short-term loans and current portion of long-term debt at March 31, 2020 and 2019 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Short-term loans	¥ **429**	¥ 336	$ **3,941**
Current portion of long-term loans	**84,057**	77,883	**772,369**
Current portion of bonds	**20,000**	30,000	**183,772**
Current portion of finance lease obligations	**3,821**	4,768	**35,109**
Total	¥ **108,307**	¥ 112,987	$ **995,194**

The average interest rates on the above short-term loans were 1.43% and 2.42% per annum in 2020 and 2019, respectively.

Long-term debt at March 31, 2020 and 2019 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Bonds:			
1.22% notes due 2024	**¥ 30,000**	¥ 30,000	**$ 275,659**
1.20% notes due 2026	**15,000**	15,000	**137,829**
0.38% notes due 2019	**—**	30,000	**—**
0.99% notes due 2036	**20,000**	20,000	**183,772**
0.26% notes due 2020	**20,000**	20,000	**183,772**
0.88% notes due 2037	**10,000**	10,000	**91,886**
Convertible bonds with stock acquisition rights due 2022	**70,000**	70,000	**643,204**
Convertible bonds with stock acquisition rights due 2024	**70,000**	70,000	**643,204**
0.82% notes due 2038	**10,000**	10,000	**91,886**
0.47% notes due 2028	**10,000**	10,000	**91,886**
0.27% notes due 2026	**5,000**	—	**45,943**
0.84% notes due 2039	**15,000**	—	**137,829**
0.27% notes due 2025	**30,000**	—	**275,659**
0.28% notes due 2029	**10,000**	—	**91,886**
0.69% notes due 2039	**10,000**	—	**91,886**
	325,000	285,000	**2,986,308**
Loans, principally from banks:			
Secured, bearing interest from 0.07% to 2.11% in 2020 and 0.13% to 2.11% in 2019, maturing in installments through 2040	**287,827**	281,235	**2,644,739**
Unsecured, bearing interest from 0.46% to 2.23% in 2020 and 0.46% to 2.23% in 2019, maturing in installments through 2031	**213,130**	203,478	**1,958,375**
	500,957	484,713	**4,603,114**
Finance lease obligations:			
Finance lease agreements expiring through 2031	**16,476**	18,600	**151,392**
	842,433	788,313	**7,740,815**
Less current portion	**107,878**	112,651	**991,252**
Total	**¥ 734,555**	¥ 675,662	**$ 6,749,563**

The details of the convertible bonds with stock acquisition rights are as follows:

	Zero coupon convertible bonds due 2022
Class of shares to be issued	Common stock
Total issue price of stock acquisition rights	Zero
Initial conversion price	¥5,180 ($47.59) per share
Total issue price	¥70,000 million ($643,204 thousand)
Total issue price of shares issued upon the exercise of stock acquisition rights	—
Percentage of stock acquisition rights granted	100.0%
Exercise period	October 3, 2017 through September 2, 2022

If all of these outstanding warrants had been exercised at March 31, 2020, 13,513,513 shares of common stock would have been issued.

	Zero coupon convertible bonds due 2024
Class of shares to be issued	Common stock
Total issue price of stock acquisition rights	Zero
Initial conversion price	¥5,100 ($46.86) per share
Total issue price	¥70,000 million ($643,204 thousand)
Total issue price of shares issued upon the exercise of stock acquisition rights	—
Percentage of stock acquisition rights granted	100.0%
Exercise period	October 3, 2017 through September 5, 2024

If all of these outstanding warrants had been exercised at March 31, 2020, 13,725,490 shares of common stock would have been issued.

The conversion price of the convertible bonds is subject to adjustments to reflect stock splits and certain other events.

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that security and guarantees for future and present indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligation becomes due or in the event of default and certain other specified events, to offset cash deposits against such obligations due to the bank.

The following assets were pledged as collateral for short-term and long-term debt at March 31, 2020 and 2019:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Assets at net book value:			
Aircraft (including aircraft spare parts included in inventories)	¥ **510,607**	¥ 497,719	$ **4,691,785**
Land and buildings	**2,956**	2,678	**27,161**
Lease receivables	**12,751**	14,479	**117,164**
Others	**11,135**	11,135	**102,315**
Total	¥ **537,449**	¥ 526,012	$ **4,938,426**

The aggregate annual maturities of long-term debt after March 31, 2020 are as follows:

Years ending March 31	Yen (Millions)	U.S. dollars (Thousands)
2021	¥ **107,878**	$ **991,252**
2022	**73,806**	**678,176**
2023	**132,942**	**1,221,556**
2024	**87,388**	**802,977**
2025	**115,134**	**1,057,925**
Thereafter	**325,285**	**2,988,927**
Total	¥ **842,433**	$ **7,740,815**

8. Retirement benefit plans

The Company and certain consolidated subsidiaries provide defined contribution pension plans as well as defined benefit pension plans, i.e., defined benefit corporate pension plans and lump-sum payment plans for the benefit of employees. Premium severance pay may be paid at the time of retirement of eligible employees in certain cases.

Certain consolidated subsidiaries adopting defined benefit corporate pension plans and lump-sum payment plans use a simplified method for calculating retirement benefit expenses and liabilities.

(a) The changes in the defined benefit obligation for the years ended March 31, 2020 and 2019 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Balance at the beginning of the fiscal year	**¥ 223,723**	¥ 227,114	**$ 2,055,710**
Service cost	**10,216**	10,036	**93,871**
Interest cost	**1,687**	1,711	**15,501**
Actuarial losses (gains)	**2,119**	(76)	**19,470**
Benefits paid	**(12,958)**	(12,342)	**(119,066)**
Accrued past service cost	**—**	0	**—**
Decrease due to transition to the defined contribution pension plans	**—**	(2,827)	**—**
Other	**499**	107	**4,585**
Balance at the end of the fiscal year	**¥ 225,286**	¥ 223,723	**$ 2,070,072**

(b) The changes in plan assets for the years ended March 31, 2020 and 2019 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Balance at the beginning of the fiscal year	**¥ 65,990**	¥ 70,661	**$ 606,358**
Expected return on plan assets	**782**	834	**7,185**
Actuarial losses	**(1,510)**	(421)	**(13,874)**
Employer contributions	**2,611**	2,455	**23,991**
Benefits paid	**(5,156)**	(5,253)	**(47,376)**
Decrease due to transition to the defined contribution pension plans	**—**	(2,827)	**—**
Other	**—**	541	**—**
Balance at the end of the fiscal year	**¥ 62,717**	¥ 65,990	**$ 576,284**

(c) A reconciliation between the liability recorded in the consolidated balance sheet and the balances of the defined benefit obligation and plan assets at March 31, 2020 and 2019 is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Funded defined benefit obligation	**¥ 74,336**	¥ 77,533	**$ 683,046**
Plan assets at fair value	**(62,717)**	(65,990)	**(576,284)**
	11,619	11,543	**106,762**
Unfunded defined benefit obligation	**150,950**	146,190	**1,387,025**
Net liability arising from defined benefit obligation in the consolidated balance sheet	**¥ 162,569**	¥ 157,733	**$ 1,493,788**
Liability for retirement benefits	**¥ 163,384**	¥ 158,209	**$ 1,501,277**
Asset for defined benefits	**(815)**	(476)	**(7,488)**
Net liability arising from defined benefit obligation in the consolidated balance sheet	**¥ 162,569**	¥ 157,733	**$ 1,493,788**

(d) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Service cost	**¥ 10,216**	¥ 10,036	**$ 93,871**
Interest cost	**1,687**	1,711	**15,501**
Expected return on plan assets	**(782)**	(834)	**(7,185)**
Recognized actuarial losses	**3,569**	3,676	**32,794**
Amortization of past service cost	**847**	885	**7,782**
Net periodic benefit costs	**¥ 15,537**	¥ 15,474	**$ 142,763**

(e) Amounts recognized in other comprehensive income (before income tax effect) related to the defined retirement benefit plans for the years ended March 31, 2020 and 2019 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Past service cost	**¥ (847)**	¥ (885)	**$ (7,782)**
Actuarial losses	**60**	(3,331)	**551**
Total	**¥ (787)**	¥ (4,216)	**$ (7,231)**

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) related to the defined retirement benefit plans at March 31, 2020 and 2019 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Unrecognized actuarial losses	**¥ 17,378**	¥ 17,277	**$ 159,680**
Unrecognized past service cost	**8,281**	9,169	**76,091**
Total	**¥ 25,659**	¥ 26,446	**$ 235,771**

(g) Plan assets

(1) Components of plan assets

Plan assets at March 31, 2020 and 2019 consisted of the following:

	2020	2019
Bonds	**43%**	44%
General accounts	**13**	12
Stocks	**10**	11
Cash and deposits	**4**	2
Other	**30**	31
Total	**100%**	100%

(2) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets has been estimated based on the anticipated allocation to each plan asset class and the expected long-term returns on plan assets held in each category.

(h) Assumptions used for the years ended March 31, 2020 and 2019 are set forth as follows:

	2020	2019
Discount rates	**0.1 – 1.2%**	0.1 – 1.2%
Expected rates of return on plan assets	**1.0 – 2.5%**	1.0 – 2.5%

(i) Defined contribution pension plans

The contributions to the defined contribution pension plans of the Company and certain subsidiaries were ¥4,381 million ($40,255 thousand) and ¥4,423 million for the years ended March 31, 2020 and 2019, respectively.

9. Asset retirement obligations

(a) Asset retirement obligations recorded on the consolidated balance sheet

(1) Overview of asset retirement obligations

The Company and its domestic subsidiaries enter into agreements with national government entities that allow for the use of Japanese government property and have entered into real estate lease contracts with such entities for the Head Office, sales branches, airport branches, and certain other offices. As the Company and its domestic subsidiaries have restoration obligations for such properties at the end of each lease period, related legal obligations required by law and the contracts are recorded on the consolidated balance sheet as asset retirement obligations.

(2) Calculation of asset retirement obligations

The Group estimates the expected period of use as 1 to 30 years and calculates the amount of asset retirement obligations with a discount rate of 0% to 2.27%.

The following table indicates the changes in asset retirement obligations for the years ended March 31, 2020 and 2019:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Balance at the beginning of the fiscal year	**¥ 3,853**	¥ 1,319	**$ 35,403**
Liabilities incurred due to the acquisition of property and equipment	**57**	67	**523**
Accretion expense	**19**	389	**174**
Liabilities settled	**(513)**	(320)	**(4,713)**
Other	**(2,161)**	2,398	**(19,856)**
Balance at the end of the fiscal year	**¥ 1,255**	¥ 3,853	**$ 11,531**

(b) Asset retirement obligations not recorded on the consolidated balance sheet

The Company and its domestic subsidiaries enter into agreements with national government entities that allow for the use of Japanese government property, and have entered into real estate lease contracts with such entities for land and office at airport facilities, including Tokyo International Airport, Narita International Airport, New Chitose Airport, Chubu Centrair International Airport, Osaka International Airport, Kansai International Airport, Fukuoka Airport, and Naha Airport. The Company and its domestic subsidiaries have restoration obligations when they vacate and clear such facilities. However, as the above airports are considered to be critical infrastructure, it is beyond the control of the Company alone to determine when to vacate and clear such facilities, and it is also impossible to make reasonable estimates as there are currently no relocation plans for the above properties. Therefore, the Company and its domestic subsidiaries do not record asset retirement obligations for the related liabilities.

