

Dear Stakeholders

As NAIF reflects on the first anniversary of NAIF's establishment on 1 July 2016, I wanted to share with you some of the NAIF's achievements to date. There are many.

NAIF's overriding strategic vision and mandated objectives are to bring public benefit and to achieve growth in the economies and population of northern Australia. We also seek to encourage private sector participation in financing northern Australia infrastructure development, and have projects we finance generate sustainable Indigenous participation, procurement and employment.

We are confident that working with our stakeholders we will set the north on the path of transformation which we were set up to do. We are well on the way to achieving our vision as outlined in the NAIF's 2016-17 Corporate Plan, which is available on the NAIF website ([here](#)).

Our achievements over the last year are highlighted below.

Our Board and Staff

- On 19 July 2016 the appointment of our independent commercially focused NAIF Board was formalised. The Board has met formally six times during the last year demonstrating a strong commitment to the establishment of the NAIF over and above the prescribed two meetings required annually. The Directors have been leveraging their strong regional connections and experience across all stakeholder jurisdictions to generate pipeline activity. They have engaged directly with regional economic and community leaders across the north including in Cairns, Townsville, Rockhampton, Darwin, Kununurra and Gove and other centres including Perth, Brisbane and Sydney.
- A talented team has been recruited with experience as lenders and advisors in institutional commercial banks and as financial advisors. We have also recruited personnel with expertise in Government and have a dedicated General Counsel and Communications Director. This equips the NAIF team with the skills to help facilitate projects and assist in structuring loan terms to optimise the use of the concessions which NAIF is able to offer appropriate projects.
- NAIF has access to all of the Export Finance and Insurance Corporation (Efic)'s 110 staff (and has in fact used 53 of them to date). Its service arrangement with Efic which has effectively been in place since NAIF's inception has been very successful. There is a strong cultural fit between our

two organisations. NAIF has enjoyed the benefit of Efic's 60 years of experience and been able to draw on Efic's well-managed frameworks in establishing its own policies and procedures.

Our stakeholder engagement and pipeline of potential projects

- We are seeing tremendous interest from potential project equity investors, financiers, offtake parties, exporters and importers in partnering with NAIF. They are appreciating the opportunities afforded by the positioning of northern Australia as the gateway to Asia, which by 2030 is expected to be home to two thirds of the world's middle class. They are also understanding the strength and flexibility of the NAIF mandate and how it allows NAIF to partner with other project parties to capitalise on those opportunities in a way that allows both commercial and public sector participants to complement one another in developing the north.
- The NAIF team and Board members have travelled extensively throughout Australia to meet with potential proponents and key public and private sector stakeholders. We have been extremely pleased with the strong working relationships with the Queensland, Northern Territory and Western Australian government representatives and the Commonwealth departments and agencies and the Regional Development Australia (RDA) teams with whom we meet regularly to discuss potential opportunities for northern Australia. We have also appreciated the strong engagement by foreign diplomatic posts and credit agencies to drive awareness of the NAIF mandate amongst international investors and governments.
- Collectively we have personally met with over 1,500 stakeholders and reached audiences of over 2000 through presentations to business and industry forums. Please refer to our website for some of the speeches we have given ([here](#)).
- We have grown our transaction pipeline to a total of 124 projects. We regard 50 of those as active. That pipeline of projects is across a diverse range of sectors including transport, resources, agriculture, energy generation, construction, telecommunications, gas pipelines, tourism and water. Our pipeline of potential projects is spread right across all three of our northern jurisdictions.
- We are targeting financial close of our first transaction by the end of September 2017. This is significant progress. Independent market analysis of government procured infrastructure projects demonstrates the gestation period from project conception to a point where a project is ready to be assessed by lenders to be between 19 to 32 months and then a further 3 to 6 months of commercial negotiations to reach financial close (i.e. ~2 to 3 years).

Our approach to risk

- NAIF has developed key frameworks to ensure NAIF takes a strategic and risk tolerant approach to its investments within the parameters of its mandate set for it by Parliament, in consultation with all northern Australia's jurisdictions and the Commonwealth. The Board's Risk Management Framework has been designed to take into account the matters specifically allowed for in its mandate including that it may have a high risk tolerance for factors unique to investing in northern Australia including distance, remoteness and climate and its objective of 'crowding in' private sector investment. NAIF will seek to use its risk appetite to complement not compete with other financiers where appropriate. There will be significant flexibility in terms of minimum the size of projects NAIF will finance. The Board recognises the \$50 million threshold referred to in its mandate is a non-mandatory criterion and that there can be important project contributors to growth below that level. The Board has also determined that on a case by case basis it can contribute NAIF debt to the infrastructure components to support the development of transformative mixed infrastructure and non-infrastructure projects and take risk on the whole project. This broad vision of the Board shows its commitment to achieving the public benefit and growth for the north that NAIF has been established to catalyse.

Our governance

- We have in place a comprehensive suite of governance policies which independent expert reviews have confirmed reflect current Australian best practice government governance principles and current Australian best practice corporate governance for Commercial Financiers. We have also developed a Public Benefit Guideline (projects seeking over \$50 million of NAIF debt will require a Cost Benefit Analysis (CBA). Others will need to demonstrate public benefit but a formal CBA may not be required). We have also prepared an Indigenous Engagement Strategy Guideline. These Guidelines support consideration of these mandatory criteria as outlined in the Investment Mandate.
- NAIF has a high level of transparency in terms of publication of its governance materials. Eleven of thirteen governance policies are published on our website ([here](#)).
- NAIF has been very careful to ensure that it preserves the confidentiality of its dealings with proponents as being in the public interest and that of our project counterparties. It believes this is a foundational principle for NAIF to be able to operate and achieve its important objectives. Our stakeholders confirm to us regularly that they expect this from us as standard protocol.

- You may be aware of a Senate Inquiry into the governance and operation of the NAIF. Submissions to the enquiry are due 28 July 2017. We encourage you to provide a submission regarding the NAIF value proposition and importance to partner with you and other stakeholders to drive the NAIF agenda to benefit northern Australia. Details regarding the enquiry are available ([here](#)).

On behalf of the Board and members of our team thank you for your support over the last 12 months. We look forward to what together we will achieve over the coming year and the longer-term transformational economic and population growth across the north.

We welcome the opportunity to speak to you further on investment opportunities across the north. You can contact our team on 1300 466 243 or via email naif@naif.gov.au.

Kind Regards

Laurie Walker

Chief Executive Officer