

Fund raises heat on Telstra chair

From page 1

The question is whether the fund can be accused of interference — or of simply exercising its rights as shareholder. Given its 16 per cent stake, in ordinary circumstances the fund could be seen as entitled to at least a board seat at Telstra.

Telstra has a long history of internal boardroom warfare, which has healed since McGauchie became chairman. The previous board under Bob Mansfield was riven by suspicion, open plotting and campaigns to undermine both chairman and CEO. Former prime minister John Howard found out to his chagrin that any hopes he had of appointing a chairman (or delicately pointing the board in the direction of his preferred choice) in 2004 were not to be when a delegation including McGauchie visited Howard in Canberra to tell him they had in fact chosen McGauchie. Howard might have originally put McGauchie on the Telstra board in 1998, but by 2004 they did not see eye to eye.

And from that moment, things with the government went rapidly downhill. When McGauchie spurned suggestions that he should hire a prominent local executive such as David Murray as Telstra CEO, the die was cast. Instead of the big end of town, McGauchie found his man in the Midwest of America. Sol Trujillo arrived with a pre-cast strategy to litigate on regulation and hold on to Telstra's monopoly at any cost. Pumping up Telstra's ranks with own people imported from the US, Trujillo (with McGauchie joined to his hip) embarked on a four-year tirade against government intervention and regulation. Then just as dramatically, Trujillo announced he was going. Most of his US cast have packed their bags, too, stripping layers from Telstra's top management and strategy ranks.

Future Fund guardians have been alarmed by the final outcome of the McGauchie-Trujillo political combat strategy — Telstra's fading share price, its exclusion from the new broadband network, and worse, the federal government's determination to force Telstra into a new straitjacket of regulatory controls if it tries to buck the system. Now Telstra faces being carved up one way or another, an extraordinary finale for a company that swaggered in the market place on the back of its exceptional monopoly.

The high-stakes game now being played out between the Future Fund and Telstra comes after warnings to McGauchie delivered face-to-face in a meeting at the Future Fund offices in Melbourne on March 30. The message might have been delivered politely, but it was a steel fist in a velvet glove.

McGauchie was told that the fund believed the fighting with the government had to stop and that a rapprochement had to be found. And that Telstra should seek to be positive in taking advantage of the opportunities in the new broadband network. McGauchie defended his position during the meeting with Murray and other members of the Future Fund. But within a week, he had adopted startlingly conciliatory language, saying he looked forward to "productive discussions with the government at the earliest opportunity".

This was the same company that not so long ago had taken a minister of the crown to court (Helen Coonan), and whose official spokesman, Phil Burgess, thought nothing of insulting anyone in the government or the regulator. Trujillo had made himself a name for abuse of the government and use of Telstra's legal department (reputed to be among the biggest in the country) to litigate every regulatory step taken by the Australian Competition and Consumer Commission. McGauchie had been no slouch either, and often led the charge. In an infamous spray, McGauchie publicly accused Graeme Samuel, the head of the Australian Competition and Consumer Commission, of bias, misleading parliament, sarcasm, derision, ridicule, lack of due process and lack of objectivity.

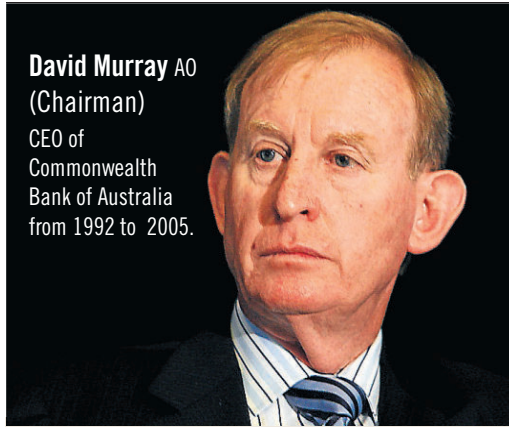
Yesterday McGauchie refused to be drawn into a slanging match with the Future Fund. He is clearly keen for the fight not to go intergalactic. He indicated that with the ban on negotiation that was in place during the government's tender process now lifted, Telstra was simply exercising its right to sit down in discussion.

"As we have said previously, now that the

Guardians of the future

Who's who on the Future Fund board

David Murray AO
(Chairman)
CEO of
Commonwealth
Bank of Australia
from 1992 to 2005.



Jeffrey Browne

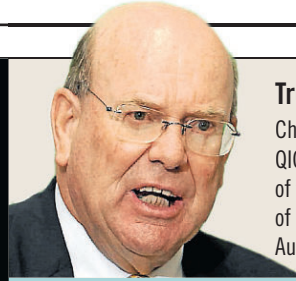
Partner (New York) and managing partner of Australian Offices (Melbourne and Sydney) in the legal firm Sullivan & Cromwell until recently and has extensive experience in capital market transactions.