10. Income taxes

The Company and certain of its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of 30.62% for the years ended March 31, 2020 and 2019.

The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and certain of its domestic subsidiaries.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2020 and 2019 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Deferred tax assets:			
Liability for retirement benefits	**¥ 50,286**	¥ 48,750	**$ 462,060**
Prepaid expenses	**9,901**	8,356	**90,976**
Deferred loss on hedging instruments	**8,723**	—	**80,152**
Accrued bonuses to employees	**6,608**	13,105	**60,718**
Other provisions	**6,537**	4,898	**60,066**
Loss on investment in subsidiaries	**6,091**	5,305	**55,968**
Long-term unearned revenue	**5,270**	6,309	**48,424**
Loss on valuation of inventories	**4,763**	3,687	**43,765**
Unrealized gain on inventories and property and equipment	**4,673**	4,597	**42,938**
Other	**28,827**	26,173	**264,881**
Total gross deferred tax assets	**131,679**	121,180	**1,209,951**
Less valuation allowance	**(14,268)**	(11,373)	**(131,103)**
Total net deferred tax assets	**117,411**	109,807	**1,078,847**
Deferred tax liabilities:			
Unrealized gain on securities	**(10,981)**	(16,134)	**(100,900)**
Deferred gain on hedging instruments	**(2,681)**	(4,735)	**(24,634)**
Retained earnings of subsidiaries and affiliates	**(2,388)**	(2,283)	**(21,942)**
Other	**(1,649)**	(1,458)	**(15,152)**
Total gross deferred tax liabilities	**(17,699)**	(24,610)	**(162,629)**
Net deferred income taxes	**¥ 99,712**	¥ 85,197	**$ 916,217**

A reconciliation of the difference between the normal effective statutory tax rate and the actual effective income tax rate for the years ended March 31, 2020 and 2019 is as follows:

	2020	2019
Normal effective statutory tax rate	**30.62%**	30.62%
Reconciliation:		
Impairment loss	**13.49**	—
Amortization of goodwill	**2.38**	0.80
Expenses not deductible for income tax purposes	**1.30**	0.46
Inhabitants tax per capita levy	**0.39**	0.14
Loss on investment in subsidiaries	**—**	(5.57)
Income taxes for prior periods	**(0.81)**	(1.78)
Changes in valuation allowance	**3.54**	2.81
Other, net	**(1.24)**	(0.09)
Actual effective income tax rate	**49.67%**	27.39%

11. Other comprehensive income

The following table presents reclassification and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2020 and 2019:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Unrealized gain (loss) on securities:			
Amount arising during the fiscal year	**¥ (19,764)**	¥ 19,155	**$ (181,604)**
Reclassification adjustments to profit or loss	**(764)**	(221)	**(7,020)**
Amount of unrealized gain (loss) on securities before tax effect	**(20,528)**	18,934	**(188,624)**
Tax effect	**5,159**	(5,819)	**47,404**
Total	**(15,369)**	13,115	**(141,220)**
Deferred gain (loss) on derivatives under hedge accounting:			
Amount arising during the fiscal year	**(41,013)**	9,585	**(376,853)**
Reclassification adjustments to profit or loss	**4,424**	10,671	**40,650**
Amount of deferred gain (loss) on derivatives under hedge accounting before tax effect	**(36,589)**	20,256	**(336,203)**
Tax effect	**11,362**	(6,141)	**104,401**
Total	**(25,227)**	14,115	**(231,801)**
Foreign currency translation adjustments:			
Amount arising during the fiscal year	**(221)**	(382)	**(2,030)**
Total	**(221)**	(382)	**(2,030)**
Defined retirement benefit plans:			
Amount arising during the fiscal year	**(3,629)**	(345)	**(33,345)**
Reclassification adjustments to profit or loss	**4,416**	4,561	**40,577**
Amount of defined retirement benefit plans before tax effect	**787**	4,216	**7,231**
Tax effect	**(248)**	(1,286)	**(2,278)**
Total	**539**	2,930	**4,952**
Share of other comprehensive income (loss) in affiliates:			
Amount arising during the fiscal year	**(381)**	102	**(3,500)**
Reclassification adjustments to profit or loss	**(2)**	(87)	**(18)**
Total	**(383)**	15	**(3,519)**
Total other comprehensive income (loss)	**¥ (40,661)**	¥ 29,793	**$ (373,619)**

12. Leases

As lessee

(a) Finance leases

Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet.

Tangible fixed lease assets include mainly aircraft, flight equipment, host computers and peripheral equipment. Intangible lease assets include software. The depreciation method for leased assets is described in Note 3 (j) "Leases."

(b) Operating leases

The amount of outstanding future lease payments under non-cancelable operating leases are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Current portion of operating lease obligations	**¥ 62,649**	¥ 54,866	**$ 575,659**
Long-term operating lease obligations	**318,817**	265,832	**2,929,495**
Total	**¥381,466**	¥320,698	**$3,505,154**

As lessor

(a) Operating leases

The amount of outstanding future lease receivables under non-cancelable operating leases are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Current portion of operating lease receivables	**¥ 2,170**	¥ 949	**$ 19,939**
Long-term operating lease receivables	**15,373**	6,983	**141,257**
Total	**¥17,543**	¥7,932	**$161,196**

13. Supplementary information for the consolidated statement of changes in net assets

Supplementary information for the consolidated statement of changes in net assets for the year ended March 31, 2020 consisted of the following:

(a) Dividends

Under the Companies Act of Japan (the "Companies Act"), the appropriation of unappropriated retained earnings of the Company with respect to a financial period is made by resolution of the Company's shareholders at a general meeting to be held subsequent to the close of the financial period and the accounts for that period do not therefore reflect such appropriation.

(1) Dividends paid to shareholders

			Yen (Millions)	U.S. dollars (Thousands)		Yen	U.S. dollars		
Date of approval	Resolution approved by	Type of shares	Amount	Amount	Paid from	Dividends per share	Dividends per share	Shareholders' cut-off date	Effective date
June 21, 2019	Ordinary General Meeting of Shareholders	Common stock(*1)	**¥25,105**	**$230,680**	Retained earnings	**¥75.00**	**$0.68**	March 31, 2019	June 24, 2019

(*1) The total amount of dividends does not include ¥9 million ($81 thousand) in dividends to be paid to the subsidiaries and affiliates. This is because the shares held by subsidiaries and affiliates are recognized as treasury stock.

(2) Dividends with a shareholders' cut-off date within the current fiscal year but an effective date within the subsequent fiscal year

There are no applicable items.

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(b) Type and number of outstanding shares

As of March 31, 2020 Type of shares	Number of shares (Thousands) Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock:				
Common stock	**348,498**	**—**	**—**	**348,498**
Total	**348,498**	**—**	**—**	**348,498**
Treasury stock:				
Common stock (*1, *2, *3)	**13,868**	**125**	**15**	**13,978**
Total	**13,868**	**125**	**15**	**13,978**

(*1) The increase of 125 thousand shares of treasury stock is the total of 8 thousand shares that the Company purchased from holders of fractional shares; and 116 thousand shares in the Company that were purchased by the Trust for Delivery of Shares to Directors.

(*2) The decrease of 15 thousand shares of treasury stock is the total of 0 thousand shares that the Company sold to the holders of fractional shares at their request; and 14 thousand shares in the Company that were sold by the Trust for Delivery of Shares to Directors.

(*3) Treasury stock includes 209 thousand shares held by the Trust for Delivery of Shares to Directors.

As of March 31, 2019 Type of shares	Number of shares (Thousands) Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock:				
Common stock	348,498	—	—	348,498
Total	348,498	—	—	348,498
Treasury stock:				
Common stock(*1, *2, *3)	13,866	10	7	13,868
Total	13,866	10	7	13,868

(*1) The increase of 10 thousand shares of treasury stock is 10 thousand shares that the Company purchased from holders of fractional shares.

(*2) The decrease of 7 thousand shares of treasury stock is the total of 0 thousand shares that the Company sold to the holders of fractional shares at their request; and 6 thousand shares that were sold by the Trust for Delivery of Shares to Directors.

(*3) Treasury stock includes 107 thousand shares held by the Trust for Delivery of Shares to Directors.

14. Contingencies

The Group was contingently liable as a guarantor of loans, principally to affiliates, totaling ¥2,080 million ($19,112 thousand) at March 31, 2020.

The Group was contingently liable as a guarantor for a stock transfer agreement between third parties, totaling ¥6,111 million ($56,151 thousand) at March 31, 2020.

The Group was contingently liable as a guarantor of loans, principally to affiliates, totaling ¥2,685 million at March 31, 2019.

The Group was contingently liable as a guarantor for a stock transfer agreement between third parties, totaling ¥6,111 million at March 31, 2019.

15. Financial instruments and related disclosures

Overview

(a) Group policy for financial instruments

The Group limits its fund management to short-term time deposits and raises funds through borrowings from financial institutions, including banks. The Group uses derivatives for the purpose of reducing the risks described below and does not enter into derivatives for speculative or trading purposes.

(b) Types of financial instruments and related risk

Trade receivables (notes and accounts receivable) are exposed to credit risk in relation to customers.

Marketable securities and investment securities are exposed to the risk of market price fluctuations. Those securities are composed mainly of the shares of other companies with which the Group has business relationships.

Substantially all trade payables have payment due dates within one year.

Borrowings are taken out principally for the purpose of making capital investments, and certain long-term debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk for long-term interest-bearing debt at variable rates, the Group utilizes interest rate swap transactions as hedging instruments. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expenses.

For derivatives, in order to reduce the foreign currency exchange rate risk arising from receivables and payables denominated in foreign currencies, the Group enters into forward foreign exchange contracts for specific receivables and payables denominated in foreign currencies, mainly for aircraft purchase commitments. In addition, the Group enters into commodity derivative transactions such as swaps and options to mitigate fluctuation risk of the commodity prices of fuel and to stabilize operating profit.

1) Management of credit risks (risks such as breach of contract by customers)

The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment term and balances of major customers by each business administration department to identify the default risk of customers at an early stage.

As for derivatives, the Group believes that the credit risks are extremely low, as it enters into derivative transactions only with reputable financial institutions with sound credit profiles.

2) Management of market risks (fluctuation risks of foreign currency exchange rates and interest rates)

In order to reduce foreign currency exchange rate risks, the Group principally utilizes forward foreign exchange contracts for receivables and payables denominated in foreign currencies. In order to mitigate the interest rate fluctuation risks related to debt, the Group utilizes interest rate swap transactions. In addition, the Group enters into commodity derivative transactions such as swaps and options to mitigate fluctuation risk related to commodity prices for fuel.

As for marketable securities and investment securities, the Group periodically reviews the fair values and the financial conditions of the issuers to identify and mitigate risks of impairment.

There are internal management regulations for derivative transactions which set forth transaction authority and limits on transaction amounts.

The Group enters into derivative transactions in accordance with such policies. Moreover, the Group reports plans and results of methods and ratios for offsetting risks at the quarterly meetings of the Board of Directors.

3) Management of liquidity risks related to financing (risks that the Group cannot meet the due dates of payables)

The Group manages liquidity risks by establishing a financial plan in order to procure and invest funds that are necessary for the operation of the Group over a certain period of time, in accordance with the Group's business operating plan and budget.

