



ATW'S 36TH ANNUAL AIRLINE INDUSTRY ACHIEVEMENT AWARDS

2010

REGIONAL AIRLINE OF THE YEAR

Regional Express

Great success stories in commercial aviation are rare even in good times. ATW's Regional Airline of the Year for 2010, Regional Express, is one of those and much more. Remarkably, the Sydney-based carrier has stayed profitable during the worst economic downturn in at least four decades while both rebuilding and expanding a business that was born out of the collapse of Ansett Australia in 2001.

Rex, as it is known to locals, began operations in August 2002 linking small cities and towns to Melbourne, Sydney and Adelaide with a fleet of turboprops that today numbers more than 40 Saab 340s. Like its choice of aircraft, which connects it to an earlier era, its legacy is bound to two great names in Australian aviation, Kendell Airlines and Hazelton Airlines. Those two formed the backbone of regional aviation across the country's most densely populated states but col-



lapsed when their parent Ansett went into receivership.

Rex's birth—or rebirth—was anything but smooth flying. Its legacy ties to the Ansett name were viewed in the market as a negative and it racked up losses of A\$30.3 million on turnover of A\$93 million in its first 11 months of operation to June 30, 2003. A boardroom tussle saw the return of the two founding investors and former directors, Lim Kim Hai and Lee Thian Soo, to take control, with Lim becoming executive chairman.

Lim, who resides in Singapore, likes to say that because he lacked airline experience, he made the decision to run Rex like a business, and there is no denying the success he has brought with his unorthodox approach.

Under his leadership the regional began an upward progression only briefly interrupted by the global downturn. Credit goes to the company's unique business model. Because Rex is the sole operator on 32 of 39 routes and caters to a base of nondiscretionary business travelers, it easily could have pursued a strategy of raising fares and

reducing capacity. Instead, in what it calls the Rex Virtuous Cycle, it becomes its own competitor by boosting frequency on a route whenever load factor exceeds 70%. The immediate impact of the additional capacity is a reduction in load factor with a corresponding decline in average fares that stimulates further demand, beginning the cycle again.

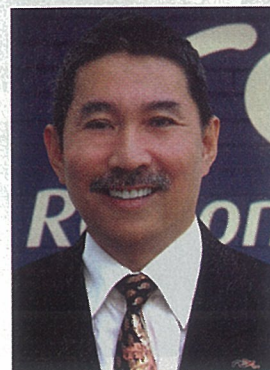
The largest regional city on its network has a population of only 60,000 while most of its other ports have about 30,000 residents. Yet Rex is able to provide them with relatively high frequencies. A case in point is Port Lincoln, a town of 15,000. It used to have four roundtrips a day; today it has nine and an annual volume of 150,000 passengers. The carrier also approached regional airports for a win-win lowering of airport charges and a matching reduction in fares to stimulate business.

Overall, Rex's passenger numbers have doubled in the past five years to more than 1.2 million, while airfares have dropped by 30% excluding fuel levies. Meanwhile, revenues have risen from A\$84 million to A\$244 million in the most recent year.

Its unique business model is matched by superb customer service. It had Australia's lowest or second-lowest flight cancellation rate over the past five years and was among the top three in ontime performance in four of them, the only exception being in the FY09 fiscal year when it suffered from a 50% pilot attrition rate tied to the global pilot shortage of 2007-08. It also has ranked No. 1 or No. 2 in customer satisfaction in *Choice* magazine's last three biennial surveys of Australian airlines.

Performance is paying off on the bottom line. After losing A\$30.3 million in its 2003 fiscal year, Rex turned the corner with a A\$1 million profit in 2004. Since then it has posted cumulative profits of more than A\$89 million. In the fiscal year ended June 30, 2009, a period encompassing the global financial crisis, earnings dipped just 5.6% to A\$23 million (\$19.2 million). And it remained profitable in the first quarter of the current year, earning A\$3.7 million for the three months to Sept. 30, 2009. Its strong profit performance is matched by its rock-solid balance sheet with no long-term debt. Some 70% of the fleet is owned.

Rex's ability to grow and prosper while winning strong customer accolades makes it a highly deserving recipient of ATW's 2010 Regional Airline of the Year award.



**Executive Chairman
Lim Kim Hai**