

2023 CFO Small Meeting Friday, December 15, 2023

■Part 1: 15:30~16:15 (45 minutes)

Topic: JAL's potential and challenges from an Outside Director's perspective

Speaker: YANAGI Hiroyuki, Independent Outside Director

Part 2: 16:15~17:15 (60 minutes)

Topic: Current business conditions and other related topics

Speaker: SAITO Yuji, Senior Managing Executive Officer, Group CFO

YUMISAKI Masao, Executive Officer, Senior Vice President, Finance & Accounting Division

【Part 1】

Independent Outside Director Yanagi commenced the session by explaining the potential and challenges of JAL:

JAL's management has shown strong leadership and has been able to make decisive decisions even under the difficult circumstances of the pandemic. Even during the pandemic, JAL strategically invested in new aircraft and made capacity adjustments through flexible expansion and reduction of supply.

Main Q&As:

Q. What are your impressions and thoughts on JAL's management from the viewpoint of an independent outside director?

A. I believe JAL has five major aspects.

1. Safety culture:

The cultivation of the culture of safety is excellent. Every year in August, an event is held to recount past airline accidents, and the management's commitment and efforts to remember past airline accidents are outstanding.

2. Management:

JAL is firmly committed to implementing and executing both its business restructuring and growth strategies. Regarding growth strategies, JAL's strategy is that a non-aviation business complements its airline business. In the airline business domain, the main focus is on full service carriers, complemented by cargo and LCCs. For the non-airline business domain, mileage life infrastructure is making a significant contribution to the airline business domain.

3. Organization:

I believe that a company should have a balance between vertical integration and horizontal cross-divisional coordination within the organization. Companies with too much vertical integration and too little horizontal cross-divisional coordination are prone to problems. JAL, on the other hand, is strengthening its horizontal cross-divisional coordination. The Medium Term Management Plan Rolling Plan 2023 has four business areas and six themes, and we are digging deeper into these themes, but there is room for improvement here.

4. Human Resources:

Some top management only conduct their succession planning that everyone can assume, but this is not the case at JAL. However, in the future, it would be even better with a more diverse combination of talent management. For example, a combination of executives with rich experiences at a front-line, with smart analytical abilities or of unique characteristics.

5. Innovation power:

JAL is not a manufacturer, so research activities are limited, but in the future, it would be good if open innovation is conducted with research activities.

Q. In your role as a “representative of shareholders”, how do you gather shareholder opinions and reflect them in your activities as an independent outside director?

A. In addition to receiving regular IR feedback reports, I also read analyst reports. I understand that investors expect us to focus on how to achieve further growth from the current recovery stage in business performance, or to maintain the current advantageous position in the current supply and demand situation to a future. Also, we will monitor pricing strategy, and human resources strategy as well. It is my role to encourage the Board of Directors to make decisions in these matters, and I intend to fulfill this role.

Q. What are the important aspects in airline management for sustainable enhancement of shareholder value?

A. The economic values and social values were defined in the Medium Term Management Plan Rolling Plan 2023. Social value consists of three main elements: (1) preservation of the global environment, (2) revitalization of regional economies, and (3) enriching the level of people’s contentment. We need to work on (2) revitalization of regional economies and (3) enriching the level of people’s contentment to be more specific. The concept that the movement of people and goods by airplanes will create new value has been established, and we are now in the process of putting this concept into practice.

Q. In the Integrated Report, there was a comment in the Nomination Committee chaired by Independent Outside Director Yanagi that “discussions on the Succession Plan have progressed” (JAL REPORT 2023, p. 40). Is the Nominating Committee well-equipped to consider external candidates, regardless of locations or nationalities?

A. The Nominating Committee this year made progress in setting a process for succession planning. We have organized the definition of experience requirements as well as the definition of competence and quality requirements, and created a framework for tracking candidates’ careers. Regarding the question of whether to consider including external candidates, while it is important to select a candidate from a broader perspective, we do not believe that we should select an external candidate too easily. It is important to select people who can accumulate new challenges while also inheriting the essential traditions and assets.

Q. Is there any discussion going on regarding the environmental strategy? In particular, I would like to ask about your thoughts on the environmental strategy in enhancing the corporate value as an airline company after 2030, including the effectiveness of SAF after 2030.

A. With regard to JAL’s environmental strategy, several initiatives are underway. The first is to upgrade to aircraft with a lower environmental impact. The second is the use of SAF. However, since the global production of biofuels is limited, we believe that synthetic fuels are one of the final solutions. Companies in Europe have already begun to produce synthetic fuels, and in Japan, the National Institute of Advanced Industrial Science and Technology

(AIST) is playing a central role in developing the basic technology. Since the technology for manufacturing synthetic fuels is already in place, the challenge now is how to make them cheaply, and if this challenge can be overcome, the spread of synthetic fuels will advance.

Q. With regard to the use of SAF, are there any specific discussions in progress regarding the impact of increased costs and future price transfers?

A. (Saito) We are currently looking at the impact of SAF procurement costs. Since government subsidies alone will not bring the price down to the level of jet fuel, we may be able to reduce the cost by selling SAF to those who actually transport goods, which falls into the Scope 3 group, in order to offset carbon emissions. Furthermore, since environmental measures are not the responsibility of a single company, but of society as a whole, we will consider having customers understand the necessity of such measures and bear a certain amount of the costs.

Q. JAL's business environment changed dramatically before and after the pandemic. Before the pandemic, JAL's main customer was mainly Japanese customers, but now many of them are from overseas. My impression is that what happened 30 years ago in the manufacturing industry is now happening in the airline industry. In this respect, I think you can make use of your experience in the manufacturing industry.

