



Australian Government

**NAIF**

Northern Australia Infrastructure Facility

A photograph of a vast desert landscape under a bright orange sky. In the foreground, several large, white, corrugated pipes are laid out in long, parallel rows on the sand. In the background, there are stacks of similar pipes and some industrial equipment. The overall scene suggests a large-scale infrastructure project in a remote, arid region.

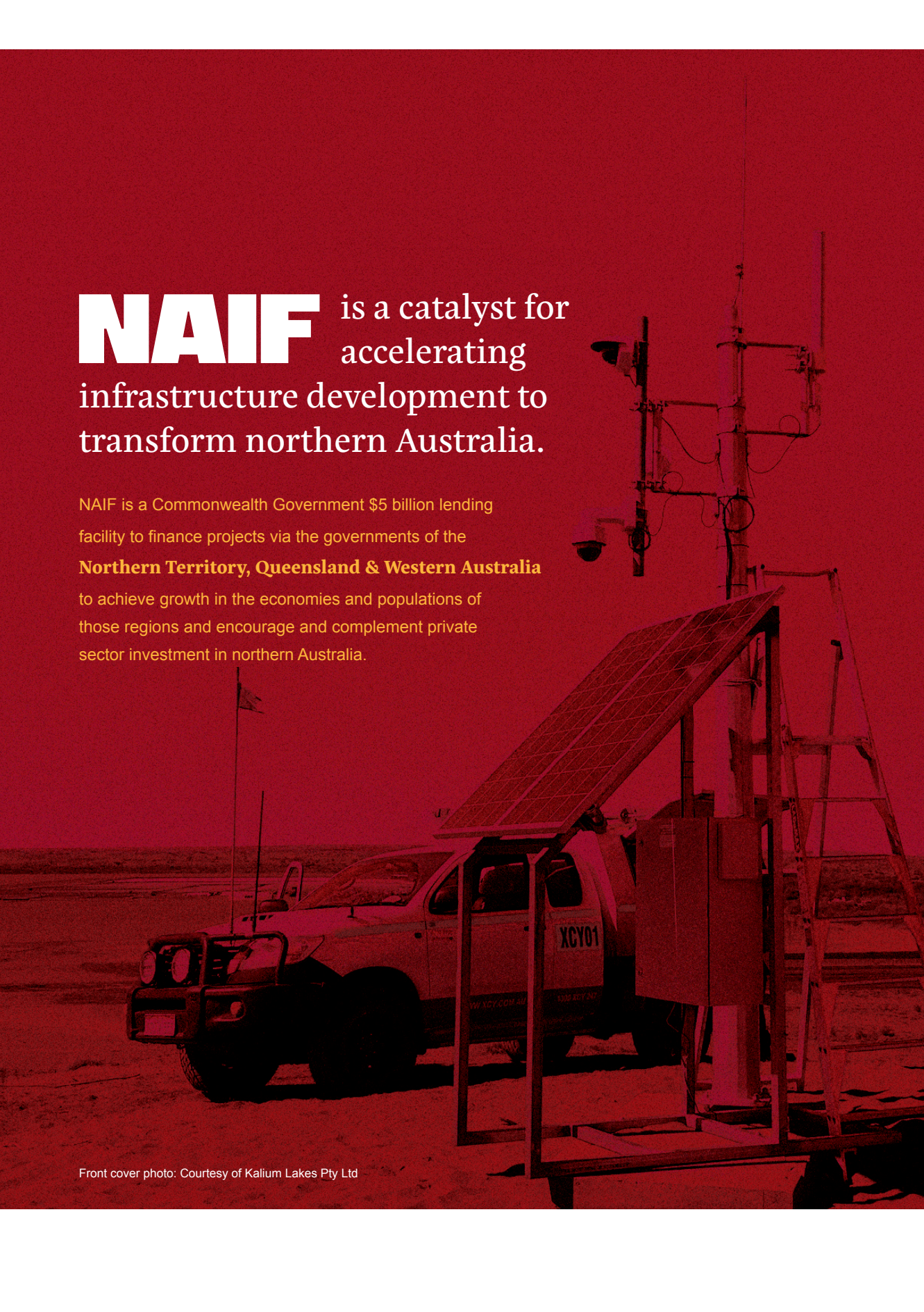
# Annual Report 2018-2019



# **NAIF** is a catalyst for accelerating infrastructure development to transform northern Australia.

NAIF is a Commonwealth Government \$5 billion lending facility to finance projects via the governments of the **Northern Territory, Queensland & Western Australia** to achieve growth in the economies and populations of those regions and encourage and complement private sector investment in northern Australia.

Front cover photo: Courtesy of Kallium Lakes Pty Ltd







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# Chairman Report



## On behalf of the Northern Australia Infrastructure Facility (NAIF), I am pleased to present the NAIF Financial Year (FY)18-19 Annual Report.

During FY18-19, the first full FY under its revised Investment Mandate, NAIF delivered six Investment Decisions for an aggregate of \$479 million in NAIF loans for projects of \$1.4 billion of total capital value and which are forecast to generate public benefit of \$1.1 billion. Investment Decisions were made to benefit each of our northern Australian jurisdictions and across diversified sectors, namely tourism and airports, resources, renewable energy and roads.

The Board has also made an Investment Decision for a loan of up to \$610 million, for the Genex Power Kidston Stage 2 Project. Substantial work associated with that decision was completed in FY18-19, with the Investment Decision following shortly after on 8 July 2019. As a result, this Investment Decision will be formally included in the FY19-20 results but demonstrates the strong momentum underway.

### Looking Ahead

NAIF's Corporate Plan is for a further 7 to 12 Investment Decisions in FY19-20 with NAIF commitments of between \$1 to \$2 billion. In FY18-19 the Board commenced scoping the potential to develop iconic transformative projects. This will continue to be a priority in FY19-20.

In relation to the scheduled statutory review of NAIF's legislative framework, NAIF is committed to make the case for it continuing to make investments beyond 30 June 2021.

### Governance

The Board is keenly aware of its responsibilities as a steward of public resources, operating within the commercial market. In April 2019 the Australian National Audit Office (ANAO) released its performance audit on NAIF under Section 19 of the *Auditor-General Act 1997*. The report confirmed NAIF has an appropriate governance and integrity framework.

Six recommendations were made, which NAIF has accepted and either has already adopted or is working to adopt.

### NAIF Board and CEO

The inaugural NAIF CEO Ms Laurie Walker will conclude her three year term on 31 October 2019. On behalf of the Board and the NAIF team, I acknowledge the role Ms Walker has played over NAIF's first three formative years including recruiting a talented team to enable NAIF to carry out its mandate. We wish her well for the future.

We welcomed new Directors Ms Kate George (as of 29 March 2019) and Ms Belinda Murphy (as of 1 July 2019). Board members – Ms Karla Way-McPhail, Mr Barry Coulter AO, Mr Bill Shannon and Mr Justin Mannolini – were reappointed. Mr Ross Rolfe joined the Board between 1 August 2018 and 17 April 2019.

I extend my thanks to Directors, past and present, the NAIF team, our jurisdictions, proponents and key service providers and stakeholders for their contribution and support.

Signed for and on behalf of members of the Board in accordance with a resolution of the Board and in accordance with section 46 of the *Public Governance and Performance Accountability Act 2013* (PGPA Act).

**Professor Khory McCormick**

Chair  
Northern Australia Infrastructure Facility  
20 September 2019



# CEO Report



I am pleased to report on an exceptional period of delivery.

## Delivering for northern Australia

Since NAIIF's establishment on 1 July 2016 up to 31 July 2019, NAIIF has approved loans of more than \$1.4 billion and is forecast to support over 3,600 jobs and around \$2.6 billion in broad based public benefit. Every NAIIF project will support important Indigenous engagement with many projects committing to Indigenous employment or procurement targets.

FY18-19 contributed significantly to those outcomes. In that period compared to FY17-18 there was an increase by 50 percent in the number of Investment Decisions (6), by 220 percent in NAIIF loan commitments (\$479 million) and by 318 percent in aggregate capital value (\$1.4 billion) of projects supported.

NAIF is pioneering significant change. The \$74 million loan to Kalium Lakes (Western Australia) will contribute to the creation of a new Australian domestic industry for Sulphate of Potash which is important to the agriculture sector. Our loan of \$90 million to Alinta Energy (Western Australia) will create reliable low emission renewable energy generation for large off grid customers in the Pilbara. As a result, the daytime operations at Fortescue Metals Group's Chichester Hub will be among the first globally to demonstrate a large mining load can be up to 100 percent powered by renewables. The \$95 million loan to Sheffield Resources (Western Australia) will help bring online one of the largest mineral sands deposits to be discovered globally in the last 30 years. NAIIF continues to support the airport sector which is an important economic driver across tourism and industry with loans to upgrade Townsville Airport (Queensland) and the Darwin, Alice Springs and Tennant Creek airports (all in the Northern Territory). A loan was also approved for the lithium industry which while not proceeding demonstrates NAIIF's support for emerging minerals.

NAIF has successfully catalysed project progression through its strategy of issuing conditional terms sheets

where appropriate. The Genex transaction which is for a loan of up to \$610 million (around 12 percent of NAIIF's capital) is an example. The project is forecast to deliver \$814 million of public benefit to the economy and community including estimated wholesale market energy cost savings of \$500 million (present value). The Verdant Minerals Limited conditionally approved loan of \$160 million has been important in attracting investment to develop Australia's largest phosphate resource.

NAIF's investments demonstrate it is applying its appetite for risk to help build market confidence to invest in the country's most geographically dispersed regions, to leverage the region's unique natural assets, create skilled job opportunities and enhance the liveability of northern Australia. That will be NAIIF's legacy.

As inaugural NAIIF CEO I have been honoured to serve NAIIF's objectives and am extremely proud of NAIIF's achievements to date. I will leave the organisation with a high calibre team in place, a strong development pipeline and partnerships established across a broad stakeholder base.

## Accounting and Budget

For the FY18-19 Financial Statements, the ANAO, NAIIF's external auditor, issued an unmodified audit opinion and confirmed the Financial Statements are fully compliant with Australian Accounting Standards and the PGPA Financial Reporting Rule 2015.

A handwritten signature in black ink that reads "Laurie Walker". The signature is written in a cursive style and is positioned above a short horizontal line.

**Ms Laurie Walker**  
Chief Executive Officer  
Northern Australia Infrastructure Facility  
20 September 2019

# The NAIF Story Since Inception to 31 July 2019

Delivering **infrastructure, jobs** and **public benefit** to the north.

**\$1.4bn** in commitments comprising → **11 Investment Decisions** + **2 Conditional Approvals**

**\$1.4bn**  
Approved to proponents

**\$2.9bn**  
Total project value of approved NAIF loans

**3,622\*** jobs  
2,891 construction  
731 operations

**\$2.6bn\***  
Public benefit to be generated

**Plus effective actions for genuine Indigenous engagement**

\* Jobs and public benefit data for two conditional approvals not included

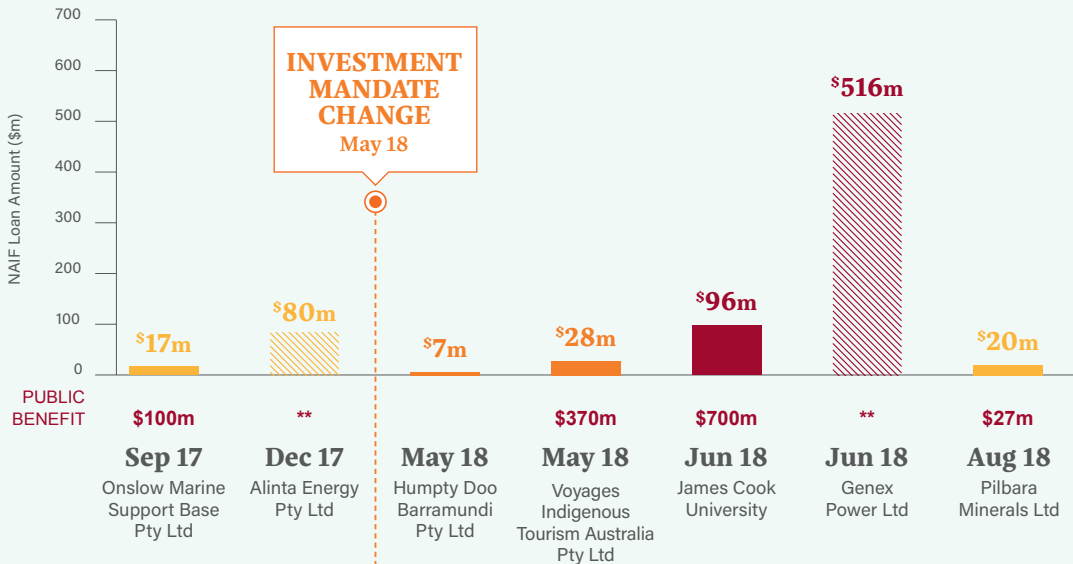
Total commitments per jurisdiction:

Queensland  
**\$781m**

Northern Territory  
**\$345m**

Western Australia  
**\$296m**

## NAIF Approved Projects<sup>‡</sup> Up to 31 July 2019



FY 2016-17: Establishment

FY 2017-18: Momentum

‡ All numbers rounded to the nearest million.

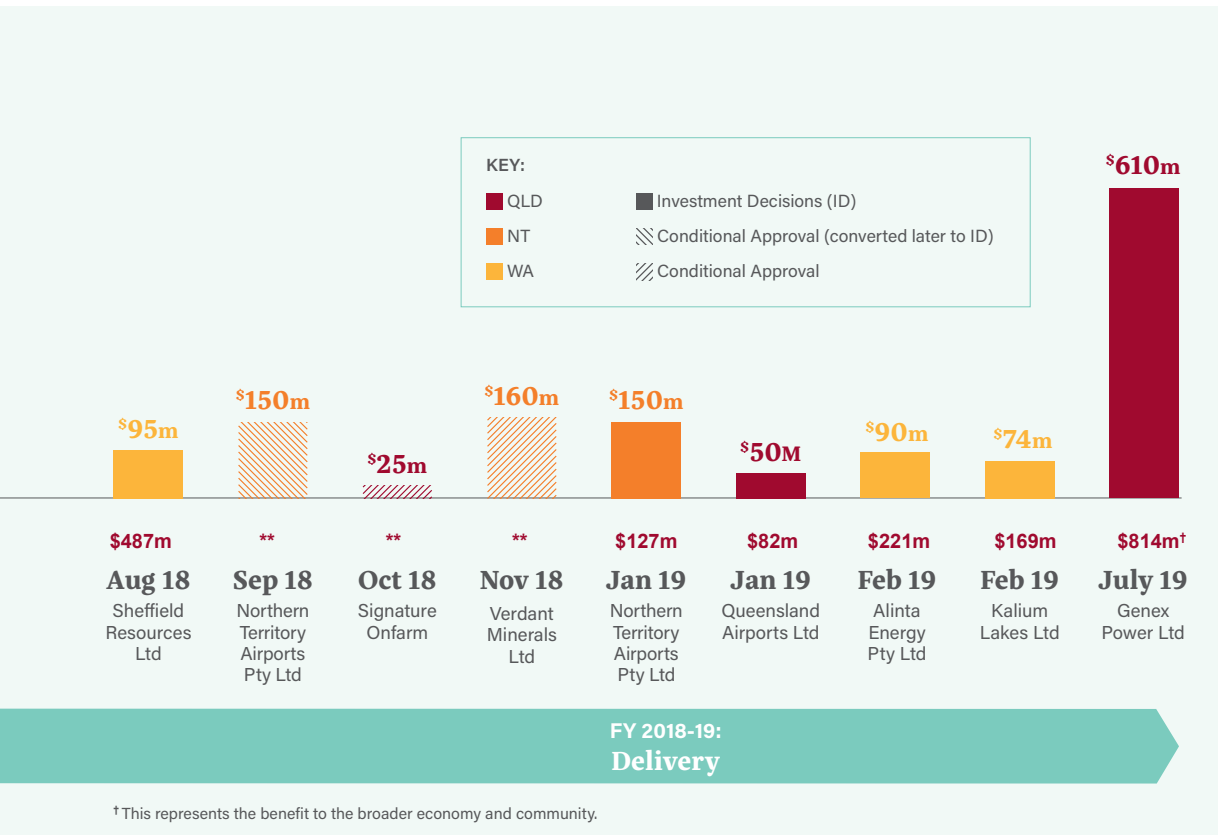
\*\* Public benefit data for conditional approvals not included.

The eleven Investment Decisions include Genex that was made on 8 July 2019. The work on Genex was substantially completed in the preceding year to 30 June 2019.



# Real Economic and Social Benefits to northern Australia

from funding renewable energy generation, airport improvements, world-class education facilities, agriculture, tourism or transport infrastructure, NAIF is helping unlock the true potential of northern Australia.



# Summary of FY18-19 Investment Decisions

## A Pilbara Minerals Ltd

### LOCATION, JURISDICTION

Pilgangoora, WA

### PROJECT

Upgrade of public road

### NAIF LOAN / TOTAL PROJECT VALUE

\$19.5m / \$25m

### JOBS

30 construction

### PUBLIC BENEFIT

Up to \$27m over 17 year mine life.

*This project will not proceed to financial close.  
For more information, see page 37*



## B Sheffield Resources

### LOCATION, JURISDICTION

West Kimberley, WA

### PROJECT

Thunderbird mineral sands

### NAIF LOAN / TOTAL PROJECT VALUE

\$95m / \$562m

### JOBS

400 construction  
280 operational

### PUBLIC BENEFIT

>\$487m over the 42 year mine life, including salaries staying in the region through drive in/drive out workforce. Economic activity for towns of Derby & Broome.

*For more information, see page 10*

## C Alinta

### LOCATION, JURISDICTION

Pilbara, WA

### PROJECT

Chichester solar gas hybrid

### NAIF LOAN / TOTAL PROJECT VALUE

\$90m / \$188m

### JOBS

200 construction

### PUBLIC BENEFIT

Up to \$221m over 25 years operational life, including benefit from reduced greenhouse gas emissions and productivity benefits to other business users who will enjoy a reduction in energy cost.

