

[REFERENCE TRANSLATION]

Please note that this translation is to be used solely as reference.

In case of any discrepancy between this translation and the Japanese original, the latter shall prevail.



September 10, 2021

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Stock Listing	Tokyo Stock Exchange
Code No.	9201
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Notice Regarding Execution of Subordinated Term Loan Agreement and Issue of Hybrid Bonds (Public Subordinated Bonds)

Japan Airlines Co., Ltd. (“JAL” or “the Company”) hereby announces that today it executed an agreement on a subordinated term loan (the “Subordinated Loan”) and filed an amendment to the shelf registration statement concerning the issuance of hybrid bonds (subordinated bonds) (the “Subordinated Bonds”) through a public offering.

We will raise funds of approximately 300 billion yen in aggregate principal amount via the Subordinated Loan and the Subordinated Bonds (collectively, the “Hybrid Financing”). This Hybrid Financing is intended to secure funds necessary and sufficient for future corporate activities, without deteriorating the healthy financial base.

1. Purpose and Background of the Hybrid Financing

Since February 2020, the COVID-19 pandemic has caused significant decline in the airline passenger demand. Accordingly, our group has been seeing severe business environment. In order to react to this unprecedented crisis, JAL Group has continued efforts to minimize its loss through flexible adjustment of supply to curb variable costs and drastic reduction in fixed costs. As a result of these efforts, in addition to those to restrain capital expenditures, etc. for cash flow improvement, the Company managed to maintain its financial health and secure necessary and sufficient liquidity.

However, following these prolonged impacts of the pandemic, we need to address risks of those adverse effects on short-term business performance. Besides, the experience of the pandemic may cause significant change not only to the airline industry, but also to our entire society. While the importance of global interchange among people and logistics network will remain unchanged, our group formulated the “JAL Group Medium-Term Management Plan 2021-2025” in May 2021 based on the assumption of the drastic changes in our business environment. Under this Medium-Term Management Plan, we will promote structural reforms and diversify revenue sources via profitability improvement in our core full service carrier business and expansion of growing fields of the low cost carrier business and non-airline businesses including mileage services, as well as accelerating its efforts to achieve SDGs by 2030 and net zero CO₂ emissions by 2050, based on the three pillars of management strategy: “Business Strategy”, “Finance Strategy” and “ESG Strategy”.

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Our group needs earlier restructuring of the healthier financial base in order to go through the severe circumstances and enhance our enterprise value in the post-COVID 19 era by achieving the management goals specified in the Medium-Term Management Plan. We also need to carry out structural reforms and strategic investments for achievement of SDGs steadily and promptly for sustainable growth and development.

We have to make continuous efforts to strengthen the balance sheet further and enhance its financing capability to address drastic changes in the business environment anticipated for the post-COVID-19 era and continue enhance enterprise value, while being able to secure necessary liquidity on the back of its financial health based on the history of steady business operation and financial strategy. As part of such efforts, we have raised 182.6 billion yen by follow-on offering in November 2020, to reinforce the financial base and secure funds for future growth. We have determined the Hybrid Financing as a funding method that would enable us to secure funds beforehand for growth on a long-term basis amid the prolonged impacts of the pandemic, and to strengthen its financial base via reinforcement of the balance sheet without dilution.

2. Feature of the Hybrid Financing

The Hybrid Financing will be containing features of both equity and liabilities. While its liability aspects will not cause dilution to shareholders, it will have attributes and features resembling equity such as an option to defer interest payments and extremely long-term redemption periods. Accordingly, we expect that Rating and Investment Information, Inc. and Japan Credit Rating Agency, Ltd. (the "Rating Agencies") will deem 50% of the funds raised in the Hybrid Financing as equity for the purpose of their ratings, which means we will be able to improve its financial structure and bolster the balance sheet without any dilution.

3. Use of Proceeds Raised through the Hybrid Financing

Proceeds from the Hybrid Financing will be funded for our initiatives for enhancing the enterprise value, in pursuit of steady execution of the Medium-Term Management Plan and achievement of sustainable growth: specifically the proceeds will be allocated to capital expenditure to introduce Airbus A350-1000 as our new flagship aircrafts that reduce CO₂ emission significantly for international flights of the full-service carrier business, renewal of the revenue management system for domestic routes, funds for investment and loans, repayment of interest-bearing debt for the purpose of maintaining and enhancing financing capacity and restructuring the financial structure, and working capital, etc.

4. Outline of the Hybrid Loan

	Tranche A	Tranche B
(1) Amount of financing	JPY 150 billion	JPY 50 billion (maximum)
(2) Date of agreement	September 10, 2021	September 10, 2021
(3) Date of loan execution	September 30, 2021	November 30, 2021
(4) Payment date	September 29, 2056	November 30, 2057
(5) First early repayment date	September 30, 2026	November 30, 2027
(6) Replacement restrictions	Unless the Company has raised funds by means of financing recognized by the rating agency as having equity credit that is equal to or greater than that of the Hybrid Loan within 12 months prior to the date of early	