(c) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value estimates. In addition, the notional amounts of derivatives presented in Note 16 “Derivatives and hedging activities” are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated fair value of financial instruments

The carrying values of financial instruments on the consolidated balance sheet at March 31, 2020 and 2019, and their estimated fair values, are shown in the following tables. The following tables do not include financial instruments for which fair value cannot be reliably determined (Please refer to Note 2 below).

	Yen (Millions)		
As of March 31, 2020	Carrying value	Fair value	Differences
Assets:			
Cash and deposits	**¥ 109,447**	**¥ 109,447**	**¥ —**
Notes and accounts receivable	**98,944**	**98,944**	**—**
Marketable securities and investment securities	**214,279**	**216,849**	**2,570**
Total assets	**¥ 422,670**	**¥ 425,240**	**¥ 2,570**
Liabilities:			
Accounts payable	**¥ 196,391**	**¥ 196,391**	**¥ —**
Short-term loans	**429**	**429**	**—**
Bonds	**185,000**	**183,874**	**1,126**
Convertible bonds with stock acquisition rights	**140,000**	**135,415**	**4,585**
Long-term loans	**500,957**	**501,213**	**(256)**
Total liabilities	**¥ 1,022,777**	**¥ 1,017,322**	**¥ 5,455**
Derivatives*	**¥ (20,664)**	**¥ (20,664)**	**¥ —**

	Yen (Millions)		
As of March 31, 2019	Carrying value	Fair value	Differences
Assets:			
Cash and deposits	¥ 68,301	¥ 68,301	¥ —
Notes and accounts receivable	187,529	187,529	—
Marketable securities and investment securities	313,745	313,745	—
Total assets	¥ 569,575	¥ 569,575	¥ —
Liabilities:			
Accounts payable	¥ 229,712	¥ 229,712	¥ —
Short-term loans	336	336	—
Bonds	145,000	148,798	(3,798)
Convertible bonds with stock acquisition rights	140,000	142,625	(2,625)
Long-term loans	484,713	494,238	(9,525)
Total liabilities	¥ 999,761	¥ 1,015,709	¥ (15,948)
Derivatives*	¥ 15,639	¥ 15,639	¥ —

	U.S. dollars (Thousands)		
As of March 31, 2020	Carrying value	Fair value	Differences
Assets:			
Cash and deposits	**$ 1,005,669**	**$ 1,005,669**	**$ —**
Notes and accounts receivable	**909,161**	**909,161**	**—**
Marketable securities and investment securities	**1,968,933**	**1,992,548**	**23,614**
Total assets	**$ 3,383,763**	**$ 3,907,378**	**$ 23,614**
Liabilities:			
Accounts payable	**$ 1,804,566**	**$ 1,804,566**	**$ —**
Short-term loans	**3,941**	**3,941**	**—**
Bonds	**1,699,898**	**1,689,552**	**10,346**
Convertible bonds with stock acquisition rights	**1,286,409**	**1,244,280**	**42,129**
Long-term loans	**4,603,114**	**4,605,467**	**(2,352)**
Total liabilities	**$ 9,397,932**	**$ 9,347,808**	**$ 50,124**
Derivatives*	**$ (189,874)**	**$ (189,874)**	**$ —**

* The value of assets and liabilities arising from derivatives is shown as a net value, and the amount in parentheses represents a net liability position.

Notes:

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets

(a) Cash and deposits

The carrying values of cash and deposits approximate fair value because of their short maturities.

(b) Notes and accounts receivable

The carrying values of notes and accounts receivable approximate fair value because of their short maturities.

(c) Marketable securities and investment securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from financial institutions for certain debt instruments. The information on the fair values of marketable and investment securities by classification is included in Note 4 "Marketable securities and investment securities" of the notes to the consolidated financial statements.

Liabilities

(a) Accounts payable

The carrying values of accounts payable approximate fair value because of their short maturities.

(b) Short-term loans

The carrying values of short-term loans approximate fair value because of their short maturities.

(c) Bonds

The fair value of bonds issued by the Company is measured at the present value of the total of principal and interest discounted by an interest rate determined by taking into account the remaining period of each bond and current credit risk.

(d) Long-term loans

The fair values of long-term loans are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

2. Financial instruments for which it is extremely difficult to determine the fair value

	Yen (Millions)		U.S. dollars (Thousands)
As of March 31, 2020	**2020**	2019	**2020**
Unlisted stocks	**¥23,076**	¥32,234	**$212,037**

Because no quoted market price is available and the fair value cannot be reliably determined, the above financial instruments are not included in the fair value tables above.

3. The redemption schedule for receivables and available-for-sale and held-to-maturity securities with maturities at March 31, 2020 and 2019 is summarized as follows:

	Yen (Millions)			
As of March 31, 2020	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	**¥ 108,572**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable	**98,944**	**—**	**—**	**—**
Held-to-maturity bonds	**—**	**—**	**—**	**—**
Other securities with maturities	**129,200**	**5,299**	**2,025**	**—**
Total	**¥ 336,716**	**¥ 5,299**	**¥ 2,025**	**¥ —**

	Yen (Millions)			
As of March 31, 2019	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	¥ 67,546	¥ —	¥ —	¥ —
Notes and accounts receivable	187,529	—	—	—
Held-to-maturity bonds	—	—	—	—
Other securities with maturities	225,360	—	6,389	—
Total	¥ 480,435	¥ —	¥ 6,389	¥ —

	U.S. dollars (Thousands)			
As of March 31, 2020	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	**$ 997,629**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable	**909,161**	**—**	**—**	**—**
Held-to-maturity bonds	**—**	**—**	**—**	**—**
Other securities with maturities	**1,187,172**	**48,690**	**18,607**	**—**
Total	**$3,093,963**	**$ 48,690**	**$ 18,607**	**$ —**

4. The redemption schedule for bonds, loans and other interest-bearing liabilities at March 31, 2020 and 2019 is summarized as follows:

	Yen (Millions)			
As of March 31, 2020	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans	**¥ 429**	**¥ —**	**¥ —**	**¥ —**
Bonds	**20,000**	**30,000**	**70,000**	**65,000**
Convertible bonds with stock acquisition rights	**—**	**140,000**	**—**	**—**
Long-term loans	**84,057**	**228,056**	**138,900**	**49,944**
Total	**¥ 104,486**	**¥ 398,056**	**¥ 208,900**	**¥ 114,944**

	Yen (Millions)			
As of March 31, 2019	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans	¥ 336	¥ —	¥ —	¥ —
Bonds	30,000	50,000	25,000	40,000
Convertible bonds with stock acquisition rights	—	70,000	70,000	—
Long-term loans	77,883	239,514	126,097	41,219
Total	¥ 108,219	¥ 359,514	¥ 221,097	¥ 81,219

As of March 31, 2020	U.S. dollars (Thousands) Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans	**$ 3,941**	**$ —**	**$ —**	**$ —**
Bonds	**183,772**	**275,659**	**643,204**	**597,261**
Convertible bonds with stock acquisition rights	**—**	**1,286,409**	**—**	**—**
Long-term loans	**772,369**	**2,095,525**	**1,276,302**	**458,917**
Total	**$ 960,084**	**$3,657,594**	**$1,919,507**	**$1,056,179**

16. Derivatives and hedging activities

The Group operates internationally and is exposed to the risk of fluctuations in foreign currency exchange rates, interest rates and jet fuel prices. In order to manage these risks, the Group utilizes forward exchange contracts to hedge certain foreign currency transactions related to purchase commitments, principally of flight equipment, and foreign currency receivables and payables. Also, the Group utilizes interest rate swaps to minimize the impact of interest rate fluctuations related to outstanding debt. In addition, the Group also enters into a variety of swaps and options in its management of risk exposure related to jet fuel prices. The Group does not use derivatives for speculative or trading purposes.

The Group has developed internal hedging guidelines to control various aspects of derivative transactions, including authorization levels and transaction volumes. The Group enters into derivative transactions in accordance with these internal guidelines. Derivative and hedging transactions initiated by respective operational departments have been examined by the accounting department and these transactions, including their measures and ratios, are generally monitored by management on a quarterly basis. Assessment of hedge effectiveness is examined at inception and, on an ongoing basis, periodically.

The Group is also exposed to credit-related losses in the event of non-performance by counterparties in regard to derivative financial instruments; however, it is not expected that any counterparties will fail to meet their obligations, as the majority of the counterparties are internationally recognized financial institutions.

Summarized below are the notional amounts and estimated fair values of the derivative financial instruments outstanding at March 31, 2020 and 2019 for which hedged accounting has been applied.

(a) Derivative transactions to which hedge accounting is not applied

(1) Currency-related transactions

		Yen (Millions)		
		Notional amount		
As of March 31, 2020		Total	Maturing after one year	Fair value
Forward foreign exchange contracts:				
Sell:				
	USD	¥ **—**	¥ **—**	¥ **—**
	EUR	**—**	**—**	**—**
	Other	**—**	**—**	**—**
Buy:				
	USD	**103**	**103**	**0**
	EUR	**—**	**—**	**—**
	Other	**—**	**—**	**—**
Total		¥ **103**	¥ **103**	¥ **0**

		Yen (Millions)		
		Notional amount		
As of March 31, 2019		Total	Maturing after one year	Fair value
Forward foreign exchange contracts:				
Sell:				
	USD	¥ —	¥ —	¥ —
	EUR	—	—	—
	Other	166	—	0
Buy:				
	USD	5,540	—	2
	EUR	—	—	—
	Other	355	—	0
Total		¥ 6,061	¥ —	¥ 2

		U.S. dollars (Thousands)		
		Notional amount		
As of March 31, 2020		Total	Maturing after one year	Fair value
Forward foreign exchange contracts:				
Sell:				
	USD	$ **—**	$ **—**	$ **—**
	EUR	**—**	**—**	**—**
	Other	**—**	**—**	**—**
Buy:				
	USD	**946**	**946**	**0**
	EUR	**—**	**—**	**—**
	Other	**—**	**—**	**—**
Total		$ **946**	$ **946**	$ **0**

(2) Commodity-related transactions

As of March 31, 2020	Yen (Millions) Notional amount Total	Maturing after one year	Fair value
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed	**¥ 1,002**	**¥ —**	**¥ (423)**
Commodity (crude oil) option contracts, accounted for by the deferral method:			
Sell:			
Crude oil (Put)	**431**	**—**	**(99)**
Buy:			
Crude oil (Call)	**555**	**—**	**(54)**
Total	**¥ 1,988**	**¥ —**	**¥ (576)**

As of March 31, 2019	Yen (Millions) Notional amount Total	Maturing after one year	Fair value
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed	¥ —	¥ —	¥ —
Commodity (crude oil) option contracts, accounted for by the deferral method:			
Sell:			
Crude oil (Put)	—	—	—
Buy:			
Crude oil (Call)	—	—	—
Total	¥ —	¥ —	¥ —

As of March 31, 2020	U.S. dollars (Thousands) Notional amount Total	Maturing after one year	Fair value
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed	**$ 9,207**	**$ —**	**$ (3,886)**
Commodity (crude oil) option contracts, accounted for by the deferral method:			
Sell:			
Crude oil (Put)	**3,960**	**—**	**(909)**
Buy:			
Crude oil (Call)	**5,099**	**—**	**(496)**
Total	**$ 18,267**	**$ —**	**$ (5,292)**

Note: The calculation of fair value is based on the data obtained from financial institutions.