*For more information, see page 44*

## D Kalium Lakes

### LOCATION, JURISDICTION

Beyondie, WA

### PROJECT

Beyondie sulphate of potash

### NAIF LOAN / TOTAL PROJECT VALUE

\$74m / \$250m

### JOBS

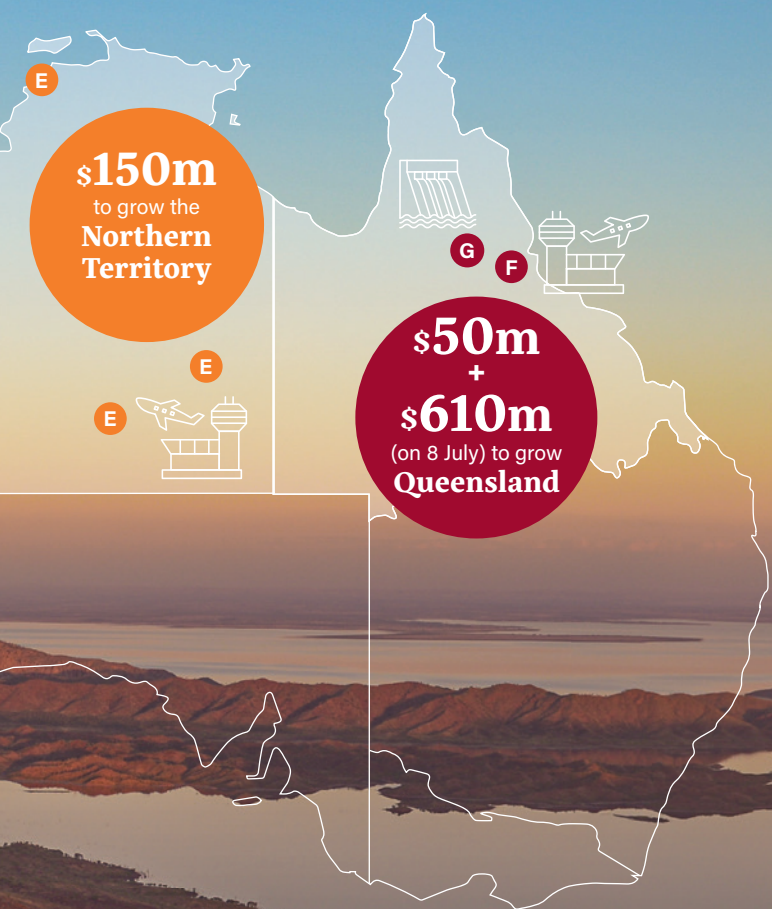
140 construction  
56 operational

### PUBLIC BENEFIT

Up to \$169m over 30 year mine life. This mine will provide a domestic source of a product that is currently imported, as well as potentially generate a new export market.

*For more information, see page 28*





**E NT Airports**

**LOCATION, JURISDICTION**  
Darwin, Tennant Creek,  
Alice Springs, NT

**PROJECT**  
Freight, transport, energy and solar

**NAIF LOAN / TOTAL PROJECT VALUE**  
\$150m / \$300m

**JOBS**  
980 construction  
142 operational  
500 indirect/supply chain

**PUBLIC BENEFIT**  
> \$127m over 20 years including  
growth in tourist numbers, as well  
export more of NT fresh agriculture  
and aquaculture.

*For more information, see page 18*

**F Townsville Airport**

**LOCATION, JURISDICTION**  
Townsville, QLD

**PROJECT**  
Redevelopment and expansion of  
Townsville airport terminal

**NAIF LOAN / TOTAL PROJECT VALUE**  
\$50m / \$80m

**JOBS**  
207 construction  
50 operational

**PUBLIC BENEFIT**  
Approximately \$82m over 30 years, including  
additional visitor spend, leisure amenity and safety  
benefit for passengers.

*For more information, see page 14*

**G Genex Power**

**LOCATION, JURISDICTION**  
North west of Townsville, QLD

**PROJECT**  
250 MW pumped hydro energy storage scheme

**NAIF LOAN**  
Up to \$610m

**JOBS**  
510 construction  
20 operational

**PUBLIC BENEFIT**  
\$814m (to broader economy and community  
including \$235m direct value add for FNQ)

*For more information, see page 48*

# NAIF's FY18-19 Performance:


**6**  
Investment  
Decisions  
committing  
funds of  
**\$479m**

**Supported  
Projects**  
total project  
value of  
**\$1.4bn**



That will deliver  
**2,405**  
jobs  
and  
**\$1.1bn**  
of public benefit

**NAIF funds  
drawn**  
**\$38.2m\***  
as at  
30 June 2019

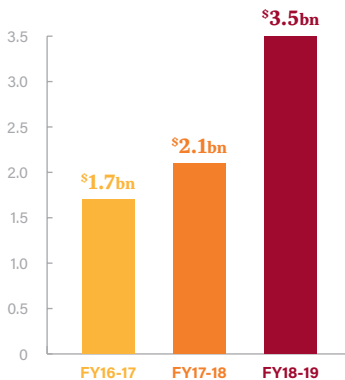


\* NAIF funds are drawn as and when they are required by the borrower.

**Total project value**  
in Due Diligence this year amount to

**\$3.5bn**

This represents a strong improvement  
from \$2.1bn in FY17-18




## Stakeholder Engagement

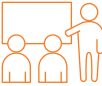
Met with more than  
**5,500**  
stakeholders



Gave presentations  
to more than  
**8,800** people



**13** Board meetings  
across QLD, NT, WA and ACT



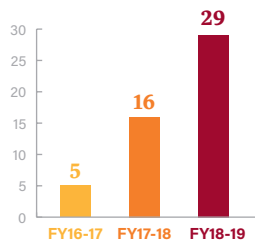
**4** newsletters and  
**26** media releases  
issued



**Upgraded website**



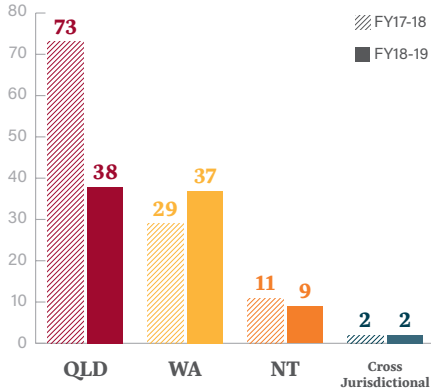
Number of  
projects in  
Due Diligence  
increased from  
**16** to **29**  
(5 in FY16-17)



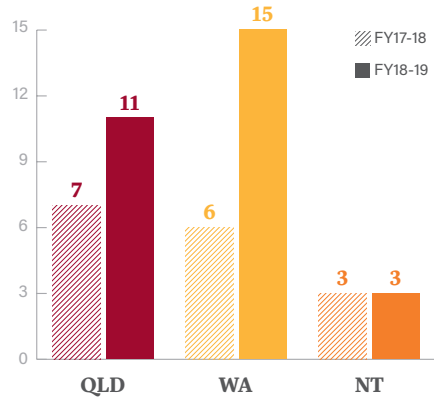


# Pipeline Momentum:

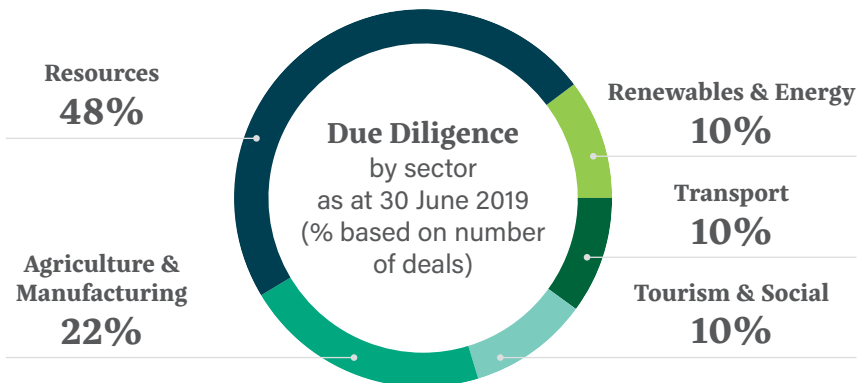
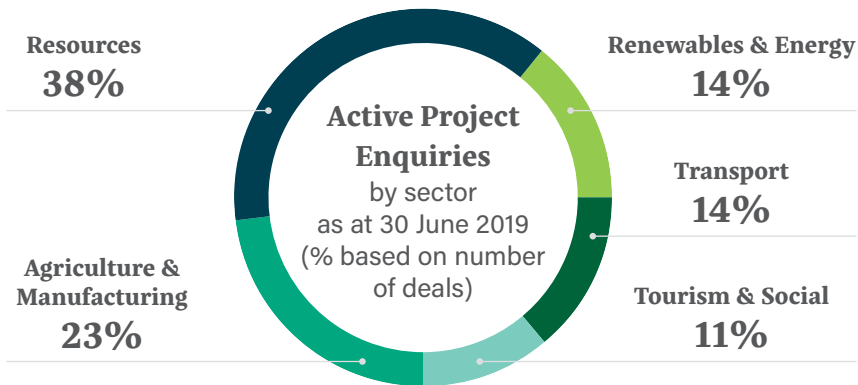
**Active Project Enquiries\***  
as at 30 June 2019



**Projects in Due Diligence**  
as at 30 June 2019



\* During FY18-19 NAIF filtered the total enquiry pipeline to enable stronger focus on NAIF resourcing on those projects more likely to proceed to execution in the foreseeable future.



# Thunderbird Mineral Sands Project

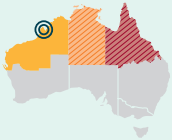
NAIF's loan will help bring online the Thunderbird deposit which is one of the largest mineral sands deposits to be discovered in the last 30 years globally.



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LOCATION

**Dampier Peninsula,**  
south west of Derby,  
Western Australia



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PROPONENT

**Sheffield Resources Limited**

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CO-FINANCIERS

Taurus Funds Management  
**\$250m**

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PUBLIC BENEFIT

**Approx. \$487m over a 42-year mine life**  
**400** construction jobs  
**200** operational jobs

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NAIF LOAN

**Up to \$95m**

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TOTAL PROJECT VALUE

**\$562m**



## About the Project

The mine and mineral processing facility to develop the Thunderbird deposit owned by Sheffield Resources will produce zircon and titanium oxide type mineral sands products in Western Australia's north west Kimberley region. The deposit is the first major mineral sands deposit to be discovered in the Canning Basin. With ore reserve of 680.5Mt @ 11.3% heavy minerals, it supports a mine life of 42 years.

Mineral sands are used in a broad range of everyday products such as mobile phones, x-ray screens, sunscreen, artificial joints, fibre optics, paint and plastics.

The company plans to export mineral sands products to markets in China, Spain, India and the UK through the ports of Derby and Broome.

Now fully permitted and construction ready, Sheffield Resources continues to progress the Thunderbird Mineral Sands Project through a strategic partnering process to raise construction equity and jointly develop the project.

### Infrastructure

- LNG power generation facility.
- Upgraded roads.
- Ship loading and storage infrastructure at Derby.

“ Working with NAIF has been very beneficial for Sheffield Resources. We have had a lot of wonderful support and comments from investors both globally and within Australia about the NAIF government support. It has been a great journey. I encourage prospective proponents to work with NAIF. ”

**Bruce McFadzean**  
Sheffield Resources Managing Director

## The Value NAIF Brings

NAIF's loan accelerates the development of important infrastructure elements of the Thunderbird project as well as fills a gap in Sheffield Resources' finance that it could not obtain from private sector debt and equity markets at this point in its corporate development. The nature and risk of the mineral sands industry limits Sheffield Resources' ability to tap the debt markets, leaving this to be covered by equity. Without NAIF's funding, the higher equity task and decreased internal rate of return would make the equity raising even more uncertain and potentially delay the project.

Through the support of NAIF, Sheffield Resources is able to build and own a number of infrastructure assets which would otherwise be sourced through third parties at a much higher cost. This assisted Sheffield Resources in avoiding additional operating costs by an estimated \$7.5m pa and ultimately makes its capital structure more efficient.

## Indigenous Engagement

- Sheffield's *Our Pledge to the Kimberley Community* includes Aboriginal jobs (building to 40% in first eight years of operation) and Aboriginal business content (minimum of \$5m/year from year five) plus Aboriginal training fund.
- Cash royalties to exceed \$100m over four decades.
- Cross cultural awareness training by Traditional Owners for all employees and contractors.

## Economic Impact and Public Benefit

- Independent consultant Deloitte Access Economics has forecast net public benefit outside the proponent to the broader WA community of approximately \$487m over 42-year mine life.
- Drive in/drive out jobs will provide local employment, training and business opportunities and lift the economy and lifestyles of the Derby and Broome communities.
- 400 construction jobs and 200 direct jobs during operations, plus support services and training opportunities.

# About Us

NAIF's vision is to transform northern Australia through financing the development of infrastructure. NAIF's focus on public benefit, economic and population growth and Indigenous involvement in northern Australia, are key differentiators from other lenders.

NAIF is a \$5 billion lending facility established to provide financial assistance (which may be concessional) to infrastructure projects.

NAIF is an initiative of the Commonwealth Government's strategy to develop northern Australia. It came into effect on 1 July 2016 as a corporate Commonwealth entity under the *Northern Australia Infrastructure Facility Act 2016* (NAIF Act), which was passed with bipartisan support. It is a flagship initiative of the Northern Australia White Paper *Our North, our Future: White Paper on Developing Northern Australia*.

Other Commonwealth legislation including the *Public Governance, Performance and Accountability Act 2013* also governs NAIF's operations.

NAIF's responsible minister is the Minister for Resources and Northern Australia. The Minister appoints NAIF's independent Board and has given NAIF direction through the NAIF *Investment Mandate Direction 2018* (Investment Mandate). The Minister has also issued a Statement of Expectations which outlines his expectations on the operation and performance of NAIF, beyond that considered by the legislative framework.

NAIF's commercially focused Board has sole responsibility for making Investment Decisions (being decisions to offer finance to infrastructure projects in northern Australia). Subject to provisions in the NAIF Act and Investment Mandate, the Board's decisions are unfettered.

NAIF's head office is in northern Australia in Cairns, Queensland, where NAIF's CEO is based. NAIF also has staff based in Brisbane, Perth and Sydney to serve proponents and stakeholders throughout northern Australia and centres of finance and infrastructure investors.

## Purpose

NAIF's primary purpose is to accelerate infrastructure development and thereby transform northern Australia by financing that generates:

- public benefit being broad based and including that outside of what is captured by the project proponent;
- longer term growth in the economy and population of northern Australia;
- potential to encourage private sector participation in the financing of northern Australia's infrastructure needs; and
- sustainable Indigenous participation, procurement and employment outcomes.

NAIF financing can assist in:

- opening new markets and developing new, more reliable supply chains;
- reducing business costs through improving productivity, creating jobs and encouraging a larger population base by helping to attract and retain workers;
- making better use of existing infrastructure for example, by improving capacity, safety and usability to overcome seasonal and other supply chain constraints; and
- helping to overcome diseconomies of scale by developing pathways to co-sharing and multi user access to infrastructure.

## NAIF's Role

In the Australian infrastructure financing market NAIF is uniquely positioned. It is a 'gap financier' as it looks to accelerate investment in northern Australia through financing projects that are viable in the long term but which, without NAIF, would be unlikely to proceed, or would only proceed at a much later date or with a more limited scope.

To fill that market gap, NAIF can structure its debt finance and take risk very differently to traditional lenders. NAIF finance complements other sources of finance. It does not compete. Two key features of its Investment Mandate are relevant in this regard. NAIF may as appropriate:

- take high risk for factors unique to investing in northern Australia infrastructure including but not limited to, distance, remoteness and climate; and



- provide finance on concessional terms (the extent and mix of concessions offered have regard to what is necessary for an Investment Proposal to proceed, and the extent of public benefit generated), provided these are the minimum required for a project to proceed.

This allows the repayment profile of NAIF's finance to be shaped to better match the long term life of infrastructure assets, and also to support investors and infrastructure users as they take risk themselves in constructing infrastructure in remote or regional areas, moving into new markets and establishing new distribution networks. NAIF's concessional financing terms (relative to other lenders) may:

- have longer tenors (up to the longest Commonwealth borrowing currently up to 31 years);
- have lower interest rates (not below the Commonwealth bond rates);
- be more patient (for example extended period of interest capitalisation beyond the construction period or deferral of loan repayments with extended interest only periods);
- have different fee structures; and
- be subordinated in cashflow or security.

While NAIF has a higher tolerance for risk than traditional lenders, for all NAIF loans there must be an expectation that the NAIF loan will be able to be repaid or refinanced, based on assumptions the Board considers reasonable.

As a lender of public sector funds NAIF seeks to effect change for the benefit of northern communities including the Indigenous populations in the region of projects financed by NAIF and in doing so also for northern Australia and our nation more broadly.

Another differentiator from other lenders is that NAIF is primarily driven by public benefit. NAIF must gain a return on its funds such that NAIF transaction revenue is greater than its operating costs and the Commonwealth cost of borrowing (on moneys lent at a portfolio level) over the life of the NAIF supported loans (both currently approved and projected).

Under Master Facility Agreements between NAIF, the Commonwealth, and the Northern Territory, Queensland and Western Australian governments respectively, each jurisdiction is the lender of record for NAIF facilities. The loans are reflected in the accounts of the Department of Industry, Innovation and Science (DIIS), and the corresponding revenue earned by NAIF (including fees and interest) is also reported in those accounts.

NAIF's financial accounts refer to the revenue received from government to meet its operating expenses.



# Redevelopment and expansion of the Townsville Airport Terminal

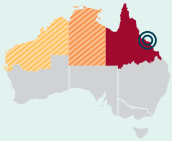
NAIF's \$50 million loan to Queensland Airports Limited (QAL) contributes to the redevelopment of Townsville Airport (known as Project Alive).



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LOCATION

**Townsville,**  
Queensland



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PROPONENT

**Queensland Airports Limited  
(QAL)**

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PUBLIC BENEFIT

**\$82m** over 30 years  
**207** construction jobs  
**50** operational jobs

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NAIF LOAN

**Up to \$50m**

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TOTAL PROJECT VALUE

**About \$80m**

## About the Project

Townsville Airport Pty Ltd is part of the QAL group of airports. NAIF's loan will support the planned redevelopment of the Townsville Airport terminal to modernise the airport, make it more welcoming and improve efficiency and access.

Townsville Airport is a major economic enabler for North Queensland, supporting more than 3,000 jobs, contributing \$420m to the economy and supporting many sectors of the local economy including resources, tourism, agriculture and education. The terminal redevelopment will underpin regional growth by addressing current capacity issues during peak times and provide for the airport's expected growth in passenger numbers.

## Infrastructure

- Terminal refurbishment, including increased lounge capacity.
- A new terminal roof.
- New core infrastructure (including water, fire and waste facilities).
- Additional works.

“ The loan from NAIF paves the way for us to move ahead with this important project, which will address capacity issues for Australia's 11th busiest airport. The redevelopment has been in the pipeline for several years and the NAIF loan looks set to unlock this opportunity for Townsville and North Queensland. ”

**Chris Mills**  
QAL CEO

## The Value NAIF Brings

QAL worked with NAIF to enable the acceleration of the latter stages of the redevelopment of Townsville Airport, bringing forward the redevelopment of the terminal and remaining project works.

## Indigenous Engagement

- Indigenous employment target of 3% including initiation of an Indigenous employment program.
- Procurement plan to meet 3% Indigenous procurement target.
- Regular engagement with the Bindal Peoples and Wulgurukaba Traditional Owners to build long term, positive and meaningful relationships.
- Mandatory cross cultural awareness training for all staff.

## Economic Impact and Public Benefit

Ensuring Townsville Airport's sustainability is critical for the local economy and growth of both Townsville and North Queensland.

- Independent analysis forecasts that the infrastructure funded by the NAIF loan will generate approximately \$82m in economic benefits for the region over the next 30 years through additional regional visitor spend, traveller time savings and other benefits.
- The project is expected to create 207 additional full time equivalent jobs during construction and 50 full time equivalent operational jobs after the project is finished.

