

CFO Small Meeting for the Financial Year 2024 Thursday, December 19th, 2024

■Part 1 13:00~14:00 (60 minutes)

Topic : Current business situations and other related topics

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

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

■Part 2 14:00~14:30 (30 minutes)

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

Speaker : YANAGI Hiroyuki, Independent Outside Director

【Part 1】

■Main Q&As

Q1 : From the standpoint of a CFO, what role can be played in nurturing non-aviation businesses and promoting the launch of new businesses, in addition to monitoring them based on investment criteria?

A1 : We are strengthening our Innovation Division and Solution sales, but new businesses do not emerge suddenly. While moving forward with various initiatives, we would like to consider what we should expand or what we should stop. Regarding new business profits, we would like to realize new business by expanding our existing core business and expanding the mileage membership.

Q2 : Regarding Jetstar Japan - an affiliated company by equity-method, do you plan to increase your shares to strengthen governance or review your investment policy? Also, can ZIPAIR replace the service provided by Jetstar Japan?

A2 : In the future, we plan to grow Jetstar Japan by increasing its international routes while keeping the number of domestic flights to/from Narita as status quo, and have no plans to change our capital investment. In addition, ZIPAIR mainly operates the North American routes with Boeing 787 aircraft and Southeast Asia routes to increase aircraft utilization. Therefore, we consider their operation is different from Jetstar Japan's LCC business on domestic routes and short-haul Asia routes, and do not consider ZIPAIR as a replacement for Jetstar Japan.

Q3 : What is your outlook for unit prices of domestic and international flights next fiscal year? Are there any aspects that can be improved industrywide or through JAL's own efforts?

A3 : Regarding international routes, the supply of European routes is increasing by other airlines, but they do not compete with our routes. In addition, business demand originating from Japan is in a trend of recovery and we expect high yield to continue. For domestic routes, it's a challenge to increase yield. Looking at the market situation where other companies are trying to capture more demand with lower pricing, it may be difficult to improve the yield we are aiming for. However, the load factor is also increasing, which we believe will tighten the supply-demand balance and facilitate revenue management. As other competitors are in the same situation, supply-demand will be tightened and aircraft in the market will be in a trend of downsizing from larger to smaller sizes, and we believe that there will be times for yield to improve.

Q4 : Regarding expansion of supply at Narita, can the profit margin on international flights

be maintained or improved?

A4 : At present, the profitability is already very high, our strategy is to allocate resources to international flights. Although we can not increase flights at Haneda, we are able to expand our scale at Narita on North America and Asia routes which are well-profitable, so this is not a problem. ZIPAIR also secures high profit margin and will continue to maintain and expand this ratio.

Q5 : Regarding domestic and international flights utilization, is it possible to increase load factor further?

A5 : Load factors for international flights still have room to grow compared with pre-Covid levels. There is still room for growth on domestic flights, but domestic business demand has decreased compared to pre-Covid, so capturing the demand on weekdays is an issue. We would like to respond to inbound demand by increasing the use of domestic flights.

Q6 : Until now, summer is the busy season, but is there any change in that structure?

A6 : Obviously it is changing. For example, September was not as crowded as expected but the peak demand has shifted to October-November.

Q7 : What's your thought on relaxation of Chinese visa requirements?

A7 : Possible short-term business trips without a visa is a plus but we feel that the momentum is not as strong as it was before. Inbound demand is a larger market, and business demand, especially at Haneda, is limited, so we expect to capture that inbound demand through Spring Japan.

Q8 : Is there an internal system or discussion to encourage employees to take on new challenges by providing sufficient funds?

A8 : We have set a "trial and error" quota for new business investment. In addition, a budget for capital investment is included in our investment plans.

Q9 : Regarding the 9% ROIC target, considering the volatility and sustainability of aviation business, I think it is necessary to improve the quality of ROIC spread by expanding non-aviation businesses. However, is this direction to achieve this first through aviation business?

A9 : We will grasp the ROIC by business segments. The aviation segment has high volatility, making it difficult to increase ROIC, but we want to improve the current situation by increasing investment in well-performing International Passengers and LCC. The Mileage business does not require much investment and has low volatility while generating more profits, so we want to increase ROIC in Mileage. We would like to explain this growth vision in our Medium-term Management Plan Rolling Plan 2025.

Q10 : Please explain the cause for the six-month delay in ZIPAIR's 10-aircraft fleet plan and the current aircraft delivery situation. Is there any impact on FSC business?

A10 : ZIPAIR was scheduled to receive new two Boeing 787-8 aircraft in the second half of FY25, but Boeing has notified us that the delivery will be delayed due to the strikes and overall supply chain issues. Although there's no notification on the delivery delay to JAL, unlike ZIPAIR, we consider that there is a possibility of delay based on the current situation, and we are preparing to extend the use of existing aircraft. The JAL Group's

orders are split between Boeing and Airbus, so the risk is also diversified. Delivery issue is a global topic but it seems that JAL is less affected by this issue.

Q11 : Please provide any updates regarding cargo.

