

The McGrathNicol Component 2 Report raises 21 separate issues of concern (including five key risks identified prior to the transaction) from the perspective of good corporate governance.

These are listed below:

1	The CBRE valuation was 17 months old and was not updated to reflect changes to trading performance. McGrathNicol calculated that had they done so, the value of the Resort would have been in the order of \$250m (p26).
2	The price paid exceeded the key pre-sale valuation by CBRE by \$22m (p24). The Grant Samuel financial modelling presented to the Board was not a full speaking valuation (p27).
3	In relation to the engagement of Grant Samuel who were the key due diligence consultants, the fee negotiated with Grant Samuel was 1% of the total purchase price, there is no evidence of any tender process for the engagement; and the contract of engagement was not consistent with normal ILC contracts, or normal good practice for a Commonwealth entity (p58/p59).
4	The ILC Board's risk assessment framework while appropriate, the assessment process and the identified mitigation strategies do not appear to have been realistic or implemented effectively (p52).
5	A number of concerns raised by Ministers throughout the acquisition process were either not responded to in a timely manner or were addressed subsequent to the acquisition being finalised (p54/55).
6	The capex projections used in the modelling presented to the Board was limited to "essential capital only", yet occupancy levels were projected to grow notwithstanding a long term decline in visitation. McGrathNicol found that these occupancy projections appear to be "overly optimistic" (p32).
7	The due diligence consultants were requested to reduce their capex projections from \$77m over 5 years down to \$53m to cover only ("essential requirements") (p34).
8	Capex based on essential requirements may not be consistent with the increased occupancy used in the Grant Samuel financial model (p34).
9	The capex projections included in the Grant Samuel financial model "appear conservative" compared to the levels assumed to be required by the two previous valuations (p35).
10	Although presented to the Board (and subsequently to Ministers) as conservative, the operating forecasts underlying the Grant Samuel financial model appear to be optimistic (p29/p30).
11	Adjusting the Grant Samuel financial model to reflect stabilised occupancy at 63% [down from 67%] results in decreased net cash flows and reduces the calculated Net Present Value of the Ayers Rock Resort from \$292m to \$250m (p32).
12	Grant Samuel did not present the Board with sensitivity analyses of its financial modelling prior to the transaction (p37).
13	McGrathNicol demonstrated that had sensitivity analysis been presented to the Board, and utilising a number of realistic lower profit or occupancy scenarios identified by Grant Samuel themselves in November 2010, the NPV calculation would reduce to between \$237m and \$274m (p37).
14	Key risks identified prior to the transaction which were not adequately or appropriately addressed included: <ul style="list-style-type: none"> Risk i. The purchase price for ARR is not consistent with its value (p50). Risk ii. The decision to acquire is not supported by the sector or by the Government (p50). Risk iii. The remoteness of ARR means their visitor levels are heavily dependent upon external parties (including QANTAS and Virgin) (p50). Risk iv. Deferral of capital expenditure [by GPT] during recent years indicated that this [capex] expenditure will be required in the short/medium term to maintain standards at an appropriate level (p51). Risk v. Significant slump in visitor numbers as a result of further downturn in world economic conditions [adversely] impacts earnings (p51).
15	The majority of due diligence consultants, costing an excess of \$6m, appear not to have been engaged in accordance with ILC purchasing guidelines (p56).

16	The minutes of the relevant Board decisions fail to indicate the views/votes of all Directors, and there may have been only 4 Directors out of 7 supporting the decision to acquire Ayers Rock Resort (p62).
17	The ILC Audit Committee appeared to have had 'almost no involvement in the transaction to purchase ARR' and in McGrathNicol's view, the ARMC "should have given some consideration as to the risk management practises in place within the ILC for this specific transaction" (p64).
18	"Given the significant scale of the acquisition, even where the ILC Board considered that the ARR acquisition could be self funding, it was unrealistic to assert to key Government stakeholders [ie Ministers] that a purchase of this materiality would not have a significant impact on its other operations and financial investments in the future"(p67).
19	An indirect and remote connection between a Director and a substantial shareholder in GPT was not disclosed. The ILC at the time had no conflict of interest register, and no process to require Directors and staff to actively declare potential conflicts, or attest that there are no conflicts (p69). (The ILC is subject to the Commonwealth Authorities and Companies Act 1997 and the ILC Directors are subject to section 27F of the Act).
20	The establishment of Voyages, and subsequent changes to the Voyages Constitution just prior to the expiry of ILC Directors terms, opened up the possibility that ILC Directors would continue in remunerated positions on the Voyages Board, even if their appointment to the ILC Board expired (p74).
21	Voyages Directors were not selected in a transparent way (p76).