(b) Derivative transactions to which hedge accounting is applied

(1) Currency-related transactions

		Yen (Millions)		
		Notional amount		
As of March 31, 2020		Total	Maturing after one year	Fair value
Forward foreign exchange contracts for accounts receivable, accounted for by the deferral method:				
Sell:				
	USD	**¥ 418**	**¥ —**	**¥ (1)**
	EUR	**—**	**—**	**—**
	Other	**—**	**—**	**—**
Forward foreign exchange contracts for accounts payable, accounted for by the deferral method:				
Buy:				
	USD	**359,747**	**143,268**	**11,984**
	EUR	**500**	**—**	**(4)**
	Other	**17**	**—**	**(2)**
Currency option contracts for accounts payable, accounted for by the deferral method:				
Sell:				
	USD (Put)	**46,403**	**30,696**	**(978)**
Buy:				
	USD (Call)	**51,225**	**33,897**	**2,163**
Forward foreign exchange contracts, accounted for as part of accounts receivable:				
Sell:				
	USD	**218**	**—**	**(*)**
	EUR	**—**	**—**	**(*)**
	Other	**6**	**—**	**(*)**
Forward foreign exchange contracts, accounted for as part of accounts payable:				
Buy:				
	USD	**9,469**	**—**	**(*)**
	EUR	**111**	**—**	**(*)**
	Other	**1**	**—**	**(*)**
Currency swap contracts for accounts payable, accounted for as part of accounts payable:				
Receive/USD and pay/JPY		**—**	**—**	**(*)**
Total		**¥468,115**	**¥207,861**	**¥13,162**

As of March 31, 2019		Yen (Millions) Notional amount Total	Maturing after one year	Fair value
Forward foreign exchange contracts for accounts receivable, accounted for by the deferral method:				
Sell:				
	USD	¥ 6,165	¥ —	¥ (64)
	EUR	0	—	0
	Other	77	—	0
Forward foreign exchange contracts for accounts payable, accounted for by the deferral method:				
Buy:				
	USD	334,460	169,059	7,843
	EUR	188	—	(8)
	Other	138	—	(2)
Currency option contracts for accounts payable, accounted for by the deferral method:				
Sell:				
	USD (Put)	45,366	32,274	1,575
Buy:				
	USD (Call)	41,012	29,221	(643)
Forward foreign exchange contracts, accounted for as part of accounts receivable:				
Sell:				
	USD	302	—	(*)
	EUR	48	—	(*)
	Other	39	—	(*)
Forward foreign exchange contracts, accounted for as part of accounts payable:				
Buy:				
	USD	17,931	—	(*)
	EUR	999	—	(*)
	Other	4	—	(*)
Currency swap contracts for accounts payable, accounted for as part of accounts payable:				
Receive/USD and pay/JPY		—	—	(*)
Total		¥ 446,729	¥ 230,554	¥ 8,701

As of March 31, 2020	U.S. dollars (Thousands) Notional amount Total	Maturing after one year	Fair value
Forward foreign exchange contracts for accounts receivable, accounted for by the deferral method:			
Sell:			
USD	**$ 3,840**	**$ —**	**$ (9)**
EUR	**—**	**—**	**—**
Other	**—**	**—**	**—**
Forward foreign exchange contracts for accounts payable, accounted for by the deferral method:			
Buy:			
USD	**3,305,586**	**1,316,429**	**110,106**
EUR	**4,594**	**—**	**(36)**
Other	**156**	**—**	**(18)**
Currency option contracts for accounts payable, accounted for by the deferral method:			
Sell:			
USD (Put)	**426,380**	**282,054**	**(8,986)**
Buy:			
USD (Call)	**470,688**	**311,467**	**19,875**
Forward foreign exchange contracts, accounted for as part of accounts receivable:			
Sell:			
USD	**2,003**	**—**	**(*)**
EUR	**—**	**—**	**(*)**
Other	**55**	**—**	**(*)**
Forward foreign exchange contracts, accounted for as part of accounts payable:			
Buy:			
USD	**87,007**	**—**	**(*)**
EUR	**1,019**	**—**	**(*)**
Other	**9**	**—**	**(*)**
Currency swap contracts for accounts payable, accounted for as part of accounts payable:			
Receive/USD and pay/JPY	**—**	**—**	**(*)**
Total	**$4,301,341**	**$1,909,960**	**$120,940**

Note: Calculation of fair value is based on the data obtained from financial institutions.

(*) The estimated fair value of forward foreign exchange contracts is included in the estimated fair value of accounts payable, as the amounts in such derivative contracts accounted for as part of accounts receivable and payable are aggregated with the receivables and payables denominated in foreign currencies that are subject to hedge accounting. See Note 15 "Financial instruments and related disclosures" for additional information.

(2) Interest-related transactions

As of March 31, 2020	Yen (Millions) Notional amount Total	Maturing after one year	Fair value
Interest rate swap hedging long-term loans:			
Receive/floating and pay/fixed	**¥ 82,333**	**¥53,413**	**(*)**

As of March 31, 2019	Yen (Millions) Notional amount Total	Maturing after one year	Fair value
Interest rate swap hedging long-term loans:			
Receive/floating and pay/fixed	¥111,253	¥82,333	(*)

As of March 31, 2020	U.S. dollars (Thousands) Notional amount Total	Maturing after one year	Fair value
Interest rate swap hedging long-term loans:			
Receive/floating and pay/fixed	**$756,528**	**$490,792**	**(*)**

(*) Interest rate swap contracts are used as hedges and meet specific matching criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the long-term loans. The estimated fair value of interest rate swap contracts is included in the estimated fair value of long-term loans.

(3) Commodity-related transactions

As of March 31, 2020	Yen (Millions) Notional amount Total	Maturing after one year	Fair value
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed	**¥ 69,132**	**¥ 27,453**	**¥ (24,304)**
Commodity (crude oil) option contracts, accounted for by the deferral method:			
Sell:			
Crude oil (Put)	**33,121**	**15,468**	**(7,229)**
Buy:			
Crude oil (Call)	**42,798**	**20,104**	**(1,717)**
Total	**¥ 145,051**	**¥ 63,025**	**¥ (33,250)**

As of March 31, 2019	Yen (Millions) Notional amount Total	Maturing after one year	Fair value
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed Commodity (crude oil) option contracts, accounted for by the deferral method:	¥ 74,591	¥ 29,073	¥ 5,234
Sell:			
Crude oil (Put)	34,350	17,211	(445)
Buy:			
Crude oil (Call)	44,114	21,989	2,147
Total	¥ 153,055	¥ 68,273	¥ 6,936

As of March 31, 2020	U.S. dollars (Thousands) Notional amount Total	Maturing after one year	Fair value
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed Commodity (crude oil) option contracts, accounted for by the deferral method:	**$ 635,229**	**$252,255**	**$(223,320)**
Sell:			
Crude oil (Put)	**304,337**	**142,129**	**(66,424)**
Buy:			
Crude oil (Call)	**393,255**	**184,728**	**(15,776)**
Total	**$1,332,821**	**$579,114**	**$(305,522)**

Note: The calculation of fair value is based on the data obtained from financial institutions.

17. Segment information

(a) Description of reportable segments

The reportable segments of the Company and its consolidated subsidiaries are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The Group's reportable segments are categorized under "Air Transportation," "Airline Related," "Travel Services," and "Trade and Retail."

The "Air Transportation" segment conducts domestic and international passenger operations, cargo and mail operations, and other transportation services. The "Airline Related" segment conducts air transportation-related operations, such as airport passenger and ground handling services and maintenance services. The "Travel Services" segment conducts operations centering on the development and sales of travel plans. It also conducts planning and sales of branded travel packages using air transportation. The "Trade and Retail" segment conducts mainly import and export operations of goods related to air transportation and is involved in in-store and non-store retailing.

(b) Methods of measurement for the amounts of sales, profit, assets, and other items for each reportable segment

The accounting policies of the reportable segments are substantially the same as those described in Note 3 "Summary of significant accounting policies."

Segment performance is evaluated based on operating income or loss. Intersegment sales and transfers are based on current market prices.

(c) Information about sales, profit, assets, and other items

	Yen (Millions)				
	Reportable Segments				
As of and for the year ended March 31, 2020	Air Transportation	Airline Related	Travel Services	Trade and Retail	Subtotal
Operating revenues:					
Operating revenues from external customers	**¥1,658,763**	**¥ 49,804**	**¥134,759**	**¥115,269**	**¥1,958,595**
Intersegment revenues or transfers	**78,974**	**249,629**	**9,237**	**29,481**	**367,321**
Total	**¥1,737,737**	**¥299,433**	**¥143,996**	**¥144,750**	**¥2,325,916**
Segment profit	**¥ 49,550**	**¥ 18,144**	**¥ 1,393**	**¥ 2,909**	**¥ 71,996**
Segment assets	**2,305,293**	**147,275**	**42,405**	**57,219**	**2,552,192**
Other items:					
Depreciation and amortization	**168,296**	**5,323**	**553**	**1,305**	**175,477**
Amortization of goodwill	**3,889**	**3**	**—**	**114**	**4,006**
Increase in property and equipment and intangible assets	**343,476**	**6,200**	**258**	**2,250**	**352,184**

	Yen (Millions)			
As of and for the year ended March 31, 2020	Other	Total	Adjustments	Consolidated
Operating revenues:				
Operating revenues from external customers	**¥15,621**	**¥1,974,216**	**¥ —**	**¥1,974,216**
Intersegment revenues or transfers	**28,602**	**395,923**	**(395,923)**	**—**
Total	**¥44,223**	**¥2,370,139**	**¥(395,923)**	**¥1,974,216**
Segment profit	**¥ 3,526**	**¥ 75,522**	**¥ (14,716)**	**¥ 60,806**
Segment assets	**25,276**	**2,577,468**	**(17,315)**	**2,560,153**
Other items:				
Depreciation and amortization	**262**	**175,739**	**—**	**175,739**
Amortization of goodwill	**—**	**4,006**	**—**	**4,006**
Increase in property and equipment and intangible assets	**141**	**352,325**	**(964)**	**351,361**

Notes:

1. "Other" refers to all business segments that are not included in the reportable segments, such as facility management, business support, and other operations.

2. Adjustments are as follows:

   (a) Adjustments to segment profit consist of the elimination of intersegment transactions of ¥(9,979) million and corporate expenses of ¥(4,734) million.

   (b) Adjustments to segment assets consist of long-term investments (investment securities and stocks of subsidiaries and affiliates) in consolidated subsidiaries of ¥157,553 million and eliminations of intersegment transactions of ¥(174,868) million.

   (c) Adjustments to increase in property and equipment and intangible assets mainly consist of the elimination of intersegment transactions.