Susan Doyle

Chair of the Australian Reward Investment Alliance (ARIA) and deputy chair and audit committee chair of the South Australian Water Corporation. Formerly held executive positions with Commonwealth Funds Management, Suncorp Metway and Insurance Australia Group.

Trevor C Rowe AM

Chairman of Rothschild Australia Ltd. Chairman of QIC (Queensland Investment Corporation), chairman of the United Group Ltd, chancellor of Bond University and a director of the Australian Securities Exchange Ltd (ASX).



John Mulcahy

CEO and MD of Suncorp Metway. Previously held senior roles in CBA including group executive, investment and insurance services. Former CEO Lend Lease Property Investment Services and chief executive of Civil and Civic.



Brian Watson

Executive chairman of Georgica Associates Pty Ltd, an independent private equity investment management firm. 16 years with JPMorgan & Co.

SOURCE: FUTURE FUND

original NBN [national broadband network] process has been brought to an end, Telstra welcomes the opportunity to now engage in constructive discussions with the federal government on its new \$43 billion national broadband proposal. A lot of work and detailed analysis of the proposal is still to be completed. Telstra is, as always, committed to ensuring the best interests of all our shareholders, employees and customers remain a priority."

Notwithstanding McGauchie's argument that he has always been ready to play ball, this interpretation sits uneasily with Telstra's past conduct. The speed with which McGauchie established a committee last week to negotiate with the government — and which excluded Trujillo, the CEO who had proclaimed himself a world-beater on knowledge of new networks — supports the contention that McGauchie was rattled by the Future Fund and performing a dramatic volte-face. The new committee would have the added advantage of circling the wagons around McGauchie.

The question for McGauchie now is

whether it is too late to change. In an interview published as recently as March 5, he forcefully told *The Australian Financial Review* that any attempt by the competition regulator to impose rules forcing separation on Telstra would be a complete disaster. "We have taken a view on behalf of our shareholders and customers that the regulatory framework is destructive. Throughout my life I have spent a lot of time pointing out that regulatory frameworks have been holding this country back."

Suddenly, two days after his March 30 meeting at the Future Fund with Murray, McGauchie was sotto voce by comparison, during a speech in Sydney.

"We have often said we remain interested in working constructively with the government in the delivery of broadband solutions. Telstra would have brought considerable experience and expertise to the NBN process. But it is not to be.

"We truly hope — and it is in all our interests — that the government and the chosen proponent/s get it right."

But perhaps unable to resist

a small riposte to the government, he added: "The entire process to decide the builder of the biggest infrastructure project in Australian history has been done behind high walls, without consulting the company that owns the network that is being upgraded. We simply have to take on trust that the government is fully informed about the critical technical, operational issues and national security risks entailed in the NBN before it makes its final decision. We certainly stand at the ready to assist in explaining them — although we have not been asked to do so."

Telstra has always played with the gloves off and McGauchie would be the first to admit his own penchant for this form of combat. He has had the gloves off through most of his career, especially during his years in the hugely combative National Farmers Federation and during his charge against the Australian waterfront unions.

Murray — whose career hails from the more sedate end of town but whose reputation suggests no less of a combatant — albeit usually with gloves on — is in charge of a huge stake in Telstra which is sinking in value by the day. He would see his rights to question the management of that stake as beyond question.

The Future Fund holds 16.1 per cent of Telstra, in its role as the guardian of the federal government's shareholding. Telstra was privatised in three tranches under the Howard government: T1 was sold to the public for \$3.30; T2 for \$7.40 and T3 for \$3.40.

When Trujillo was appointed chief executive of Telstra on July 1, 2005, the share price was \$5.07. The figure that has focused minds in the Future Fund is the sagging share price in the aftermath of Trujillo's multibillion-dollar overhaul plan and the drastic crash since Telstra was excluded from the broadband tender on the grounds of submitting a non-conforming bid.

The share price on Friday, December 11, last year (when Telstra was still in the running), was \$4.13. On Monday, December 15, when the news emerged that Telstra had been kicked out of the tender, the share price closed at \$3.65. On Wednesday this week, it closed at \$3.23.

The Future Fund's role vis a vis the federal government has certainly transfixed senior figures inside Telstra, and there is open speculation about whether the fund is doing the government's bidding on the McGauchie front.

McGauchie is a tough and colourful character. He was re-elected at last year's Telstra annual general meeting with more than 98 per cent of the vote. But the questions at the Future Fund and among other key investors remain. After years of combat, McGauchie has worn out his welcome in Canberra. He has lost a bitter fight with a government bent on the introduction of competition and now faces the tumult of shifting Telstra to a level playing field.

And there remains the question of whether his board stands behind him — or hangs up the phone.



The entire process to decide the builder of the biggest infrastructure project in Australian history has been done behind high walls, without consulting the company that owns the network that is being upgraded.

DONALD MCGAUCHIE, TELSTRA CHAIRMAN