JTTRI-AIRO
Japan Transport and Tourism Research Institute
ASEAN-India Regional Office

The 154th Transport Policy Colloquium: ASEAN-India Regional Report

Analysis of Airline Strategies in ASEAN

March 14, 2023

Yukio Yamashita, Senior Research Fellow and Senior Director
ASEAN-India Regional Office,
Japan Transport and Tourism Research Institute (JTTRI)

Supported by 日本財団 THE NIPPON FOUNDATION

Background and Objective of Research

1. Background of research

The ASEAN-India Regional Office (AIRO), which launched in Bangkok in April 2021, conducts research and studies themed on transport and tourism in Indian and the Association of Southeast Asian Nations (ASEAN) areas, as implied by the name of the office. ASEAN, in particular, is enjoying remarkable economic growth and is increasingly strengthening its economic relations with Japan. The aviation market of ASEAN is likely a subject in which Japan's aviation industry insiders are strongly interested.

Despite drastically changing as a result of the COVID-19 pandemic, this market—as observed through the activities of JTTRI offices in ASEAN member states—seemingly have aspects different from the Japanese market. With regard to this difference, the research aims to compile information observed locally or gained from ASEAN's aviation industry insiders.

2. Focus of research

Identifying the state of full-scale carriers (FSCs) and low-cost carriers (LCCs) in the ASEAN aviation market over the past two decades

(1) Transition of major ASEAN airlines and their strategies (pre-pandemic)

What was the relationship between FSCs and LCCs in the ASEAN airline market prior to the pandemic? Also, are there differences between the strategies of FSCs and LCCs?

(2) State of post-pandemic recovery and the future direction of major ASEAN airlines

What state of recovery are major ASEAN airlines in following the pandemic? What would the future direction be for the airlines?

Contents

1. Introduction

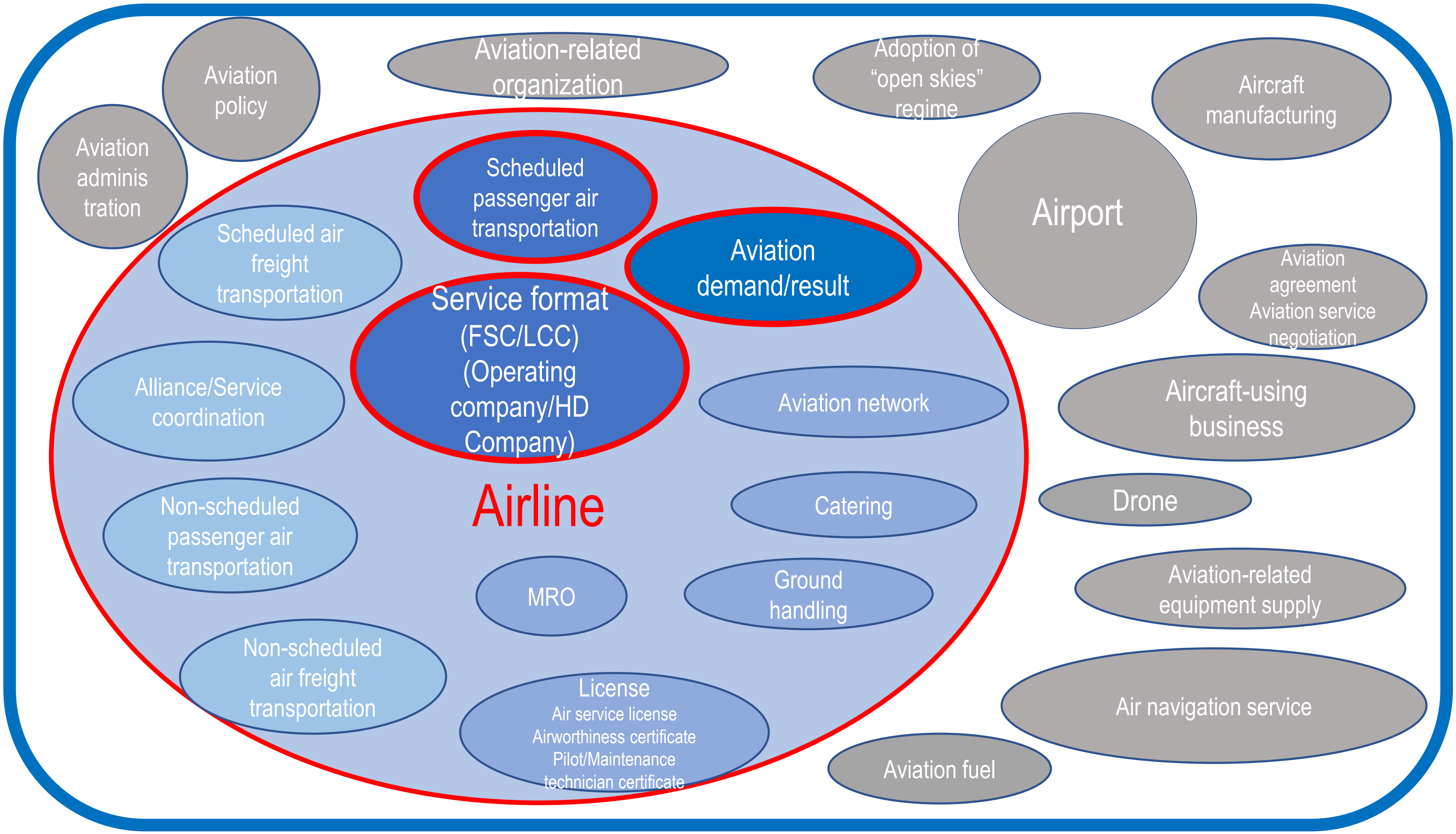
1-1 Advance Information on Today's Colloquium and ASEAN

1-2 Advance Information on the ASEAN Aviation Market

1. Introduction

1-1 Advance Information on Today's Colloquium and ASEAN

1-1 Advance Information on Today's Colloquium and ASEAN
1-1-1 Diverse Themes in Aviation and Main Subjects of the Colloquium



1-1 Advance Information on Today's Colloquium and ASEAN
1-1-2 Overview of ASEAN

1. Established in 1967

2. Consists of 10 member states

3. Purpose of establishment
   - Economic growth in region, promotion of social/cultural development
   - Establishment of political/economic stability in region
   - Resolution of issues in region

4. Population
   661.8 million (2020)

5. Nominal GDP
   Approx. 3 trillion USD (2018)

References
Ministry of Foreign Affairs of Japan, https://www.mofa.go.jp/mofaj/area/asean/page25_001325.html (in Japanese) (accessed February, 2023)
freepik, https://www.freepik.com/ (accessed February, 2023)

1. Introduction

1-2 Advance Information on the ASEAN Aviation Market

1-2 Advance Information on the ASEAN Aviation Market
1-2-1 The Aviation Markets of ASEAN and Japan: Differences

・ASEAN: Single aviation market

・In-ASEAN international flights generally reach their destinations within a 1–4 hour window
・Domestic flights of ASEAN member states generally reach their destinations within a 1–2.5 hour window

・Geographic hub structure and other factors of ASEAN member countries
- ・Indonesia: Jakarta is the hub, but being an island nation, regional airports are scattered across the country
- ・Philippines: Manila and Cebu are the two hubs, but being an island nation, regional airports are scattered across the country
- ・Malaysia: Kuala Lumpur is the hub, but regional airports are available in North Kalimantan
- ・Singapore: International hub, but no domestic flights
- ・Thailand: Hub-and-spoke structure with Bangkok as hub
- ・Vietnam: Dual-hub structure consisting of Hanoi and Ho Chi Minh
- ・Singapore, Bangkok, Jakarta, Kuala Lumpur, among others are intermediate points connecting Europe and Australia
- ・The Philippines, Singapore, and Vietnam have strong connections with North America

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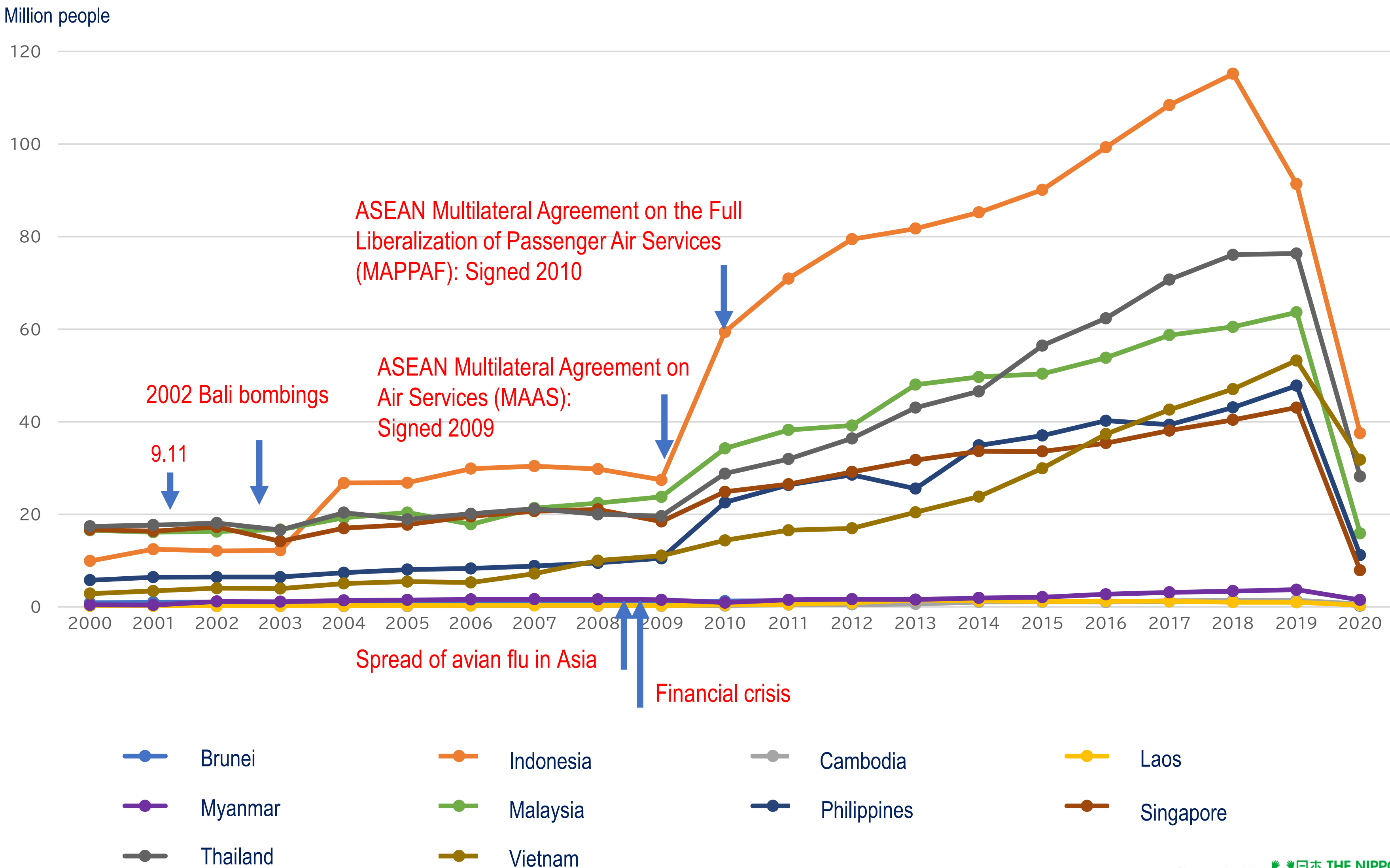
1-2 Advance Information on the ASEAN Aviation Market
1-2-2 Air Passenger Transport Results in ASEAN



Reference
The World Bank, https://data.worldbank.org/indicator/IS.AIR.PSGR

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1-2 Advance Information on the ASEAN Aviation Market
1-2-3 Exploring the ASEAN Aviation Market

Are FSCs and LCCs intensely competing against each other in ASEAN?

Defining LCCs

No clear definition available in such particulars as Japan's Civil Aeronautics Act or regulations of the US Federal Aviation Administration (FAA), Department of Transportation (DOT), or the Council of the European Union. The International Civil Aviation Organization (ICAO) categorizes non-FSCs as LCCs.

Conceptual definition

An airline that offers low-fare service primarily in medium/short-haul routes through low-cost production activities, based around a "no-frills," simplified service model.

Traditional characteristics of LCCs

(1) Standardization of used aircraft; (2) same route, frequent flights; (3) use of secondary airports; (4) simplified services, (5) airport terminals with simplified facilities; and (6) online sales and e-ticketing

1-2 Advance Information on the ASEAN Aviation Market

1-2-4 Examples of LCC Operation in ASEAN

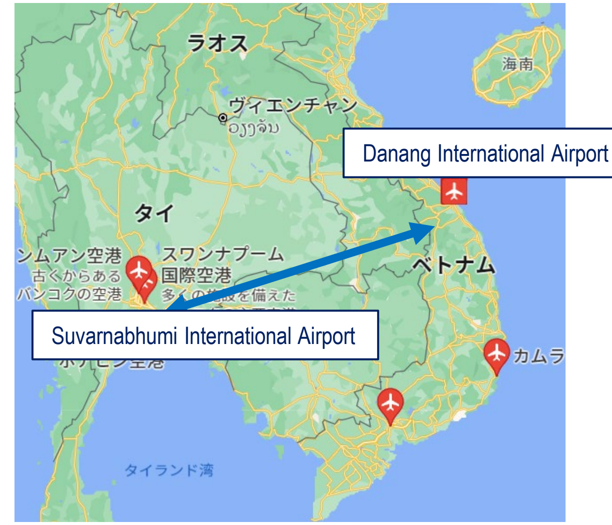
(1) 10:50 → VZ960 → 12:30
(3) 15:50 → VZ962 → 17:30

Suvarnabhumi International Airport	Danang International Airport

(2) 14:55 ← VZ961 ← 13:15
(4) 19:50 ← VZ963 ← 18:10

Best Asia Pacific Airlines on-time performance (OTP) in 2022: Thai AirAsia (Source: CIRIUM)

Ba Na Hills (Da Nang)



Da Nang International Airport 17:34

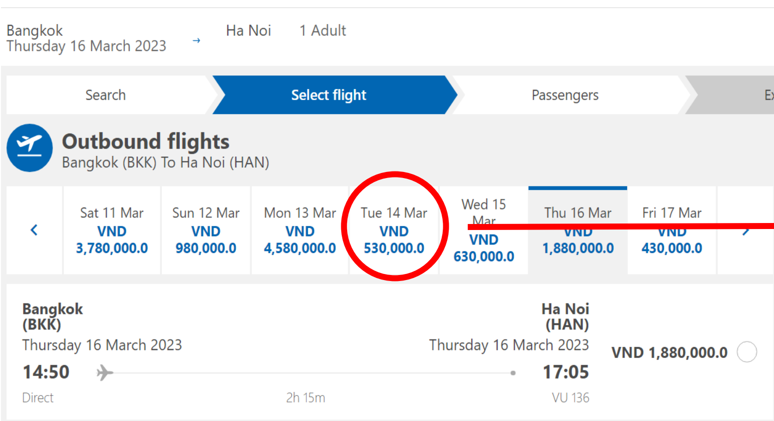
Da Nang International Airport 17:37

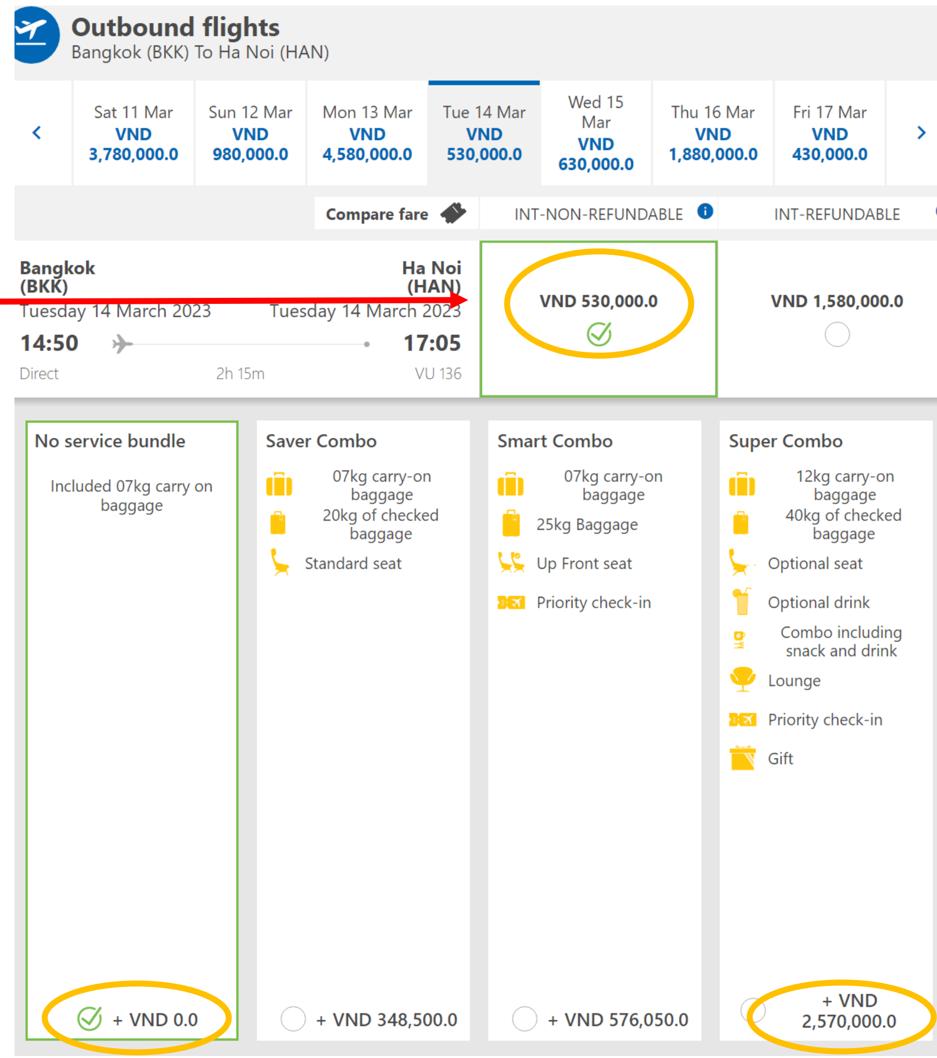
Da Nang International Airport 17:41

References
VietJet Air flight schedule, https://www.bing.com
Google Maps, https://www.google.com/maps

1-2 Advance Information on the ASEAN Aviation Market
1-2-5 Examples of Additional LCC Services Presented

Presented examples: ASEAN LCC





Presented examples: Additional service content of Japanese LCC

	"Simple"	"Value"	"Prime"
Carry-on baggage	Up to 7.0 kg	Up to 7.0 kg	Up to 7.0 kg
Checked baggage	Charged	Free up to one baggage	Free up to two baggage
Seat reservation	Charged	Standard seat: Free charge	Master seat: Free charge
Flight change fee	Charged	Free charge	Free charge
Point refund for flight cancellation	No refund	Fee subtracted from airfare, and difference provided as customer points	Points offered for full amount
Purchase deadline	Two days before boarding date	One hour before departure time	One hour before departure time

Reference

Online information displayed on airline websites

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1-2 Advance Information on the ASEAN Aviation Market
1-2-6 Comparison of FSC and LCC Fares (BKK to HAN)

• LCC: An airline that presents their fares clearly and lets passengers select service levels

One-way fare from BKK to HAN

FSC
- 2815 THB
  ≈11,000 JPY

LCC
- 530,000 VND
  ≈3,000 JPY No frills
- 2,570,000 VND
  ≈14,300 JPY Charged service
  Total ≈ 17,300 JPY

(Exchange rates are as of Feb. 10, 2023.
THB=3.89 JPY
VND=0.0056 JPY
Used data of EX)

10 results SORT BY: SHOW FILTERS

ECONOMY | BUSINESS

TIME — Prices are in THB and lowest ONE WAY (per passenger).