3. Segment profit is reconciled to operating income on the consolidated statement of income.

	Yen (Millions)				
	Reportable Segments				
As of and for the year ended March 31, 2019	Air Transportation	Airline Related	Travel Services	Trade and Retail	Subtotal
Operating revenues:					
Operating revenues from external customers	¥1,728,645	¥ 51,783	¥140,805	¥122,454	¥2,043,687
Intersegment revenues or transfers	85,772	239,268	9,941	28,225	363,206
Total	¥1,814,417	¥291,051	¥150,746	¥150,679	¥2,406,893
Segment profit	¥ 160,556	¥ 13,178	¥ 606	¥ 3,706	¥ 178,046
Segment assets	2,409,579	148,288	60,163	61,019	2,679,049
Other items:					
Depreciation and amortization	152,948	4,496	507	1,354	159,305
Amortization of goodwill	3,889	28	—	114	4,031
Increase in property and equipment and intangible assets	370,778	1,838	241	1,156	374,013

	Yen (Millions)			
As of and for the year ended March 31, 2019	Other	Total	Adjustments	Consolidated
Operating revenues:				
Operating revenues from external customers	¥14,625	¥2,058,312	¥ —	¥2,058,312
Intersegment revenues or transfers	26,333	389,539	(389,539)	—
Total	¥40,958	¥2,447,851	¥(389,539)	¥2,058,312
Segment profit	¥ 2,275	¥ 180,321	¥ (15,302)	¥ 165,019
Segment assets	23,434	2,702,483	(15,361)	2,687,122
Other items:				
Depreciation and amortization	236	159,541	—	159,541
Amortization of goodwill	—	4,031	—	4,031
Increase in property and equipment and intangible assets	269	374,282	1,582	375,864

Notes:

1. "Other" refers to all business segments that are not included in the reportable segments, such as facility management, business support, and other operations.

2. Adjustments are as follows:

   (a) Adjustments to segment profit consist of the elimination of intersegment transactions of ¥(8,937) million and corporate expenses of ¥(6,365) million.

   (b) Adjustments to segment assets consist of long-term investments (investment securities and stocks of subsidiaries and affiliates) in consolidated subsidiaries of ¥171,058 million and eliminations of intersegment transactions of ¥(186,419) million.

   (c) Adjustments to increase in property and equipment and intangible assets mainly consist of the elimination of intersegment transactions.

3. Segment profit is reconciled to operating income on the consolidated statement of income.

As of and for the year ended March 31, 2020	U.S. dollars (Thousands)				
	Reportable Segments				
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Subtotal
Operating revenues:					
Operating revenues from external customers	**$15,241,780**	**$ 457,631**	**$1,238,252**	**$1,059,165**	**$17,996,829**
Intersegment revenues or transfers	**725,663**	**2,293,751**	**84,875**	**270,890**	**3,375,181**
Total	**$15,967,444**	**$2,751,382**	**$1,323,127**	**$1,330,056**	**$21,372,011**
Segment profit	**$ 455,297**	**$ 166,718**	**$ 12,799**	**$ 26,729**	**$ 661,545**
Segment assets	**21,182,514**	**1,353,257**	**389,644**	**525,764**	**23,451,180**
Other items:					
Depreciation and amortization	**1,546,411**	**48,911**	**5,081**	**11,991**	**1,612,395**
Amortization of goodwill	**35,734**	**27**	**—**	**1,047**	**36,809**
Increase in property and equipment and intangible assets	**3,156,078**	**56,969**	**2,370**	**20,674**	**3,236,092**

As of and for the year ended March 31, 2020	U.S. dollars (Thousands)			
	Other	Total	Adjustments	Consolidated
Operating revenues:				
Operating revenues from external customers	**$143,535**	**$18,140,365**	**$ —**	**$18,140,365**
Intersegment revenues or transfers	**262,813**	**3,637,995**	**(3,637,995)**	**—**
Total	**$406,349**	**$21,778,360**	**$(3,637,995)**	**$18,140,365**
Segment profit	**$ 32,399**	**$ 693,944**	**$ (135,220)**	**$ 558,724**
Segment assets	**232,252**	**23,683,432**	**(159,101)**	**23,524,331**
Other items:				
Depreciation and amortization	**2,407**	**1,614,802**	**—**	**1,614,802**
Amortization of goodwill	**—**	**36,809**	**—**	**36,809**
Increase in property and equipment and intangible assets	**1,295**	**3,237,388**	**(8,857)**	**3,228,530**

(d) Information about geographical areas

Net sales to third parties by countries or areas grouped according to geographical classification for the years ended March 31, 2020 and 2019 are summarized as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Japan	**¥1,631,052**	¥1,676,226	**$14,987,154**
Overseas	**343,164**	382,086	**3,153,211**
Total	**¥1,974,216**	¥2,058,312	**$18,140,365**

Notes:

1. “Overseas” consists substantially of the Americas, Europe, China and Asia.
2. Net sales of “Overseas” represents sales made in countries or areas other than Japan.

(e) Information about impairment loss on long-lived assets

	Yen (Millions)						
	Reportable Segments						
For the year ended March 31, 2020	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Impairment loss	**¥ 22,665**	**¥ 2,494**	**¥—**	**¥—**	**¥—**	**¥—**	**¥ 25,159**

	Yen (Millions)						
	Reportable Segments						
For the year ended March 31, 2019	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Impairment loss	¥ —	¥ 1,997	¥—	¥—	¥—	¥—	¥ 1,997

	U.S. dollars (Thousands)						
	Reportable Segments						
For the year ended March 31, 2020	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Impairment loss	**$208,260**	**$22,916**	**$—**	**$—**	**$—**	**$—**	**$231,177**

(f) Information about amortization and the remaining balance of goodwill

	Yen (Millions)						
	Reportable Segments						
As of and for the year ended March 31, 2020	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Amortization of goodwill	**¥ 3,889**	**¥ 3**	**¥ —**	**¥ 114**	**¥—**	**¥—**	**¥ 4,006**
Balance at the end of the fiscal year	**¥ 24,003**	**¥ —**	**—**	**¥ 458**	**¥—**	**¥—**	**¥ 24,461**

	Yen (Millions)						
	Reportable Segments						
As of and for the year ended March 31, 2019	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Amortization of goodwill	¥ 3,889	¥ 28	¥ —	¥ 114	¥—	¥—	¥ 4,031
Balance at the end of the fiscal year	¥ 50,557	¥ 3	¥ —	¥ 572	¥—	¥—	¥ 51,132

	U.S. dollars (Thousands)						
	Reportable Segments						
As of and for the year ended March 31, 2020	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Amortization of goodwill	**$ 35,734**	**$ 27**	**$ —**	**$1,047**	**$—**	**$—**	**$ 36,809**
Balance at the end of the fiscal year	**$220,554**	**$ —**	**$ —**	**$4,208**	**$—**	**$—**	**$224,763**

18. Selling, general and administrative expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2020 and 2019 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Commissions	**¥ 103,495**	¥ 105,678	**$ 950,978**
Advertising	**11,830**	12,813	**108,701**
Employees' salaries and bonuses	**39,446**	39,760	**362,455**
Provision for accrued bonuses to employees	**3,879**	7,913	**35,642**
Retirement benefit expenses	**3,329**	3,462	**30,588**
Depreciation	**27,616**	24,828	**253,753**

19. Amounts per share

Amounts per share at and for the years ended March 31, 2020 and 2019 are as follows:

	Yen		U.S. dollars
	2020	2019	**2020**
Net assets per share	**¥ 3,171.80**	¥ 3,285.46	**$ 29.14**
Net income per share	**82.66**	331.04	**0.75**

Notes:

1. Net income per share assuming full dilution is not disclosed as the Company had no potentially dilutive shares outstanding during the years ended March 31, 2020 and 2019.

2. The basis for calculating net income per share is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
Years ended March 31	**2020**	2019	**2020**
Net income attributable to common shareholders	**¥ 27,655**	¥ 110,777	**$ 254.11**
Amount not attributable to common shareholders	**—**	—	**—**
Net income attributable to common stock	**¥ 27,655**	¥ 110,777	**$ 254.11**
Weighted-average number of shares outstanding during the fiscal year (in thousands)	**334,559**	334,632	**334,559**

3. The basis for calculating net assets per share is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
As of March 31	**2020**	2019	**2020**
Net assets	**¥1,068,870**	¥1,109,313	**$ 9,821.46**
Amounts deducted from total net assets:			
Non-controlling interests	**(7,842)**	(9,900)	**(72.05)**
Net assets attributable to common stock at the end of the fiscal year	**¥1,061,028**	¥1,099,413	**$ 9,749.40**
Number of shares of common stock at the end of the fiscal year used to determine net assets per share (in thousands)	**334,519**	334,629	**334,519**

The average number of shares of the Company held by the Trust for Delivery of Shares to Directors for the years ended March 31, 2020 and 2019 were 173 thousand and 108 thousand, respectively. The shares held by the trust were deducted from the weighted-average number of shares outstanding during each of the years ended March 31, 2020 and 2019.

The number of shares of the Company held by the Trust for Delivery of Shares to Directors at March 31, 2020 and 2019 were 209 thousand and 107 thousand, respectively. The shares held by the trust were deducted from the number of shares of common stock at the end of each of the fiscal years ended March 31, 2020 and 2019, which were used to determine net assets per share.

20. Supplementary cash flow information

A reconciliation of the difference between cash and deposits stated in the consolidated balance sheet at March 31, 2020 and 2019 and cash and cash equivalents in the consolidated statement of cash flows is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Cash and deposits	**¥ 109,447**	¥ 68,301	**$1,005,669**
Time deposits with maturities of more than three months	**(31,120)**	(26,103)	**(285,950)**
Marketable securities	**129,200**	225,360	**1,187,172**
Marketable securities with maturities of more than three months	**(71,590)**	(55,720)	**(657,814)**
Cash and cash equivalents	**¥ 135,937**	¥ 211,838	**$1,249,076**

21. Impairment loss

The Group reviewed its long-lived assets for impairment for the years ended March 31, 2020 and 2019. As a result, the Group recognized impairment losses of ¥25,159 million ($231,177 thousand) and ¥1,997 million, included in other expenses, for the years ended March 31, 2020 and 2019, respectively. The details are as follows:

For the year ended March 31, 2020			Yen (Millions)	U.S. dollars (Thousands)
Application	Location	Category	Impairment loss	
Assets expected to be sold	Miami, Florida	Machinery, lease assets, and other assets	**¥ 2,494**	**$ 22,916**
Others	Peach Aviation Limited	Goodwill	**22,665**	**208,260**
		Total	**¥25,159**	**$231,177**

Note: The Group grouped its operating assets for impairment testing based on management accounting categories, and also grouped lease assets, assets to be disposed of by sale and idle assets on an individual basis. Business assets in Miami, Florida were written-down to recoverable amounts, based on the updated business plan. As a result, an impairment loss of ¥2,494 million ($22,916 thousand) was recognized. Details are as follows: ¥1,767 million ($16,236 thousand) for machinery, ¥693 million ($6,367 thousand) for lease assets, and ¥32 million ($294 thousand) for other assets.

Also, goodwill for Peach Aviation Limited, a consolidated subsidiary of the Company, were written-down to recoverable amounts,based on their value in use. As a result, an impairment loss of ¥22,665 million ($208,260 thousand) was recognized.

The recoverable amount of these assets was measured at its net selling price or their value in use. The net selling price is determined by estimates of selling cost and selling price. The value in use is calculated by discounting the future cash flows at discount rates of 11.5%.