A. I think the theme is how to create customer value. The first is to broaden our scope to a global perspective. In expanding the network through the strategic use of alliances, it is important not only to promote sales, but also to enhance the local social nature of the regions and activities to create human connections. Second is to deepen JAL's individuality. The combination of professional skills and values can create new value and deepen JAL's individuality. Third is to build an environment that allows for challenges. Recently, JAL has started interesting businesses such as the space business and the sauna x technology business. Manufacturers always take on new business challenges, so it is important for JAL to expand such interesting business initiatives.

Q. Unlike manufacturers, the infrastructure industry has a strong culture of not making mistakes, so do you feel that it is difficult to develop new initiatives?

A. I have the sense that it is different from that of manufacturers. However, JAL is also running interesting projects such as the ones I just mentioned, so I have high expectations for them.

A (Yumisaki) In order to encourage new challenges, we have established a Trial & Error framework for investment this fiscal year. Under this system, investments can be initiated just like research activities, even if quantitative effects cannot be seen at the start. Since the start of this fiscal year, two projects have been already launched. I am not sure if the businesses created through this system will become a reality in the future, but I am more concerned about backing up the mindset of employees to take on new challenges.

A (Yanagi) The more seeds before commercialization, the better. A manufacturer has 100 seeds before it commercializes one, and I hope JAL will continue to plant these seeds.

## 【Part 2】

CFO Saito explained about the current passenger business:

International passenger business remains strong in the first half and is slightly higher than the forecast at the time of the Q2 earnings announcement (October 31, 2023). China routes are still recovering due to the stagnant Chinese economy, but the impact is limited because the percentage of revenue from China routes in JAL's total revenue is small. This can be fully covered by shifting supply to Taiwan and Hong Kong routes.

Domestic passenger business is also performing well. Revenue per passenger is on an improving trend compared to that of the Q2 results announcement (October 31, 2023) thanks to our improvement measures.

In addition, fuel prices are lower than expected, which is also a positive factor.

### Main Q&As:

Q. About revenue per passenger for international passenger. What would be the reason if revenue per passenger was to fall in the future? If European and Chinese carriers return their supply and the load factor drops, will the revenue per passenger for JAL also drop?

A. The impact on Chinese routes is not very large. In addition, European carriers have already returned to Haneda routes, and it originally targets tourism demand from Japan, so even if the Ukraine issue is over, it is unlikely that they will immediately return supply on Narita routes. Since JAL's main routes are to North America and Asia, there will be no significant impact on revenue per passenger unless the supply from North American and Asian carriers increases significantly.

Q Regarding tourism demand from Japan on international routes, due to the three-year gap caused by the pandemic, even if Japanese yen appreciates in the future, do you think there may be less tourism overall?

A. I think the strong yen will bring back some tourism demand from Japan. However, especially among the younger generation, three years of not having the option of overseas travel has had an impact. We are stimulating demand through campaigns, but there is a need for further improvement in the future.

Q. Is there room to raise revenue per passenger inbound travel on domestic routes?

A. There has been a significant recovery in demand for inbound travel to urban areas, but the number of inbound travelers going to regional areas is still low. Since many inbound travelers can afford air tickets, including due to the weak yen, it is more important to stimulate demand through promotion in collaboration with local regions rather than through a pricing strategy.

Q. What is your mileage strategy? Since international outbound demand has not yet recovered, the value of miles to customers may be declining. Do you think it is necessary to change the mileage strategy?

A. The traditional mileage business is to earn miles by flying, and the availability of award tickets has been marketed as the most attractive feature of the mileage business. In addition to this, we are now making it easier to earn and use miles on various occasions in daily life other than air travel. By doing so, we are expanding our business not only to frequent airline users but also to less frequent users.

Q. What do you think of the labor shortage in the air transportation industry?

A The shortage of ground handlers at airports in particular is a major issue. The JAL Group has not reduced its workforce during the pandemic, but it also stopped hiring new employees, so it was not able to refill vacant positions due to voluntary resignation, but with restart of hiring, there will be no problem securing workforce from the next fiscal year onward. On the other hand, in order to continue to secure a workforce, it is necessary to raise the base salary and increase outsourcing fees for contractors. In addition, due to Japan's declining population, shortage of workforce will continue over a long term. Therefore, it is necessary to reduce the number of required positions, and all divisions are working to improve productivity. By creating a situation where business operations are conducted with a reduced number of personnel, overall HR costs can be kept at the same levels even if salaries are increased. In addition, for the ground handling business, we are also working to improve the unit price, and we would like to firmly raise the profit margin of the ground handling business.

Q. Regarding "Sustainable ROIC," please tell us (1) the purpose for its introduction, (2) its relationship with WACC, and (3) the current discussion.

A. 1) About the purpose of its introduction, the idea is to promote social issues solutions because such solutions themselves also lead to a new business. We felt that excessive pursuit of ordinary ROIC would inevitably lead to the risk of pursuing short-term profits and restrain the level of ESG investment. Therefore, we introduced sustainable ROIC to promote ESG investment by quantifying and visualizing social value.

(2) Regarding its relationship with WACC, even if we introduce sustainable ROIC, we will continue to pursue regular ROIC as well, so we do not change the current definition of WACC.

(iii) About the current discussion. Internal carbon pricing has already been introduced for environmental investment, but quantification of other effects still remains as an issue. We are currently conducting joint research with a university research institute on quantification of social values such as revitalization of local economies and improvement of people's happiness through transportation. The timing of introduction of sustainable ROIC has not yet been determined.