15:55 BKK → 18:00 HAN — VN 614 • Airbus A321
2 hrs 5 mins Non-stop
Flight Details

ECONOMY: FROM 2,815 THB (R)
BUSINESS: FROM 9,830 THB — 3 seats left! (D)

Economy Super Lite	Economy Lite	Economy Classic	Economy Flex
SOLD OUT	SOLD OUT	2,815 THB (R)	5,235 THB (S)
✓ Hand baggage: Vietnam Airlines: Not exceed 12kg	✓ Hand baggage: Vietnam Airlines: Not exceed 12kg	✓ Hand baggage: Vietnam Airlines: Not exceed 12kg	✓ Hand baggage: Vietnam Airlines: Not exceed 12kg
✗ No checked baggage included	✓ 01 checked baggage (23kg)	✓ 01 checked baggage (23kg)	✓ 01 checked baggage (23kg)
$ Ticket changes permitted with fee	$ Ticket changes permitted with fee	$ Ticket changes permitted with fee	✓ Before ticketed flight date, changes are free of charge. On/after ticketed flight date, changes permitted with fee.
✗ Go-show not permitted	✗ Go-show not permitted	$ Go-show permitted with fee	$ Go-show permitted with fee
$ Refundable with fee	$ Refundable with fee	$ Refundable with fee	$ Refundable with fee
Accumulate 10% of miles	Accumulate 25% of miles	Accumulate 65% of miles	Accumulate 100% of miles
VIEW DETAILS	VIEW DETAILS	VIEW DETAILS	VIEW DETAILS

Reference
https://fly.vietnamairlines.com/ (accessed February, 2023)

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2. Transition of Major ASEAN Airlines and Their Strategies (Pre-Pandemic)

2. Transition of Major ASEAN Airlines and Their Strategies (Pre-Pandemic)

2-1 The Emergence of ASEAN LCCs in the Early 2000s

2-1 The Emergence of ASEAN LCCs in the Early 2000s
2-1-1 ASEAN's State of Aviation in the Early 2000s

1995: 5th ASEAN Summit "Greater Economic Integration"
1997: ASEAN VISION 2020 reconfirms promotion of "open skies" policy
1998: The ASEAN Transport Action Plan (1999–2004) explicitly states about facilitating a competitive environment in in-ASEAN air service through a phased liberalization process

1995: The Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP-EAGA) led to agreeing on a memorandum of understanding for unrestricted air transport capacity and removing restrictions for the third and forth freedoms of the air
1995: The Indonesia–Malaysia–Thailand Growth Triangle (IMT-GT) led to an Open Skies Agreement for small-scale airports, albeit the agreement being limited

Liberalization and deregulation of aviation advanced, albeit insufficiencies, by early 2000

⇓

LCCs entered the ASEAN aviation market in the early 2000s

Major LCCs in ASEAN

Airline	Nationality	Start of operations	Characteristics
AirAsia	Malaysia	2002	Asia's leading LCC.
Thai AirAsia	Thailand	2004	Operates between Xiamen, Macao, Hanoi, and other cities, focusing on domestic Thai flights.
Indonesia AirAsia (formerly AWAIR)	Indonesia	2004	Primarily operates domestic Indonesian flights. Changed to current name in Dec. 2005.
One-Two-GO Airlines	Thailand	2003	Orient Thai's LCC brand. Operates domestic Thai flights.
NokAir	Thailand	2004	Thai Airways subsidiary. Operates domestic Thai flights.
Tigerairways	Singapore	2004	Singapore Airlines subsidiary. Operates in Thailand, Vietnam, southern China, among other areas.
Jetstar (Value Air)	Singapore Australia	2004	Qantas Airways subsidiary. Merged with Valuair in 2005. Operates in some Indonesia-bound routes under the name Valuair. Changed name from Jetstar Asia in 2006.
Lion Air	Indonesia	2000	Primarily operates domestic Indonesian flights. Not a non-frill service airline.
Cebu Pacific	Philippines	1996	Primarily operates domestic Philippine flights. Trailblazer of low-cost service providers.

Reference
Hanaoka, S: Aviation in ASEAN: Liberalization and Low Cost Carriers, *Takeoff*, **116** (2006), pp. 18–25 (in Japanese).

2-1 The Emergence of ASEAN LCCs in the Early 2000s
2-1-2 LCC Entry Environment of Europe and ASEAN: Differences and Responses

Europe's Aviation Environment (1993)

Adoption of "open skies" regime Deregulation

- Third, fourth and fifth freedoms of the air (Package III, issued Jan. 1993)
- Liberalization of entry for licensed operators in the EU (Package III, issued Jan. 1993)
- In-EU operation possible (Package III, issued Jan. 1993)
- Existence of secondary airports

→

ASEAN's Aviation Environment (Early 2000s)

Limited adoption of "open skies" regime
Response to inadequate deregulation

- Response to third and fourth freedoms of the air
  - The Philippines, Indonesia, Malaysia, and Thailand relaxed domestic entry restrictions between the 1990s to around 2000
- Response for securing seventh freedom and domestic transportation of other countries
  - Secured relevant airlines in other countries
- Response for absence of secondary airport
  - Partially installed dedicated LCC terminals

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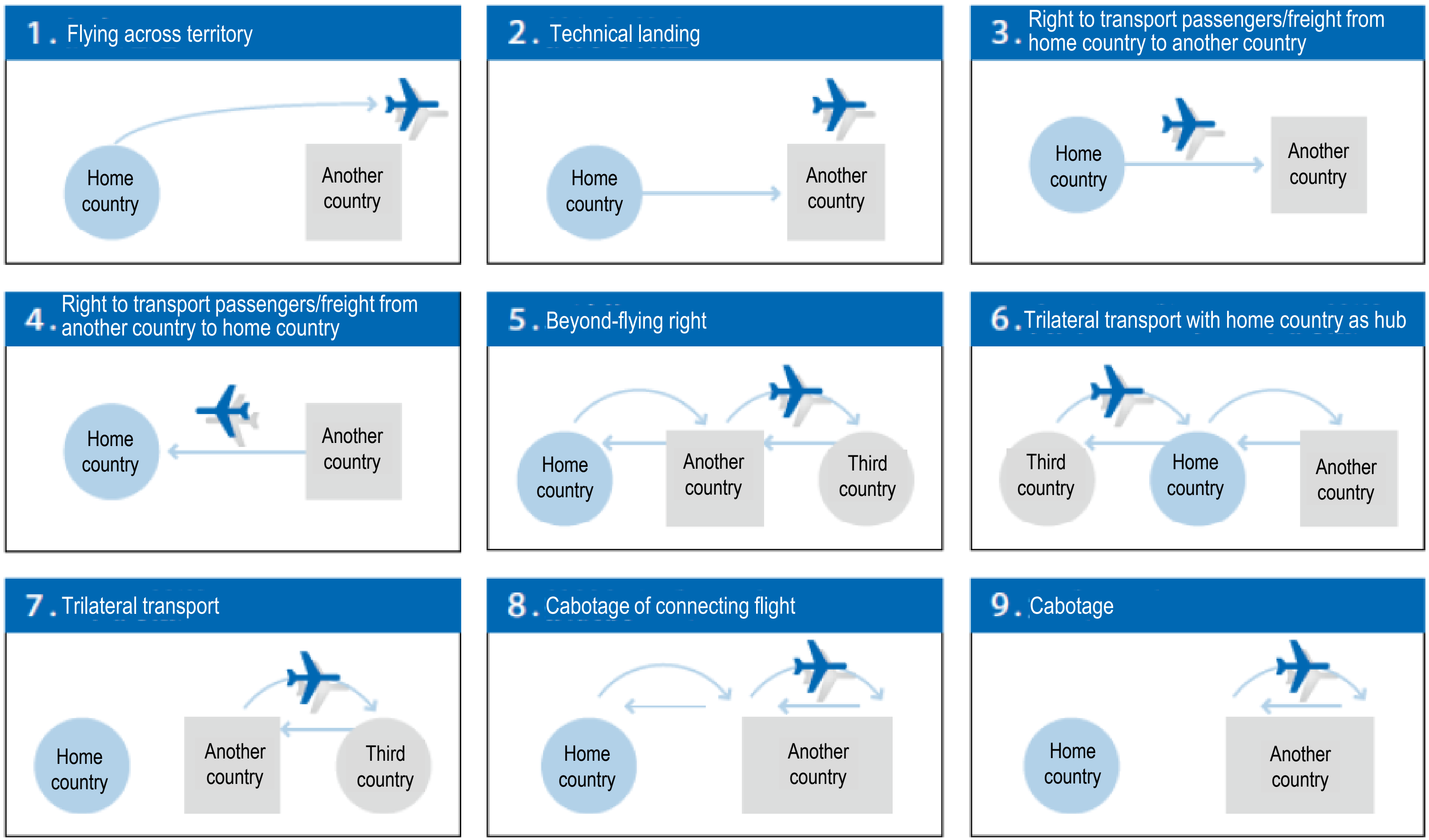
Hanaoka, S: Aviation in ASEAN: Liberalization and Low Cost Carriers, *Takeoff*, 116 (2006), pp. 18–25 (in Japanese).
Furuhata M.: Systems and Other Factors in Foreign Countries Concerning International Aviation, Japan Fair Trade Commission Study Group on Governmental Regulations and Competition Policies, 2007 (in Japanese).
Oguma, H.: Vertical Integration between Airlines and Airports and the Subject of Competition Policy in European Union, *The Japanese Journal of Transportation Economics,* 54 (2010), pp. 175–184 (in Japanese).

2-1 The Emergence of ASEAN LCCs in the Early 2000s
2-1-2-Reference: Nine Freedoms of the Air



Reference
Hanaoka, S. The Arrival of the Wave of LCCs and Where Japan is Headed, *Takeoff*, **131** (2012), pp. 2–9 (in Japanese).

2-1 The Emergence of ASEAN LCCs in the Early 2000s

2-1-3 Transition of Dedicated LCC Terminals in ASEAN

Changi International Airport (Singapore)

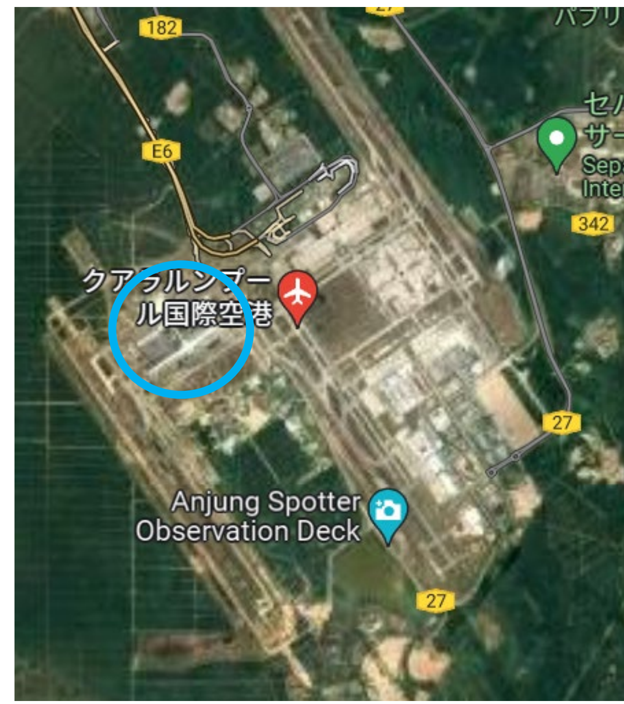
Oct. 2006: Budget terminal opened
Sep. 2012: Budget terminal closed
Nov. 2013: Development started as Terminal 4, a non-dedicated-LCC terminal
Oct. 2017: Operation began as Terminal 4

Reason why the terminals were not extensively developed

・Terminal operator's concern for profitability
・Rapid growth in aviation demand created the need for renovating existing terminals and developing new terminals

Kuala Lumpur International Airport

・Mar. 2006: Opened LCC-dedicated terminal aligning with LCC business model
・May 2014: Opened new LCC-dedicated terminal
  ・Annual throughput: 45 million people
  ・68 passenger boarding bridges
・May 2014: Closed former LCC-dedicated terminal



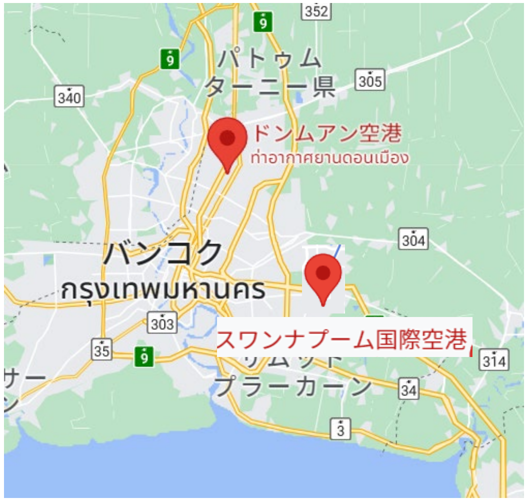
References: Google Maps, https://www.google.com/maps; MALAYSIA AIRPORTS HOLDINGS BERHAD, airports#ia1; Changi Airport Group, https://www.changiairport.com/corporate/about-us/our-story.html

2-1 The Emergence of ASEAN LCCs in the Early 2000s
2-1-4 Airports Where Only LCCs Operate (As of Late February 2022)

Don Mueang International Airport

・1924: Accepted commercial aircraft (Bangkok's international airport prior to opening of Suvarnabhumi International Airport [BKK])
・Sep. 2006: All airlines moved to BKK when it opened
・Mar. 2007: Some LCCs relocated again for domestic flights only, due to problems at BKK
・Aug. 2009: Government policy to consolidate domestic flights to BKK
(NokAir and [then-] One-Two-GO did not comply and stayed)
・Oct. 2011: Closed due to heavy flooding
・Mar. 2012: Reopened
・Oct. 2012: Three AirAsia Group companies moved from BKK to Don Mueang Airport
・Today: Operates as an international airport centered on LCCs

Development plan:	Renovation (phase 3) underway to enhance throughput
Runway:	3,700 m x 60 m (03L/21R) 3,500 m x 45 m (03R/21L)
Distance to BKK:	Approx. 35 km



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Google Maps, https://www.google.com/maps.
Airport Authority of Thailand website（https://suvarnabhumi.airportthai.co.th/）, news, information publicly available online / (accessed February, 2023)

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2. Transition of Major ASEAN Airlines and Their Strategies (Pre-Pandemic)

2-2 Transition of Major ASEAN Airlines (Pre-Pandemic)

JTTRI-AIRO Japan Transport and Tourism Research Institute ASEAN-India Regional Office

2-2 Transition of Major ASEAN Airlines (Pre-Pandemic)

2-2-1 Transition in Major ASEAN FSC Group Airlines

	2000	2005	2010	2015	2020
Garuda Indonesia Group	・Garuda Indonesia	・Citilink (2009)			
Malaysia Airlines Group	・Malaysia Airlines	・Firefly (2007) ・MASwings (2007)			
Philippine Airlines Group	・Philippine Airlines ・PAL Express				
Singapore Airlines Group	・Singapore Airlines ・SilkAir ・Scoot (2002) ・Tigerair (2004)	・Tigerair Philippines (2007)		・Merger of Scoot and Tigerair (2016)	・Merger of SilkAir and Singapore Airlines (2021)
Thailand Airways Group	・Thai Airways ・NokAir (2004)		・Thai Smile (2014)		
Vietnam Airlines Group	・Vietnam Airlines ・Pacific Airlines ・VASCO (2004)				

References

Each airline's annual report and website information

2-2 Transition of Major ASEAN Airlines (Pre-Pandemic)

2-2-2 Transition of ASEAN's Major LCCs

(Note) Numbers following the airline name indicate the year in which scheduled route operations started

	2000	2005	2010	2015	2020
Lion Air Group	• Lion Air (2000) • Wings Air (2003)		• Malindo Air (2013) • Batik Air (2013)		↳ Changed name to Batik Air Malaysia (2022)
AirAsia Group	• Malaysia AirAsia (2003) • Thai AirAsia (2004) • Indonesia AirAsia (2004)		• Philippines AirAsia (2012)		
AirAsia X Group		• Malaysia AirAsia X (2007)	• Thai AirAsia X (2013) • Indonesia AirAsia X (2014)		
VietJet Air			• VietJet Air (2011)	• Thailand Vietjet Air (2015)	
Vietravel Airlines					• Vietravel Airlines (2022)

References

Each airline's annual report and website information

2-2 Transition of Major ASEAN Airlines (Pre-Pandemic)

2-2-2-Reference: Trend of Major Japanese LCCs Since 2012, the First Year of LCCs in Japan

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021

Peach Aviation started operating (Mar. 2012) ->

Jetstar Japan started operating (Jul. 2012)

AirAsia Japan started operating (Aug. 2012)
-> AirAsia Japan suspended operations (Oct. 2013)
-> Changed company name to Vanilla Air; started operating (Dec. 2013)

Merged with Vanilla Air (Oct. 2019)

-> Suspended operation and merged with Peach Aviation (Oct. 2019)