For the year ended March 31, 2019			Yen (Millions)
Application	Location	Category	
Assets expected to be sold	Miami, Florida	Machinery, lease assets and other assets	¥1,997
		Total	¥1,997

Note: The Group grouped its operating assets for impairment testing based on management accounting categories, and also grouped lease assets, assets to be disposed of by sale and idle assets on an individual basis. Business assets in Miami, Florida were written-down to recoverable amounts, based on the updated business plan. As a result, an impairment loss of ¥1,997 million ($17,992 thousand) was recognized. Details are as follows: ¥1,433 million ($12,911 thousand) for machinery, ¥410 million ($3,694 thousand) for intangible assets, ¥49 million ($441 thousand) for lease assets, and ¥103 million ($928 thousand) for other assets. The recoverable amount of the above assets was measured at its net selling price as determined by estimates of selling cost and selling price.

22. Supplementary information for the consolidated statement of income

(a) Write-downs of inventories

Inventories were valued using prices after write-downs of book value due to a decrease in net selling value. Write-downs of inventories included in cost of sales are as follows:

Yen (Millions)		U.S. dollars (Thousands)
2020	2019	**2020**
¥1,181	¥5,779	**$10,851**

Note: Figures in parentheses represent gains from the reversal of write-downs.

(b) Other income (expenses), net

	Yen (Millions)		U.S. dollars (Thousands)
	2020	2019	**2020**
Gain on sales of investment securities	**¥ 1,122**	¥ —	**$ 10,309**
Compensation payments received	**17,897**	6,810	**164,449**
Valuation loss on investments in securities	**(853)**	—	**(7,837)**
Litigation settlement fees related to anti-trust law claims	**—**	(6,423)	**—**
Other	**(3,599)**	1,577	**(33,069)**
Other income (expenses), net	**¥14,567**	¥ 1,964	**$133,850**

23. Subsequent events

1. Conclusion of a commitment line contract

The Company entered into a short-term commitment line agreement with the terms described below on April 28, 2020.

(a) Counterparty	Main domestic financial institution
(b) Total commitment	¥350,000 million ($3,216,024 thousand)
(c) Amount of drawdown	None
(d) Contract date	April 28, 2020
(e) Assets pledged as collateral or guarantees	None

2. Borrowing of funds

The Company has executed loans from Development Bank of Japan Inc.

(a) Use of funds	Working capital
(b) Counterparty	Development Bank of Japan Inc.
(c) Loan amount	¥350,000 million ($3,216,024 thousand)
(d) Interest rate	Floating rates
(e) Execution date	May 28, 2020 and June 29, 2020
(f) Repayment date	Long-term period determined by individual negotiation
(g) Assets pledged as collateral or guarantees	Existent

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors of ANA HOLDINGS INC.:

Accountant's Conclusion

We have reviewed the interim consolidated financial statements of ANA HOLDINGS INC. and its consolidated subsidiaries (the "Group"), which comprise the interim consolidated balance sheet as of September 30, 2021, and the interim consolidated statement of operations, interim consolidated statement of comprehensive income and interim consolidated statement of cash flows for the six-month period then ended, and the related notes, all expressed in Japanese yen.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of September 30, 2021, and its consolidated financial performance and its consolidated cash flows for the six-month period then ended in accordance with accounting principles for interim consolidated financial statements generally accepted in Japan.

Convenience Translation

Our review also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, based on our review, nothing has come to our attention that causes us to believe that such translation has not been made in accordance with the basis stated in Note 2 to the interim consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Accountant's Conclusion

We conducted our review in accordance with quarterly review standards generally accepted in Japan. Our responsibility under those standards is further described in the Accountant's Responsibility for the Review of the Interim Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as accountants. We believe that we have obtained the evidence to provide a basis for our review conclusion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Interim Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the interim consolidated financial statements in accordance with accounting principles for interim consolidated financial statements generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the interim consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles for interim consolidated financial statements generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Accountant's Responsibility for the Review of the Interim Consolidated Financial Statements

Our objective is to issue an accountant's report that includes our conclusion.

As part of a review in accordance with quarterly review standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the review. We also:

- Make inquiries, primarily of management and persons responsible for financial and accounting matters, and apply analytical and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.
- Conclude whether nothing has come to our attention, based on the evidence obtained, related to going concern that causes us to believe that the interim consolidated financial statements are not fairly presented, in all material respects, in accordance with accounting principles for interim consolidated financial statements generally accepted in Japan, if we conclude that a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our accountant's report to the related disclosures in the interim consolidated financial statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our accountant's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether nothing has come to our attention that causes us to believe that the overall presentation and disclosures of the interim consolidated financial statements are not in accordance with accounting principles for interim consolidated financial statements generally accepted in Japan, as well as the overall presentation, structure and content of the interim consolidated financial statements, including the disclosures, and whether nothing has come to our attention that causes us to believe that the interim consolidated financial statements do not represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain evidence regarding the financial information of the entities or business activities within the Group to express a conclusion on the interim consolidated financial statements. We are responsible for the direction, supervision and performance of the review of the interim consolidated financial statements. We remain solely responsible for our conclusion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding the planned scope and timing of the review and significant findings that we identify during our review.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/s/ Deloitte Touche Tohmatsu LLC
Tokyo, Japan
November 4, 2021

Interim Consolidated Financial Statements
Interim Consolidated Balance Sheet

ANA HOLDINGS INC. and its consolidated subsidiaries
As of September 30, 2021 (Unaudited)

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
ASSETS	**September 30, 2021**	March 31, 2021	**September 30, 2021**
Current assets:			
Cash and deposits	**¥ 426,198**	¥ 464,739	**$ 3,808,059**
Marketable securities	**394,689**	500,980	**3,526,527**
Notes and accounts receivable	**107,919**	107,573	**964,251**
Accounts receivable from and advances to unconsolidated subsidiaries and affiliates	**3,868**	3,763	**34,560**
Lease receivables and investments in leases	**18,621**	19,112	**166,377**
Inventories	**40,185**	38,855	**359,051**
Prepaid expenses and other	**88,439**	91,511	**790,198**
Allowance for doubtful accounts	**(242)**	(231)	**(2,162)**
Total current assets	**1,079,677**	1,226,302	**9,646,863**
Property and equipment:			
Land	**48,741**	48,748	**435,498**
Buildings and structures	**301,084**	301,266	**2,690,171**
Aircraft	**1,814,773**	1,943,795	**16,214,912**
Machinery and equipment	**100,732**	101,014	**900,035**
Vehicles	**33,507**	33,525	**299,383**
Furniture and fixtures	**64,700**	64,772	**578,091**
Lease assets	**10,556**	10,660	**94,317**
Construction in progress	**217,095**	198,389	**1,939,733**
Total	**2,591,188**	2,702,169	**23,152,144**
Accumulated depreciation	**(1,167,966)**	(1,255,862)	**(10,435,721)**
Net property and equipment	**1,423,222**	1,446,307	**12,716,422**
Investments and other assets:			
Investment securities	**117,543**	129,930	**1,050,241**
Investments in and advances to unconsolidated subsidiaries and affiliates	**31,914**	34,245	**285,150**
Lease and guaranty deposits	**15,829**	15,526	**141,431**
Deferred tax assets	**280,068**	219,618	**2,502,394**
Goodwill	**21,288**	22,346	**190,207**
Intangible assets	**77,703**	87,839	**694,272**
Other assets	**32,759**	25,770	**292,700**
Total investments and other assets	**577,104**	535,274	**5,156,397**
TOTAL	**¥ 3,080,003**	¥ 3,207,883	**$ 27,519,683**

LIABILITIES AND EQUITY	Yen (Millions) September 30, 2021	Yen (Millions) March 31, 2021	U.S. dollars (Thousands) (Note 2) September 30, 2021
Current liabilities:			
Short-term loans	**¥ 100,070**	¥ 100,070	**$ 894,120**
Current portion of long-term debt	**138,512**	72,966	**1,237,598**
Accounts payable	**128,077**	182,241	**1,144,362**
Accounts payable to unconsolidated subsidiaries and affiliates	**2,146**	2,508	**19,174**
Advance ticket sales		44,718	
Contract liabilities	**233,549**	—	**2,086,749**
Accrued expenses	**27,326**	39,286	**244,156**
Income taxes payable	**3,438**	10,696	**30,718**
Other current liabilities	**32,112**	50,920	**286,919**
Total current liabilities	**665,230**	503,405	**5,943,799**
Long-term liabilities:			
Long-term debt	**1,398,227**	1,482,416	**12,493,093**
Liability for retirement benefits	**160,192**	160,885	**1,431,308**
Deferred tax liabilities	**270**	222	**2,412**
Asset retirement obligations	**1,239**	1,153	**11,070**
Other long-term liabilities	**49,386**	47,482	**441,261**
Total long-term liabilities	**1,609,314**	1,692,158	**14,379,145**
Contingent liabilities (Note 4)			
Equity (Note 6):			
Common stock: Authorized – 1,020,000,000 shares; Issued – 484,293,561 shares as of September 30, 2021 and March 31, 2021	**467,601**	467,601	**4,177,993**
Capital surplus	**407,328**	407,329	**3,639,456**
Retained earnings	**(68,357)**	145,101	**(610,766)**
Treasury stock – 13,953,672 shares as of September 30, 2021 and 13,950,901 shares as of March 31, 2021	**(59,342)**	(59,335)	**(530,218)**
Accumulated other comprehensive income:			
Unrealized gain on securities	**31,827**	38,468	**284,372**
Deferred gain on derivatives under hedge accounting	**32,843**	21,652	**293,450**
Foreign currency translation adjustments	**2,890**	2,666	**25,822**
Defined retirement benefit plans	**(15,098)**	(16,249)	**(134,899)**
Total	**799,692**	1,007,233	**7,145,210**
Non-controlling interests	**5,767**	5,087	**51,527**
Total equity	**805,459**	1,012,320	**7,196,738**
TOTAL	**¥ 3,080,003**	¥ 3,207,883	**$ 27,519,683**

See accompanying notes to consolidated financial statements.

Interim Consolidated Statement of Operations

ANA HOLDINGS INC. and its consolidated subsidiaries
Six-Month Period Ended September 30, 2021 (Unaudited)

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2021	2020	**2021**
Operating revenues (Notes 7 and 8)	¥ **431,125**	¥ 291,834	$ **3,852,081**
Cost of sales	**476,320**	481,708	**4,255,897**
Gross loss	**(45,195)**	(189,874)	**(403,815)**
Selling, general and administrative expenses (Note 10)	**70,812**	91,076	**632,701**
Operating loss (Note 7)	**(116,007)**	(280,950)	**(1,036,517)**
Other income (expenses):			
Interest income	**151**	389	**1,349**
Dividend income	**541**	973	**4,833**
Foreign exchange gain, net	**250**	991	**2,233**
Gain on sales of assets	**3,433**	2,466	**30,673**
Gain on donation of non-current assets	**373**	1,730	**3,332**
Subsidies for employment adjustment	**14,038**	21,411	**125,428**
Interest expenses	**(12,609)**	(4,577)	**(112,660)**
Equity in losses of unconsolidated subsidiaries and affiliates	**(912)**	(2,175)	**(8,148)**
Loss on sales of assets	**(422)**	(274)	**(3,770)**
Loss on disposal of assets	**(789)**	(2,524)	**(7,049)**
Loss on valuation of derivatives	**—**	(7,639)	**—**
Grounded aircraft expense	**(6,542)**	—	**(58,452)**
Other, net	**(2,828)**	2,267	**(25,268)**
Other income (expenses), net	**(5,316)**	13,038	**(47,498)**
Loss before income taxes	**(121,323)**	(267,912)	**(1,084,015)**
Income taxes:	**(23,548)**	(76,755)	**(210,400)**
Net loss	**(97,775)**	(191,157)	**(873,615)**
Net income (loss) attributable to non-controlling interests	**1,028**	(2,680)	**9,185**
Net loss attributable to owners of the parent	¥ **(98,803)**	¥ (188,477)	$ **(882,800)**

	Yen		U.S. Dollars (Note 2)
	2021	2020	**2021**
Per share of common stock (Note 9):	¥ **(210.07)**	¥ (563.39)	$ **(1.87)**

Net income per share assuming full dilution is not disclosed as the Company recorded net loss attributable to owners of the parent and had no potentially dilutive shares outstanding during the Six-month period ended September 30, 2021 and 2020.