# Strategy

NAIF's strategic approach is designed to deliver on its vision for the benefit of all stakeholders. It is focussed on its ultimate function of delivering economic and population growth into northern Australia, NAIF tailors its strategy for originating infrastructure projects to maximise the impact that NAIF can achieve and to provide as much support as early as possible to bring that impact forward.

At the time of writing, the NAIF Act provides for the making of Investment Decisions up to 30 June 2021.

In accordance with its vision, NAIF's focus is on accelerating projects through the NAIF assessment process as quickly as they are ready to proceed for investment decisioning within the period to that date.

The legislative review of operations, required under section 43 of the NAIF Act is currently underway and will cover among other things:

- whether the time limit of 30 June 2021 for making decisions to provide financial assistance should be extended; and
- appropriate governance arrangements for NAIF after that date.

NAIF will review its strategy once the outcomes of the legislative review is known.

Figure 1: A clear and transparent strategy





## Strategy Overview

**NAIF's vision is to transform northern Australia through financing the development of infrastructure**

Tailored Origination Strategies	Risk	Quality	Engagement
Assess Catalyse Stimulate	Effective, best practice risk management	High performance culture	Stakeholder engagement
Identify projects with financing gaps (market failure)	Overcome financing challenges	Deliver	Expectations met
NAIF's focus is on projects which provide a basis for economic and population growth in the north	NAIF takes a long term view	NAIF is reliable and easy to do business with	NAIF's role is understood



Figure 2: NAIF's Vision for each Strategic Priority Area

Strategic Priority Area	NAIF's Vision
<p>Tailored Origination</p> <ul style="list-style-type: none"> <li>• Assess</li> <li>• Catalyse</li> <li>• Stimulate</li> </ul> 	<p>NAIF originates projects for assessment in different ways, assessing opportunities within a consistent framework. In all cases the proponent will be responsible for delivery of the project. The role of NAIF however, differs in each case as follows:</p> <ul style="list-style-type: none"> <li>• <b>Assessing investment ready projects:</b> These are projects which are advanced and largely managed by the proponent. NAIF Executive will provide support and feedback through the assessment process.</li> <li>• <b>Catalysing identified opportunities:</b> These are likely to be already identified in some form but could benefit from NAIF taking a more proactive role in facilitating aspects of the project or project concept. For example, NAIF may be able to help catalyse a project by issuing a Board approved indicative conditional term sheet with a view to assisting the proponent in securing support of other project participants.</li> <li>• <b>Stimulation of new opportunities:</b> NAIF seeks to augment origination by contributing to the identification and evolution of iconic transformational projects that are unlikely to be brought forward through existing channels. These projects are likely to be highly challenging to deliver and beyond the capacity of a single proponent, but rather require alignment across a broad number of stakeholders. NAIF will look to build on its established relationships to contribute to these projects.</li> </ul>
<p>Effective, best practice risk management</p> 	<ul style="list-style-type: none"> <li>• Maintain a best practice Risk Management Framework (RMF) customised to the NAIF Act and Investment Mandate.</li> <li>• Use NAIF expertise to manage risk for each project within risk appetite limits and tolerances.</li> <li>• Support proponents as they establish or grow using NAIF patient capital and other finance concessions, as appropriate calibrating against the project's estimated public benefit.</li> <li>• Be disciplined with taxpayers' money. There is an expectation that NAIF funds will be repaid or refinanced and a requirement that the Commonwealth does not have the majority financial risk in a project.</li> </ul>
<p>High performance culture</p> 	<ul style="list-style-type: none"> <li>• Recruit experts with specialist origination, structuring and execution skills. Our origination and execution functions work alongside corporate, Indigenous engagement, reporting and communication functions. All NAIF staff must have commercial acumen, be agile, flexible and able to engage seamlessly with multiple stakeholders.</li> <li>• Implement best practice governance frameworks, policies and procedures, which are periodically independently benchmarked against best practice in the public and private sector.</li> </ul>
<p>Stakeholder engagement</p> 	<ul style="list-style-type: none"> <li>• Ensure that NAIF's purpose, value proposition and achievements are understood by key stakeholders.</li> </ul>

# New Infrastructure & Upgrades for Darwin, Tennant Creek & Alice Springs Airports

NAIF's loan will help expand airport facilities at three Northern Territory airports and support the development of the Territory's export potential, particularly for agricultural products.



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#### LOCATION

**Darwin, Tennant Creek  
and Alice Springs,  
Northern Territory**



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#### PROPONENT

**Northern Territory Airports  
Pty Ltd (NTA)**

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#### PUBLIC BENEFIT

More than **\$127m** over 20 years  
**980** construction jobs  
**142** operational jobs  
**500** indirect/supply chain jobs

---

#### NAIF LOAN

**Up to \$150m**

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#### TOTAL PROJECT VALUE

**\$300m**

## About the Project

The project investments will increase the operational capacity of each airport, create jobs, drive new export opportunities into Asian markets, boost the Northern Territory's tourism potential and support energy security for businesses and residents in the north.

## Infrastructure

- Freight, cold storage and an export/import hub at Darwin International Airport.
- Solar arrays at Darwin, Alice Springs and Tennant Creek airports servicing local communities and the airports.
- A proposed off airport multi user battery storage in Darwin.
- Installation of new runway lighting and overall upgrades across three airports.

## The Value NAIF Brings

NAIF's ability to provide concessional tenor and pricing will enable the acceleration of the development of these important facilities which generate significant public benefit.

“ This investment will grow our reputation and capacity to attract bigger planes to carry more tourists and more of our region's iconic products such as mud crabs, barramundi, mangoes and melons to the world. These can be processed through the new VHT plant and stored in the new cold storage facility before being air freighted straight out of Darwin, rather than being trucked to Queensland. ”

**Ian Kew**  
Northern Territory Airports CEO

## Indigenous Engagement

- Indigenous employment target of 10%.
- Development of a Procurement Plan with a focus on Indigenous employment and training opportunities. For each capital project a Project Management Team will oversee procurement activities, workforce commitments and broader partnerships with specialist Indigenous engagement experts and employment service providers, building on a previous partnership with a civil construction contractor with a 30% Indigenous workforce.
- Key Indigenous stakeholders have been identified for ongoing engagement, including the proponent looking to partner with the Larrakia Development Corporation for the delivery of cultural awareness training and the exploration of other opportunities.

## Economic Impact and Public Benefit

Independent analysis forecasts that the infrastructure funded by NAIF will support up to 980 jobs in the construction phase, 500 indirect jobs through the supply chain and over 142 new ongoing operational positions. Refer also to the benefits noted by NTA CEO, Ian Kew.



# Annual Performance Statements



## Introductory Statement

The NAIF Board, as the accountable authority of the Northern Australia Infrastructure Facility (NAIF), presents the Financial Year (FY) 2018-19 Annual Performance Statements of NAIF, as required under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

In our opinion, these Annual Performance Statements are based on properly maintained records, accurately reflect the performance of the entity, and comply with subsection 39(2) of the PGPA Act.

## Purpose

NAIF's primary purpose is to accelerate development and thereby transform northern Australia by financing infrastructure that generates:

- public benefit being broad based and including that outside of what is captured by the project proponent;
- longer term growth in the economy and population of northern Australia;
- potential to encourage private sector participation in the financing of northern Australia's infrastructure needs; and
- sustainable Indigenous participation, procurement and employment outcomes.

This purpose supports NAIF in achieving its Outcome as outlined in the FY2018-19 DIIS Portfolio Budget Statement page 216 to 'enable economic growth in northern Australia, by facilitating private sector investment in economic infrastructure through the provision of concessional financing delivered through the state and territory governments'.

## Results

A summary of NAIF's performance outcomes is included in Figure 3 below. NAIF met seven of its eight performance measures in full and met two of its three metrics for the eighth measure.

The analysis of NAIF's overall performance should be read in conjunction with the rest of the Annual Report, including the Chairman and CEO Report.

Terms defined in the *Northern Australia Infrastructure Facility Act 2016* or the *Northern Australia Infrastructure Facility Investment Mandate Direction 2018* have the same meaning in these Statements.

FY18-19 concluded with six Investment Decisions, to offer finance, being made between 1 July 2018 and 30 June 2019 (referred to as FY18-19 Investment Decisions). Across these six Investment Decisions NAIF finance of \$479 million was committed for projects with a total capital value of \$1.4 billion.

There was also an Investment Decision, to offer finance, of up to \$610 million, for the Genex Power Kidston Stage 2 Project. The substantial work associated with that Investment Decision, including extensive Board deliberation, was completed in FY18-19, with the date of the Investment Decision following shortly after on 8 July 2019. This project will be included in the FY19-20 results.

**Source of Performance Criterion:** NAIF Corporate Plan 2018-2019, page 18-19.

Figure 3: NAIF Performance Summary for FY18-19

Performance Criterion	Measure	Outcome
1. Generate public benefit	<i>Net public benefit for northern Australia on each project funded</i>	Achieved. Each of the FY18-19 Investment Decision projects has been forecast to generate public benefit. The total public benefit forecast on the six approved projects totals \$1.1bn <sup>1</sup> .
2. Indigenous engagement	<i>Sustainable Indigenous participation, procurement and employment</i>	Achieved. For each of the FY18-19 Investment Decision projects, an Indigenous Engagement Strategy was provided by the Proponent and assessed by NAIF as satisfactory and meeting the requirements of the NAIF Investment Mandate.
3. Investments in infrastructure projects in northern Australia	<i>Number of transactions per annum</i>	Achieved. Six FY18-19 Investment Decisions made against a target of between 5-10.
	<i>Dollar value of new investments by NAIF per annum</i>	Not met. \$479m <sup>2</sup> of new investment commitments for those FY18-19 Investment Decisions by NAIF against a target of between \$500m - \$1.5bn. Shortfall of \$21m.
	<i>Total capital value of projects supported per annum</i>	Achieved. \$1.4bn <sup>3</sup> aggregate total capital value of projects supported by those new NAIF investment commitments against a target of between \$750m-\$2.5bn.
4. Effective risk management	<i>Compliance with Risk Appetite Statement</i>	Achieved. Internal audit has confirmed compliance with NAIF's Risk Appetite Statement (RAS) in relation to the Investment Decisions made during the reporting period.
5. Encourage private sector contribution to financing projects	<i>Number of projects involving private sector financing</i>	Achieved. Four out of six (~67%) of the FY18-19 Investment Decisions had private sector financing in addition to NAIF financing, against a target of 50%.

continued...

1 The \$1.1 billion for the value for the forecast public benefit includes the forecast public benefit for all six Investment Decisions made in FY18-19 (refer 3 of Figure 3). It includes the forecast \$27 million public benefit for the Pilbara Minerals Investment Decision for the upgrade of the public Pippingarra Road. Following 30 June 2019, the proponent advised that this project will not proceed to financial close (refer to footnote 5).

2 This includes the value of the NAIF Investment Decision \$19.5m for the Pilbara Minerals Investment Decision given it was made in FY18-19. Following 30 June 2019, the proponent advised that this project will not proceed to financial close (refer to footnote 5).

3 This includes the total capital value of \$25m for the Pilbara Minerals Investment Decision given it was made in FY18-19. Following 30 June 2019, the proponent advised that this project will not proceed to financial close (refer to footnote 5).

6. Raise awareness of NAIF value through dissemination of information to industry stakeholders	<i>Level of communication and stakeholder engagement activity</i>	<p>Achieved. Significant communications and stakeholder engagement activity. This included:</p> <ul style="list-style-type: none"> <li>Over 36 presentations (by NAIF Board members or executives) at northern Australian or industry forums, conferences and other events, reaching audiences of over 8,800 stakeholders.</li> <li>Other meetings by the Board, CEO and executive with more than 5,500 stakeholders.</li> <li>Prompt publication by NAIF of information on its website including as required by section 17(2) of the Investment Mandate and other NAIF presentation materials, media releases and information updates.</li> <li>Redesign of the NAIF website to improve stakeholder navigation, including new systems to measure and report on website visitation.</li> </ul>
7. Building diverse pipeline of potential infrastructure projects	<i>Industry and geographic spread of potential projects in the pipeline</i>	<p>Achieved. As at 30 June 2019:</p> <ul style="list-style-type: none"> <li>There were 86 Active Enquiries<sup>4</sup> compared to 115 Active Enquiries at 30 June 2018.</li> <li>100 new total pipeline enquiries since 30 June 2018. 16% of the new enquiries had moved into due diligence.</li> <li>The number of projects in due diligence had increased by 81% to 29 from 16 at 30 June 2018. That comprised ~34% of the Active Enquiries compared to ~14% as at 30 June 2018.</li> </ul> <p>The NAIF pipeline categories were diverse from both an industry and geographic spread perspective as follows at 30 June 2019:</p> <ul style="list-style-type: none"> <li>Active Enquiries spread across QLD: 44%, WA: 43%, NT: 11%, Cross Jurisdictional: 2% and diversified across: Resources 38%, Agriculture &amp; Manufacturing 23%, Renewables &amp; Energy 14%, Transport 14%, Tourism and Social 11%.</li> <li>Due Diligence projects spread across WA: 52%, QLD: 38%, NT: 10%, and diversified across: Resources 48%, Agriculture &amp; Manufacturing 22%, Renewables &amp; Energy 10%, Transport 10%, Tourism and Social 10%.</li> </ul>
8. Achieve sound financial performance	<p><i>Operating expenditure is within the overall five-year departmental appropriation budget</i></p> <p><i>NAIF transaction revenue exceeds operating costs and Commonwealth cost of borrowing</i></p>	<p>Achieved. NAIF's operating expenses were within the appropriation budget including the use of retained surpluses from previous year's budget underspend.</p> <p>On track. At an Investment Decision portfolio level, over the life of the NAIF supported loans (both currently approved and projected), transaction loan revenue is forecast to exceed NAIF operating costs and Commonwealth cost of borrowing.</p>

<sup>4</sup> Active Enquiries comprises projects at various stages of NAIF assessment including initial Active Enquiries, Strategic Assessment, Due Diligence, Execution and Closed Funded.



## Analysis of Performance Criteria

Figure 4: Summary of Investment Decisions made in or shortly after the end of FY18-19

	Pilbara Minerals <sup>5</sup>	Sheffield Resources	Townsville Airport	NT Airports	Alinta Energy	Kalium Lakes	Genex Power <sup>6</sup>
<b>Jurisdiction</b>	Pilgangoora, WA	West Kimberley, WA	Townsville, QLD	Darwin, Tennant Creek, Alice Springs, NT	Pilbara, WA	Beyondie, WA	North west of Townsville, QLD
<b>Asset</b>	Upgrade of public road	LNG power station and reticulation, road upgrade, port infrastructure	Redevelopment and expansion of Townsville airport terminal including facility upgrades	Cold storage, solar energy farm, off-site battery, runway upgrades	Solar PV power plant and associated transmission infrastructure	Gas pipeline, gas power station, communication, accommodation and transport facilities	250MW pumped storage hydro project
<b>NAIF Loan Investment Decision \$</b>	\$19.5m	\$95.0m	\$50.0m	\$150.0m	\$90.0m	\$74.0m	\$610.0m
<b>Total Project \$</b>	\$25.0m	\$562.0m	\$80.0m	\$300.0m	\$188.0m	\$250.0m	Commercial in Confidence
<b>Board Investment Decision</b>	Aug 2018	Aug 2018	Jan 2019	Jan 2019	Feb 2019	Feb 2019	July 2019

### 1. Generate public benefit and 2. Indigenous engagement

The Mandatory Criteria to be eligible for NAIF financial assistance under the Investment Mandate requires that the Board must be satisfied that the proposed Project:

- i. will be of public benefit and will produce benefits to the broader economy and community beyond those able to be captured by the Project Proponent; and
- ii. has an Indigenous Engagement Strategy (IES) which must set out objectives for Indigenous participation, procurement and employment that reflect the Indigenous population in the region of the Proposed Project.

Public benefit was assessed in line with NAIF's Public Benefit Guideline which was updated during the period. The potential benefits vary for each Project and have been assessed spanning different periods depending on the life of the asset. Benefits and costs to the Proponent and 'Outside of the Proponent' are assessed quantitatively where possible to come to a net public benefit number. Where it is not possible to value costs and benefits in monetary terms, they are considered qualitatively. Construction jobs and operational jobs are also forecast.

The six FY18-19 Investment Decisions are forecast to generate \$1.1 billion of public benefit and 2,405 jobs, which will contribute to economic and population growth in the regions of those projects<sup>7</sup>.

5 This project will not proceed to financial close. Since NAIF's Investment Decision several changes to Pilbara Minerals' regional operating environment have resulted in the company reassessing its investment in the Pippingarra Road as its primary haulage route and as such this project will now not proceed. To support future expansion of the Pilgangoora Lithium-Tantalum Project, Pilbara Minerals is undertaking an internal infrastructure assessment to understand what investment is required to support a larger operation. Pilbara Minerals and NAIF are continuing to engage with regards to future infrastructure requirements and potential NAIF investment support.

6 While this project is not included in FY18-19 performance results it is noted in Figure 4 given that substantial work associated with the Genex Power Kidston Stage 2 Investment Decision was undertaken in FY18-19 and the formal Investment Decision was made shortly after the end of that period on 8 July 2019.

7 These numbers include Pilbara Minerals (\$27m public benefit and 30 jobs) as the Investment Decision was made in FY18-19. Following 30 June 2019, the proponent advised that this project will not proceed to financial close (refer to footnote 5). The Genex Power Investment Decision is not included in those numbers.

The Genex Power project<sup>8</sup> is forecast to generate \$814 million of public benefit (to the economy and community) including \$235 million of direct value add to Far North Queensland, and jobs (including the supporting transmission line) being 510 in the construction phase and 20 operational.

Each of the FY18-19 Investment Decision Project Proponents developed and adopted an IES to be implemented over the life of the Project. NAIF assesses each IES on a case by case basis, noting there are many ways the Proponent can meet the IES criterion. Refer to the NAIF Indigenous Engagement Strategy Guideline which was updated in the period. Monitoring and reporting requirements are agreed with each Proponent in the NAIF loan facility documentation. These include mechanisms to understand and address issues arising during the implementation of the IES and to provide for accountability where there is not a demonstration of genuine effort to pursue an approved IES.

More specific details on the public benefit assessed and IES commitments for each project can be found in the case studies for each project in this report.

### **3. Investments in infrastructure projects in northern Australia**

In making the six FY18-19 Investment Decisions, NAIF met its target of between 5 to 10 transactions. This is an increase of 50 percent on last financial year. The projects supported reflect the breadth of NAIF's role in developing northern Australia. Those Investment Decisions comprised offers of finance for Projects in each of the three northern Australia jurisdictions (Western Australia, Northern Territory and Queensland). They were also diversified across sectors, namely tourism and airports (Townsville Airport and NT Airports), mining, (Kaliyam Lakes and Sheffield Resources), renewable energy (Alinta Energy) and roads (Pilbara Minerals<sup>9</sup>).

Investment Decision making, being the decision to offer or not offer finance, as defined in the NAIF Investment Mandate, is used for this measure as that is what the NAIF Board is responsible for.

NAIF committed new investment finance of \$479 million through the FY18-19 Investment Decisions for projects against a target of \$500 million to \$1.5 billion, this is an increase of 220 percent on last financial year. The total capital value of those projects supported was \$1.4 billion which was at the upper end of the target range of \$750 million to \$2.5 billion, and a 318 percent increase on last financial year.