A11 : Cargo from China and Asia to North America remains steady, however it is necessary to closely monitor after the Trump administration, especially with the potential increase of tariffs on China. The modal shift has not progressed as initially expected, and the operation of freighters with Yamato Transport is not as high as anticipated.

Q12 : To what extent will the international flights ratio of Jetstar Japan be increased? Also, please explain the significance of owning Jetstar Japan's shares for JAL?

A12 : The ratio of current domestic and international flights is 7:3, but we would like to expand the scale of international flights. Regarding the significance of owning Jetstar Japan's shares, it was initially for competition against other airlines when the LCC market was newly emerged in Japan. However, with inbound demand being stronger than initially expected, currently it is necessary to compete in the price-sensitive market on routes such as Vietnam and Manila etc. Therefore, we continue to capture such demand through Jetstar Japan.

【Part 2】

■Main Q&As

Q1 : In the selection of President Tottori, it was mentioned that sensitivity to customer value was emphasized in the final selection. Why was this factor emphasized? Also, please tell us the skills, experience and balance that were emphasized when selecting the management members of "Tottori Team".

A1 : In recent years, the management environment has been very challenging, and many issues can not be solved in a single company. In an era where solutions have to be found amid uncertainty, we wanted to create a team that could manage this company, based on JAL's unique values and customer values. We believe the current team structure is the best.

Q2 : From the perspective of the outside director Yanagi, how has the management team, including President Tottori, steered the company so far, and what are further expectations for the future?

A2 : After six months, I conducted interviews with several executives. The company has moved away from the serious situation of Covid-19, and we are now focusing our energy on customer experience and growth strategies (such as large-scale investments). During President Akasaka's period, it was necessary to proceed in a top-down manner due to the pandemic, but under President Tottori, it was shifted to the one in which responsible Executive Vice Presidents make the most of decisions. President Tottori is taking responsibility while entrusting tasks to each Executive Vice President. In the future, we hope that management based on the customer's perspective will be more recognized and spread as a new value.

Q3 : To what extent has the pooling of successor candidates been realized? What are the current challenges in fulfilling the role of the Nomination Committee, such as the execution point of such a development plan and review of the candidate list?

A3 : We redefined and started the selection and development process 3 years ago. A unique challenge for JAL is we need to hire employees to fill the vacant positions because it stopped hiring during Covid. One of the key themes in the Medium-term Management Plan is safety and security, and a significant incident has occurred in this regard recently. I worked in the automotive industry and 90% of the issues in the industry were due to design problems that the front line could not cope with. I want to keep my eye on whether JAL can establish such a large governance design in the future. We aim to encourage enhancing customer touch points from the next fiscal year onwards, and we would like JAL to be further engaged in solution sales, to capture more inbound demand, to promote traveling among younger generations, and to provide consulting services to companies and local governments.

Q4 : You mentioned creating new businesses, but considering JAL's bankruptcy experience in the past, JAL tends to focus only on its strength, which may discourage potential growth. What are your thoughts?

A4 : Since we do not produce tangible products like manufacturers, I think that creating new business models is one of the directions to pursue. The quality of that business model depends on whether a good team can be built. Although there are many people who are already familiar with aviation, I think the point is whether we have plenty of talents who are capable of entering new business. I believe that gaining experience at an early career stage also contributes to development of such human resources.

Q5 : What do you think about M&A?

A5 : I think such chances will increase gradually, including partnership with other airlines.

Q6 : Has JAL's measures to maximize customer value changed from the past? How do you evaluate its internal analysis and discussions?

A6 : The customer experience initiated by President Tottori has evolved in terms of its way and depth. They have developed analysis methods by making a database of customer preference or what they are inspired with, which made their analysis deeper and more comprehensive, rather than just counting how many times they flew.

Q7 : What are your thoughts on evaluation, expectation and potential for President Tottori if any?

A7 : There was an instance, I remember, where she clearly said "I don't understand what you are saying" regarding a certain matter. I think she is someone who speaks clearly without using vague language. She was well familiar with customer interactions from her career, so I expect her to further refine and articulate her values.

Q8 : Alcohol issues don't seem to stop. Is it because organizational problems are underlying? Would you share with us any discussion for prevention at the Board meetings?

A8 : The following is my personal opinion. I think while quality issues are problems at all levels - on the front lines, middle management level and executive management level - alcohol issues are at a certain level and responsible Executive Vice Presidents only. In the case of JAL, I would like to organize how to design governance, such as through a monitoring committee.

Q9 : I believe that the role of independent directors is to watch management to prevent it from going off course and to act as representatives of shareholders. If you have any past experiences or thoughts on both aspects, I would like to hear it.

A9 : JAL's management has never gone off course. There was a period during COVID-19 pandemic when JAL was extremely cautious, but it has now overcome the pandemic and it is increasing investments. I believe that independent directors also have a role in supporting important decision-making and making the balance between structural reforms and growth strategies. In terms of the representatives of the shareholders, we regularly receive feedback from IR and will continue to grasp the market expectations behind investors' questions.

End.