Spring Airlines Japan started operating (Aug. 2014) ->
-> Changed company name to Spring Japan when it became a consolidated subsidiary of Japan Airlines (Nov. 2021)

Skymark Airlines and Hokkaido International Airlines newly entered the market in 1998

Skynet Asia (currently Solaseed Air) newly entered the market in 2002

AirAsia Japan
(Different company from the airline that started operating in Aug. 2012 and suspended operation in 2013) Started operating (Oct. 2017)
-> Discontinued operations in Dec. 2020 and entirely suspended operations

Zipair Tokyo launched as a medium/long-haul international LCC (Jun. 2020)

References
Each airline's annual report and website information

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2-2 Transition of Major ASEAN Airlines (Pre-Pandemic)
2-2-3 Relationship between Major FSCs and LCCs in 2002

Major FSCs

Garuda Indonesia (Indonesia)

Philippine Airlines (Philippines)

Malaysia Airlines (Malaysia)

Thai Airways (Thailand)

Singapore Airlines Group (Singapore)
- Singapore Airlines
- SilkAir

Vietnam Airlines (Vietnam)

Pacific Airlines (Vietnam)

Bangkok Airways

Major LCCs

Lion Air (Indonesia)

AirAsia (Malaysia)

Cebu Pacific Air (Philippines)

References
Each airline's annual report and website information

2-2 Transition of Major ASEAN Airlines (Pre-Pandemic)

2-2-4 Relationship between Major FSCs and LCCs as of 2022

Garuda Indonesia Group
- Garuda Indonesia (FSC)
- Citilink (LCC)

Malaysia Airlines Group
- Malaysia Airlines (FSC)
- Firefly (LCC)
- MASwings (LCC)

Philippine Airlines Group
- Philippine Airlines (FSC)
- PAL Express (LCC)

Singapore Airlines Group
- Singapore Airlines (FSC)
- Scoot (LCC)

Thai Airways Group
- Thai Airways (FSC)
- Thai Smile Airways (LCC)
- NokAir (LCC)
  (Note: 13.28% of shares held as of Mar. 2021)

Bangkok Airways (FSC)

Vietnam Airlines Group
- Vietnam Airlines (FSC)
- Vasco (LCC)
- Pacific Airlines (LCC)

Lion Air Group
- Lion Air (LCC)
- Batik Air (FSC)

AirAsia Group
- Indonesia AirAsia (LCC)
- Malaysia AirAsia (LCC)
- Thai AirAsia (LCC)
- Philippines AirAsia (LCC)

AirAsia X Group
- Malaysia AirAsia X (LCC)
- Thai AirAsia X (LCC)

Vietjet Air (LCC)

Vietravel Airlines (LCC)

References
Each airline's annual report and website information

2. Transition of Major ASEAN Airlines and Their Strategies (Pre-Pandemic)

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)

2-3-1 Singapore Airlines Group
2-3-2 Garuda Indonesia Group
2-3-2 Thai Airways Group
2-3-4 Bangkok Airways
2-3-5 AirAsia Group (Including AirAsia X Group)

2-3-6 Commonalities in Strategies of Major ASEAN Airlines
2-3-7 Market Share of FSCs and LCCs in Thailand

2. Transition of Major ASEAN Airlines and Their Strategies (Pre-Pandemic)
2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)

2-3-1 Singapore Airlines Group

Reference
Singapore Airlines, https://www.singaporeair.com/ja_JP/jp/home#/book/bookflight.

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-1 Singapore Airlines Group
(1) Overview of Strategies and Passenger Transport Results

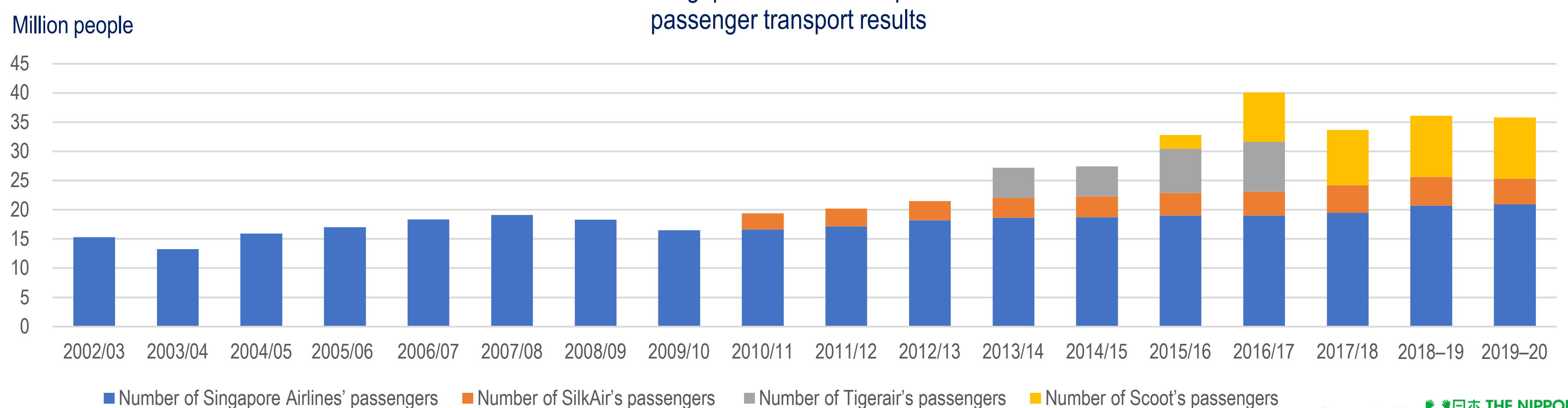
Singapore Airlines Group's Strategy

2016–2017
- Portfolio strategy
Provided FSC-LCC services with four companies
- Multi-hub strategy
Entered Indian market (Vistara FSC)/Thai market (NokScoot LCC)
- Strategy for securing existing advantage
- New business strategy

2018–2019
- Portfolio strategy
Provided FSC-LCC services with three companies
- Multi-hub strategy
Entered Indian market (Vistara FSC)/Thai market (NokScoot LCC)
- New business strategy
- Strategy for securing existing advantage

2020–2022
- Portfolio strategy
Provided FSC-LCC services with two companies
- Multi-hub strategy
The Indian market (Vistara FSC) is expanding/Withdrew from Thai market (NokScoot LCC)
- New business strategy
- Strategy for securing existing advantage

Singapore Airlines Group's passenger transport results



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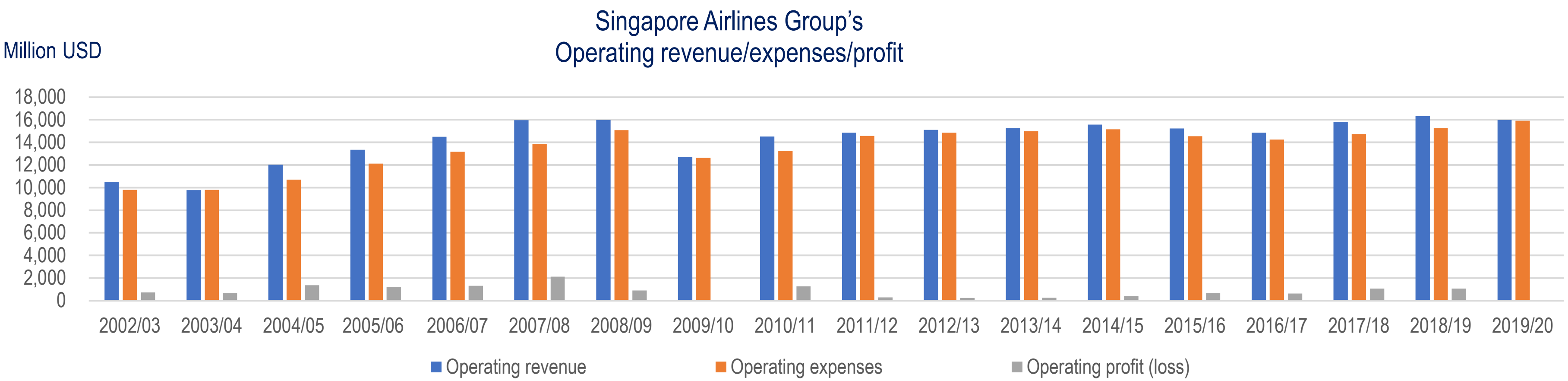
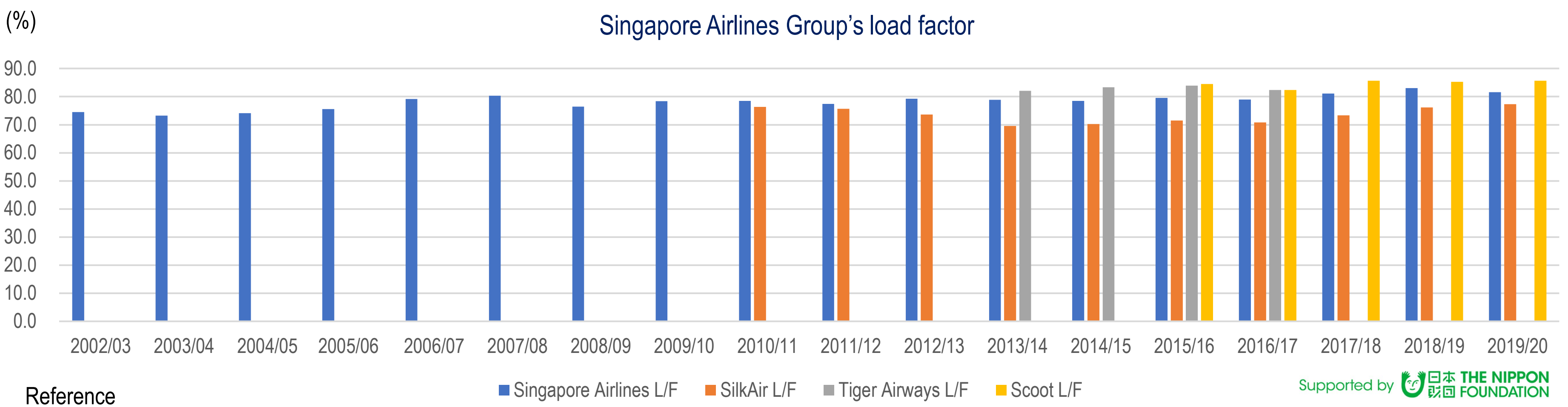
Singapore Airlines Annual Report, https://www.singaporeair.com/ja_JP/jp/about-us/information-for-investors/annual-report/.

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-1 Singapore Airlines Group
(2) Operating Results

・Profitable. LCCs contribute to passenger transport results but benefit little as to operating profit.
・The Group has been restructuring in recent years to improve its efficiency.





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2-3-2 Garuda Indonesia Group

Reference

Garuda Indonesia, https://www.garuda-indonesia.com/jp/ja/index.

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-2 Garuda Indonesia Group
(1) Overview of Strategies and Passenger Transport Results

Garuda Indonesia Group's Strategy

Resource optimization strategy

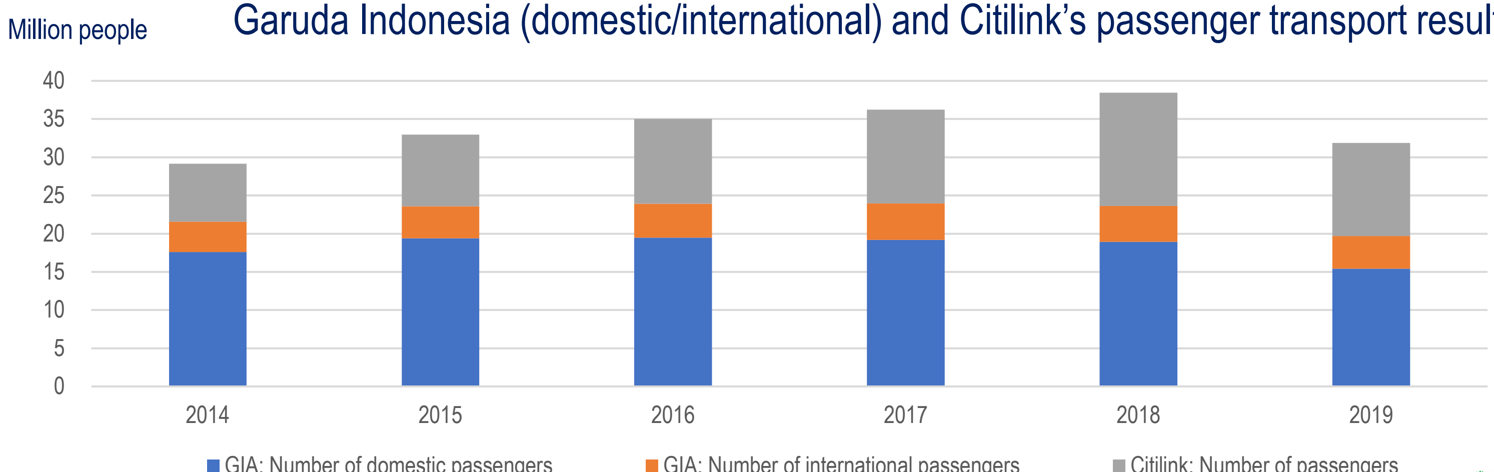
- High standards of safety, customer-oriented service, and financial sustainability

Quick win strategy

- Reforming internal culture; expanding revenue; reforming cost structure by utilizing shared services

Development of businesses that transcend the aviation sector

Garuda Indonesia (domestic/international) and Citilink's passenger transport results



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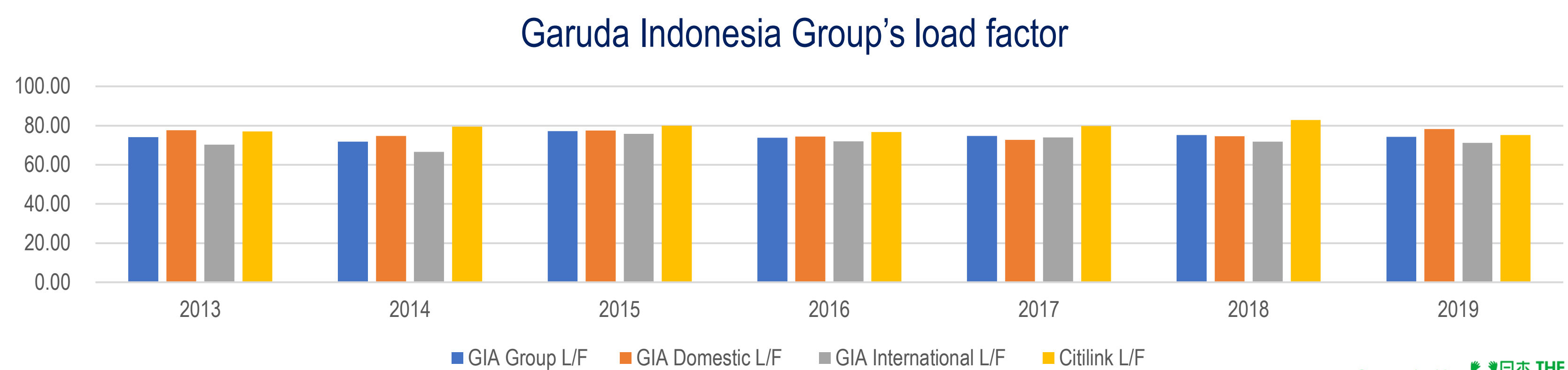
2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-2 Garuda Indonesia Group
(2) Operating results

・Unprofitable. LCCs contribute to passenger transport results but do not tangibly benefit operating profit
・Quick win strategy, implemented in response to 2014 deficit, was temporarily successful but could not pull the Group out of the red



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2-3-2 Thai Airways Group

Reference
Thai Airways, https://www.thaiairways.com/.

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-3 Thai Airways Group
(1) Overview of Strategies and Passenger Transport Results

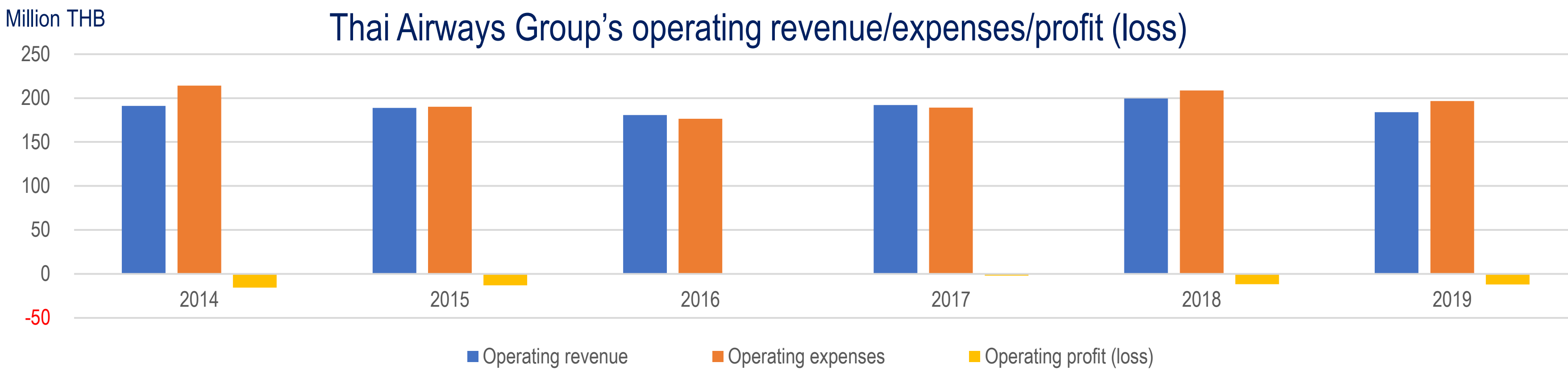
Thai Airways Group's Strategy

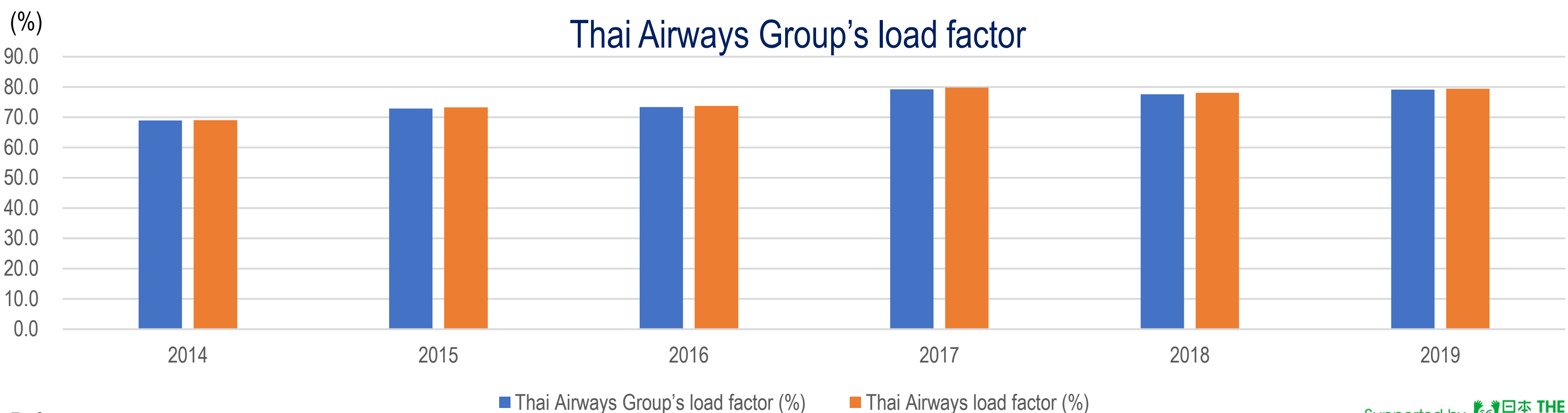
Active development of revenue/reasonable cost structure
Enhancement of efficiency and pursuit of new opportunities
Response to customers' requests (increase ancillary revenue)
Innovation/Digital measures: Utilization and coordination with apps
Effective management of human resources
Thai Smile support

References
Thai Airways MDFANY annual reports.
Thai Airways annual statistics data.