See accompanying notes to consolidated financial statements.

Interim Consolidated Statement of Comprehensive Income

ANA HOLDINGS INC. and its consolidated subsidiaries
Six-Month Period Ended September 30, 2021 (Unaudited)

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2021	2020	**2021**
Net loss	**¥ (97,775)**	¥ (191,157)	**$ (873,615)**
Other comprehensive income:			
Unrealized (loss) gain on securities	**(6,640)**	4,585	**(59,328)**
Deferred gain on derivatives under hedge accounting	**11,177**	8,120	**99,865**
Foreign currency translation adjustments	**303**	(256)	**2,707**
Defined retirement benefit plans	**1,123**	1,241	**10,033**
Share of other comprehensive income in affiliates	**42**	78	**375**
Total other comprehensive income	**6,005**	13,768	**53,654**
Comprehensive loss	**¥ (91,770)**	¥ (177,389)	**$ (819,960)**
Total comprehensive income (loss) attributable to:			
Owners of the parent	**¥ (92,878)**	¥ (174,834)	**$ (829,860)**
Non-controlling interests	**1,108**	(2,555)	**9,899**

See accompanying notes to consolidated financial statements.

Interim Consolidated Statement of Cash Flows

ANA HOLDINGS INC. and its consolidated subsidiaries
Six-Month Period Ended September 30, 2021 (Unaudited)

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2021	2020	**2021**
Cash flows from operating activities:			
Loss before income taxes	**¥(121,323)**	¥(267,912)	**$(1,084,015)**
Adjustments for:			
Depreciation and amortization	**78,492**	90,149	**701,322**
Amortization of goodwill	**1,057**	1,057	**9,444**
Gain on disposal and sales of property and equipment	**(2,222)**	(1,530)	**(19,853)**
(Decrease) Increase in allowance for doubtful accounts	**(31)**	62	**(276)**
Increase in liability for retirement benefits	**933**	1,591	**8,336**
Interest and dividend income	**(692)**	(1,362)	**(6,182)**
Interest expenses	**12,609**	4,577	**112,660**
Subsidies for employment adjustment	**(14,038)**	(21,411)	**(125,428)**
Foreign exchange loss	**51**	678	**455**
(Increase) decrease in notes and accounts receivable	**(1,041)**	14,415	**(9,301)**
Decrease in other current assets	**2,691**	39,456	**24,043**
Decrease in notes and accounts payable	**(4,305)**	(33,085)	**(38,464)**
Decrease in advance ticket sales	**—**	(55,711)	**—**
Decrease in Contract liabilities	**(7,028)**	—	**(62,794)**
Other, net	**(24,458)**	16,128	**(218,531)**
Subtotal	**(79,305)**	(212,898)	**(708,586)**
Interest and dividends received	**1,015**	1,626	**9,068**
Interest paid	**(13,186)**	(3,100)	**(117,816)**
Proceeds from subsidy income	**16,588**	16,206	**148,213**
Income taxes (paid) refund	**(2,984)**	7,256	**(26,661)**
Net cash used in operating activities	**(77,872)**	(190,910)	**(695,782)**
Cash flows from investing activities:			
Increase in time deposits	**(332,261)**	(28,735)	**(2,968,736)**
Proceeds from withdrawal of time deposits	**307,030**	58,700	**2,743,298**
Purchases of marketable securities	**(82,729)**	—	**(739,179)**
Proceeds from redemption of marketable securities	**364,250**	71,590	**3,254,556**
Purchases of property and equipment	**(74,057)**	(68,423)	**(661,695)**
Proceeds from sales of property and equipment	**34,776**	17,224	**310,721**
Purchases of intangible assets	**(6,431)**	(12,349)	**(57,460)**
Purchases of investment securities	**(1,309)**	(3,795)	**(11,695)**
Proceeds from sales of investment securities	**—**	474	**—**
Proceeds from withdrawal of investments in securities	**1,644**	1,012	**14,689**
Other, net	**(2,585)**	1,504	**(23,096)**
Net cash provided by investing activities	**208,328**	37,202	**1,861,401**
Cash flows from financing activities:			
Increase in short-term loans, net	**—**	99,908	**—**
Proceeds from long-term loans	**—**	435,687	**—**
Repayment of long-term loans	**(37,059)**	(42,631)	**(331,120)**
Proceeds from issuance of bonds	**19,906**	—	**177,859**
Repayment of bonds	**—**	(20,000)	**—**
Repayment of finance lease obligations	**(1,509)**	(3,071)	**(13,482)**
Proceeds from share issuance to non-controlling shareholders	**—**	2	**—**
Net (increase) decrease of treasury stock	**(8)**	107	**(71)**
Other, net	**(459)**	(543)	**(4,101)**
Net cash (used in) provided by financing activities	**(19,129)**	469,459	**(170,916)**
Effect of exchange rate changes on cash and cash equivalents	**68**	(369)	**607**
Net increase in cash and cash equivalents	**111,395**	315,382	**995,309**
Cash and cash equivalents at beginning of year	**370,322**	135,937	**3,308,809**
Net decrease resulting from changes in scope of consolidation	**—**	(236)	**—**
Cash and cash equivalents at end of year (Note 5)	**¥ 481,717**	¥ 451,083	**$ 4,304,119**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ANA HOLDINGS INC. and its consolidated subsidiaries

1. Basis of presenting consolidated financial statements

The accompanying interim consolidated financial statements of ANA HOLDINGS INC. (hereinafter referred to as the "Company") and its consolidated subsidiaries (hereinafter referred to as the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

The accounting standard for quarterly financial statements requires companies to prepare a set of interim consolidated financial statements for each quarter, comprised of the consolidated balance sheet as of the current quarter-end and the consolidated statements of income and comprehensive income for the year-to-date period, and cash flows for the year-to-date period for the second quarter. A statement of changes in equity is not required. Therefore, the consolidated statements of changes in equity are not presented herein.

In preparing these interim consolidated financial statements, certain reclassifications and rearrangements have been made to the interim consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the interim consolidated financial statements of the previous fiscal year to conform to the classifications used in the current fiscal year.

2. Translation of financial statements

The interim consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of readers outside of Japan, have been translated into U.S. dollars at the rate of ¥111.92 = US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on September 30, 2021. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at that or any other rate. Translations of U.S. dollars are rounded down to the nearest thousand and, therefore, the totals shown in tables do not necessarily agree with the sums of the individual amounts.

3. Summary of significant accounting policies

Substantially the same accounting policies have been followed in these interim consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended March 31, 2021, except as described in the following paragraph.

(Changes in accounting policies)

Application of Accounting Standard for Revenue Recognition, etc.

The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. effective from the beginning of the first quarter of the fiscal year ending March 31, 2022, and it recognizes revenue when (or as) it satisfies a performance obligation by transferring promised goods or services (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. It recognizes as revenue the amount expected to be received upon exchange of goods or services.

Major changes due to the application of Accounting Standard for Revenue Recognition, etc. are as follows.

<u>Revenue Recognition of the company point program</u>

The Group operates the membership program "ANA Mileage Club". This program awards points (miles) to member customers depending on the use of our flights and the services of partner companies, and the miles awarded can be redeemed for goods and services provided by the Group or partner company.

Previously, to prepare for the use of the miles awarded, the estimated future expenditure was recorded as operating expenses and operating accounts payable. The miles awarded individually identify performance obligations as an option for future purchase of additional goods or services. As a result, the transaction price allocated to the miles will be recognized as a contract liability at the time the miles is granted, and the revenue will be recognized when the goods or services exchanged for the miles are used or when the miles expires.

The transaction price is allocated based on the proportion of the independent selling price for each performance obligation included in the contract, and the independent selling price of miles is estimated by taking into account the composition ratio of products and services that customers select when using miles.

The application of the Accounting Standard for Revenue Recognition is subject to the transitional treatment provided for in the proviso Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter under review was added to or subtracted from the beginning balance of retained earnings of the first quarter under review, and thus the new accounting policy was applied from the beginning balance.

As a result, the balance of retained earnings at the beginning of the period decreased by ¥114,656 million ($1,024,446 thousand), and equity were ¥897,664 million ($8,020,586 thousand), and total assets increased by ¥37,352 million ($333,738 thousand) to ¥3,245,235 million ($28,996,023 thousand). In addition, net sales for the second quarter of the current consolidated cumulative period decreased by ¥7,090 million ($63,348 thousand), and operating income and net income before adjustment for taxes increased by ¥8,093 million ($72,310 thousand), respectively.

In the previous consolidated fiscal year, the advance consideration received from customers regarding air transportation services was represented as "Advance ticket sales" of current liabilities, but from the current consolidated fiscal year, it is included in "Contract liabilities". As a result, at the end of the second quarter of the current consolidated fiscal year, advance ticket sales decreased by ¥53,369 million ($476,849 thousand).

In accordance with transitional treatment stipulated in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, figures for the previous fiscal year have not been restated in accordance with the new approach to presentation. And the transitional treatment stipulated in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020)", the Company do not list information showing a breakdown of revenue earned from contracts with customers for the second quarter of the previous consolidated cumulative period.

Application of Accounting Standard for Fair Value Measurement, etc.

The Group has applied "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter, "Fair Value Accounting Standards") and others from the beginning of the first quarter ended June 30, 2021. In accordance with the transitional treatment set forth in Article 19 of Fair Value Accounting Standards and Article 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Group has applied prospectively a new accounting policy prescribed by Fair Value Accounting Standards and others.

This has no effect on the interim consolidated financial statements.

(Additional Information)

Accounting estimates associated with the spread of COVID-19

Considering the impact of COVID-19 up to the second quarter of the current consolidated fiscal year, the Group reconsidered the expected recovery of demand for passengers, that is described in "(Significant Accounting Estimates) 1. Recoverability of deferred tax assets" in the Annual report for the previous consolidated fiscal year, which is a prerequisite for estimating future taxable income of ANA Holdings Inc. and All Nippon Airways Co., Ltd.

As a result, the Group makes an accounting estimate of recoverability of deferred tax assets, which is based on that demand for domestic passengers will recover to pre-pandemic level of 2019 during the first half of the fiscal year ending March 31, 2023, and demand for international passengers will recover to the 30% of pre-pandemic level of 2019 by the end of fiscal year ending March 31, 2022 and to the pre-pandemic level of 2019 by the end of fiscal year ending March 31, 2024, respectively.

4. Contingencies

The Group was contingently liable as a guarantor of loans, principally to affiliates, totaling ¥513 million ($4,583 thousand) at September 30, 2021.

