

main domestic competitor, said it would proceed with plans to fly to the US, pending regulatory approval.

The government also rejected this year a request from Singapore Airlines to fly routes between Australia and the US. And Mr Dixon said yesterday he did not expect that policy to be as a result of the change in ownership.

Singapore Airlines shares rose to a six-year high yesterday, with investors taking a different view from Mr Dixon and analysts argue that, even if in the short term Canberra is unlikely to reverse its decision on Singapore Airlines, competition will ultimately stiffen for Qantas on the US route.

But Mr Dixon warned yesterday that Qantas could challenge others on routes such as London to Los Angeles or Shanghai to London.

He also suggested that one of the key consequences of the ownership change could be that Qantas will play a lead role in any consolidation of the sector.

CONSORTIUM MAY PUT AIRLINE CHIEF INTO CHAIRMAN'S SEAT WITH COMBINED ROLE

The private equity consortium buying Qantas is considering installing Geoff Dixon, the carrier's chief executive, as chairman as well, according to people familiar with the matter, write Sundeep Tucker in Hong Kong and Raphael Minder in Sydney.

Combining the roles is considered contrary to governance best practice at listed companies, and awarding the pugnacious Mr Dixon stronger executive powers would underscore the vastly different management approach favoured by buy-out groups.

Qantas shareholders will within weeks vote on whether to follow yesterday's board recommendation to accept the takeover bid from a consortium including Australia's Macquarie Bank and Texas Pacific Group of the US.

Capital Group of the US, which owns a 12.8 per cent stake, is believed to back the offer of A\$5.60 a share. Qantas stock yesterday ended 4 per cent higher at A\$5.28.

In a widely hailed move, Mr Dixon promised to hand over any proceeds from a long-term incentive plan, potentially worth A\$60m, to Aboriginal charities.

If the consortium decides against making Mr Dixon chairman, it is understood that Bob Mansfield, former chairman of Telstra, would be a leading candidate to assume the post.

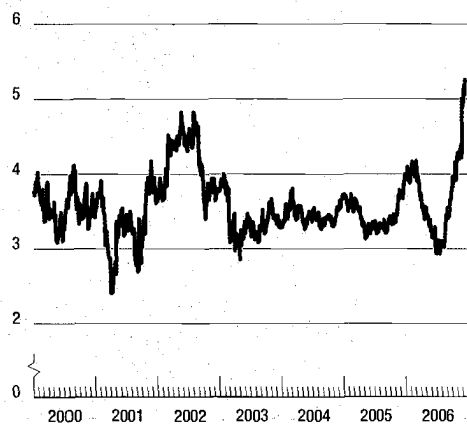
Mr Mansfield, who is a non-executive director at Australia's Allco Finance, one of the main consortium members, is a confidant of John Howard, prime minister, and would be expected to help smooth relations with lawmakers.

Airline Partners Australia, the consortium vehicle, will have an 11-member board, including two non-executives unconnected to the buyers. Sir Rod Eddington, the former British Airways chief executive who is also on the Allco Finance board, is not expected to join the APA board. Allco Finance and Allco Equity

Partners, its listed affiliate, will together own about 35 per cent of Qantas's equity. Mr Dixon declined to comment about the chairman role. He also hit out at a warning by the Moody's rating agency that it might downgrade the airline's debt to junk status. "The capital structure is more than adequate."

The buy-out will be 80 per cent debt-financed, to be arranged by Morgan Stanley. Qantas was advised by UBS and Carnegie Wylie.

Qantas Airways
 Share price (A\$)



By the numbers

| Year ending Jun 30 (A\$m) | 2005 | 2006 | 2007 forecast |
|---------------------------|--------|--------|---------------|
| Sales revenue | 12,564 | 13,542 | 14,897 |
| EBITDA | 2,240 | 2,031 | 2,147 |
| Profit before tax | 899 | 729 | 922 |
| Net profit after tax | 627 | 612 | 678 |
| Unusual item after tax | 62 | -128 | -123 |
| Reported profit after tax | 689 | 485 | 554 |



Airline Partners Australia

Consortium ownership

| | Voting interest (%) | Economic interest (%) |
|-------------------------|------------------------|--------------------------|
| Alico Equity Partners | 35.0 | 27.0 |
| Alico Finance Group | 11.0 | 8.0 |
| Macquarie Bank | <15.0 | <15.0 |
| TPG | <15.0 | 25.0 |
| Onex Partners | 9.0 | 12.5 |
| Other foreign investors | <15.0 | 11.5 |
| Qantas Management | - | 1.0 |

Sources: Thomson Datastream; Credit Suisse; company

FT Graphic: Lee Coad