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	<p>repayment date, the Company intends not to repay early all of the Hybrid Loan.</p> <p>However, if the following ① and ② are satisfied, the financing may be postponed.</p> <p>① Consolidated net debt equity ratio is 0.26 times or less</p> <p>② The amount of consolidated equity capital is equal to or greater than the amount of consolidated equity capital as of the end of March 2022 plus the amount raised by the Hybrid Loan^{(1),(2)}</p> <p>(1) Tranche A is the amount raised by Tranche A</p> <p>(2) Tranche B is the total amount raised by Tranche A and Tranche B</p> <p>In addition, if only ① is satisfied, the amount of funds raised can be the amount obtained by subtracting the consolidated capital adequacy accumulated amount considering equity credit^{(4),(5)} from the required refinancing amount⁽³⁾ and dividing by the equity credit approved by the rating agency.</p> <p>(3) The amount obtained by multiplying the amount of the Hybrid Loan for which repayment is made by the equity credit (50%) of the Hybrid Loan approved by the rating agency</p> <p>(4) For Tranche A, the amount that exceeds is multiplied by the equity credit (50%) on the execution date of the Hybrid Loan approved by the rating agency if the amount of consolidated capital exceeds the amount of consolidated capital at the end of March 2022.</p> <p>(5) For Tranche B, the amount that exceeds is multiplied by the equity credit (50%) on the execution date of the Hybrid Loan approved by the rating agency if the amount of consolidated equity capital exceeds the amount of consolidated equity capital at the end of March 2022 plus the amount raised by Tranche A.</p>
(7) Deferral of interest payment	The Company may, at its discretion, defer all or some of the payment of interest on the Hybrid Loan.
(8) Subordination clause	In the event of liquidation, bankruptcy, corporate reorganization, and civil rehabilitation proceedings, or any proceedings that are equivalent thereto in a foreign country, the Hybrid Loan shall have a subordination. No provision of the agreement concerning the Hybrid Loan may be amended in any way that is disadvantageous to creditors other than the creditors of subordinated claims.
(9) Equity credit rating by rating agencies	Rating and Investment Information, Inc. : "Class3, Equity Credit 50%" (prospect) Japan Credit Rating Agency, Ltd. : "Middle • 50%" (prospect)
(10) Rating	Rating and Investment Information, Inc. : BBB(prospect) Japan Credit Rating Agency, Ltd. : BBB+(prospect)
(11) Lenders	MUFG Bank, Ltd., Mizuho Bank, Ltd., Development Bank of Japan Inc., Sumitomo Mitsui Banking Corporation

※ Depending on the amount raised by the Hybrid Bonds, the execution amount of Tranche B can be reduced.

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5. Outline of the Hybrid Bonds

(1) Name of the Bonds	Japan Airlines Co., Ltd. 1st Series of Unsecured Interest Deferrable and Early Redeemable Subordinated Bonds
(2) Issue amount	JPY 100 billion (approximately)
(3) Pricing date	To be determined
(4) Payment date	To be determined
(5) Maturity date	37th anniversary of the payment date
(6) First early redemption date	7th anniversary of the payment date
(7) Replacement restrictions	<p>Unless the Company has raised funds by means of financing recognized by the rating agency as having equity credit that is equal to or greater than that of the Hybrid Bonds within 12 months prior to the date of early redemption date, the Company intends not to redeem early all of the Hybrid Bonds.</p> <p>However, if the following ① and ② are satisfied, the financing may be postponed.</p> <p>① Consolidated net debt equity ratio is 0.26 times or less</p> <p>② The amount of consolidated equity capital is equal to or greater than the amount of consolidated equity capital as of the end of March 2022 plus the amount raised by the Hybrid Loan and the Hybrid Bonds</p> <p>In addition, if only ① is satisfied, the amount of funds raised can be the amount obtained by subtracting the consolidated capital adequacy accumulated amount considering equity credit⁽⁶⁾ from the required refinancing amount and dividing by the equity credit approved by the rating agency.</p> <p>(6) The amount that exceeds is multiplied by the equity credit (50%) of the Hybrid Bonds approved by the rating agency if the amount of consolidated equity capital exceeds the amount of consolidated equity capital at the end of March 2022 plus the amount raised by the Hybrid Loan</p>
(8) Deferral of interest payment	The Company may, at its discretion, defer all or some of the payment of interest on the Hybrid Bonds.
(9) Subordination clause	In the event of liquidation, bankruptcy, corporate reorganization, and civil rehabilitation proceedings, or any proceedings that are equivalent thereto in a foreign country, the Hybrid Bonds shall have a subordination. No provision of the agreement concerning the Hybrid Bonds may be amended in any way that is disadvantageous to creditors other than the creditors of subordinated claims.
(10) Equity credit rating by rating agencies	Rating and Investment Information, Inc. : "Class 3, Equity Credit 50%" (prospect) Japan Credit Rating Agency, Ltd. : "Medium • 50%" (prospect)
(11) Rating	Rating and Investment Information, Inc. : BBB (prospect) Japan Credit Rating Agency, Ltd. : BBB+ (prospect)
(12) Lead managers	Mizuho Securities Co., Ltd. (administrative lead manager)

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	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (administrative lead manager) Daiwa Securities Co. Ltd. BofA Securities Japan Co., Ltd. SMBC Nikko Securities Inc.
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6. Schedule

JAL plans to determine the details of the offering of the Hybrid Bonds based on the comprehensive consideration of demand from investors and interest rate trends. JAL will further announce once the decision is made.

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