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-3 Thai Airways Group
(2) Operating results

・LCCs contribute to the result of passenger transport to some extent, but do not tangibly benefit operating profit
・Unprofitable since pre-pandemic times. The Group is reorganizing following the pandemic, and considering acquiring Thai Smile.





References
Thai Airways Management Discussion and Analysis, https://irtg.thaiairways.com/management-discussion-and-analysis/
Thai Airways annual statistics data

2-3-4 Bangkok Airways

Reference
Bangkok Airways, https://www.bangkokair.com/.

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-4 Bangkok Airways
(1) Overview of Strategy

Image of airline brand: Boutique

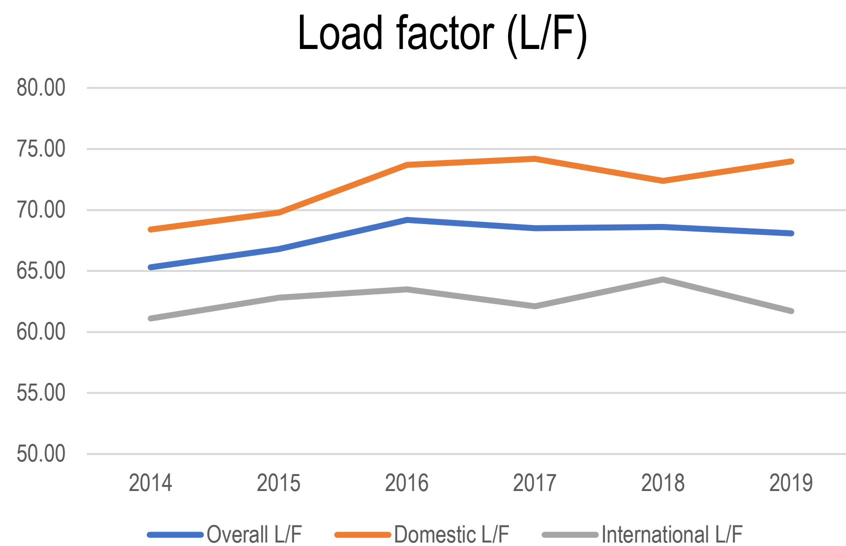
Utilization of the three airports the airline owns
- Samui Airport
- Sukhothai Airport
- Trat Airport

Non-alliance airline partnership
- Utilization of codeshare, interline agreements, etc.

Short/medium-haul route setting

Operation focusing on specific aircraft

	2014	2015	2016	2017	2018	2019
No. of aircraft	27	31	34	38	40	40
A320	8	8	9	9	9	9
A319	10	11	12	14	15	16
ATR72						
-500	8	8	6	6	5	2
-600	1	4	7	9	11	13

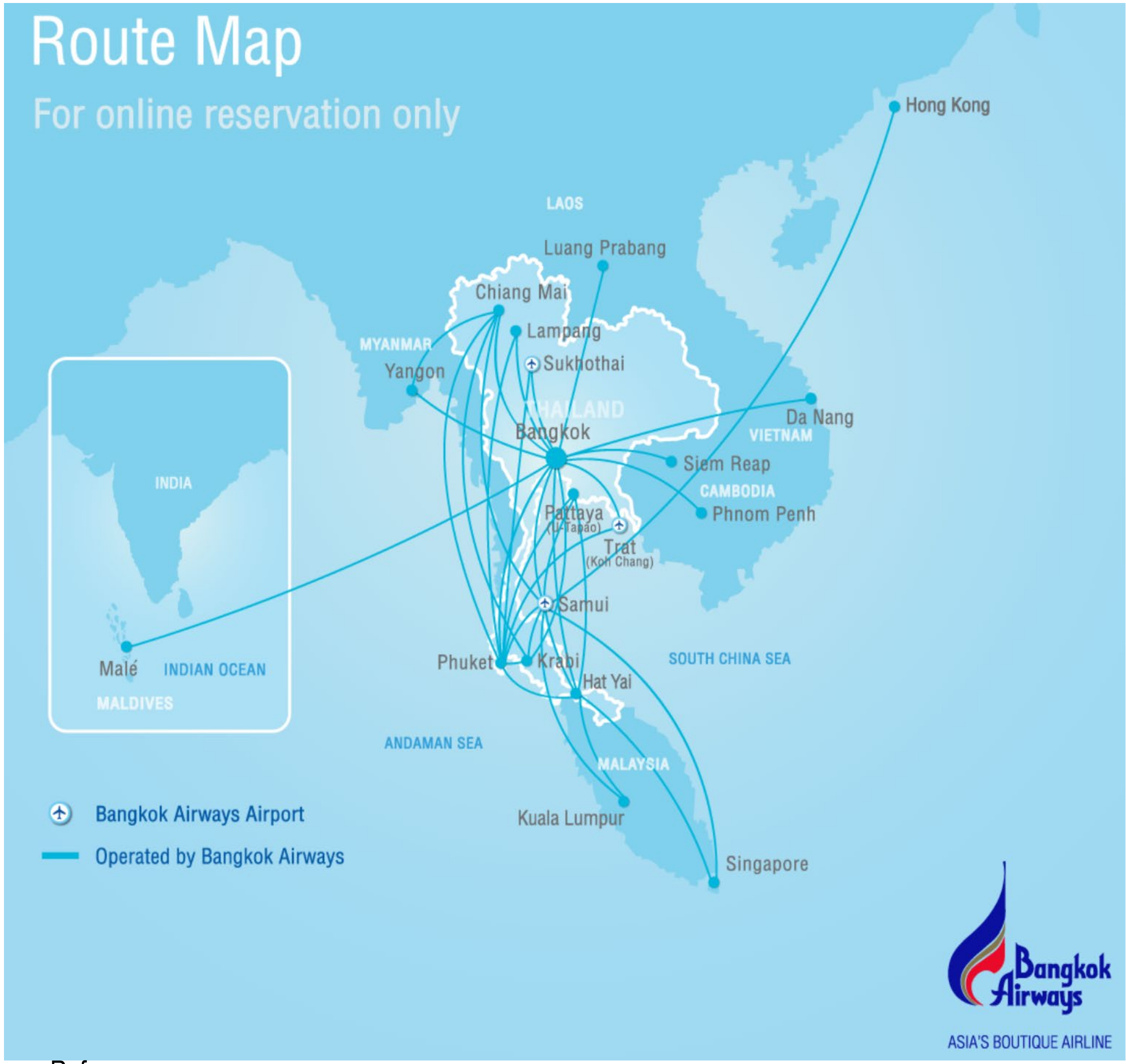


References

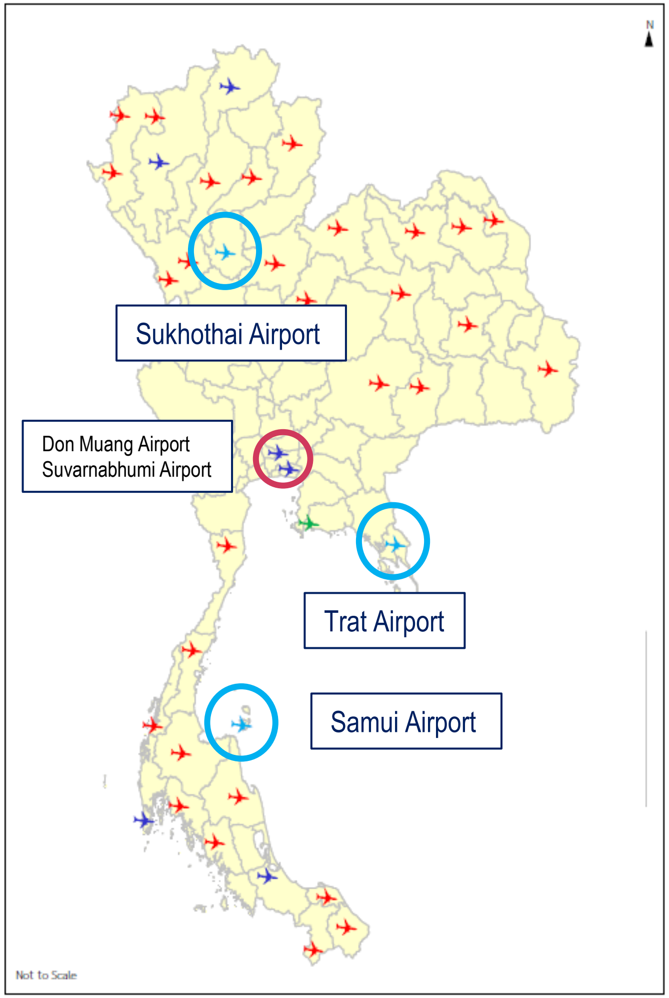
Bangkok Airways, https://www.bangkokair.com/.

Bangkok Airways report and consolidated financial statements

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-4 Bangkok Airways
(2) Routes and the Three Airports Owned by the Airline



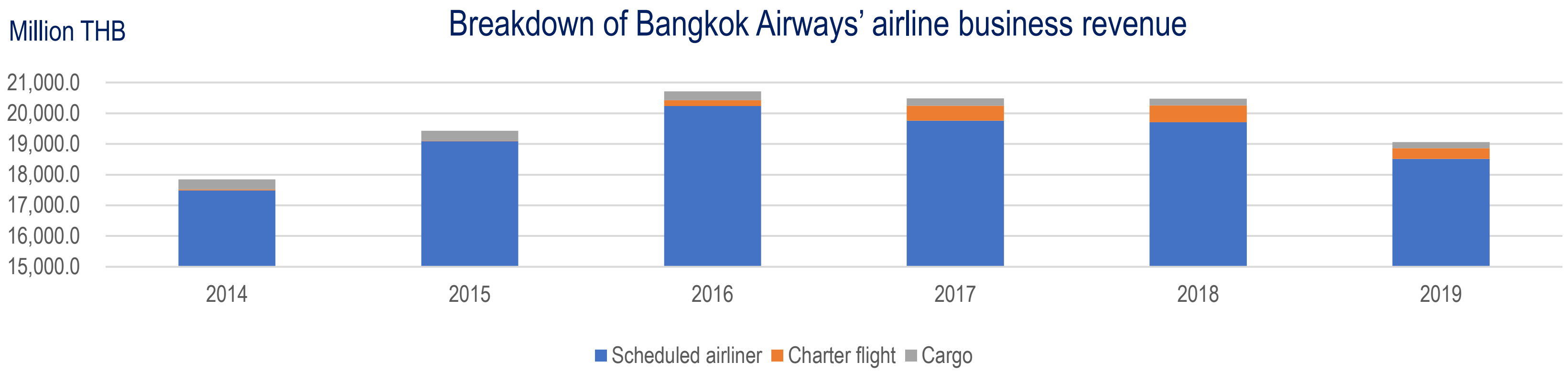
Reference
Bangkok Airways, https://www.bangkokair.com/ (accessed February 26, 2023).



Reference
The Twelfth National Economic and Social Development Plan (2017–2021), https://www.nesdc.go.th/ewt_dl_link.php?nid=9640.

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-4 Bangkok Airways
(3) Operating Results

・Airline revenue: Business revenue almost exclusively comes from scheduled airliners
・Airport business accounts for 2% of total



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References
Bangkok Airways annual report and consolidated financial statements

2. Transition of Major ASEAN Airlines and Their Strategies (Pre-Pandemic)

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)

2-3-5 AirAsia Group
(Partially Including AirAsia X)

Reference
AirAsia, https://www.airasia.com/en/gb.

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2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-5 AirAsia Group (Partially Including AirAsia X)
(1) Overview of Strategy

Initial stage (early 2000s)
・No frills
・Active introduction of aircraft
・Active development of routes
・Entry into cabotage (Thailand/Indonesia)

Expansion stage (around 2005–2019)
・Moving away from "no frills" strategy (expansion of ancillary revenue)
・Expansion of aircraft/network
・Introduction of standardized aircraft
・Development of system needed for securing aircraft/expanding network
・Entry into medium/long-haul service (four-hour-plus routes) (AirAsia X: From 2007)
・Entry into domestic transport in other countries (e.g., Japan, India, Vietnam)

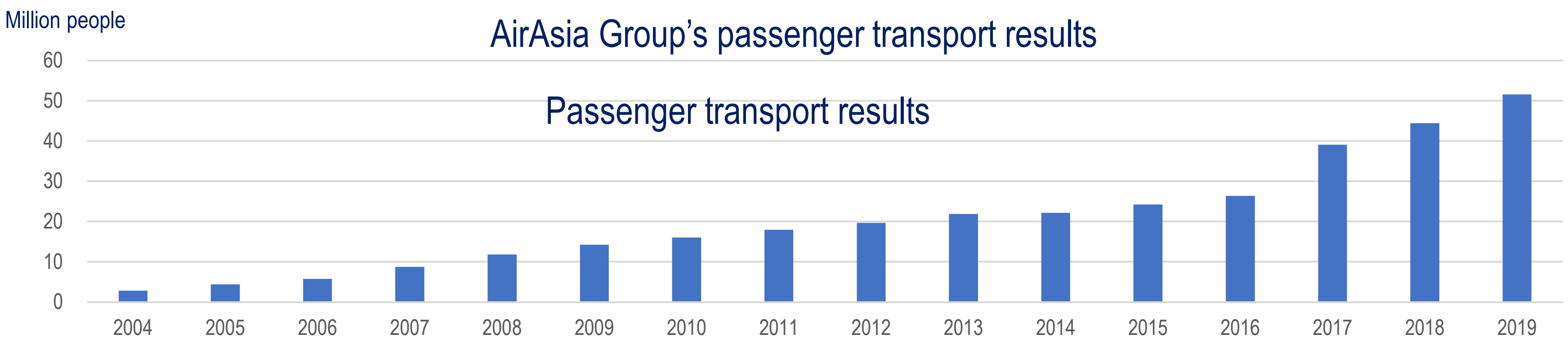
Transition stage (from around 2019)
・Continuation of aviation business
・Continued securing of ancillary revenue
・Coordination with non-aviation business
・Expansion into new daily lifestyle business

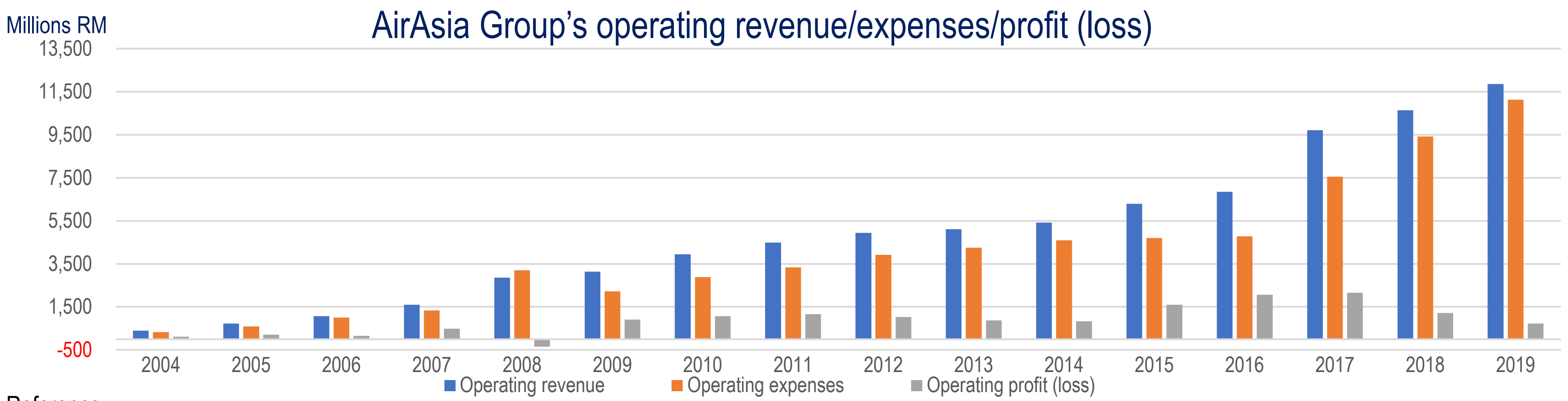
Overall strategy
・Active introduction of standardized aircraft and route development
・Establishment of system to support airline business operation
・Utilization of customer information and boost in ancillary revenue to increase revenue
・Standardized branding as group
・Exploration of opportunities (e.g., domestic transport in other countries)
・Expansion into new business

Reference
AirAsia Group Annual Reports, https://www.capitala.com/publications_downloads.html.