Although committed new investment finance was \$21 million short of the lower end of the target range,

aggregating the above figures with those for Genex Power means committed new investment finance would increase from \$479 million to \$1.1 billion (an increase of greater than 600 percent on FY17-18).

The Proponent has informed NAIF that the Pilbara Minerals project for which an Investment Decision was made in FY18-19 will not proceed. This was due to matters beyond NAIF's control but the Proponent is continuing to work with NAIF on other potential NAIF investment, refer to footnote 5 on page 23 for further detail.

### **4. Effective risk management**

Compliance with NAIF's Risk Appetite Statement (RAS) for the six FY18-19 Investment Decisions has been independently audited by NAIF's internal auditor. The internal audit confirmed compliance with NAIF's RAS for the six Investment Decisions made during the reporting period.

NAIF's RAS provides a clear articulation of the target level of risk in executing the NAIF's strategic objectives. It guides risk appetite, identifies tolerance measures (including for making NAIF Investment Decisions) and has been developed in consultation with the responsible Minister and the relevant northern Australia jurisdictions. The RAS also addresses other operational matters including governance and operations.

Under Section 12(4) of the Investment Mandate NAIF may have a high risk appetite in relation to factors that are germane to investing in Northern Australia infrastructure, including, but not limited to, Northern Australia's distance, remoteness and climate.

NAIF's Investment Mandate gives it the tools to respond to the northern Australian investment landscape by also providing that NAIF's finance can be lent on concessional terms. NAIF used its full range of concessions across the six FY18-19 Investment Decisions including:

- long tenors with an average of 16.8 years and range of between 10 and 20 years;
- interest rates at market equivalent and also at the maximum concessional rate;
- extended capitalisation periods (average of 3.5 years) and extended interest only periods (average of 9 years); and
- senior secured (on five projects) and senior unsecured (on one).

In line with best practice NAIF adopts a continuous improvement approach and regularly reviews its risk management framework and policies by considering emerging trends and risks, changes to existing risks

<sup>8</sup> Refer to footnote 6 on page 23.

<sup>9</sup> This project will not proceed to financial close refer to footnote 5 on page 23.

and any changes to NAIF's Investment Mandate and Government policy. In the period, this included a detailed review of the Board's RAS to ensure it remained appropriate, particularly in light of the revised Investment Mandate.

### **5. Encourage private sector contribution to financing projects**

Four out of the six or ~67 percent of the projects that NAIF supported with FY18-19 Investment Decisions have private sector financiers also providing finance for the project in addition to NAIF's loan. This meets NAIF's target of greater than 50 percent of projects supported having private sector finance.

NAIF uses its role to also assist projects with early conditional credit approvals and made two such decisions in the FY18-19. It sought to catalyse both private and public sector interest in these two projects. One of those is in the agricultural sector being Signature Onfarm loan for \$25 million and another in mining, being the provision of a \$160 million indicative term sheet to Verdant Minerals Limited for the Ammaroo Phosphate Project in the Northern Territory.

### **6. Raise awareness of NAIF value through dissemination of information to industry stakeholders**

Public awareness and interest in NAIF has grown, as confirmed by the 100 new Active Enquiries during the year. In addition, 16 of the 29 projects (55 percent) in due diligence originated in the FY18-19 year, showing the impact NAIF's origination team is having in deploying NAIF's amended mandate to benefit northern Australia by moving appropriate projects through the assessment phases in line with project development and Proponent timeframes.

NAIF's Board and executive have engaged in significant communication and stakeholder engagement activity during FY18-19 including:

- The Board, Board members, CEO or NAIF staff met with more than 5,500 interested stakeholders and gave presentations that reached audiences of over 8,800 people;
- NAIF participated as a key note speaker, presenter, panel member or delegate in 36 events in FY18-19 covering various sectors and interest areas relevant to NAIF's mandate including infrastructure, engineering, construction, procurement, transport, energy, agriculture, tourism, water, mining and resources, regional growth, economic development and major projects;

- NAIF executive engage frequently with other lenders, project sponsors, advisers and participants through both pipeline development and due diligence assessment processes. Opportunities to explain the NAIF mandate and discuss with other financiers how NAIF may be able to work with other lenders have been pursued;
- Regional communities and their leaders are afforded opportunities to meet NAIF Board members or executives to discuss their strategic planning and infrastructure priorities. Board meetings were held in northern Australia, including Cairns, Townsville and Mackay, a meeting was also held in Brisbane, in Canberra and two were held in Perth. Roundtables and networking events were held in Mackay and Perth;
- The NAIF Board members and NAIF senior executives have continued to meet regularly with Western Australian, Northern Territory and Queensland government stakeholders to discuss upcoming projects and their priorities. Those associations have continued to strengthen including through making further Investment Decisions in each jurisdiction and progressing projects through the final assessment stages;
- NAIF has met with a range of Indigenous groups, businesses and agencies throughout the year to develop its understanding of our Indigenous stakeholders and the role of NAIF in broader Indigenous economic development opportunities in the north, including contributing to the Indigenous Reference Group discussions at the Northern Australia Ministerial Forum. Meetings have also been held with Indigenous Business Australia and the Indigenous Land and Sea Corporation exploring opportunities for collaboration to derisk and therefore increase investment in Indigenous enterprise. NAIF has also engaged with a range of Traditional Owner groups, Prescribed Bodies Corporate, Native Title Representative Bodies, Indigenous businesses and agencies (federally and across the jurisdictions) in relation to project IES prior to the Board making its Investment Decisions;
- NAIF engages on a consistent basis with Members of Parliament from all political parties, both at a state and federal level, including through targeted meetings and correspondence on activities; and
- NAIF consults regularly with Commonwealth departments and agencies and broader networks including the Regional Development Australia network, Development Commissions and the northern Australian based universities.



## 7. Building diverse pipeline of potential infrastructure projects

NAIF reporting is focussed on its transaction pipeline of Active Enquiries which comprise deals in various stages of the NAIF pipeline including Active enquiries, Strategic Assessment, Due Diligence, Execution and Closed Funded.

The Active Enquiries are a subset of the total NAIF enquiry pipeline. During FY18-19 NAIF reviewed and filtered its total enquiry pipeline to enable a stronger focus of NAIF resourcing on those projects that it assessed as more likely to proceed to execution and conversion to financial close. Part of that pipeline management involved identifying projects assessed as not proceeding or inactive. This is reflected in the number of Active Enquiries as at 30 June 2019 of 86 reduced from 115 Active Enquiries when compared to 30 June 2018. A number of deals were moved to the not proceeding category due to several factors including an assessment that information required to progress projects had been outstanding for a significant period. In a number of instances NAIF notified persons who had made enquiries without following up that NAIF would formally close its file.

Figure 3 (NAIF Performance Summary for FY18-19) shows during FY18-19:

- There was growth by 100 projects of new enquiries, 16 percent of which moved into the due diligence phase in the same year they were introduced to the pipeline demonstrating strong growth in the quality of projects coming into the NAIF transaction pipeline. Due diligence is the stage in which detailed project assessment prior to an Investment Decision being made is undertaken.
- Overall there was also a maturing of the Active Enquiries pipeline with a substantial increase (by 81 percent) to 29 from 16 projects moving into the due diligence phase compared to 30 June 2018. Those projects in due diligence comprised 34 percent of the Active Enquiries pipeline compared to 14 percent as at 30 June 2018.
- Both the Active Enquiries and projects in due diligence are diverse in terms of both jurisdiction and sector.

## 8. Achieve sound financial performance

NAIF's external auditor, the ANAO, issued an unmodified audit opinion on NAIF's FY18-19 Financial Statements.

NAIF has managed expenses carefully to ensure that operating expenses were within NAIF's appropriated budget.

For each of the six FY18-19 Investment Decision commitments, contracted revenue for the NAIF financial assistance will include an administration fee (payable at financial close) and the interest rate on the NAIF loans is above the Commonwealth borrowing rate. Pricing takes into account NAIF's target to cover the cost of borrowings and NAIF's operating costs at an Investment Decision portfolio level over the life of the NAIF loans supported by its Investment Decisions (both currently approved and projected).

### Performance Metrics FY19-20 Onwards

The progress made during FY18-19 positions NAIF well to meet its targets over the next two years.

In NAIF's Corporate Plan 2019-2020 which is available on its website, NAIF has developed two years of performance targets to June 2021. The NAIF Act prohibits the Board from making a decision beyond the current legislated term of 30 June 2021. At the time of publication, NAIF's legislative review of operation which was scheduled to occur as soon as possible after 1 July 2019 has commenced. The review will cover among other things:

- whether the time limit of 30 June 2021 for making decisions to provide financial assistance should be extended; and
- appropriate governance arrangements for NAIF after that date.

Within four months of NAIF having received direction post that review it will set appropriate targets to measure NAIF's success in the period post 30 June 2021.

# NAIF Mandatory Criteria



NAIF's Investment Mandate outlines the mandatory criteria Project Proponents must meet for their project to be eligible for NAIF financial assistance.

The infrastructure NAIF can finance is wide ranging and includes assets that facilitate the establishment or enhancement of business activity or increase economic activity in a region.

NAIF projects must be of public benefit beyond those captured by a Project Proponent. In addition, an IES

demonstrating objectives for Indigenous participation, procurement and employment, reflecting Indigenous population in the region must also be developed by the proponent for each project.

For all projects there is a requirement for NAIF finance to be able to repay or refinanced.

The mandatory criteria are summarised in Figure 5.

**NAIF's focus on public benefit and Indigenous involvement and opportunity in northern Australia are key differentiators from other lenders.**

Figure 5: Mandatory Criteria to be eligible for NAIF financial assistance

## Five mandatory criteria

The project must:

1

**Involve the construction or enhancement of infrastructure**

2

**Be of public benefit**

3

**Be located in, or have significant benefit for, northern Australia**

4

**Be able to repay or refinance NAIF's debt**

5

**Have an Indigenous Engagement Strategy**

# Beyondie Sulphate of Potash Project

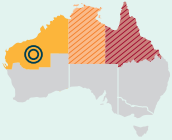
The NAIF loan is a key contributor towards Kalium Lakes Limited, the developer of the Beyondie project, becoming Australia's first Sulphate of Potash (SOP) producer and the creation of a new domestic industry as there is currently no SOP production in Australia.



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LOCATION

**Beyondie,**  
Western Australia



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PROPONENT

**Kalium Lakes Limited**

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CO-FINANCIERS

KFW IPEX-Bank (\$102m),  
Westpac (\$15m working  
capital facility)

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PUBLIC BENEFIT

**\$169m over 30+ year mine life**  
**140** construction jobs  
**56** operational jobs

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NAIF LOAN

**Up to \$74m**

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TOTAL PROJECT VALUE

**\$250m**



## About the Project

Kalium Lakes is an Australian, publicly listed exploration and development company, focused on developing the Beyondie project in Western Australia with the aim of producing SOP, a high yield, premium fertiliser, for both domestic and international markets. SOP is used to cultivate fruits, vegetables, berries, potatoes, beans, cocoa, tobacco and tree nuts.

The project aims to commence production at 90ktpa of SOP, before ramping up to 180ktpa. It is designed to be a low cost, long life and high margin producer with an initial mine life of between 30-50 years.

## Infrastructure

- 78km lateral gas pipeline (to be connected to the Goldfields Gas Pipeline).
- Gas fired power station.
- Upgrade of a connecting road (to the Great Northern Highway).
- Communication facilities.
- Airstrip.
- Accommodation village.

“ We are delighted to have the support of NAIF as we continue to develop this SOP project in Australia. Our team is very proud of the fact that NAIF recognises the public benefits of the Beyondie SOP Project, including providing a domestic source of a fertiliser which plays a significant role in improving agricultural yield and productivity, Indigenous engagement and the creation of jobs in local communities. ”

**Brett Hazelden**  
Kalium Lakes Managing Director

## The Value NAIF Brings

NAIF has approved the provision of a \$48m Infrastructure Development Facility and a Project Development Facility of up to \$26m.

The NAIF loan approval was a major milestone for the Beyondie SOP Project. It:

- supports Australian agricultural producers with a greenfield project financing;
- fills a financing gap which private sector debt was unable to fill due to the nature of the commodity (not exchange traded) and it being the first domestic project of its kind; and
- will allow Kalium Lakes to bring forward construction of the gas pipeline and the on-site gas fired power station (reducing operating costs).

## Indigenous Engagement

- Developing the existing strong relationship with local Traditional Owners groups, the Gingirana and Birriliburu peoples.
- Proactive identification and support of candidates for employment opportunities.
- Training and support to improve employee retention and career progression.
- Promotion of procurement opportunities and supporting Indigenous business capacity building.

## Economic Impact and Public Benefit

- The project public benefit beyond that enjoyed by the proponent has been forecast by Deloitte Access Economics to be \$169m over 30 years of the mine life.
- Benefits include 140 construction jobs and 56 jobs in operations.

# Corporate Governance

## Accountability

The responsible Minister for the FY18-19 period was Senator the Hon Matthew Canavan, Minister for Resources and Northern Australia.

The duties of the responsible Minister in relation to NAIF are set out in the NAIF Act<sup>10</sup>. These include that the Minister appoints NAIF's Board and gives direction to NAIF about the performance of its functions through the Investment Mandate. NAIF is required to take all reasonable steps to comply with the Investment Mandate.

The NAIF Act provides that the Minister cannot direct, nor have the effect of directing, NAIF to provide financial assistance for the construction of particular infrastructure, or in relation to a particular person<sup>11</sup>.

As a corporate Commonwealth entity, NAIF is subject to the requirements of the PGPA Act in relation to corporate governance, reporting and accountability.

## Corporate Governance Framework

NAIF has a comprehensive suite of governance policies that are fit for purpose and appropriate for its size and functions. It is a tailored governance framework that incorporates statutory responsibilities under the NAIF Act, Investment Mandate, PGPA Act and other relevant legislation.

NAIF's core suite of governance policies has been benchmarked against similar agencies in the public and private sectors and reviewed by independent experts<sup>12</sup>. These experts concluded that in their view the policies they reviewed reflected current Australian best practice as required by the Investment Mandate<sup>13</sup>.

## Review and Continuous Improvement

NAIF approaches its operations on a continuous improvement basis to ensure that it has regard to Australian best practice government governance principles, and Australian best practice governance for commercial financiers as required by section 17(1) of the Investment Mandate. Over the past 12 months

NAIF's Board reviewed 20 policies including a comprehensive review of NAIF's Privacy Policy and related procedures to remain responsive to changes in legislation. Six new NAIF specific policies were approved<sup>14</sup>, namely: Complaint Handling, Corporate Information Security, Due Diligence Costs, Procurement, Records and Information Management and Staff Travel and Expenses.

NAIF maintains a program of periodic independent expert review of material changes to core governance policies, as part of the annual policy review schedule.

## Board Charter

NAIF's Board Charter sets out its roles and responsibilities. This Charter builds off the Board's legislative accountable authority duties, and outlines key duties and responsibilities. This current Charter is available on the NAIF website.

## BARC Charter

The NAIF Board constituted the Board Audit and Risk Committee (BARC), which advises the Board in relation to financial and performance reporting, systems of risk management and oversight, and systems of internal control. The BARC consists of at least three Board members. Pursuant to the PGPA Act, the Chair of the Board, the CEO and the Chief Financial Officer of NAIF cannot be members of the Committee. All Board members are welcome to attend any BARC meeting, with outcomes from BARC meetings reported to the Board as a standing agenda item. The current BARC Charter is available on the NAIF website.

## Remuneration Committee

During FY18-19 NAIF commenced planning and establishment processes for a Remuneration Committee (RemCo). The Committee consists of three Board members (which do not include the Board Chair). The RemCo held its first meeting in July 2019, the commencement of FY19-20. Refer to section 9 for a description of the work of the RemCo in supporting the FY18-19 end of year remuneration processes.

<sup>10</sup> NAIF Act sections 9,11,12,15,16.

<sup>11</sup> NAIF Act section 9(4).

<sup>12</sup> Allens Linklaters (reviewed twelve policies) and Australian Government Solicitor (AGS) (reviewed four policies) in FY16-17. AGS reviewed NAIF's Privacy Policy in FY18-19.

<sup>13</sup> NAIF Investment Mandate Direction 2018, section 17(1).

<sup>14</sup> Prior to developing NAIF specific policies, NAIF had adopted and complied with Export Finance Australia's policies.

## Strategic and Corporate Planning

NAIF has developed strategic documents that align with its corporate governance framework and vision. The Strategic Plan sets out the shared vision of NAIF and provides guidance to the Board and Executive. The Corporate Plan 2019-2020, which outlines NAIF's plan for achievement of its key business strategies, is available on the NAIF website. The Corporate Plan 2018-2019 covering the reporting period is also available on the NAIF website.

## Code of Conduct

NAIF maintains a Code of Conduct that requires the observance of ethical guidelines by all NAIF staff.

## Conflicts of Interest

In addition to statutory requirements under the PGPA Act, NAIF manages conflicts of interest in accordance with its Conflicts of Interest Policy. The current Conflict of Interest Policy is available on the NAIF website.

The ANAO Performance Audit found that NAIF management of conflicts of interest was effective.

In general terms where a Director has an actual, apparent or potential conflict of interest in relation to a project under consideration, that Director does not receive papers and does not participate in discussions on that transaction. A Conflicts of Interest Register is maintained to record Board members' disclosed interests. Board meeting minutes record recusals due to disclosed conflicts as they occur. A register of staff Conflicts of Interest is also maintained and processes to manage relevant conflicts are implemented as required.

## Commercial-in-Confidence

NAIF is keenly aware of its responsibility as a steward of public resources to be as transparent as reasonably practicable.

NAIF's disposition is to publish information where doing so does not compromise the interests of the Commonwealth or risk breaching NAIF's legislated obligation to have regard to industry best practice. This obligation, includes the obligation to protect commercially sensitive information, and arises from an understanding that the Commonwealth's own interests (including the protection of its reputation) are best served by the protection of confidential information. Confidentiality helps avoid disclosures that might deter proponents, or that might lead private financiers to conclude they can lessen their exposure to a project,

in turn increasing demands on the public purse or lessening the achievement of NAIF's objectives.

NAIF's current confidentiality protocol which it applies in the public interest, is maintained across all projects. NAIF can release certain information, when releasing the information is agreed between the proponent and NAIF.

NAIF is required to publish on its website, within 30 business days of an Investment Decision being made, certain information regarding all transactions, subject to commercial confidentiality (refer to Figure 7). During the reporting period NAIF published this information in line with legislative requirements.

## Anti-Money Laundering/Counter Terrorism Financing (AML/CTF)

NAIF is required to have an AML/CTF program in place which, amongst other things, aims to identify and manage money laundering and terrorism financing risks.

NAIF has enrolled with the Australian Transaction Reports and Analysis Centre (AUSTRAC) and developed a comprehensive AML/CTF program. The AML/CTF program includes a framework for reporting suspicious matters to AUSTRAC together with comprehensive 'know your customer' procedures and ongoing customer due diligence and transaction monitoring procedures.

## Compliance

NAIF manages its compliance obligations through its Compliance Plan. No issues were identified in relation to non compliance with relevant legislative, regulatory or policy obligations during the reporting period.