The Group was contingently liable as a guarantor for a stock transfer agreement between third parties, totaling ¥6,111 million ($54,601 thousand) at September 30, 2021.

The Group was contingently liable as a guarantor of loans, principally to affiliates, totaling ¥982 million at March 31, 2021.

The Group was contingently liable as a guarantor for a stock transfer agreement between third parties, totaling ¥6,111 million at March 31, 2021.

5. Supplementary cash flow information

A reconciliation of the difference between cash and deposits stated in the consolidated balance sheet at September 30, 2021 and 2020 and cash and cash equivalents in the consolidated statement of cash flows is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2021	2020	**2021**
Cash and deposits	**¥ 426,198**	¥432,970	**$ 3,808,059**
Time deposits with maturities of more than three months	**(266,691)**	(1,137)	**(2,382,871)**
Marketable securities	**394,689**	19,250	**3,526,527**
Marketable securities with maturities of more than three months	**(72,479)**	—	**(647,596)**
Cash and cash equivalents	**¥ 481,717**	¥451,083	**$ 4,304,119**

6. Supplementary information for the consolidated statement of changes in equity

Supplementary information for the consolidated statement of changes in equity for the Six-month period ended September 30, 2021 and 2020.

(Dividends paid to shareholders)

There are no applicable items.

(Significant changes in equity)

The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020), etc. effective from the beginning of the first quarter of the fiscal year ending March 31, 2022. See Note 3 "Changes in accounting policies" for additional information. There are no significant changes in equity for the Six-month period ended September 30, 2020.

7. Segment information

(a) Description of reportable segments

The reportable segments of the Company and its consolidated subsidiaries are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The Group's reportable segments are categorized under "Air Transportation," "Airline Related," "Travel Services," and "Trade and Retail."

The "Air Transportation" segment conducts domestic and international passenger operations, cargo and mail operations, and other transportation services. The "Airline Related" segment conducts air transportation-related operations, such as airport passenger and ground handling services and maintenance services. The "Travel Services" segment conducts operations centering on the development and sales of travel plans. It also conducts planning and sales of branded travel packages using air transportation. The "Trade and Retail" segment conducts mainly import and export operations of goods related to air transportation and is involved in in-store and non-store retailing.

(b) Information about sales, profit, assets, and other items

Six-month period ended September 30, 2021	Yen (Millions)				
	Reportable Segments				
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Subtotal
Operating revenues:					
Operating revenues from external customers	¥ 358,504	¥ 20,336	¥ 11,937	¥ 33,847	¥ 424,624
Intersegment revenues or transfers	11,765	77,353	7,667	4,531	101,316
Total	¥ 370,269	¥ 97,689	¥ 19,604	¥ 38,378	¥ 525,940
Segment profit (loss)	¥ (113,735)	¥ 1,689	¥ (189)	¥ 22	¥ (112,213)

Six-month period ended September 30, 2021	Yen (Millions)			
	Other	Total	Adjustments	Consolidated
Operating revenues:				
Operating revenues from external customers	¥ 6,501	¥ 431,125	¥ —	¥ 431,125
Intersegment revenues or transfers	10,996	112,312	(112,312)	—
Total	¥ 17,497	¥ 543,437	¥ (112,312)	¥ 431,125
Segment profit (loss)	¥ 677	¥ (111,536)	¥ (4,471)	¥ (116,007)

Notes:

1. "Others" refers to all business segments that are not included in reportable segments, such as facility management, business support and other operations.
2. "Adjustments" of "Segment profit (loss)" are mainly general corporate expenses.
3. "Segment profit (loss)" is reconciled to operating loss on the consolidated statement of operations for the current period.

Six-month period ended September 30, 2020	Yen (Millions)				
	Reportable Segments				
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Subtotal
Operating revenues:					
Operating revenues from external customers	¥ 224,654	¥ 18,002	¥ 10,440	¥ 32,896	¥ 285,992
Intersegment revenues or transfers	12,096	101,800	3,363	5,388	122,647
Total	¥ 236,750	¥ 119,802	¥ 13,803	¥ 38,284	¥ 408,639
Segment profit (loss)	¥ (277,757)	¥ 8,723	¥ (4,001)	¥ (2,851)	¥ (275,886)

Six-month period ended September 30, 2020	Yen (Millions)			
	Other	Total	Adjustments	Consolidated
Operating revenues:				
Operating revenues from external customers	¥ 5,842	¥ 291,834	¥ —	¥ 291,834
Intersegment revenues or transfers	12,693	135,340	(135,340)	—
Total	¥ 18,535	¥ 427,174	¥ (135,340)	¥ 291,834
Segment profit (loss)	¥ 873	¥ (275,013)	¥ (5,937)	¥ (280,950)

Notes:

1. "Others" refers to all business segments that are not included in reportable segments, such as facility management, business support and other operations.
2. "Adjustments" of "Segment profit (loss)" are mainly general corporate expenses.
3. "Segment profit (loss)" is reconciled to operating loss on the consolidated statement of operations for the current period.

Six-month period ended September 30, 2021	U.S. dollars (Thousands) Reportable Segments Air Transportation	Airline Related	Travel Services	Trade and Retail	Subtotal
Operating revenues:					
Operating revenues from external customers	$ 3,203,216	$181,701	$106,656	$302,421	$ 3,793,995
Intersegment revenues or transfers	105,119	691,145	68,504	40,484	905,253
Total	$ 3,308,336	$872,846	$175,160	$342,905	$ 4,699,249
Segment profit (loss)	$(1,016,216)	$ 15,091	$ (1,688)	$ 196	$(1,002,617)

Six-month period ended September 30, 2021	U.S. dollars (Thousands) Other	Total	Adjustments	Consolidated
Operating revenues:				
Operating revenues from external customers	$ 58,086	$3,852,081	$ —	$ 3,852,081
Intersegment revenues or transfers	98,248	1,003,502	(1,003,502)	—
Total	$156,334	$4,855,584	$(1,003,502)	$ 3,852,081
Segment profit (loss)	$ 6,048	$ (996,568)	$ (39,948)	$(1,036,517)

(Changes in reportable segments, etc.)

The Group has applied the Accounting Standard for Revenue Recognition, etc. and changed the way of accounting for revenue recognition from the beginning of the first quarter of the fiscal year ending March 31, 2022, as described in Note 3 “Changes in accounting policies”. Therefore, the Group has similarly changed the measuring method of segment profit or loss.

In addition, this change mainly affects the operating revenues and segment loss of Air Transportation segment.

8. Revenue

Breakdown of revenue from contracts with customers

Six-Month Period Ended September 30, 2021	Yen (Millions) Reportable Segments (*1) Air Transportation	Airline Related	Travel Services	Trade and Retail	Other (*2)	Subtotal	Intercompany eliminations	Total
International routes								
Passenger revenues	¥ 30,404	¥ —	¥ —	¥ —	¥ —	¥ 30,404	¥ —	¥ —
Cargo revenues	138,388	—	—	—	—	138,388	—	—
Mail revenues	2,364	—	—	—	—	2,364	—	—
Subtotal	171,156	—	—	—	—	171,156	—	—
Domestic routes								
Passenger revenues	111,896	—	—	—	—	111,896	—	—
Cargo revenues	12,104	—	—	—	—	12,104	—	—
Mail revenues	1,270	—	—	—	—	1,270	—	—
Subtotal	125,270	—	—	—	—	125,270	—	—
LCC revenues	13,093	—	—	—	—	13,093	—	—
Airline Related revenues	—	97,689	—	—	—	97,689	—	—
Revenues from domestic package products	—	—	9,457	—	—	9,457	—	—
Revenues from international package products	—	—	106	—	—	106	—	—
Revenues from Trade and Retail	—	—	—	38,378	—	38,378	—	—
Other	60,750	—	10,041	—	17,497	88,288	—	—
Total	¥ 370,269	¥97,689	¥19,604	¥38,378	¥17,497	¥543,437	¥(112,312)	¥431,125
Revenue from contracts with customers								423,581
Revenue from other								7,544

Notes:

*1. The amount of reportable segments revenue include inter-segment transactions.

*2. “Other” refers to all business segments that are not included in reportable segments, such as facility management, business support and other operations.

Six-Month Period Ended September 30, 2021	U.S. dollars (Thousands)							
	Reportable Segments							
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Subtotal	Intercompany eliminations	Total
International routes								
Passenger revenues	$ 271,658	$ —	$ —	$ —	$ —	$ 271,658	$ —	$ —
Cargo revenues	1,236,490	—	—	—	—	1,236,490	—	—
Mail revenues	21,122	—	—	—	—	21,122	—	—
Subtotal	1,529,270	—	—	—	—	1,529,270	—	—
Domestic routes								
Passenger revenues	999,785	—	—	—	—	999,785	—	—
Cargo revenues	108,148	—	—	—	—	108,148	—	—
Mail revenues	11,347	—	—	—	—	11,347	—	—
Subtotal	1,119,281	—	—	—	—	1,119,281	—	—
LCC revenues	116,985	—	—	—	—	116,985	—	—
Airline Related revenues	—	872,846	—	—	—	872,846	—	—
Revenues from domestic package products	—	—	84,497	—	—	84,497	—	—
Revenues from international package products	—	—	947	—	—	947	—	—
Revenues from Trade and Retail	—	—	—	342,905	—	342,905	—	—
Other	542,798	—	89,715	—	156,334	788,849	—	—
Total	$3,308,336	$872,846	$175,160	$342,905	$156,334	$4,855,584	$(1,003,502)	$3,852,081
Revenue from contracts with customers								3,784,676
Revenue from other								67,405

9. Amounts per share

Amounts per share for the Six-month period ended September 30, 2021 and 2020 are as follows:

	Yen		U.S. dollars
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2021	2020	**2021**
Net loss per share	**¥ (210.07)**	¥ (563.39)	**$ (1.87)**

Notes:

1. Net income per share assuming full dilution is not disclosed as the Company recorded net loss attributable to owners of the parent and had no potentially dilutive shares outstanding during the Six-month period ended September 30, 2021 and 2020.

2. The basis for calculating net loss per share is as follows:

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2021	2020	**2021**
Net loss attributable to common shareholders	**¥ (98,803)**	¥ (188,477)	**$ (882,800)**
Amount not attributable to common shareholders	**—**	—	**—**
Net loss attributable to common stock	**¥ (98,803)**	¥ (188,477)	**$ (882,800)**
Weighted-average number of shares outstanding during the fiscal year (in thousands)	**470,341**	334,540	**470,341**

10. Supplementary information for interim consolidated statement of operations

The main components of selling, general and administrative expenses

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2021	2020	**2021**
Commissions	**¥ 7,348**	¥ 15,310	**$ 65,654**
Advertising	**2,318**	3,875	**20,711**
Employees' salaries and bonuses	**16,205**	15,400	**144,790**
Provision of allowance for doubtful accounts	**21**	1	**187**
Provision for accrued bonuses to employees	**719**	1,112	**6,424**
Retirement benefit expenses	**1,524**	1,580	**13,616**
Depreciation	**12,871**	13,556	**115,001**
Outsourcing expenses	**11,960**	14,160	**106,862**
Other	**17,846**	26,082	**159,453**
Total	**¥ 70,812**	¥ 91,076	**$ 632,701**

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