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-5 AirAsia Group (Partially Including AirAsia X)
(2) Passenger Transport Results/Operating Results

- Operating revenue/operating expenses are correlated to the growth of passenger transport results
- The Group has been securing operating profit almost annually from the initial stage (deficit marked in 2008)



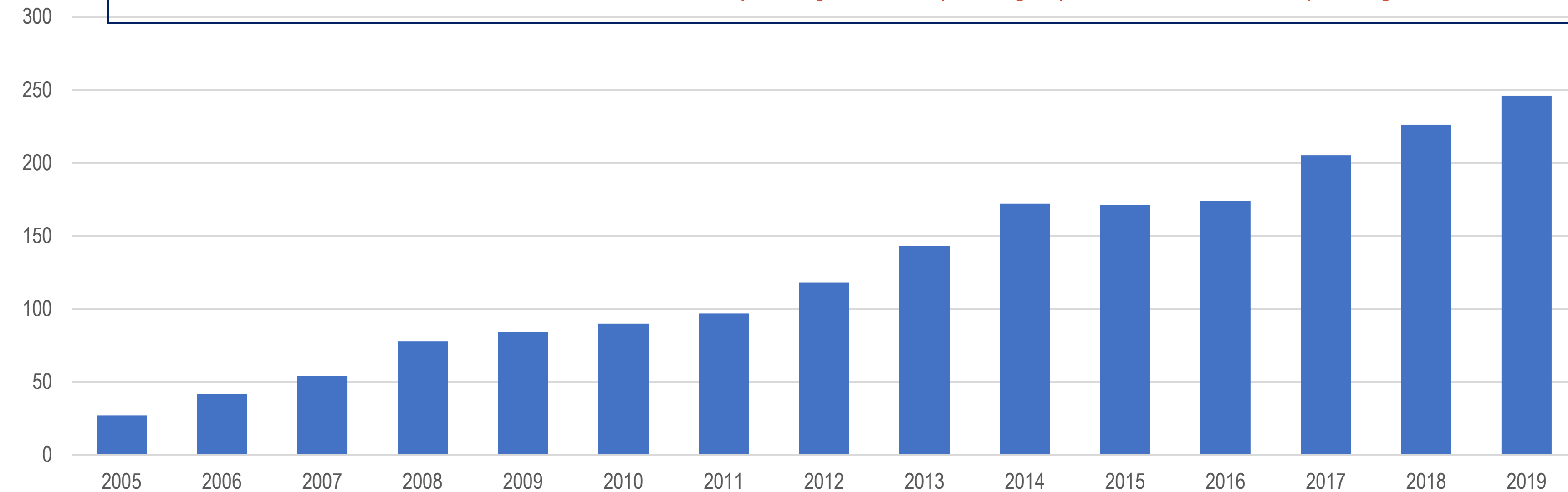


Reference

AirAsia Group Annual Reports, https://www.capitala.com/publications_downloads.html.

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-5 AirAsia Group (Partially Including AirAsia X)
(3) Shift in Aircraft Numbers

• AirAsia's operating revenue/operating expenses very strongly correlate with the increase in aircraft number
Increase in aircraft number -> Increase in new routes, prompting an increase in routes and service destinations -> Increase in number of routes and service destinations -> Increase in operating revenue/operating expenses -> increase in operating revenue



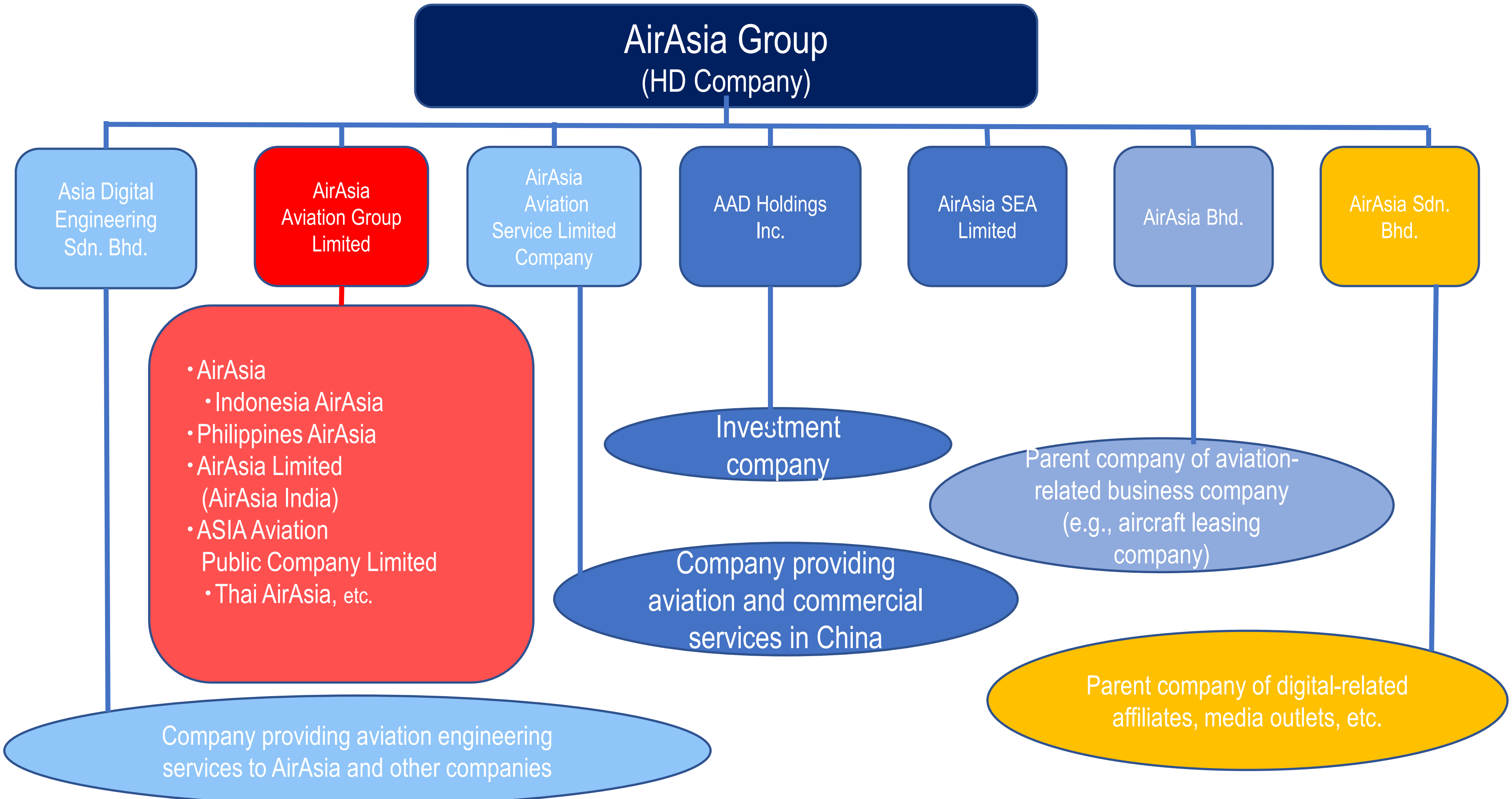
2014	AirAsia Malaysia	AirAsia Thailand	AirAsia Indonesia	AirAsia Philippines
No. of aircraft	81	43	29	15
No. of routes	99	51	37	16
No. of service destinations	65	41	20	12
No. of countries with routes available	15	11	5	4
No. of new routes in 2014	16	7	3	2

2018	AirAsia Malaysia	AirAsia Thailand	AirAsia Indonesia	AirAsia Philippines
No. of aircraft	95	62	24	22
No. of routes	115	97	27	50
No. of service destinations	75	66	20	32
No. of countries with routes available	18	14	7	11
No. of new routes in 2018	12	21	3	14

(Note: The Group's overall aircraft number includes AirAsia India and AirAsia Japan)
Reference
AirAsia Group Annual Reports, https://www.capitala.com/publications_downloads.html.

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-5 AirAsia Group (Partially Including AirAsia X)
(4) Structure of AirAsia Group (As of 2019)

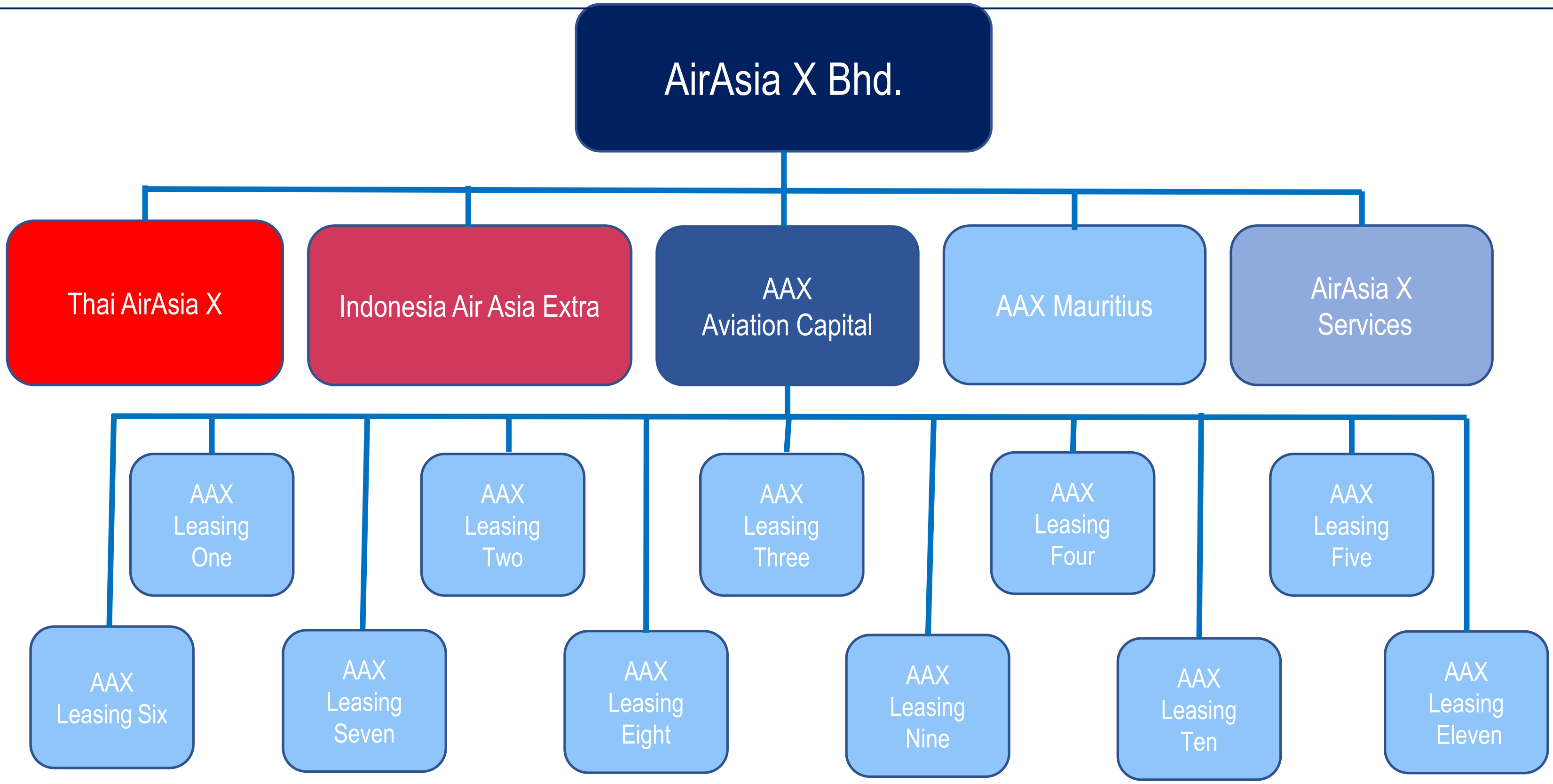
- Affiliated companies considered necessary for delivering airline operator functions have been integrated as group companies
- Undertakes activities with a standardized brand (e.g., using standardized logo)



References
AirAsia Group Annual Report 2019, https://www.capitala.com/misc/ar2019.pdf
AirAsia, https://www.airasia.com/en/gb, (Includes categorization of subsidiaries, affiliates, and joint ventures)

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-5 AirAsia Group (Partially Including AirAsia X)
(5) Structure of AirAsia X (As of 2019)

- An airline group different from AirAsia Group. Provides medium/long-haul services.
- Integrates aircraft procurement and flight operation support affiliates as group companies, coordinating with the AirAsia Group
- Implemented branding coordinating with AirAsia Group (e.g., standardized logo)



References
AirAsia X Bhd. Annual Report 2019, http://www.airasiax.com/misc/ar/ar2019.pdf
AirAsia X, http://www.airasiax.com/home.html

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-5 AirAsia Group (Partially Including AirAsia X)
(6) Conceptual Diagram of AirAsia Group's Strategy (As of 2019)

AirAsia Group
(The Group is becoming more than just an airline)

Airlines
(Per-country operators)

- Malaysia AirAsia
- Thai AirAsia
- Indonesia Air Asia
- Philippines AirAsia

etc.

Non-airline business sectors
(Examples of venture builder sector companies)

- **AirAsia.com**
  Reservation sites + Travel/daily life-related online companies
- **BigPay**
  Fintech company handling e-money and remittance services
- **OURSHOP**
  E-commerce company
  (developed from advance duty-free booking sector)
- **BIGLIFE**
  Loyalty point management company
- **Santan**
  Catering company (Restaurant business)
- **FORMAT**
  Produces/spreads cultural and lifestyle content

Reference
AirAsia Group Annual Report 2019, https://www.capitala.com/misc/ar2019.pdf

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-5 AirAsia Group (Partially Including AirAsia X)
(7) Background of AirAsia Group's Recent Strategies (Assumed Reasons)

Reasons (hypotheses) why the Group is engaging in new daily lifestyle business

1. Concerns for quantitative expansion based on airport constraints, etc.

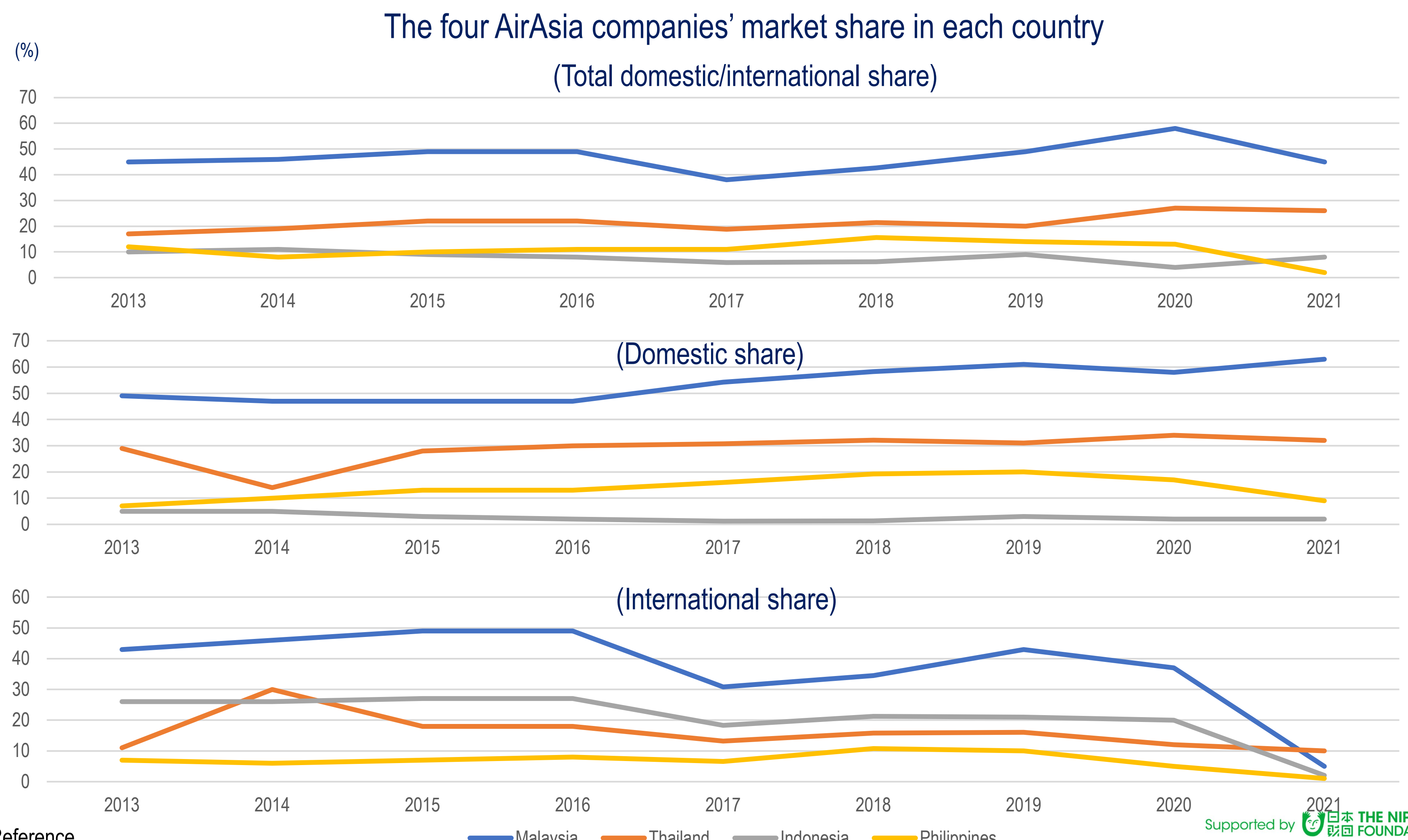
Example of Responses by major ASEAN airports to enhance airport throughput

Suvarnabhumi International Airport:	Implementing/considering measures (e.g., expansion of existing terminal, development of new satellite)
Don Mueang International Airport:	Renovating existing terminal
Noi Bai International Airport:	Considering measures (e.g., expansion of existing terminal, development of second in-capital airport)
Tan Son Nhat International Airport:	Developing Long Thanh International Airport, a new airport
Ninoy Aquino International Airport:	Considering expanding existing airport; developing new airport in Bulacan, near the capital; making arrangements to expand Sangley Point Airport located near the capital
Soekarno-Hatta International Airport:	Survey underway for expansion of existing airport and development of new airport
Changi International Airport:	Developing terminal 5

- Moves are underway to increase throughput (e.g., new airport development), but there still is a long way to achieving satisfactory levels
- Discussions are underway on utilizing Subang Airport, a former airport in Malaysia

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-5 AirAsia Group (Partially Including AirAsia X)
(8) Background of AirAsia Group's Recent Strategies (Assumed Reasons)

2. Possible concern as to non-expanding market share compared with annual performance growth



Reference
AirAsia Group Annual Reports, https://www.capitala.com/publications_downloads.html.