All incidents in FY18-19, recorded in the NAIF Incident Register, in accordance with NAIF's Incident Management Policy were satisfactorily addressed with no systemic issues identified. The current Incident Reporting Policy is available on NAIF website.

## Quarterly Risk Management and Compliance Report

NAIF's quarterly Risk Management and Compliance Report (RMAC Report) provides ongoing monitoring and reporting of NAIF's Key Enterprise Risks (KERs). It includes an analysis of the residual risk rating, appetite result, tolerance measures and control effectiveness for each KER including any proposed changes from the previous quarter.

Commentary is included for each KER highlighting relevant activity over the current quarter and whether or not this activity has impacted the residual risk rating. Should a KER be assessed as outside appetite, for example due to control failures and/or tolerance breaches, an action plan to address deficiencies is developed and monitored by the risk owner.

BARC endorsed the RMAC Reports for Board approval for each quarter of FY18-19.

### Induction Program

All new NAIF Directors and staff during the FY18-19 period underwent an induction program, which included guidance around their obligations under the NAIF Act, Investment Mandate, PGPA Act and NAIF's governance framework. This induction program is regularly reviewed and updated.

### Annual Compliance Training

NAIF employees are required to complete annual online compliance training which is complemented by tailored face to face training. In FY18-19 NAIF achieved 100 percent compliance with completion of the required online training sessions.

### Internal Audit

McGrathNichol is NAIF's internal auditor. The internal auditor is over half way through a two year Strategic Internal Audit Plan which has been developed by the Board on the advice of the BARC. In formulating that plan, the key drivers were: NAIF's core business, key organisational risks, priorities established by NAIF's BARC and executive and NAIF's business environment.

### External Financial Audit

The ANAO, NAIF's external auditor, confirmed that NAIF's FY18-19 Financial Statements are compliant with Australian Accounting Standards and the PGPA Rule 2015 and issued an unmodified audit opinion. The field work associated with the FY18-19 Financial Statement audit was outsourced by ANAO to KPMG.

## LEGISLATIVE REPORTING

### Ministerial Directions

The NAIF Act is structured in such a way as to maximise NAIF's operational independence particularly with respect to Investment Decision making. The responsible Minister gives NAIF direction through the NAIF Investment Mandate.

In addition, the Minister has provided NAIF with a Statement of Expectations which outlines in a formal and public way the Minister's expectations on the operation and performance of NAIF beyond that considered by the legislative framework. The NAIF Chair has provided the Minister with a Statement of Intent outlining how NAIF will direct its operations to meet the Minister's and Government's expectations. The Statement of Expectations and Statement of Intent are available on NAIF's website.

### Legislative Review of the NAIF Act

Section 43 of the NAIF Act requires a review of NAIF's operations to occur as soon as possible after 1 July 2019. The review will cover among other things:

- whether the time limit of 30 June 2021 for making decisions to provide financial assistance should be extended; and
- appropriate governance arrangement for NAIF after that date.

This is broadly a review of the NAIF legislative framework. Responsibility for the conduct of this review sits with DIIS as the relevant policy agency supporting the responsible Minister.

### ANAO Performance Audit of NAIF

In April 2018 the ANAO commenced an audit of NAIF with the objective of examining the effectiveness of NAIF's governance and integrity framework. The report was tabled in April 2019 and will enable the organisation to further develop its governance framework. Amongst other things the ANAO concluded that:

- NAIF has an appropriate governance framework, including systems of risk management and internal control;
- NAIF has an appropriate integrity policy framework; and
- NAIF's management of conflicts of interest was effective.

The ANAO made six recommendations in relation to NAIF operations as set out in Figure 6 below. NAIF has accepted all recommendations in the report and is committed to implementing these recommendations, some of which have already been actioned.



Figure 6: ANAO recommendations and NAIF response

ANAO recommendation	NAIF response in ANAO Audit Report
<p>The NAIF publish criteria and all information necessary for applicants to submit complete applications for grants of financial assistance.</p>	<p>Agree: The NAIF Act and published Investment Mandate provide a comprehensive list of five mandatory criteria and at least an additional 27 requirements that the NAIF Board must either consider, have regard to or be satisfied with in making an Investment Decision. In addition, the NAIF website publishes a detailed outline containing other information required as a project is assessed. Notwithstanding this existing transparency NAIF undertakes to assist proponents by publishing case studies and further guidance.</p>
<p>The NAIF develop an information governance framework, electronic data and records management system, and appropriate records disposal authorities in line with National Archives of Australia requirements.</p>	<p>Agree: NAIF has commenced engagement with the National Archives of Australia (NAA) on the implementation of an information governance framework, including data and records management, in line with NAA requirements. NAIF will progress this work over 2019 to meet the requirements of the Australian Government's Digital Continuity 2020 Policy.</p>
<p>The NAIF publish more information about decisions, public benefit assessments, environmental assessments and Indigenous engagement strategies.</p>	<p>Agree: Taking into account the requirements of NAIF's legislative framework to uphold both public accountability and appropriately maintain commercial in confidence information NAIF commits, at a project or portfolio level as appropriate, to continue to publish more information, by way of case studies, about its Investment Decisions together with examples of expected public benefit, Indigenous engagement strategies and environmental outcomes from NAIF investments.</p>
<p>The NAIF cease the use of all non-official email accounts and servers to conduct official business.</p>	<p>Agree: NAIF has ceased the use of non-official email accounts, for any NAIF business. This does not extend to stakeholder or proponent engagement via the email accounts provided by those parties.</p>
<p>The NAIF select projects at each assessment stage on a consistent and transparent basis in accordance with published criteria, and retain adequate documentation to record the rationale for decisions made and actions undertaken.</p>	<p>Agree in principle: NAIF has and will continue to consistently select projects by assessment against the published NAIF requirements which will include at the strategic assessment stage whether mandatory criteria have potential to be satisfied and at the Investment Decision stage whether the requirements have been satisfied. NAIF will refine its published guidance material to elaborate on the type of information and factors that may be taken into account at each stage noting projects vary on their facts and that expert commercial judgement is always applied. In addition, while NAIF strenuously rejects any assertion that its decisions have not been based on robust and consistently applied processes, NAIF will strengthen its internal protocols around documenting its rationale for early stage assessments.</p>
<p>The NAIF revise its performance measures and targets to provide clearer accountability and transparency in the measurement of its performance, and measure and report on the realisation of public benefit.</p>	<p>Agree: NAIF's performance measures have been subject to review by its internal audit function, which has found the existing performance measures are considered relevant, reliable, complete and meaningful. The NAIF Board reviews all performance measures annually in a manner consistent with guidance provided through materials including the Public Governance, Performance and Accountability Act 2013 and Department of Finance Resource Management Guides. Within its capacity NAIF will monitor and publish information on public benefit realised through NAIF investments.</p>

In line with best practice, NAIF will be engaging independent expertise in developing, monitoring and reporting against a work program and implementation plan for the ANAO's recommendations (Work Plan). Expert advice may also be sought to assist with design processes to address components of the recommendations.

The Board intends to have appropriately prioritised, addressed and implemented all recommendations and suggested actions within twelve months of the implementation of the Work Plan. The Board also intends upon completion of all implementation work to seek confirmation that the Work Plan has been satisfactorily carried out. Implementation work will progress over FY19-20.

### Senate Inquiry into the Governance and Operation of NAIF

On 14 June 2017, the Senate referred an Inquiry into the Governance and Operation of NAIF to the Senate

Economics Reference Committee. NAIF's submission and the CEO's Opening Statements to the Senate Inquiry can be viewed on the NAIF website. The Committee held five public hearings in FY17-18 of which NAIF appeared at two (Canberra and Cairns). The Senate Committee tabled its report on 6 July 2018.

### NAIF Act – Section 42 Reporting

For the purpose of section 42 of the NAIF Act, NAIF reports as follows.

- a. **Investment Mandate changes:** There were no Investment Mandate changes during FY18-19.
- b. **Summary of proposal notices given to the Minister:** NAIF must give the responsible Minister a proposal notice under section 11(2) of the NAIF Act for each project on which it proposes to provide financial assistance being a written notice of the proposal. NAIF provided notices for the six Investment Decisions made by the NAIF Board between 1 July 2018 and 30 June 2019.

Figure 7: Summary of proposal notices

Proponent	Jurisdiction	Project	Maximum value of NAIF Investment Decision
Pilbara Minerals Limited <sup>15</sup>	Pilgangoora, WA	Upgrade of public road	\$19.5m
Sheffield Resources Limited	West Kimberley, WA	Thunderbird mineral sands	\$95.0m
Queensland Airports Limited	Townsville, Qld	Redevelopment and expansion of Townsville airport terminal	\$50.0m
Northern Territory Airports Pty Ltd	Darwin, Tennant Creek, Alice Springs, NT	Freight, transport, energy and solar	\$150.0m
Alinta Energy Pty Ltd	Pilbara, WA	Chichester Solar Gas Hybrid	\$90.0m
Kalium Lakes Limited	Beyondie, WA	Beyondie sulphate of potash	\$74.0m

- c. **Summary of rejection notices by the Minister:** There were no rejection notices from the responsible Minister during the period.

<sup>15</sup> This project will not proceed to financial close, see footnote 5, page 23.

d. Summary of projects for which financial assistance was approved during the period:

Figure 8: Summary of projects supported by an FY18-19 Investment Decision.

Project	Pilbara Minerals Ltd <sup>16</sup>	Sheffield Resources Ltd	Northern Territory Airports Pty Ltd	Queensland Airports Ltd	Alinta Energy Pty Ltd	Kalium Lakes Ltd
<b>NAIF Loan \$ approved amount</b>	\$19.5m	\$95.0m	\$150.0m	\$50.0m	\$90.0m	\$74.0m
<b>Type of Infrastructure</b>	Upgrade of a 70km public road to support the Pilgangoora lithium-tantalum mine.	LNG power generation facility, upgrade roads and port infrastructure to support the Thunderbird mineral sands project.	Freight and cold storage and export hub at Darwin International Airport, solar arrays at Darwin, Tennant Creek and Alice Springs, an off-site multi user battery, and runway upgrades.	Redevelopment of Townsville Airport terminal including new core infrastructure (water, fire, waste facilities).	60MW solar PV power station, transmission infrastructure, switchyards and substations to supply electricity.	78km gas pipeline, gas fired power station, road and communication infrastructure, an airstrip and an accommodation village to support the beyondie sulphate of potash project.
<b>Type of finance</b>	loan	loan (2 facilities)	loan	loan	loan	loan (2 facilities)
<b>Tenor</b>	10 years	20 years / 15 years	20 years	15 years	20 years	12 years / 17 years
<b>Senior</b>	✓	✓ (both facilities)	✓	✓	✓	✓ (both facilities)
<b>Subordinated</b>						
<b>Secured</b>		✓ (both facilities)	✓	✓	✓	✓ (both facilities)
<b>Unsecured</b>	✓					
<b>Interest rate concession</b>	✓	✓	✓	✓	✓	✓
<b>Interest capitalisation</b>		✓	✓	✓	✓	✓
<b>Interest only</b>	✓	✓	✓	✓		
<b>Returns to Commonwealth</b>	Each loan pays an upfront facility fee and an interest rate above the Commonwealth cost of borrowing.					
<b>Risks to Commonwealth</b>	Each loan has been rigorously assessed during the due diligence process to ensure the risks are understood and mitigated where possible. Risks include: project, credit, transaction, structure, environmental and social, construction, technology, operation, management, market, industry, business, financial and concentration risk.					

<sup>16</sup> This project will not proceed to financial close refer to footnote 5 on page 23.

- e. **Summary of adjustments or concessions made by NAIF in relation to infrastructure projects that have not progressed as planned:** There were no adjustments or concessions of this type during the reporting period.

### Indemnities and Insurance

NAIF has entered into arrangements through Comcover and Comcare. During the year NAIF maintained and paid premiums for Comcover and Comcare programs which, amongst other things, indemnify Directors, officers and employees against various risks and liabilities including directors and officers liability and professional negligence and related legal costs. Total premiums paid during the reporting period were \$29,111.

## ENVIRONMENTAL REPORTING

### Ecologically Sustainable Development (ESD) – s516A EPBC Act Reporting

NAIF has a statutory obligation under section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* to report on how its activities accord with ESD principles. NAIF does this through applying its Environmental and Social Review of Transactions Policy (ESR Policy) and as outlined in the Environmental Footprint section below.

### Environmental and Social Review of Transactions Policy

NAIF's current ESR Policy, available on the NAIF website, is consistent with the Government's expectations outlined in section 17(1) of the Investment Mandate. That section requires NAIF to have regard to best practice government governance principles, and Australian best practice corporate governance for commercial lenders when performing its functions, including developing and annually reviewing policies with regard to environmental, social and governance issues. The ESR Policy has been assessed by independent experts as being consistent with best practice and is subject to regular ongoing review.

### Environmental Footprint

In FY18-19 NAIF operated from four locations:

- a head office in Cairns, Queensland;
- in Sydney, New South Wales, where NAIF has a service level agreement (SLA) with Export Finance Australia;
- Brisbane, Queensland where NAIF accesses two desks through DIIS; and
- Perth, Western Australia where NAIF accesses one desk through the Export Finance Australia agreement with Austrade.

Figure 9: Environmental Performance Reporting

Theme	Steps taken to reduce effect
<b>Energy efficiency and emissions reduction</b>	<ul style="list-style-type: none"> <li>• Open plan offices and central air conditioning.</li> <li>• Central printing facilities, allowing for fewer devices (which have energy saving mode when not in use).</li> <li>• Use of technology for interstate meetings and training.</li> <li>• After hours lighting and air conditioning.</li> <li>• As at 30 June 2019, 30 percent of the Sydney office energy is Green Power.</li> </ul>
<b>Waste and water</b>	<ul style="list-style-type: none"> <li>• Paper generally from Australian Forestry Standard Certified production.</li> <li>• Employees have portable devices including phones and computers.</li> <li>• 'Follow me' printing system is installed to reduce paper consumption, with default printing set to double sided, black and white.</li> <li>• Staff encouraged to limit printing.</li> <li>• Recycling of waste paper and rubbish.</li> <li>• Central bin facilities only, no personal bins to encourage low waste production.</li> <li>• Electronic distribution of papers and briefings to Board Directors.</li> </ul>

Refer to Export Finance Australia Annual Report FY18-19 for further details regarding Sydney office efficiencies; DIIS Annual Report FY18-19 and Supplementary Environmental Report for further details on Brisbane office efficiencies; and the Austrade Annual Report FY18-19 for further details on their office efficiencies.



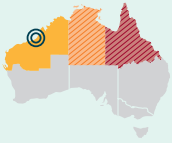
## CASE STUDY - INVESTMENT DECISION (August 2018)

# Pilbara Minerals Limited

Upgrade Pippingarra Road, a 70km public road to access the Pilgangoora lithium-tantalum mine\*.

### LOCATION

**Pilgangoora,**  
Western Australia



### PROPONENT

**Pilbara Minerals Limited**

### NAIF LOAN

**Up to \$19.5m**  
Single debt financier

### PUBLIC BENEFIT

**\$27m** over 17 year mine life  
Improved road safety and access  
**30** construction jobs

### TOTAL PROJECT VALUE

**\$25m**

## About the Project

Pilbara Minerals' Pilgangoora Lithium-Tantalum Project is located 120km from Port Hedland in Western Australia's resource rich Pilbara region. The project is one of the biggest new lithium ore (spodumene) deposits in the world. The project is accessible by road, with access to existing infrastructure including port facilities at the port of Port Hedland.

## The Value NAIF Brings

NAIF made an Investment Decision on the project in August 2018. The structure of NAIF's investment support was designed to incentivise the private sector to invest in multi user and publicly owned assets. Other sources of finance potentially available to Pilbara Minerals would make the project uneconomic.

## Indigenous Engagement

- Relationship established with the Njamal and the Kariyarra Traditional Owners, with regular, ongoing engagement occurring.
- Preferential employment and procurement initiatives targeting local Indigenous workforce and businesses.

- Preliminary roadworks and other project works sub-contracted to NPJV, a key Indigenous joint venture.
- Cross cultural awareness training to be delivered to staff and contractors by local Njamal Traditional Owners.

## Economic Impact and Public Benefit

Prior to NAIF's Investment Decision, independent analysis by Deloitte Access Economics forecast public benefit including \$27m over a 17 year mine life comprised of the following benefits:

- improved road safety by keeping heavy trucks off a long section of the vital Great Northern Highway and reducing interaction between light and heavy road train vehicles;
- improved access to remote Pilbara locations for individuals and businesses, Indigenous communities, quarries, locals, tourists and other mining companies; and
- environmental benefits from emissions reductions and less noise.

\* This project will not proceed to financial close. Refer to footnote 5 on page 23.

# Board

## Board Skills

NAIF's Board of Directors is appointed by the responsible Minister. All NAIF Board Directors have relevant experience as required under section 15 of the NAIF Act. The Board incorporates a broad range of skills and knowledge, combined with the extensive experience necessary to make Investment Decisions (to offer or not to offer finance).

The Board members also draw on the expertise of NAIF's Executive, or other independent experts as required, to aid in decision making.

## Changes to NAIF Board Membership

Changes to NAIF Board and BARC membership during FY18-19 and up to time of publication were:

Figure 10: Changes to NAIF Board and BARC membership

Date	Change
1 August 2018	Professor Khory McCormick appointed Chair (previously Acting Chair since 10 May 2018)
1 August 2018	Mr Ross Rolfe appointed Board Member
23 August 2018	Ms Karla Way-McPhail appointed as BARC member replacing Professor Khory McCormick
29 March 2019	Ms Kate George appointed Board Member
17 April 2019	Mr Ross Rolfe resigned as Board Member
1 July 2019	Ms Belinda Murphy appointed Board Member
9 July 2019	Changes to NAIF BARC membership and appointment of RemCo membership: <ul style="list-style-type: none"> <li>• Mr Justin Mannolini appointed BARC Chair replacing Mr Bill Shannon, who continues as a BARC member</li> <li>• Ms Belinda Murphy appointed BARC member, replacing Ms Karla Way-McPhail</li> <li>• Ms Karla Way-McPhail appointed inaugural Remuneration Committee Chair</li> <li>• Mr Barry Coulter and Ms Kate George appointed inaugural Remuneration Committee members</li> </ul>

## Board Profiles and Photos



### PROFESSOR KHORY McCORMICK

Chair  
DUniv, BA, LL.M

**Appointed Chair on  
1 August 2018 for the period to  
30 June 2021.**

Acting Chair 10 May 2018 -  
31 July 2018.

Appointed Director on 19 July 2016  
for a period of three years.

#### Current roles

- Deputy Chair, Singapore International Dispute Resolution Academy
- Professor of Strategic Law, Griffith University

#### Expertise

A legal practitioner having previously been a senior partner at a major Australian law firm. Almost 40 years' experience across infrastructure, resources and energy, construction, transportation in both the public and private sector.