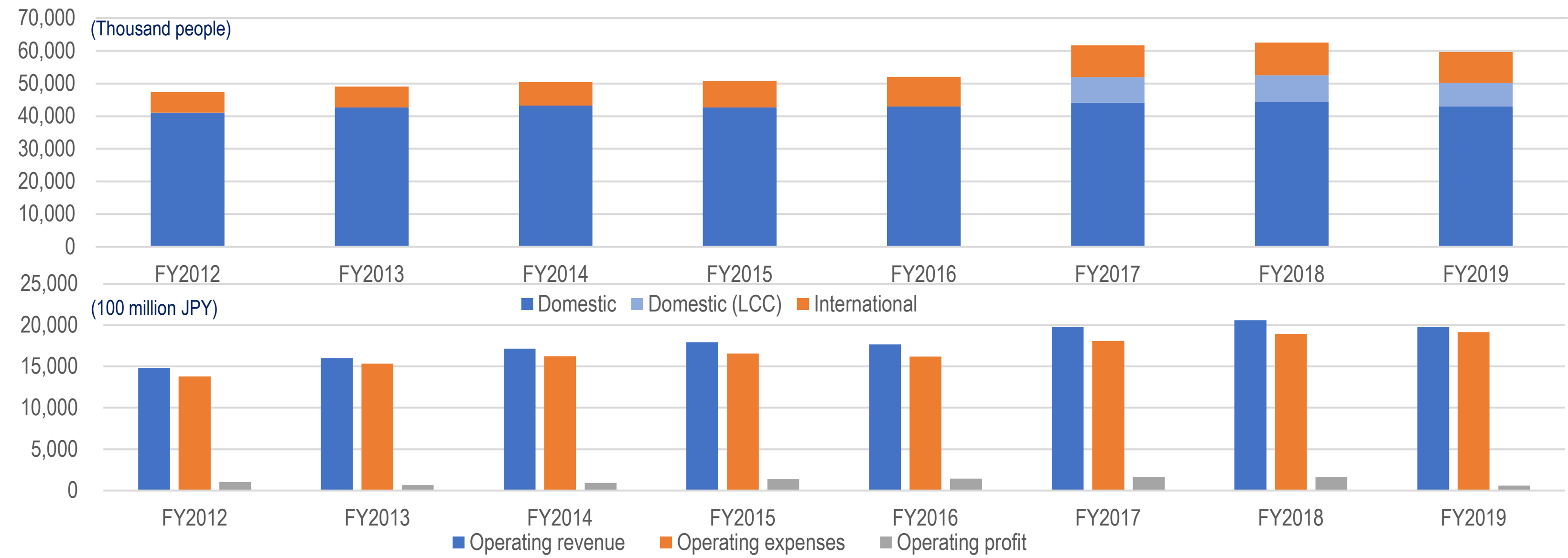
2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-5 AirAsia Group (Partially Including AirAsia X)
(9) Comments from AirAsia Group Insiders

Comments from AirAsia insiders regarding the hypotheses

- Air service is very "sensitive"
- Fierce competition (e.g., price) has been ongoing since pre-pandemic times
- The insiders are aware that major airports in ASEAN member states are reaching their limit in throughput
  -> There is a need to wait for existing airports to be renovated and new airports to open
  -> Routes are to be developed with available airports while waiting for the renovations and openings
- Market share is important, but this is not why the Group expanded into new businesses
  -> The Group has been expanding into new businesses since pre-pandemic times
  This is more of a natural business development than a strategic move
  -> The timing overlapped with the pandemic, highlighting the significance of the expansion
  This move emerged from a business necessity and is not a special strategy
- The Group is working hard to return to its pre-pandemic state. Thai AirAsia has currently recovered to around 70% of its pre-pandemic level.
  -> Securing aircraft and human resources are key points
  Shortfalls in airport throughput (e.g., ground handling crew), aside from airline supply, are factors hampering recovery

2. Transition of Major ASEAN Airlines and Their Strategies (Pre-Pandemic)
2-3-Reference: Passenger Transport Results/Operating Results of Major Japanese Airlines

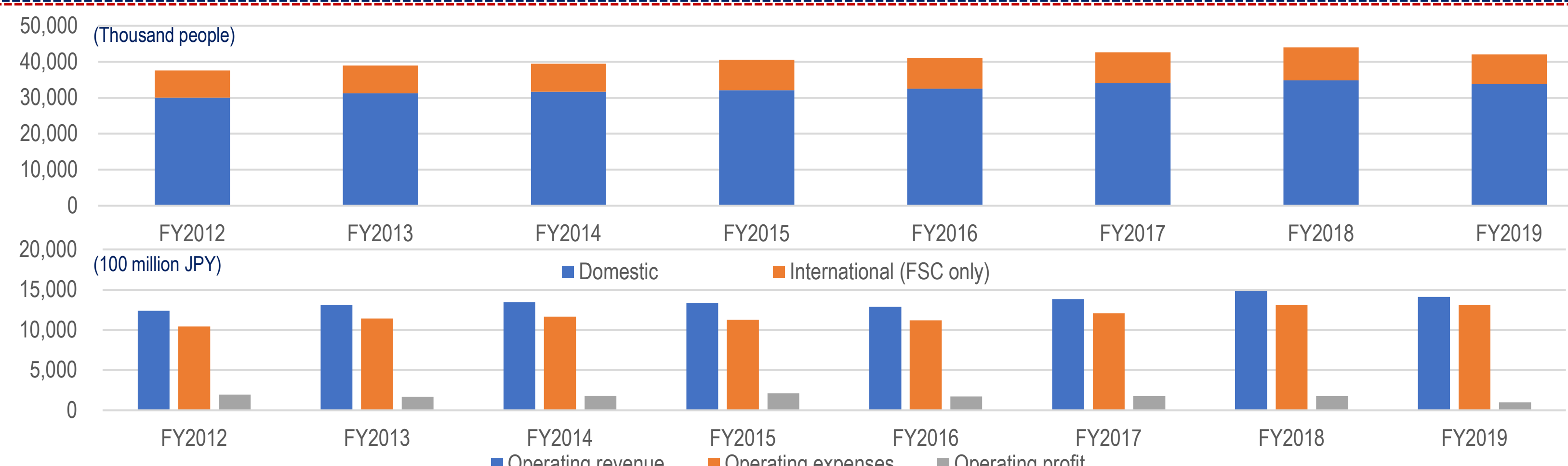
ANA Group



Passenger transport results

Operating results

JAL Group



Passenger transport results

Operating results

References
ANA Integrated Report 2020 (Fiscal year ended March 2020), https://www.ana.co.jp/group/en/investors/irdata/annual/pdf/20/20_E_00.pdf
JAL Report 2020 (Fiscal year ended March 2020), https://www.jal.com/ja/sustainability/report/pdf/index_2020a.pdf

2. Transition of Major ASEAN Airlines and Their Strategies (Pre-Pandemic)
2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)

2-3-6 Commonalities in Strategies of Major ASEAN Airlines

2-3-7 Market Share of FSCs and LCCs in Thailand

2. Transition of Major ASEAN Airlines and Their Strategies (Pre-Pandemic)
2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-6 Commonalities in Strategies of Major ASEAN Airlines

Streamlining and restructuring of group system (including network strategy)

- Coordination between Garuda Indonesia and Citilink
- Singapore Airlines and SilkAir merger/coordination between Singapore Airlines and Scoot
- Consideration of integration between Thai Airways and Smile Air/consideration of relationship with NokAir
- Consideration of integration or collaboration between AirAsia and AirAsia X

Increase in ancillary revenue

Expansion into new businesses, including non-aviation collaborative businesses

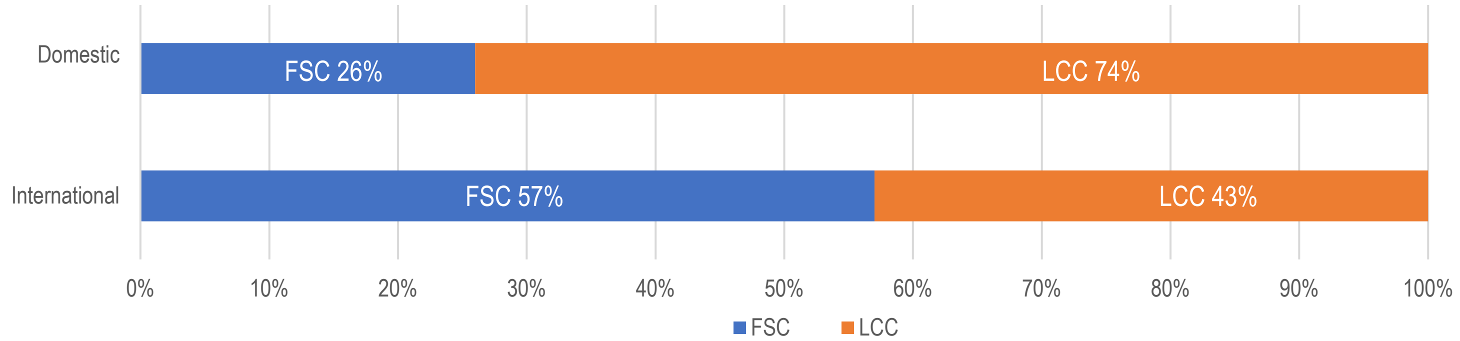
2. Transition of Major ASEAN Airlines and Their Strategies (Pre-Pandemic)

2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)

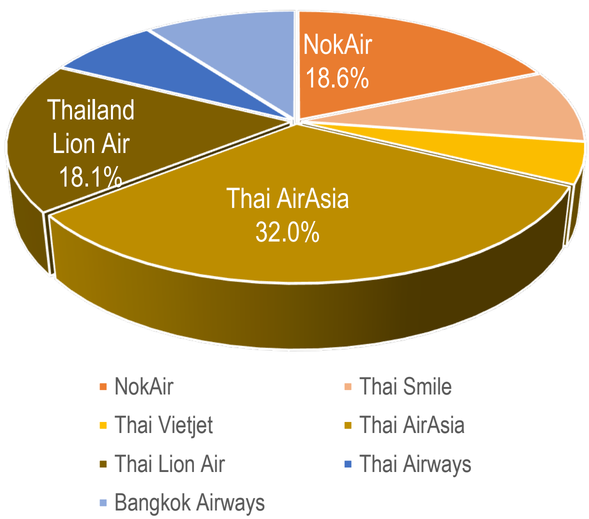
2-3-7 Market Share of FSCs and LCCs in Thailand

- Presence of LCCs having a large market share in the ASEAN airline market

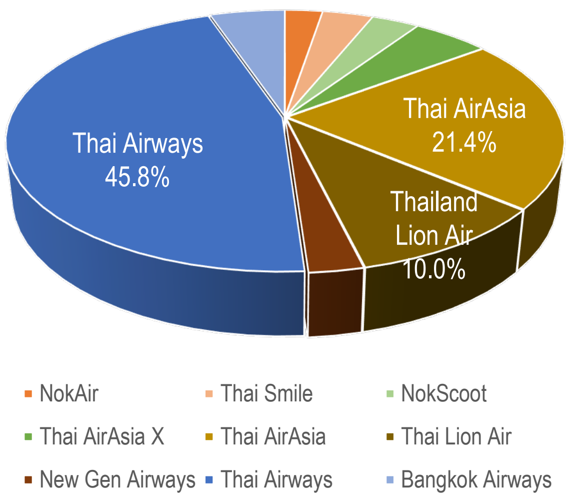
Thailand's domestic/international FSC and LCC market share (2018)



Breakdown of Thailand's domestic airline share (2018)



Breakdown of Thailand's international airline share (2018)



Reference

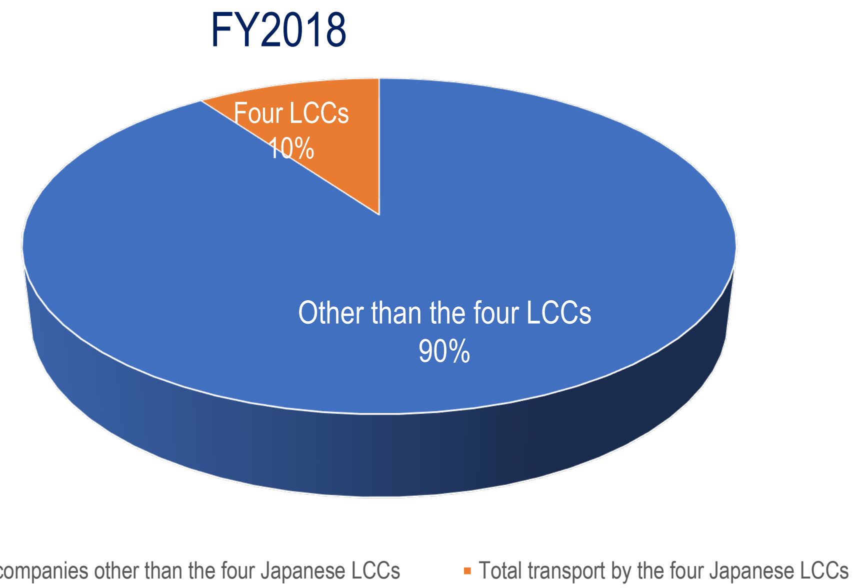
Civil Aviation Authority of Thailand (CAAT) Annual Report 2018

2. Transition of Major ASEAN Airlines and Their Strategies (Pre-Pandemic)
2-3 Examples of Strategies Adopted by Major ASEAN Airlines (Pre-Pandemic)
2-3-7-Reference: Market Share of Japanese Airlines

FY2018: Market Share of Japanese Airlines
(Passenger transport results)

(A) Total number of transport by LCCs in Japan* = 9,962 (thousand people)
(*Peach Aviation, Jetstar Japan, Vanilla Air, and Spring Airlines Japan)

(B) Total number of transport by non-LCC airlines in Japan = 90,411 (thousand people)



Reference
Ministry of Land, Infrastructure, Transport and Tourism Civil Aviation Bureau: *Aviation in Figures 2019*, Aviation Promotion and Environment Support Organization, Tokyo, 2019

3. State of Post-Pandemic Recovery and the Future Direction of Major ASEAN Airlines

3. Post-Pandemic Recovery Status and Strategic Direction of Major ASEAN Airlines

3-1 Recovery Trends in the Global Aviation Market

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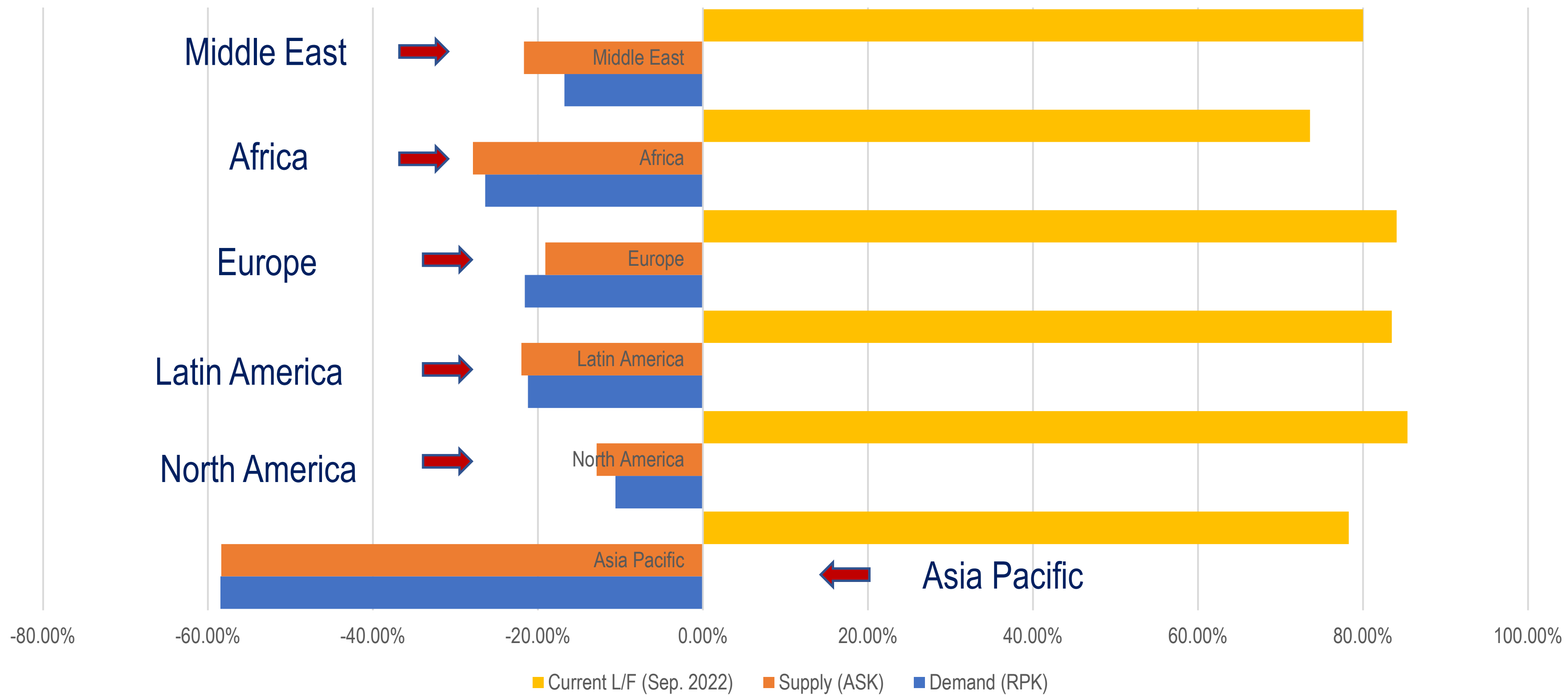
3. Post-Pandemic Recovery Status and Strategic Direction of Major ASEAN Airlines
3-1 Recovery Trends in the Global Aviation Market

・The Asia Pacific area, including Southeast Asia, is on a recovery trend but has returned to only a little under 60% versus pre-pandemic levels
・Recovery is slower than other regions (e.g., North America, Middle East)

Rate of change: Value of September 2022 vs. September 2019



Reference
IATA Monthly Traffic Statistics.

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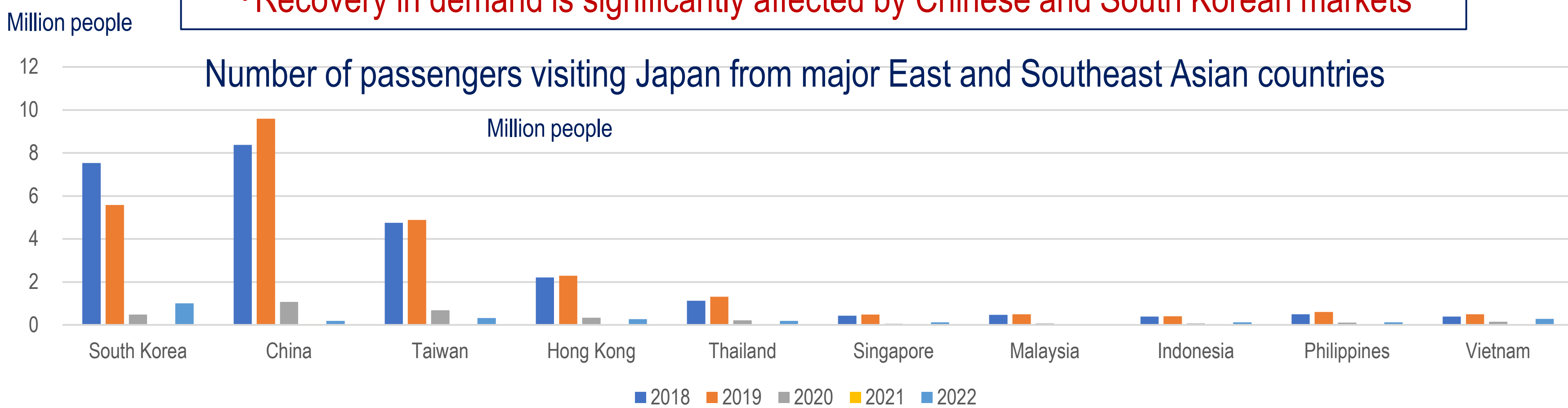
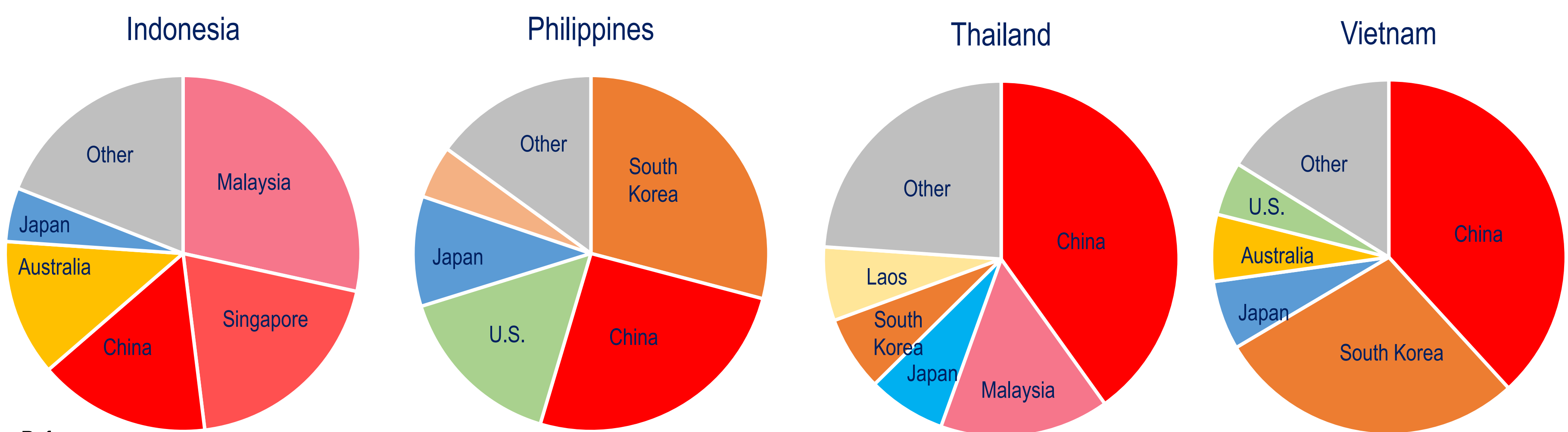
3-2 Information on Aviation Demand in ASEAN and Other Countries

3-2 Information on Aviation Demand in ASEAN
3-2-1 Influence of Chinese and South Korean Passengers

・Recovery in demand is significantly affected by Chinese and South Korean markets



Per-nationality breakdown of visitors of the four ASEAN countries (top 10 nationality of visitors as of 2019)



References
JNTO's Statistics of Visitors to Japan, https://www.jnto.go.jp/statistics/data/visitors-statistics/.
Euromonitor International, https://www.euromonitor.com/.

3-2 Information on Aviation Demand in ASEAN

3-2-2 Major ASEAN Countries' State of Relaxation as to Entry Restrictions

References
ASEAN-Japan Centre, https://www.asean.or.jp/en/
Websites of embassies in/of Japan

3-3 State of Recovery and Its Factors Regarding Major ASEAN Airlines (Post-Pandemic)

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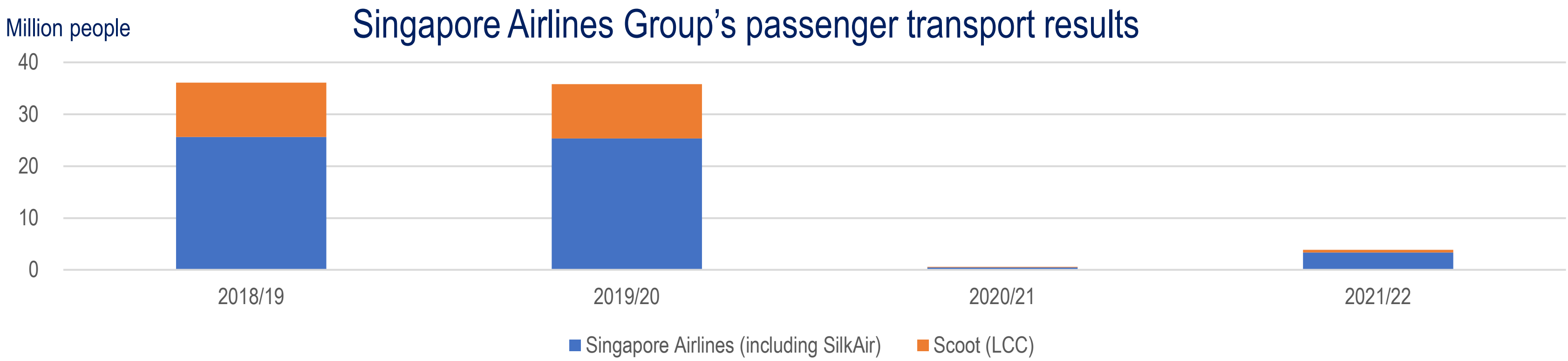
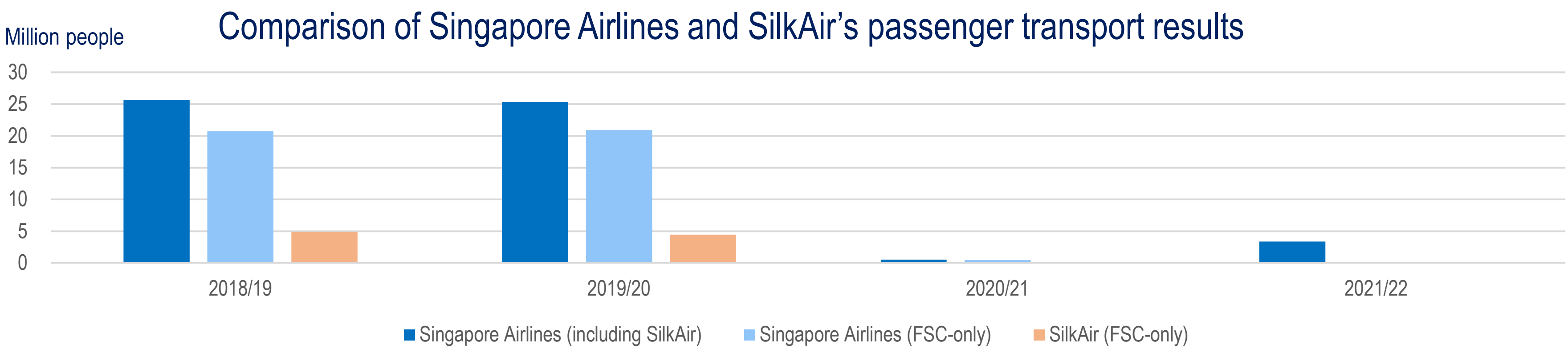
3-3 State of Recovery and Its Factors Regarding Major ASEAN Airlines (Post-Pandemic)
3-3-1 Post-Pandemic Recovery State of Major ASEAN Airlines
(1) Singapore Airlines Group's results

・International flights: Both FSCs and LCCs are struggling
・Domestic flights: The lack of a domestic market in Singapore is creating a major negative impact





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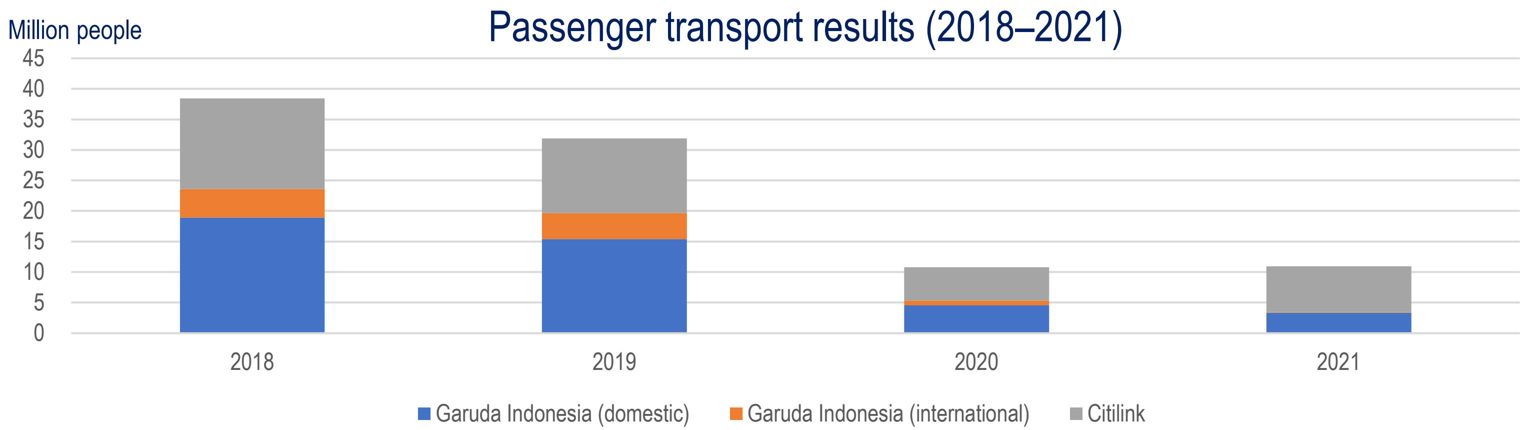
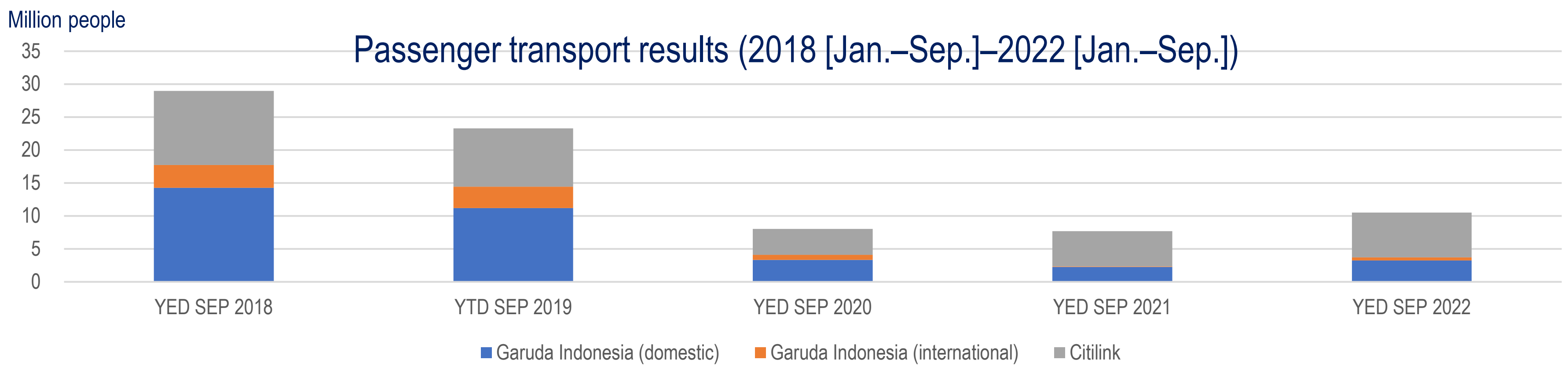
References

Singapore Airlines Annual Reports, https://www.singaporeair.com/ja_JP/jp/about-us/information-for-investors/annual-report/

3-3 State of Recovery and Its Factors Regarding Major ASEAN Airlines (Post-Pandemic)
3-3-1 Post-Pandemic Recovery State of Major ASEAN Airlines
(2) Garuda Indonesia Group's Results

- International flights: Little to no recovery
- Domestic flights: FSCs are struggling, whereas LCCs have recovered to 50–60% of pre-pandemic levels
  -> Demand for LCCs is stronger than that for FSCs





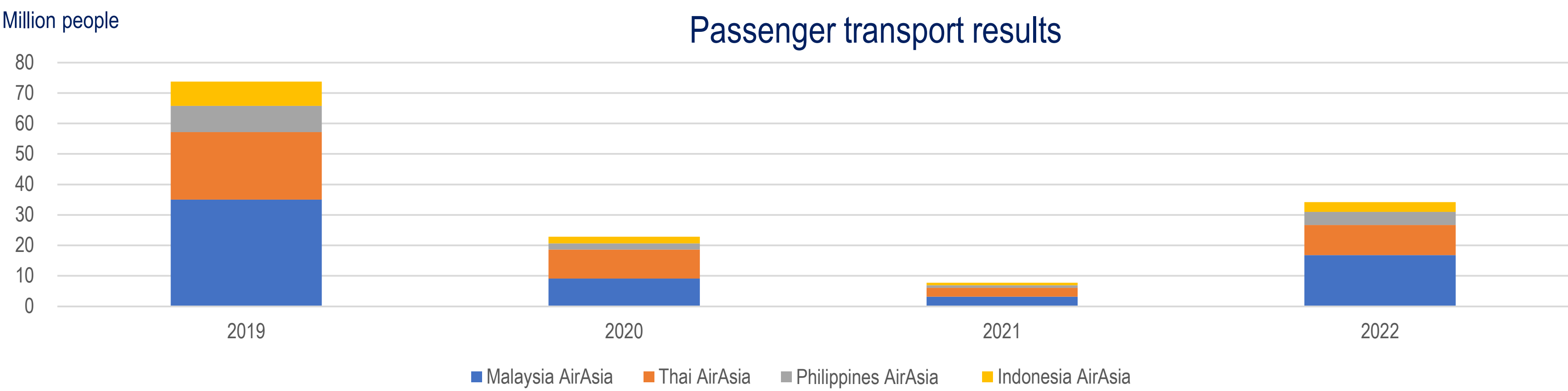
References
Garuda Indonesia Annual Reports, https://www.garuda-indonesia.com/cn/en/investor-relations/annual-report-dan-sustainability-report/annual-report
Monthly Operating Data Inner Features, https://www.garuda-indonesia.com/au/en/investor-relations/company-data/monthly-operating-data/index

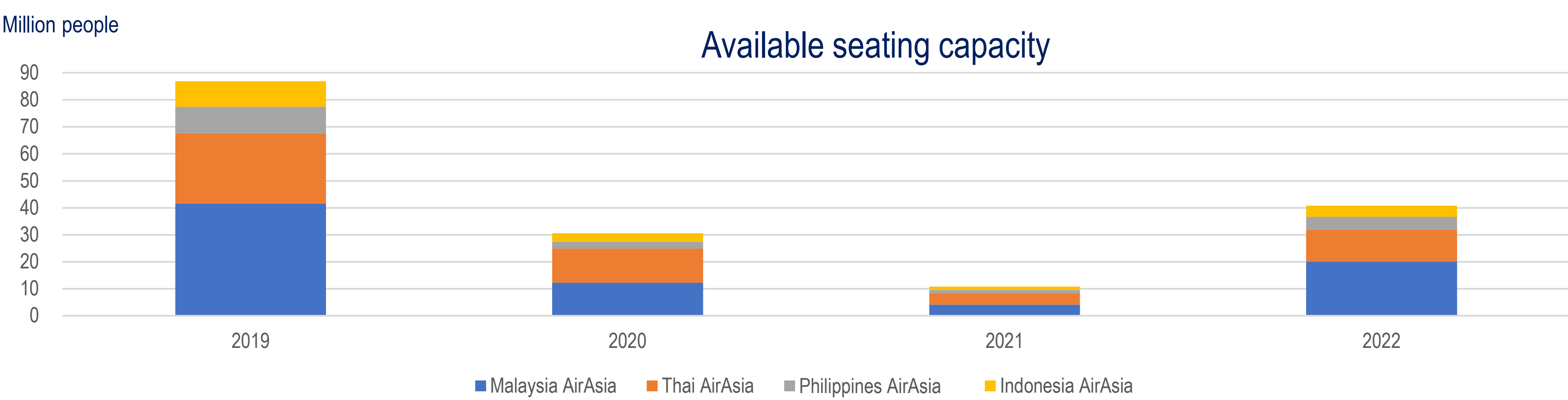
3-3 State of Recovery and Its Factors Regarding Major ASEAN Airlines (Post-Pandemic)

3-3-1 Post-Pandemic Recovery State of Major ASEAN Airlines

(3) AirAsia Group's Results

- The four countries in which AirAsia Group operates recovered to around 40%–50% of pre-pandemic levels
- Faster recovery than FSCs; demand for LCC is recovering solidly, similar to Indonesia's Citilink





References
AirAsia Annual Reports, https://www.capitala.com/publications_downloads.html.
Capital A Preliminary Operating Statistics