#### Previous roles

- Australian delegate, United Nations Commission on International Trade Law Working Group II (UNCITRAL)
- Vice President, Australian Centre for International Commercial Arbitration
- Chairman of Energex group
- Chairman of Green Cross Australia

#### Sector experience

- Community sensitive issues advisory
- Education – globalisation and internationalisation of education services
- Energy – asset oversight and management, electricity distribution and retail
- Infrastructure – feasibility analysis, development and advice
- Resources – commodities, supply contract
- Trade, commerce, resources and energy conflicts/dispute resolution and systems design

#### Northern Australia

Experience engaging in northern Australia as a key advisor to significant projects. A foundation Director of NAIF.

#### Awards

Consistently peer ranked over a number of years as a leading lawyer for:

- Alternative Dispute Resolution
- Bet-the-Company litigation
- Government Practices
- International Arbitration
- Litigation
- Natural Resources

Recipient of a number of awards including a Doctorate of the University (Griffith University)



## MR BARRY COULTER AO

Director  
FAIM

Reappointed on 1 July 2019 for the period to 30 June 2021.

Appointed on 19 July 2016 for a period of three years.

### Current roles

Director of Northern Territory Airports Pty Limited

### Expertise

Extensive northern Australia and public sector experience, as a former member of the Northern Territory Legislative Assembly, and serving in senior positions of the Northern Territory government such as Deputy Chief Minister and Treasurer. During this time, responsible for a number of portfolios including transport, infrastructure and Territory ports. Credited with spearheading the Alice Springs to Darwin Railway Project.

### Previous roles

- Chairman of the Darwin Port Authority
- Chairman of Airthort
- Chairman of Sherwin Iron Ore Limited

### Sector experience

- Agriculture – livestock
- Construction – mining infrastructure assets
- Infrastructure – road, rail, port, airports
- Resources – iron ore mineral extraction
- Tourism – airports
- Transport – roads, rail, ports and airports
- Water – management and asset oversight

### Northern Australia

Spent more than 35 years advocating for northern Australia as an elected state government representative and business owner.

### Memberships and Affiliations

- Fellow of the Australian Institute of Management.



## MR JUSTIN MANNOLINI

Director  
BComm, LLB, LLM, GAICD, SF Fin

Reappointed on 1 July 2019 for the period to 30 June 2021.

Appointed on 19 July 2016 for a period of three years.

### Current roles

- Partner, Gilbert + Tobin Solicitors, Corporate Advisory Group
- Chairman of Jindalee Resources Limited

### Expertise

A lawyer with over 20 years experience in legal and financial sectors. Strong expertise in mergers and acquisitions, capital markets transactions and corporate governance.

### Previous roles

- Executive Director of Macquarie Group

### Sector experience

- Agriculture – livestock sale, export, supply chain
- Communications – data infrastructure
- Construction – feasibility and development
- Energy
- Resources – mineral extraction

### Northern Australia

Experience engaging in northern Australia as a key advisor to significant projects.

### Memberships and Affiliations

- Member of the Law School Advisory Board at Curtin University
- Cambridge Australia Scholar
- Graduate of the Australian Institute of Company Directors
- Senior Fellow of the Financial Services Institute of Australasia





## MS KARLA WAY-McPHAIL

Director  
DipEd, BEd, MEd, JP

Reappointed on 1 July 2019 for the period to 30 June 2021.

Appointed on 19 July 2016 for a period of three years.

### Current roles

- Co-founder and Chief Executive Officer of Undamine Industries
- Chief Executive Officer of Coal Train
- Director, Capricorn Helicopter Rescue Service Ltd

### Expertise

A business owner-operator who has extensive geographic, demographic and industry based knowledge of the resources sector in northern Australia. A former teacher and educational psychologist, with extensive expertise in education, training and mentoring.

### Previous roles

- President of the Capricornia Chamber of Commerce
- Director of the Resources Industry Council Central Queensland

### Sector experience

- Education – tertiary vocational education and training
- Resources
- Construction

### Northern Australia

Lives in and operates a number of enterprises in north Queensland. A strong supporter of development in northern Australia and devotes considerable time to many north Queensland community organisations.

### Awards

2012 recipient of the Hudson Private and Corporate Award at the Telstra Queensland Business Women's Awards.

### Memberships and Affiliations

- Patron of the Mining Women's Support Group
- Graduate of the Australian Institute of Company Directors



## MS KATE GEORGE

Director  
LLB

Appointed on 29 March 2019 for the period to 30 June 2021.

### Current roles

- Director, PwC, Indigenous Consulting
- Director, Warlparingu Pty Ltd
- Director, Claypan Services Pty Ltd
- Member of Northern Region TAFE Governing Council

### Expertise

Legal background and has extensive experience working in the resources industry, regional and Indigenous business, and infrastructure and asset management. Also experienced as a Board Member.

### Previous roles

- Principal Consultant, Claypan Services
- CEO, Kariyarra Mugarinya Property Joint Venture
- Ministerial Advisor State and Federal Governments

### Sector experience

- Aboriginal affairs – policy and programs
- Land development – residential
- Education – training and employment strategies
- Government – worked at both State and Federal level

### Northern Australia

A Putejorra woman involved in Aboriginal affairs for over 40 years including holding senior public service positions. Working on land access agreements and development opportunities with traditional owners, government and resources sector across northern Australia including the Pilbara.

### Awards

- Honorary Doctorate of Laws from Edith Cowan University
- Inaugural inductee in the WA Women's Hall of Fame

### Memberships and Affiliations

- Graduate of the Australian Institute of Company Directors.



## MR BILL SHANNON

Director  
BEc, CA, FGIA, FCIS

**Reappointed on 1 July 2019 for the period to 30 June 2021.**

Appointed on 19 July 2016 for a period of three years.

### Current roles

- Board member of Regional Development Australia Far North Queensland and Torres Strait
- Audit Committee member of Terrain National Resource Management

### Expertise

Extensive public sector experience in local government, as a former Mayor of the Cassowary Coast Regional Council. Many years' experience as an accountant, Company Secretary, business owner and farmer.

### Previous roles

- Deputy Chair of Regional Development Australia Far North Queensland and Torres Strait
- Far North Queensland Representative on the Local Government Association of Queensland Policy Executive
- Advance Cairns
- Tully Sugar Limited
- Wormald International Limited – Company Secretary

### Sector experience

- Agriculture – sugar cane and livestock farmer
- Construction – roads, infrastructure
- Infrastructure – local government and regional policy and planning
- Tourism – regional development, advocacy, planning, policy development

### Northern Australia

Many years advocating for northern Australia, as both an elected local government representative and business owner.

### Memberships and Affiliations

- Member of the Governance Institute of Australia
- Member of the Institute of Chartered Accountants Australia and New Zealand

## Directors Whose Term Ended in FY18-19

### MR ROSS ROLFE

Director

- Appointed 1 August 2018 for period to 30 June 2021
- Resigned 17 April 2019
- Board attendance in reporting period 8 of 10

## Directors Appointed after 1 July 2019

### MS BELINDA MURPHY

Director

- Appointed 1 July 2019 for period to 30 June 2021
- Board attendance in reporting period 1 of 13.  
Ms Murphy attended this meeting in the capacity of an observer, in advance of the commencement of her appointment to the NAIF Board

## Board Audit and Risk Committee (BARC)

NAIF's BARC held five meetings during the reporting period, with Committee Chair Mr Bill Shannon supported by Directors Mr Justin Mannolini and Ms Karla Way-McPhail who joined the BARC effective 23 August 2018. Ms Way-McPhail replaced Professor McCormick after his appointment as Chair of NAIF effective 1 August 2018.

Representatives of NAIF's internal auditors, McGrathNicol, participated in one of the BARC meetings to discuss the outcomes of completed internal audits and to discuss and review the forward internal audit work plan.

## Board Meetings Attended

Under the NAIF Act the Board is required to meet a minimum of twice each financial year. The Board met thirteen times during the reporting period. Meetings were held in northern Australia, including Cairns, Townsville and Mackay. Six of the Board meetings were held by telephone. A meeting was also held in Brisbane, in Canberra and two were held in Perth. In line with the BARC Charter, some Board members also attended BARC meetings during the reporting period.

The Board also participated in strategic planning and workshops to review, monitor and update NAIF's strategic direction and risk management framework, including its risk appetite. A strategic workshop on communications and stakeholder engagement was also held in FY18-19.

Figure 11: Summary of Board Member meeting attendance in FY18-19

Board Member	Board Meeting		BARC Meeting Attended
	Eligible <sup>17</sup>	Attended	
Professor Khory McCormick	13	13	5 <sup>18</sup>
Mr Bill Shannon	13	13	5 <sup>M</sup>
Mr Barry Coulter	12	12	5
Mr Justin Mannolini	12	12	5 <sup>M</sup>
Ms Karla Way-McPhail	13	13	4 <sup>M19</sup>
Mr Ross Rolfe <sup>20</sup>	9	8	2
Ms Kate George <sup>21</sup>	4	3	0

M – BARC member, other directors attended as outlined although not official members of BARC

<sup>17</sup> Board Members were not eligible for a Board Meeting in circumstances where the meeting was specifically to consider a project on which they were conflicted.

<sup>18</sup> Professor Khory McCormick resigned from BARC effective 23 August 2018.

<sup>19</sup> Ms Karla Way-McPhail joined BARC effective 23 August 2018.

<sup>20</sup> Mr Ross Rolfe was appointed on 1 August 2018 and resigned effective 17 April 2019.

<sup>21</sup> Ms Kate George was appointed effective 29 March 2019.

# Chichester Solar Gas Hybrid Project

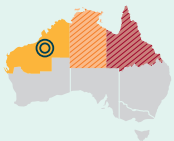
The project will enable Alinta Energy to supply electricity to Fortescue Metals Group Ltd (Fortescue)'s Chichester Hub iron ore mines, allowing daytime operations at the mining hub to be among the first globally to demonstrate up to 100% of its daytime power requirement by renewable energy.



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LOCATION

**East Pilbara,  
Western Australia**



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PROPONENT

**Alinta Energy Pty Ltd**

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PUBLIC BENEFIT

**\$221m**  
Around **200** construction jobs

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NAIF LOAN

**Up to \$90m**

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TOTAL PROJECT VALUE

**\$188m**



## About the Project

The project offers the opportunity to make a long term difference to the East Pilbara as through it Alinta Energy will provide low emission renewable energy generation for large off grid customers in the Pilbara.

NAIF's loan will be used to help Alinta Energy install electricity infrastructure at Fortescue's Cloudbreak and Christmas Creek mines which are currently powered by standalone diesel generators with the new facilities. The project innovatively combines solar and gas fired power to compensate for the variability of solar sourced energy. The majority of daytime power will be all renewables and the remaining power requirements will be met from Alinta Energy's existing gas fired power station and battery facility in Newman.

There is also potential for new mining operations, regional communities and pastoral stations to access electricity generated through the project.

Financial close on the project is pending at time of printing.

## Infrastructure

- 60 MW Solar PV power station.
- Transmission infrastructure.
- Switchyards.
- Substations to supply electricity.

## The Value NAIF Brings

NAIF's \$90m loan is provided on the basis of concessional longer tenor and lower pricing than would be generally available from commercial financiers to assist the Project's cost competitiveness against cheaper options with no renewables and which would generate much lower public benefit.

## Indigenous Engagement

- Targets of 3% employment (project labour hours) and 3% procurement supported by an Indigenous Participation Plan that engineering, procurement and construction contractors working on the project must comply with.
- Investment in a range of strategies to support Indigenous training and education throughout the operations phase of the project.

## Economic Impact and Public Benefit

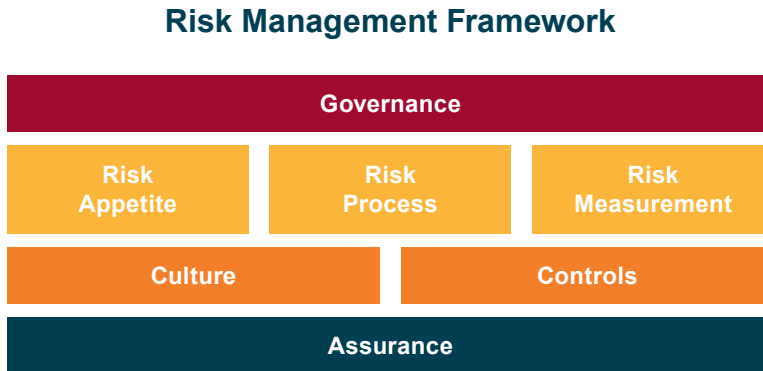
- Deloitte Access Economics in an independent cost benefit analysis forecast public benefits of \$221m.
- Around 200 jobs during construction phase.
- An important step towards a broader interconnected network across the Pilbara with the potential to improve accessibility, efficiency, reliability and costs across the region for both businesses and residents.

# Risk Management

NAIF's approach to risk management is consistent with the International Standard for Risk Management ISO 31000 and is designed to support NAIF in the achievement of its vision and strategic objectives.

Effective, best practice risk management enables NAIF to address financing challenges unique to its mandate. Figure 12 illustrates the key elements of NAIF's Risk Management Framework (RMF).

Figure 12: NAIF's Risk Management Framework



## Governance

The Board has overarching responsibility for NAIF's RMF, supported by the BARC. The Board plays a key role in setting a culture across NAIF that embraces risk management as an essential part of business operations.

The CEO and executive are responsible for developing and implementing, under the direction of the Board, the RAS and RMF, risk policies, systems, processes and controls, and fostering a risk aware culture. The executive reports to the BARC, which in turn advises the Board, on the effectiveness of the RMF and the management of NAIF's KERs.

An Enterprise Risk Forum, comprising the CEO, risk owners and other executives who work across the organisation, meets quarterly to discuss the status of KERs, emerging risks or opportunities and incidents. This forum informs the quarterly RMAC Report presented to the BARC for endorsement and recommendation to the Board.

## Risk Appetite

The NAIF Board recognises the importance of maintaining a documented RAS that clearly articulates the amount and type of risk it is willing to seek or retain in pursuit of its mandate and strategic objectives.

The RAS provides clear guidance to the executive on the acceptable risk limits within which they must execute their activities. On an annual basis, or more frequently if required, the Board reviews the RAS in conjunction with strategic objectives to ensure continued alignment and address emerging risks, changes to existing risks and changes to Government policy. A review of the RMF and RAS was completed in August 2018 following the introduction of the Investment Mandate 2018.

The RAS is not a public document as it describes in detail the way NAIF's risk appetite and tolerances (qualitative and quantitative) are established and controlled and as such is considered commercially sensitive.

## Risk Process

An effective RMF requires a continuous process of identification, assessment, management and monitoring of all material risks that could adversely affect current and future operations.

## Risk Measurement

NAIF's KERs are measured using a likelihood and impact matrix to determine a risk rating of low, medium, high or very high. Risks are assessed for their inherent risk exposure as well as their residual risk exposure (taking into consideration mitigating controls).

Criteria for measuring likelihood and impact have been tailored to NAIF's purpose and include financial, reputational, legal/compliance, operational and safety considerations.

## Risk Culture

Key elements of NAIF's risk culture are:

- setting the tone from the top through the Board and BARC's active involvement in the risk management process;
- risk awareness entrenched in day-to-day business processes through recruitment of skilled staff and on going risk and compliance training;
- rewarding appropriate risk taking behaviours and challenging inappropriate behaviours via feedback and performance reviews; and
- adequate disclosure of incidents through incident reporting.

## Controls

Controls are a key part of NAIF's RMF and aim to minimise the chance of a risk event materialising. Mitigating controls are documented for each key enterprise risk and are regularly assessed for effectiveness.

Figure 13: NAIF Key Enterprise Risks

## Assurance

Assurance activity provides a positive declaration that NAIF's RMF is operating as designed. Both internal and external reviews are leveraged to provide the Board with confidence that operations are aligned with approved policy.

Key Management Personnel (KMPs) and senior executives provide assurance via annual attestations to BARC that KERs are accurately described and associated controls are appropriately designed and implemented.

## Key Enterprise Risks

NAIF's primary focus is on its Investment Decisions and NAIF has structures in place to manage the risks associated with this function including detailed due diligence and credit approval processes. In addition, NAIF must manage a comprehensive list of strategic, governance and operational risks. NAIF's KER's (refer Figure 13) fall into the following broad categories:

- **Strategic:** risks related to meeting strategic objectives and expectations of key stakeholders;
- **Investment Decisions:** Project assessment and credit related risks;
- **Governance, Legal & Regulatory:** compliance with relevant obligations such as confidentiality, conduct and AML/CTF; and
- **Operational:** risks associated with running a viable and efficient business including resourcing, business continuity, outsourcing and health and safety.

## Key Enterprise Risks



# Kidston Project Stage 2, 250MW pumped hydro energy storage scheme

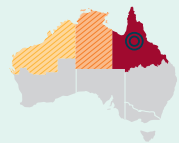
The Kidston project is the first pumped hydro energy storage scheme globally to be developed in an abandoned gold mine. The project includes a contribution to the construction cost of the 186km transmission line from the Kidston site to Mt Fox.



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#### LOCATION

**North west of Townsville,**  
Queensland



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#### PROPONENT

**Genex Power Limited**

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#### CO-FINANCIERS

Genex 50% equity  
EnergyAustralia 50% equity

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#### NAIF LOAN

**Up to \$610m** for 30 years  
(single debt financier)

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#### TOTAL PROJECT VALUE

Commercial in confidence

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#### PUBLIC BENEFIT

**\$814m** (to economy and community) including \$235m direct value add for Far North Queensland  
**510** construction jobs (including supporting transmission line)  
Up to **20** operational jobs



## About the Project

Kidston is essentially a giant battery, pumping water uphill when energy is abundant during off peak periods and releasing it to create power in times of peak demand. The project is co-located at an existing 50MW solar farm and a larger solar farm at the same location is planned.

The project will buy and store power from the National Electricity Market when it is cheap and plentiful in off peak periods. It will then sell it back to the market when prices go up in periods of high demand, typically in the morning and evening peak periods. The additional source of peak generation capacity will lead to lower average wholesale power prices which would flow to end users through the competitive retail power market.

The project's storage capability makes renewable energy dispatchable and reliable, which is needed in order to increase the market share of renewable generation.

## Infrastructure

- 186km 275kv transmission line.
- New substations switchyard and control building.
- Dam construction.
- Powerhouse cavern, two pump/turbines.
- Upgrade of local airstrip.

“ The support we have received from the NAIF team in advancing the Kidston project has been instrumental in getting the project to the stage it is today – NAIF’s conditional approval for the project in June 2018 brought confidence in the project’s financeability. This has been vital in building the momentum we have achieved with a range of other project participants and stakeholders. ”

**James Harding**  
Genex CEO

## The Value NAIF Brings

The Kidston project is supported by NAIF's largest loan approved to date (as at July 2019) of up to \$610m (representing ~12% of NAIF's total \$5bn allocated capital). In 2018 NAIF conditionally approved a project loan. This approval catalysed interest in the project. The NAIF conditional approval helped Genex secure other support for the project, including support from EnergyAustralia through a long-term offtake agreement and equity investment, and an agreement with J-Power of Japan to invest in Genex, conditional on the Kidston project closing.

Concessions offered by NAIF are required to help overcome disadvantages of the project's remote location compared to a development closer to major urban centres, including:

- higher construction costs;
- higher costs incurred in accommodating and flying the workforce to and from the project to Townsville;
- the significant cost of the required transmission infrastructure; and
- relatively high transmission losses due to distance from current energy load.

## Indigenous Engagement

- Maximising opportunities for local Ewamian and other indigenous workers and contractors; and
- Funding a contribution for an Ewamian owned eco-tourist facility.

## Economic Impact and Public Benefit

The project is forecast by Deloitte Economics to contribute \$814m in public benefit to the regional, state and national economy and community including \$235m direct value add for Far North Queensland. Benefits include:

- wholesale market energy cost savings estimated at a present value of \$500m;
- emission savings;
- reliable, on demand electricity; and
- 510 Construction and 20 operational jobs.

# Ammaroo Phosphate Project

The project is to develop a phosphate rock mining operation from the Ammaroo deposit which is Australia's largest phosphate resource.

## LOCATION

**200km south east of Tennant Creek and 300km north east of Alice Springs, Northern Territory**



## PROPONENT

**Verdant Minerals Limited**

## NAIF LOAN

**Up to \$160m**

## About the Project

Verdant proposes to develop and operate the Ammaroo phosphate project, a phosphate rock concentrate operation producing up to one million tonnes of concentrate product per annum over 25 years. The project's location enables future production to meet domestic demand on Australia's east coast (via Adelaide) or to meet export demand in Asian markets (via the Port of Darwin) to Asian phosphoric acid producers.

## Infrastructure

- Open cut mine.
- Floatation beneficiation plant.
- Associated mine site infrastructure, power generation, bore field and water pipeline.
- Accommodation village.
- 90km rail spur.
- 120km low pressure gas pipeline from the main Amadeus pipeline.

## The Value NAIF Brings

Noting the project's potential to provide substantial benefits for the Northern Territory, in November 2018 NAIF provided Verdant with a non binding indicative

term sheet for a long term concessional debt facility of up to \$160m. The objective was to assist to catalyse interest from other capital providers and offtake parties.

Subsequent to NAIF's indication of support, Verdant accepted a buyout in March 2019 from London based private equity firm CD Capital. As part of the arrangement, Verdant's major shareholder Washington Soul Pattinson has retained a 33.4% interest in the Ammaroo project.

The Ammaroo project is currently undergoing due diligence by NAIF prior to a final Investment Decision being considered by NAIF's Board of Directors.

## Indigenous Engagement

Verdant is continuing Native Title negotiations with the Central Land Council, on behalf of the Traditional Owners.

## Economic Impact and Public Benefit

Cost benefit analysis to be finalised. Initial estimates are that the project will create 300 construction jobs and 150 operational jobs.

# People

## Organisational Structure and Location

NAIF's head office in Cairns allows the CEO and executive to develop strong relationships across northern Australia. NAIF also has employees co-located with Export Finance Australia at its head office in Sydney, with DIIS in Brisbane and with Austrade in Perth.

NAIF's executive includes the CEO and seven direct reports. Origination executives are focused on developing opportunities across NAIF's northern Australian jurisdictions (Queensland, Northern Territory and Western Australia). They are supported by specialist execution executives to undertake due diligence, financial analysis and contract negotiation. Other executives have responsibilities for Indigenous engagement strategic assessment, corporate reporting, communications and stakeholder engagement, governance and Board secretariat.

## Service Level Agreement (SLA) with Export Finance Australia

NAIF is supported in its day-to-day operations through an SLA with Export Finance Australia. The SLA is for a term that extends until the last NAIF loan is expected to be repaid.

As an experienced financier, Export Finance Australia has expertise in managing large and complex lending transactions and is also a Corporate Commonwealth entity under the PGPA Act. The SLA arrangement ensures an efficient use of existing Commonwealth resources, reducing the duplication of resourcing requirements across government entities. The SLA allowed NAIF to transition from its start-up phase to operational phase more effectively and faster than it would have otherwise, and shared learnings across teams have also been a key benefit to both organisations.

The services provided by Export Finance Australia under the SLA fall into two broad categories:

- i. Assisting with transaction due diligence, environment and technical review, credit assessment and also managing the administration of the NAIF loan portfolio post financial close; and
- ii. Corporate and administrative services, including financial management and reporting, human resources, information technology and communication and property management.

Under this SLA, NAIF can access resources from Export Finance Australia on an 'as needs' basis. This allows NAIF to meet the needs of its business, proponents and other stakeholders efficiently and cost effectively.

During FY18-19, NAIF utilised 55 Export Finance Australia employees in various capacities including the Chief Financial Officer, Chief Human Resources Officer, Project Finance Environment and Technical Review, Chief Credit Officer and Portfolio Management.

Export Finance Australia employees providing services to NAIF under the SLA are considered NAIF employees when performing those services for the purposes of NAIF's general operations, and the provision of financial, audit and other statutory and non-statutory sign-offs.

The SLA was subject to internal audit in FY18-19 with no material audit findings.

## People

The ability of NAIF to meet its strategic vision is heavily dependent on the quality of its people. NAIF has secured an experienced and committed team with extensive experience as lenders and/or financial advisors in the commercial market. This includes expertise advising both the public and private sector counterparts. NAIF has also recruited people with specialist legal, government, risk and governance, Indigenous engagement and corporate administration expertise.

NAIF is committed to providing a learning and performance culture where its people have support to succeed and grow.

## Workforce Demographics

As at 30 June 2019, NAIF had 25.0 dedicated Full Time Equivalent (FTE) employees. An increase of 3.5 FTE (16 percent) since 30 June 2018.

One Australian Government Average Staffing Level position, representing the CEO position, is reported in the Portfolio Budget Statements<sup>22</sup>.

<sup>22</sup> Department of Industry, Innovation and Science Portfolio Budget Statement, page 210, published 2 April 2019.

Figure 14: NAIF Organisational Structure (as at 30 June 2019)

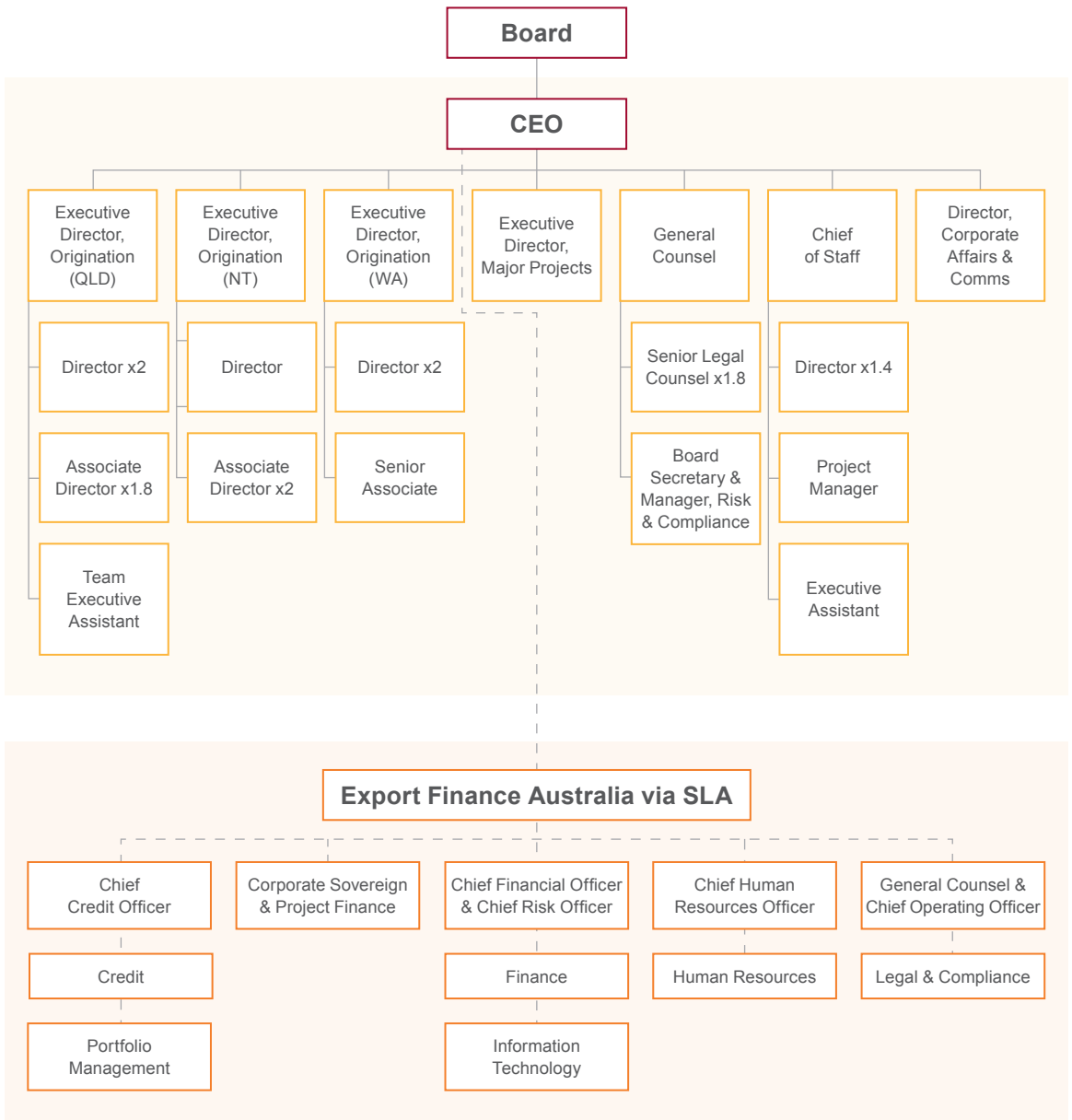




Figure 15: Number of FTE employees

	30 June 2019	30 June 2018
Total FTE staff	25.0	21.5
Export Finance Australia employees utilised (rates vary)	55.0	56.0

## Diversity and Inclusion

It is a strategic priority for NAIF to build and maintain a diverse workforce with the technical skills to fulfil its purpose. NAIF believes that diversity of thought helps to build employee engagement, drive innovation and results, and allow it to respond effectively to the diverse needs of all stakeholder groups.

NAIF champions a constructive and inclusive culture that embraces the different perspectives, identities and experiences of its people. NAIF provides equal opportunity in all aspects of employment, including employment conditions, recruitment selection,

remuneration, learning and development, and promotion.

NAIF is committed to Indigenous diversity and achieving a minimum 2.5 percent Indigenous employee representation, in line with the Australian Government policy target. During the reporting period NAIF had an Indigenous student working with the team in the head office in Cairns, who left just prior to period end to undertake further tertiary study. NAIF is planning recruiting to replace the position with another Indigenous student.

Figure 16: NAIF gender diversity profile at 30 June 2019

Classification	Female FTE's		Male FTE's		Total	
NAIF Employees	10.0	40%	15.0	60%	25.0	100%

Figure 17: NAIF workforce diversity at 30 June 2019

Classification	NESB <sup>23</sup> Headcount		ATSI <sup>24</sup> Headcount		PWD <sup>25</sup>	
NAIF Employees	8.0	31%	nil	nil	nil	nil

## Learning and Development

Through NAIF's own training program and through the SLA, NAIF employees are provided with access to a full learning and development curriculum. Employees receive initial induction through Human Resources, and then a further NAIF specific risk and compliance induction. There is then progressive compliance and other specialist training with a rolling schedule of independent experts presenting on industry sector trends and developments, as well as law, finance, compliance and risk.

As part of NAIF's performance and development program, employees have career discussions with their managers, and identify development plans for the year ahead.

NAIF also encourages its employees to attend, participate and present at thought leadership and industry conferences, and to share what they have learnt. NAIF executives presented at 36 industry events in FY18-19, with a selection of their speeches available on the NAIF website.

<sup>23</sup> NESB = Non English speaking background (or with parents from a non-English speaking background).

<sup>24</sup> ATSI = Aboriginal or Torres Strait Islander background.

<sup>25</sup> PWD = person with a disability.

## EMPLOYEE BENEFITS

### Flexible Working

NAIF offers an agile working environment to provide its employees with options to assist them in managing their work, travel and personal commitments. All employees have the technology to work remotely or from any NAIF office. NAIF employees have both formal and informal flexible work arrangements as outlined in NAIF's Working from Home Policy.

### Wellbeing Initiatives / Employee Assistance Programs

NAIF's employees benefit from many of Export Finance Australia's wellbeing programs, which promote improved health awareness, self-management skills and healthy work practices.

Through Export Finance Australia, NAIF's employees also have access to an employee assistance program, which provides support to them and their immediate families as needed, as well as access to a free confidential counselling service.

In addition, NAIF team strategy sessions have included discussion on topics such as resilience, personal growth, leadership, mind fitness and managing and responding to workplace challenges.

All NAIF staff were offered a complimentary influenza vaccination as part of the commitment to health and wellbeing of employees.

### Work, Health and Safety

While NAIF's employees are predominantly located in NAIF's Cairns head office, Export Finance Australia's Sydney office, DIIS's Brisbane office or Austrade Perth office, they travel frequently across northern Australia, to Canberra and other capitals, as well as using NAIF's technology options for remote working.

NAIF's office space is in secure buildings with restricted security pass access. Workstations and facilities have modern safety features, such as adjustable seats and computer monitors. Employees are also given information on ergonomic self-assessment and provided with additional equipment as required. Ergonomic assessments with trained professionals are undertaken.

NAIF works closely with Export Finance Australia around work, health and safety (WHS). NAIF engages with its employees on WHS matters, including the adequacy of its facilities, and takes steps to ensure a positive, productive and risk free working environment. NAIF has a designated First Aid Officer and Fire Warden in its Sydney and Cairns office and first aid training is also offered to other staff.

NAIF takes a pragmatic, risk based approach to WHS compliance framework and management practices. Workplace hazards are prioritised according to the risk that they pose to the health and safety of NAIF's employees, and are dealt with promptly.

NAIF records and monitors hazards and controls. Key risk areas that require specialised monitoring have been identified as domestic travel, often to remote areas of northern Australia.

NAIF has a process for incident notification and investigation, which includes reporting of 'near misses'. Incidents and near misses are managed, and proactive measures are put in place to reduce the potential risks identified.

NAIF had no workplace injuries among employees and contractors, and was not investigated and did not receive any notices or record any 'notifiable incidents' under the WHS Act, during the reporting period.

### Executive Remuneration Policies and Practices

In accordance with the requirements of the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule) and the Department of Finance Resource Management Guide 137 Commonwealth entities Executive Remuneration Reporting Guide for Annual Reports, NAIF reports on its policies which support its remuneration practices.

Figure 18 lists the Key Management Personnel (KMPs) for FY18-19. It includes all Non-Executive Directors and those executives deemed to be KMP by the Board, namely the CEO, Chief of Staff and General Counsel. These individuals are identified as KMPs consistent with the definition in the Australian Accounting Standards Board (AASB) 124 Related Party Disclosures.

A further three executive are classified as senior executives and six as other highly paid staff for the purposes of the Commonwealth's remuneration reporting. Refer to Figure 21 and Figure 22 following. Senior executives are defined as those executive, other than KMPs who are responsible for making decisions, or having substantial input into decisions, that affect the operations of the entity. Other highly paid staff are employees who are neither KMP nor senior executives and whose total remuneration exceeds the \$220,000 threshold for the FY18-19 reporting period.

Figure 18: FY18-19 KMPs

Name	Title	KMP Status	FY18-19 Status
<b>Board</b>			
Professor Khory McCormick	Chair	Full Year	Current
Mr Bill Shannon	Director	Full Year	Current
Ms Karla Way-McPhail	Director	Full Year	Current
Mr Barry Coulter	Director	Full Year	Current
Mr Justin Mannolini	Director	Full Year	Current
Mr Ross Rolfe	Director	Part Year	Not Current
Ms Kate George	Director	Part Year	Current
<b>Management</b>			
Ms Laurie Walker	Chief Executive Officer	Full Year	Current
Ms Carol Bellettini	Chief of Staff	Full Year	Current
Mr Adam Thatcher	General Counsel	Full Year	Current

The following changes were made to KMPs during the year:

- Professor Khory McCormick was appointed Chair on 1 August 2018. For the period 1 July 2018 to 31 July 2018, Mr McCormick held the position as Acting Chair.
- Mr Ross Rolfe was appointed Director on 1 August 2018. Mr Rolfe resigned effective 17 April 2019.
- Ms Kate George was appointed Director effective 29 March 2019.

### Remuneration

To achieve its business outcomes, as outlined in the Corporate Plan and as more broadly set through Government direction including the Investment Mandate and Statement of Expectations, NAIF needs to be able to attract, reward and retain skilled executives.

NAIF's Staff Remuneration Policy and processes are directed to supporting that outcome, recognising that NAIF has to work within an acceptable cost framework and comply with relevant Commonwealth Government's policies for its statutory agencies.

NAIF's executives include specialist project financiers (origination, execution and financial analysts and project finance legal advisers). Other roles include support for strategy, budgeting, audit, government and indigenous stakeholder engagement, corporate planning and reporting, communications and team support.

NAIF executives are employed on common law contracts. NAIF executives are not considered public servants and are not covered by the *Australian Public Service Act 1999*.

Remuneration for all executives (excluding the CEO) consists of two components; a Fixed Annual Remuneration (FAR) and 'at risk' remuneration delivered through a Short-Term Incentive (STI) program. The FAR aims to reward executives for executing the core requirements of their role. The STI program is an 'at risk' annual incentive opportunity where an STI payment may be awarded to ensure alignment with strategic objectives. Both FAR and STI remuneration determinations are made balancing relevant corporate and individual key performance indicator (KPI) outcomes. The STI program is known as an Annual Performance Reward or Bonus.

### Fixed Annual Remuneration (FAR)

FAR is comprised of base salary, superannuation contributions and any non-cash benefits. The following principles, outlined in the NAIF Staff Remuneration Policy underpin NAIF's setting of appropriate FAR:

- Market salary will be determined by comparing each executive's salary, to salary data from the financial services sector to provide independent benchmarking in determining appropriate remuneration for roles across the organisation. The NAIF uses data obtained from the Financial Institutions Remuneration Group (FIRG).

The FIRG data incorporates the salaries paid by other financial institutions for comparable roles or job families. This takes into account the complexity of the role. Remuneration benchmarking aims to position total remuneration competitively against comparable organisations. The guiding principle is to position total FAR remuneration towards the mid-point of the benchmark for comparable roles in the Australian market, whilst having regard to (and complying where required) with broader Government remuneration related policies such as the Australian Public Service Commission (APSC) Workplace Bargaining Policy.

- An individual's skills and experience. Within each job family, the FIRG material recognises that individuals will bring different levels of competence to a role, and that an individual's competence changes over time.
- End of year performance discussions.

### STI Program - Annual Performance Rewards (Bonus)

The provision of Annual Performance Awards (Bonus) is discretionary. Bonuses are considered, where individual KPIs are met and the organisation's values have been demonstrated over the course of the year.

NAIF values a number of financial and non financial outcomes and behaviours and actions in considering bonus recommendations. Certain performance gateways are required to be achieved by the individual before any STI payment can be earned being a minimum overall performance rating on KPIs which include risk and behavioural KPIs.

Bonus payments are pro-rata based on employee FTE status and tenure, factoring in the date of commencement and extended periods of leave. Bonuses for executive who commenced after 1 January are only considered in exceptional circumstances.