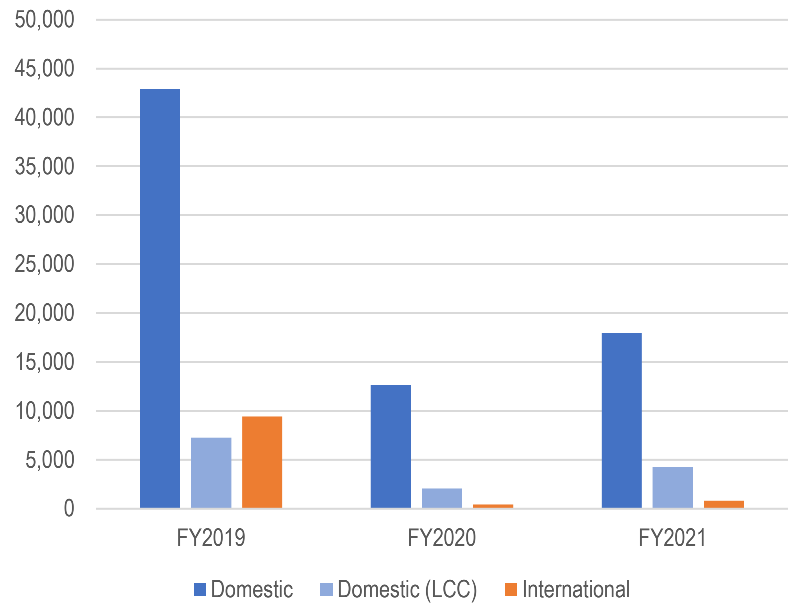
3-3 State of Recovery and Its Factors Regarding Major ASEAN Airlines (Post-Pandemic)

3-3-1-Reference: Post-Pandemic Recovery State of Major Japanese Airlines

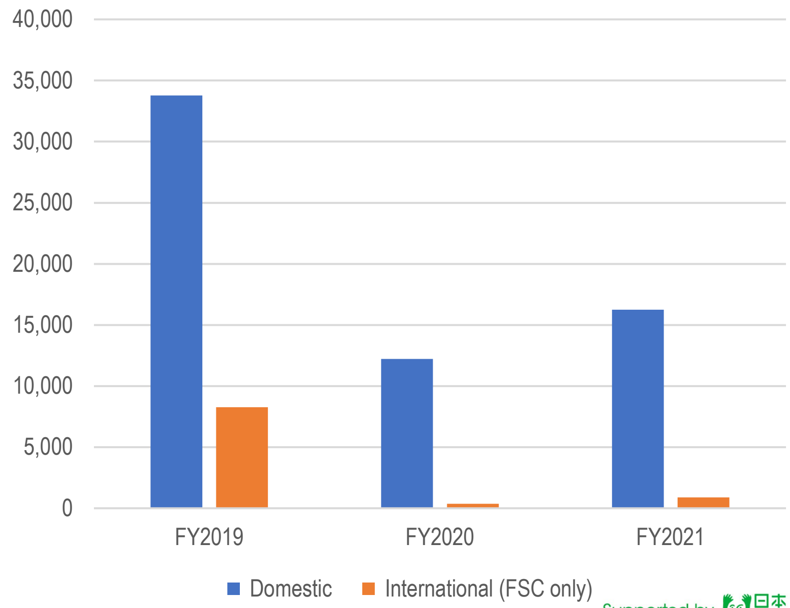
・Domestic flights: Recovered to around 40–50% of pre-pandemic levels in FY2021
LCCs recovered to around 60% of their pre-pandemic levels in FY2021
⇓
Domestic FSC flight demand < Domestic LCC flight demand

・International flights: Struggled in FY2021 with a roughly 10% recovery to pre-pandemic levels

ANA Group's passenger transport (thousand people)



JAL Group's passenger transport (thousand people)



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3-3 State of Recovery and Its Factors Regarding Major ASEAN Airlines (Post-Pandemic)
3-3-2 Factors Affecting State of Recovery
(1) Arrangements Required for Reopening/Setting Routes, and Other Matters

Reopening/setting routes

⇓

Time-consuming

More arrangements needed than domestic flights

Procedures for international flights are a recovery-hindering factor

Airline

- Application/modification of operation plan
- Securing of slots
- Securing of aircraft
- Securing of flight crew (e.g., pilots, cabin attendants)
- In-flight beverages/meals
- Overseas branches/airport offices

Aviation authorities

Operation-related permits, approvals, etc.

Airport management/ administrative organization

Slot/spot adjustment

Companies internally/externally affiliated with the group

Line maintenance

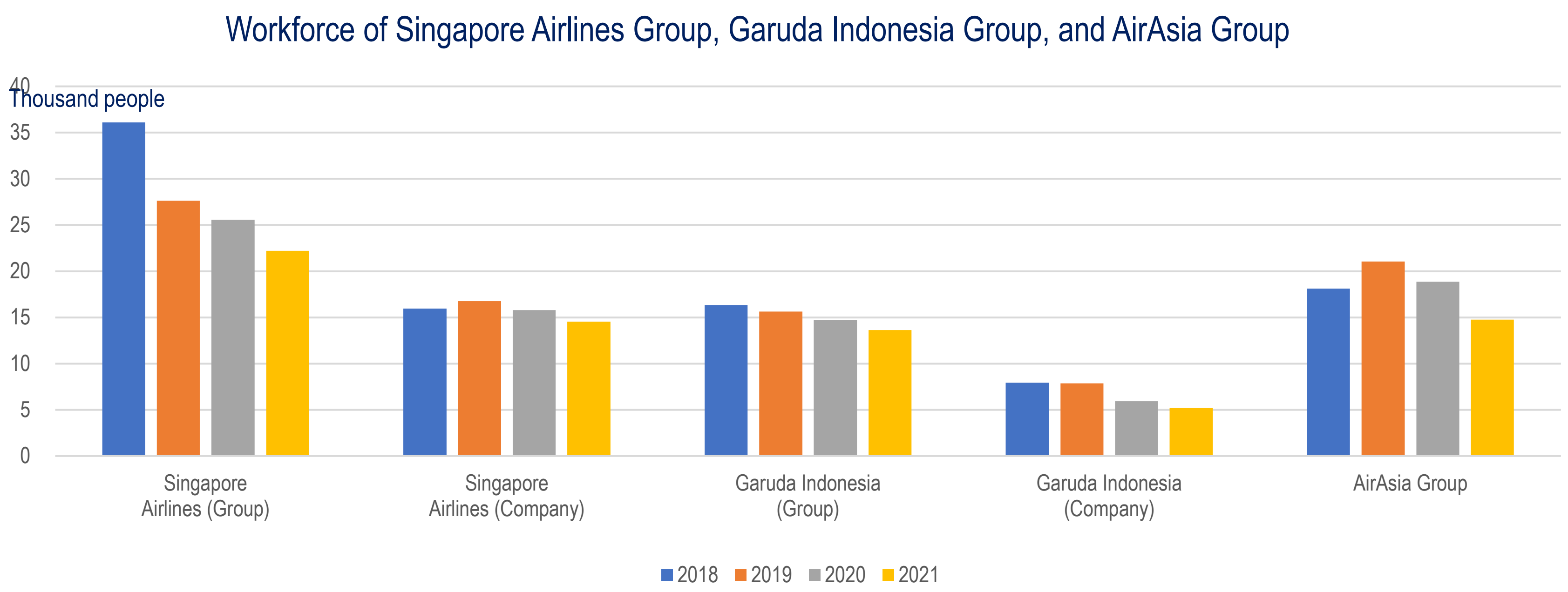
Catering

Ground handling

MRO

3-3 State of Recovery and Its Factors Regarding Major ASEAN Airlines (Post-Pandemic)
3-3-2 Factors Affecting State of Recovery
(2) Example of Changes in ASEAN Airline Workforce

In the following cases, both FSCs and LCCs reduced their workforce by 30%–40%



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3-3 State of Recovery and Its Factors Regarding Major ASEAN Airlines (Post-Pandemic)
3-3-2 (2)-Reference:
Japan's Two Major FSCs/ASEAN's Air Navigation Providers

Japanese Airlines preserved employment

Changes in workforce of Japan's two major (FSC) airlines

All Nippon Airways Co., Ltd.	2018	2019	2020	2021	2022	Decrease rate ('19–'22)
Workforce (people)	13,928	14,242	14,830	15,114	13,689	-3.9%

Japan Airlines Co., Ltd. (Group)	2018	2019	2020	2021	2022	Decrease rate ('19–'21)
Workforce (people)	34,003	35,653	36,060	35,423	-	- 0.6%

Source: ANA FACT BOOK 2022, JAL Group Integrated Report 2022

Air navigation providers preserved employment

Changes in workforce of ASEAN's air navigation providers (Thailand/Indonesia)

AEROTHAI	2018	2019	2020	2021	Decrease rate ('19–'21)
Workforce (people)	3,156	3,246	3,252	3,236	-0.3%

AIRNAV Indonesia	2018	2019	2020	2021	Decrease rate ('19–'21)
Workforce (people)	5,150	5,117	5,109	4,993	-2.4%

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AEROTHAI Annual Report, https://www.aerothai.co.th/en/about/document/annual-report.
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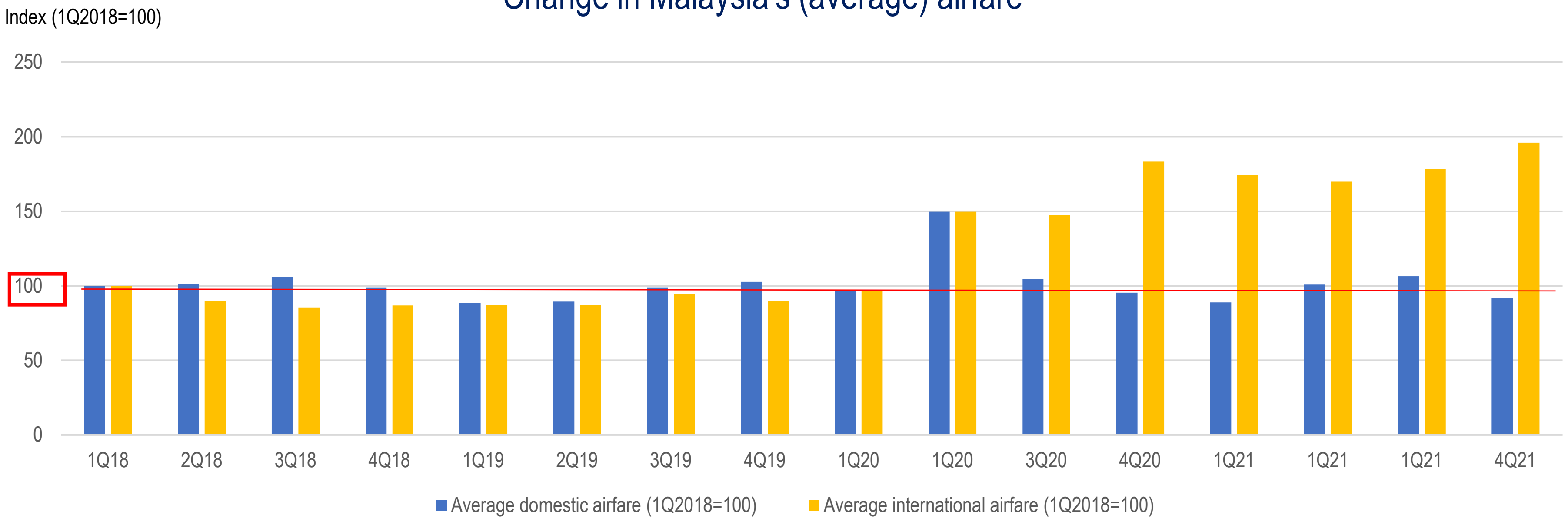
3-3 State of Recovery and Its Factors Regarding Major ASEAN Airlines (Post-Pandemic)
3-3-2 Factors Affecting State of Recovery
(3) Airfare Trends

・International airfares have surged and remained high from Q2 2020

・Airfares surged because of the limited number of flight services and the steep rise in aircraft fuel prices

Change in Malaysia's (average) airfare



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Summary

Summary
1. Overview of ASEAN Airlines' Strategies
1-1 Transition of Airline Strategies

・The past two decades have seen an increase in ancillary revenue and progress in aviation/non-aviation-related businesses

Pre-2000

- ・FSCs are the mainstay
- ・Emergence of LCCs

Early 2000s

- ・Integration of LCCs by FSCs
- ・Addressing demand concerning seventh freedom of the air, etc.
- ・Further market entry by LCCs

Mid-2000s to pre-pandemic

- ・FSC/LCC service provision by groups
- ・Involvement with demand relative to seventh freedom of the air, etc.
- ・Rollout of LCCs utilizing media and IT/digital measures
  ・Efforts to increase ancillary revenue
  ・Expansion into aircraft-related business

Pre-/Post-pandemic*

- ・Shake-up/consolidation of group airlines, aiming for optimization of group
- ・Continuation/expansion of involvement with demand relative to seventh freedom of the air, etc.
- ・Reinforcement of media and IT/digital utilization
  ・Reinforcement of increased ancillary revenue
  ・Reinforcement of aviation-related business
- ・Further expansion into non-aviation businesses (e.g., lifestyle) while maintaining aviation-related business

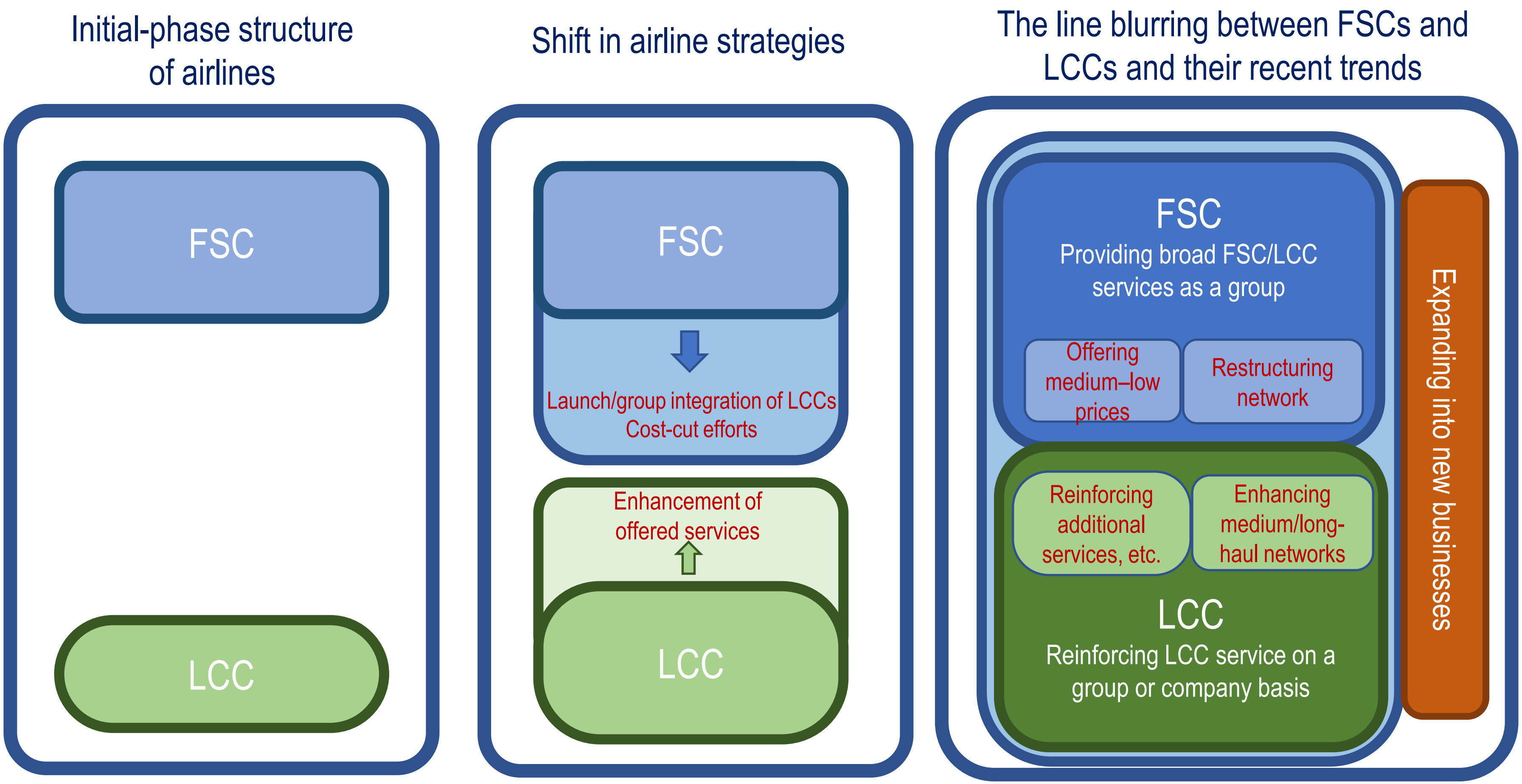
*Actions are ongoing for airlines significantly affected by the pandemic. Future strategies are unclear.

Summary

1. Overview of ASEAN Airlines' Strategies

1-2 Relationship between FSCs and LCCs in ASEAN

・Foray into new businesses amid the line between the content of FSC and LCC businesses increasingly blurring



Summary

2. State of Recovery and Future Direction of ASEAN Aviation Market

2-1 State of Recovery and Its Factors

The impact of the pandemic has started to recede in 2022, but time is still needed to recover

Recovery is strong in the domestic market (especially LCCs) but slow in the international market (especially FSCs)

Aviation market factors	Domestic market	International market
Expansion of LCC market	FSC < LCC	FSC ≈ LCC
Acceptance of app use	App use increased across older to younger generations	
Changes in social environment	Strong demand for private travel despite increase in online meetings	
Restriction of movement	Almost none (Only mask use requirements)	Cumbersome tasks remain despite procedures getting increasingly relaxed
Airfare	Relatively stable	Surged compared with pre-pandemic

Airline/airport-related factors
Securing of airline aircraft/flight crew, ground handling crew, airport crew, etc.

Summary

2. State of Recovery and Future Direction of ASEAN Aviation Market

2-2 Future Outlook (My Personal View)

ASEAN's airlines and aviation market

・Further in-airline group restructuring of FSCs and LCCs
  -> Flag carriers: Because of their deep-rooted FSC-based mindset, they are struggling to handle integrated LCCs

・More airlines entering new businesses
  -> Requires large amount of investment and time
  -> Companies with financial strength, insight, and market dominance have advantage

・Securing human resources and the supply volume are issues in terms of recovering from the pandemic
  -> Airlines that managed to respond quickly gain benefit
  -> ASEAN has a massive latent aviation demand
  -> Future issues: Limited airport infrastructure throughput in ASEAN and the supply capacity of airlines
  -> After recovering from the pandemic, demand will rise depending on developments in the economy and airport infrastructure

Relationship with Japan

・Japan's situation is likely trailing behind that of ASEAN
  -> The Japanese market is seeing increased LCC use
  -> Note that the public acceptance of online channels and apps, among other factors, are key issues

Thank you for your attention

(I appreciate all those who cooperated in my research)