Following the year end annual performance review process the CEO may recommend a performance bonus for NAIF executive. Executive must be employed with NAIF, and not in their notice period, at the time the bonus is paid to be eligible.

The Board considers those recommendations. Bonuses are determined at the discretion of the Board.

### Salary Increases

Annual salary adjustments are at the sole discretion of the Board under the advice of the CEO.

NAIF works within the parameters of the Remuneration and Funding Declaration (Declaration) under the Workplace Bargaining Policy approved by the APSC Commissioner. The Declaration sets out the maximum amount to be awarded in non-promotional salary package increases. A funding declaration was approved for remuneration increases of up to six percent averaged over three years for the September 2017 to September 2019 period.

Executives who commence after 1 January are not eligible for a salary review in September of their starting year. Executives on extended leave including parental leave must be considered for a remuneration increase. This principle is consistent with best practice as a mechanism to assist in reducing the gender pay gap.

Salary increases are recommended by the CEO having regard to the individual performance, career progression and comparable market data. Recommendations by the CEO are referred to the RemCo.

### Directors Remuneration

All NAIF Directors are appointed by the Commonwealth Government through the responsible Minister. These appointments are made in accordance with section 15 of the NAIF Act. Board Fees for Directors are set and paid according to the determination of the independent Commonwealth Remuneration Tribunal (the Tribunal). This includes fees for Directors as well as those Directors appointed as members of the BARC. NAIF has no role in determining the level of the Board Director fees. Statutory superannuation is paid in addition to the fees set by the Tribunal.

Figure 19: Remuneration Tribunal (the Tribunal) Board and Committee fees (excluding superannuation) for FY18-19

Position	Annual Fee	Note
NAIF Chair	\$117,530	
NAIF Director	\$58,430	Mr Coulter received an annual member fee of \$45,610 instead of \$58,430.
NAIF BARC Chair	\$16,000	
NAIF BARC Member	\$8,000	

## CEO Remuneration

The CEO position is classified as a Full-Time Public Office holder under the Tribunal Determinations.

In accordance with the Tribunal Determination 2018 total remuneration for the Chief Executive Officer was \$427,170. In accordance with the Tribunal's determination the CEO position is not entitled to a Bonus.

## Remuneration Governance Arrangements

The NAIF Board established a RemCo effective 1 July 2019 which operates under a Remuneration Committee Charter. The primary role of the RemCo is to provide oversight of NAIF's remuneration policies and strategies. The establishment of the RemCo is consistent with outcomes of discussions with the ANAO during the NAIF Performance Audit completed in FY18-19. Following its establishment, the RemCo supported the Board with the FY18-19 end of year remuneration decisions. The RemCo does not have decision making powers other than to provide recommendations and advice to the Board for the Board's endorsement.

Executive remuneration decisions, within NAIF, consistent with the NAIF Staff Remuneration Policy are determined as follows:

### The CEO:

- is responsible for implementing NAIF performance management and remuneration policies and practices.
- ensures KPIs are set for executives to support the NAIF four strategic pillars outlined in the NAIF Corporate Plan (Origination, Risk Management, People & Culture and Stakeholder Engagement). Year end review of performance against the KPIs is undertaken by appropriate management executives with individual executives.
- with management collectively considers the outcomes of those annual performance discussions across all executive (excluding the CEO's direct reports who are assessed by the CEO) to ensure a consistent approach in benchmarking and to ensure there are no discrepancies or biases in the analysis.

- prepares a recommended Bonus pool provision for the review of the RemCo and recommendation to the Board. The size of the Bonus pool provision is developed based on a bottom up analysis of the performance of all eligible employees, taking into account considerations listed above. It is expected that the Bonuses assumed in that analysis will vary for performance but also to reflect the complexity and responsibility of different executive roles and also to reflect the complexity and responsibility of the individual remit in delivering NAIF's mandate / objectives.
- provides the RemCo that analysis and recommends a Bonus pool (equivalent to that provision) for review by the RemCo to the Board. The analysis will include a summary of the allocation performance outcomes and FIRG benchmarking data points.

### The RemCo:

- considers the recommendations presented by the CEO.
- in respect of the proposed bonus pool, takes into account the individual recommendations of the CEO in considering the proposed Bonus pool and allocations recommended by the CEO to ensure recommendations look fair and reasonable given their experience of the executives throughout the year.
- provides advice to the Board as to whether to endorse the Bonus pool at the August Board meeting each year.

### The Board:

- is responsible for ensuring that NAIF has coherent policies and practices that fairly and responsibly manage the performance and remuneration arrangements for the NAIF executives including through the following steps.
- considers recommendations made by the CEO and RemCo in that regard and at the Board's discretion approves the payment of a Bonus pool.
- if the CEO proposes any differences between Bonuses proposed in the pool recommended to the RemCo for endorsement for KMPs and final recommendations by the CEO for those KMPs approval from the Board must be provided.



## FY18-19 Remuneration Information

The following figures details the remuneration paid to NAIF KMPs, senior executives and other highly paid staff in FY18-19.

Figure 20: Remuneration paid to KMPs in FY18-19

		\$
Short term benefits:		
Salary		1,402,307
Bonus		69,878
Other benefits and allowances (Incl annual leaves)		959
<b>Total short term benefits</b>		<b>1,473,144</b>
Superannuation		130,498
<b>Total post employment benefits</b>		<b>130,498</b>
Long service leave		23,450
<b>Total other long term benefits</b>		<b>23,450</b>
Termination benefits		0
<b>Total key management personnel remuneration</b>		<b>1,627,092</b>

Name	Position title	Short term benefits					Post employment benefits	Other long term benefits			Total remuneration
		Salary	Annual leave adjustment	Base salary	Bonuses	Other benefits & allowances	Superannuation contributions	Long service leave	Other long term benefits	Termination benefits	
Khory McCormick	Chair	118,863	-	118,863	-	-	11,292	-	-	-	130,155
Bill Shannon	Director	74,430	-	74,430	-	-	7,071	-	-	-	81,501
Justin Mannolini	Director	66,430	-	66,430	-	-	6,311	-	-	-	72,741
Karla Way-McPhail	Director	65,312	-	65,312	-	-	6,205	-	-	-	71,517
Barry Coulter	Director	45,610	-	45,610	-	-	4,333	-	-	-	49,943
Ross Rolfe	Director	43,823	-	43,823	-	-	4,163	-	-	-	47,986
Kate George	Director	14,832	-	14,832	-	-	1,409	-	-	-	16,241
Laurie Walker	Chief Executive Officer	398,814	13,461	412,275	-	-	26,996	9,752	-	-	449,023
Adam Thatcher	General Counsel	319,782	-	319,782	34,878	-	35,754	7,991	-	-	398,405
Carol Bellettini	Chief of Staff	228,416	12,534	240,950	35,000	959	26,964	5,707	-	-	309,580
<b>Total</b>		<b>\$1,376,312</b>	<b>\$25,995</b>	<b>\$1,402,307</b>	<b>\$69,878</b>	<b>\$959</b>	<b>\$130,498</b>	<b>\$23,450</b>	<b>-</b>	<b>-</b>	<b>\$1,627,092</b>

Figure 21: Remuneration paid to senior executives in FY18-19

Remuneration band	Number of Senior Executive Staff	Short term benefits			Post employment benefits	Other long term benefits	Termination Benefits	Total Remuneration
		Average base salary (\$)	Average bonuses (\$)	Average other benefits & allowances (\$)				
\$395001 – \$420000	1	318,984	63,000	-	25,000	7,991	-	<b>414,975</b>
\$420001 – \$445000	2	339,204	64,750	-	25,000	7,991	-	<b>436,945</b>

Figure 22: Remuneration paid to other highly paid staff in FY18-19

Remuneration band	Number of Senior Executive Staff	Short term benefits			Post employment benefits	Other long term benefits	Termination Benefits	Total Remuneration
		Average base salary (\$)	Average bonuses (\$)	Average other benefits & allowances (\$)				
\$245001 – \$270000	2	200,615	20,438	-	22,482	5,137	-	<b>248,672</b>
\$295001 – \$320000	2	241,431	30,270	-	23,726	6,164	-	<b>301,591</b>
\$320001 – \$345000	2	244,023	24,000	27,430	22,918	6,050	-	<b>324,420</b>

### Independent Review of NAIF's Staff Remuneration Policy and Associated Practices

Following the completion of the ANAO Performance Audit (refer section 6), NAIF is progressing an independent review of its remuneration procedures and policies.

The intention of the review is to confirm the NAIF Staff Remuneration Policy and associated policies including position mapping remain appropriate taking into account the unique operating environment of the NAIF including its legislative mandate and timeframes, the commercial

market in which NAIF operates as a gap financier and the requirements of the NAIF Investment Mandate to have regard to Australian best practice government governance principles, and Australia best practice corporate governance for Commercial Financiers.

The scope for the review was prepared in FY18-19 and work by a selected independent adviser will be completed in FY19-20. Findings from this review will contribute to deliberations in a review of NAIF's human resources remuneration and associated policies and practices as part of the broader response to matters raised by the ANAO in discussions with NAIF.

# Financial Statements


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## Statement by Board Members, Chief Executive Officer and Chief Financial Officer

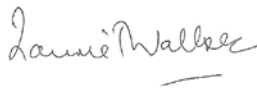
In our opinion, the attached financial statements for the year ended 30 June 2019 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)*, and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that Northern Infrastructure Facility (NAIF) will be able to pay its debts as and when they fall due.

This statement is made in accordance with a resolution of the Board.



**Khory McCormick**  
CHAIRMAN  
20 September 2019



**Laurie Walker**  
CHIEF EXECUTIVE OFFICER  
20 September 2019



**Stuart Neilson**  
CHIEF FINANCIAL OFFICER  
20 September 2019

# Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT

### To the Minister for Resources and Northern Australia

#### Opinion

In my opinion, the financial statements of the Northern Australia Infrastructure Facility ('the Entity') for the year ended 30 June 2019:

- (a) comply with Australian Accounting Standards – Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Entity as at 30 June 2019 and its financial performance and cash flows for the year then ended.

The financial statements of the Entity, which I have audited, comprise the following statements as at 30 June 2019 and for the year then ended:

- Statement by the Board Members, Chief Executive Officer and Chief Financial Officer;
- Statement of Profit or Loss and Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Notes to the financial statements, comprising a Summary of Significant Accounting Policies and other explanatory information.

#### Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Entity in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Accountable Authority's responsibility for the financial statements

As the Accountable Authority of the Entity, the Board is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under the Act. The Board is also responsible for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the ability of the Entity to continue as a going concern, taking into account whether the Entity's operations will cease as a result of an administrative restructure or for any other reason. The Board is also responsible for disclosing, as applicable, matters related

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to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

### **Auditor's responsibilities for the audit of the financial statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accountable Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office



Clea Lewis  
Executive Director

Delegate of the Auditor-General

Canberra

20 September 2019

# Statement of Profit or Loss and Other Comprehensive Income

for the period ended 30 June 2019

	Note	2019 \$'000	2018 \$'000	Original Budget \$'000
<b>NET COST OF SERVICES</b>				
<b>Expenses</b>				
Employee Benefits	1.1A	7,202	4,657	5,458
Suppliers	1.1B	2,836	4,190	4,077
<b>Total expenses</b>		<b>10,038</b>	<b>8,847</b>	<b>9,535</b>
<b>Own-Source Income</b>				
Own source revenue	1.2A	56	54	30
<b>Net cost of services</b>		<b>(9,982)</b>	<b>(8,793)</b>	<b>(9,505)</b>
Revenue from Government	1.2B	9,505	8,504	9,505
<b>Total comprehensive income/(loss) attributable to the Australian Government</b>		<b>(477)</b>	<b>(289)</b>	<b>-</b>

The above statement should be read in conjunction with the accompanying notes.

# Statement of Financial Position

as at 30 June 2019

	Note	2019 \$'000	2018 \$'000	Original Budget \$'000
<b>ASSETS</b>				
<b>Financial assets</b>				
Cash	2.1A	5,275	5,118	2,092
Other receivables	2.1B	33	40	-
<b>Total financial assets</b>		<b>5,308</b>	5,158	2,092
<b>Non-financial assets</b>				
Other non-financial assets	2.2A	23	10	-
<b>Total non-financial assets</b>		<b>23</b>	10	-
<b>Total assets</b>		<b>5,331</b>	5,168	2,092
<b>LIABILITIES</b>				
<b>Payables</b>				
Suppliers	2.3A	2,668	2,249	1,100
Other payables	2.3B	47	36	-
<b>Total payables</b>		<b>2,715</b>	2,285	1,100
<b>Provisions</b>				
Employee leave & other entitlements		984	774	992
<b>Total provisions</b>		<b>984</b>	774	992
<b>Total liabilities</b>		<b>3,699</b>	3,059	2,092
<b>Net assets</b>		<b>1,632</b>	2,109	-
<b>Equity</b>				
Retained surplus		1,632	2,109	-
<b>Total equity</b>		<b>1,632</b>	2,109	-

The above statement should be read in conjunction with the accompanying notes.

# Statement of Changes in Equity

for the period ended 30 June 2019

	Retained Surplus		
	2019 \$'000	2018 \$'000	Original Budget \$'000
<b>RETAINED SURPLUS</b>			
Opening balance as at 1 July	2,109	2,398	-
<b>Comprehensive income</b>			
Surplus/(Deficit) for the period	(477)	(289)	-
<b>Total comprehensive income/(loss)</b>	<b>(477)</b>	<b>(289)</b>	<b>-</b>
<b>Closing balance as at 30 June</b>	<b>1,632</b>	<b>2,109</b>	<b>-</b>

The above statement should be read in conjunction with the accompanying notes.

# Cash Flow Statement

for the period ended 30 June 2019

	2019 \$'000	2018 \$'000	Original Budget \$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Receipts from Government	9,505	8,504	9,505
Interest	56	53	30
Sundry	-	1	-
<b>Total cash received</b>	<b>9,561</b>	<b>8,558</b>	<b>9,535</b>
<b>Cash used</b>			
Employees	6,980	4,195	5,386
Suppliers	2,424	3,191	4,177
<b>Total cash used</b>	<b>9,404</b>	<b>7,386</b>	<b>9,563</b>
<b>Net cash from operating activities</b>	<b>157</b>	<b>1,172</b>	<b>(28)</b>
<b>Net increase/(decrease) in cash held</b>	<b>157</b>	<b>1,172</b>	<b>(28)</b>
Cash at the beginning of the reporting period	5,118	3,946	2,120
<b>Cash at end of the reporting period</b>	<b>5,275</b>	<b>5,118</b>	<b>2,092</b>

The above statement should be read in conjunction with the accompanying notes.

# Overview

For the period ended 30 June 2019

## Basis of preparation

The Financial Statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The financial statements have been prepared in accordance with:

- a. Australian Accounting Standards and Interpretations - Reduced Disclosure Requirements issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period; and
- b. *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR).

The Financial Statements are prepared in Australian dollars and rounded to the nearest thousand dollar (\$'000).

The Financial Statements have been prepared on an accrual basis and in accordance with the historical cost convention. No allowance is made for the effects of changing prices on the results or the financial position.

## New accounting standards

No accounting standard has been adopted earlier than the application date as stated in the standard.

The adoption of new standards and amendments that came into effect for this financial year did not have a significant financial impact on the Financial Statements. The major standards that came into effect this year were AASB 9 - Financial Instruments and AASB 15 - Revenue from contracts with customer, both new standards had no impact on NAIF financial statements.

A number of new and revised Australian accounting standards apply to financial statements in later years.

The most significant is AASB 16 - Leases which has an effective date from 1st July 2019. Based on current leases this will not have a significant impact on the Financial Statements.

## Taxation

NAIF is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and Goods and Services Tax (GST).

## Asset recognition

Purchases of property, plant and equipment are recognised initially at cost in the statement of financial position, except for:

- items of property with a project cost less than \$15,000 (which are expensed in the year of acquisition); and
- items of plant and equipment costing less than \$7,500 (which are expensed in the year of acquisition).



## Overview continued

For the period ended 30 June 2019

### Employee policies

Liabilities for short-term employee benefits expected within twelve months of the end of reporting period are measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

The liability for employee benefits includes provision for annual leave and long service leave. The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the entity's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to the shorthand method, and with management assessments relating to salary growth rates. The estimate of the present value of the liability takes into account an estimate of attrition rates and pay increases through promotions and inflation.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave estimated to be taken in the future by NAIF employees is less than the annual entitlement for sick leave.

NAIF's employees are members of superannuation funds held outside the Australian Government. NAIF makes employer contributions to these funds as per the Superannuation Guarantee Contribution rate. The liability for superannuation recognised as at 30 June 2019 represents outstanding contributions.

### Events after the reporting period

There were no significant events occurring after the reporting period that impact the NAIF's Financial Statements for the year ending 30 June 2019.

### Budget variance commentary

The variance in this commentary is the difference between the financial statements and the original budget presented to Parliament in the 2018-19 Portfolio Additional Estimates.

Budget figures assumed all of the underspend of \$2,398k would be spent in the 2017-18 financial year, whereas an amount of \$2,109k was rolled into the 2018-19 financial year and of this only \$477k was spent leaving a remaining surplus of \$1,632k. The underspend is due to timing differences associated with recruitment and related activities. Budget figures assumed a number of employees being supplemented by contractors, during the year contractors were replaced by permanent employees and this reflects the increase in employees benefits which is offset by a corresponding decrease in suppliers.

# Notes to and forming part of the Financial Statements

## for the period ended 30 June 2019

### FINANCIAL PERFORMANCE

	2019 \$'000	2018 \$'000
<b>NOTE 1.1 EXPENSES</b>		
<b>1.1A Employee Benefits</b>		
Wages and salaries	6,331	3,905
Superannuation defined contribution plans	555	311
Leave and other entitlements	316	441
<b>Total employee benefits</b>	<b>7,202</b>	<b>4,657</b>

Accounting policies for employee related expenses is contained in the Overview section.

#### 1.1B Suppliers

Support services provided by Export Finance Australia	768	1,591
Professional fees	534	871
Property costs	470	292
Travel	412	597
Consultants	206	320
Contractors	139	87
Computer and communication costs	127	225
Insurance	28	20
Advertising and promotional costs	11	57
Credit information	4	4
Other	137	126
<b>Total suppliers</b>	<b>2,836</b>	<b>4,190</b>

#### Leasing commitments

##### Operating lease payable

Within 1 year	120	117
Between 1 to 5 years	90	40
<b>Total operating lease commitments</b>	<b>210</b>	<b>157</b>

NAIF in its capacity as lessee of a property in Cairns has signed a lease agreement starting on the 25th March 2018 for a term of three years with a 3 year extension option. The total lease payments for the financial period was \$117k. At this stage NAIF has not made any determination as to whether they will be extending the lease.

Operating lease payments are expensed on a straight line basis which is representative of the pattern of benefits derived from the lease.

# Notes to and forming part of the Financial Statements *continued*

For the period ended 30 June 2019

## NOTE 1.2 REVENUE

### 1.2A Own source revenue

Interest	56	53
Sundry	-	1
<b>Total own source revenue</b>	<b>56</b>	<b>54</b>

### 1.2B Revenue from Government

Department of Industry, Innovation and Science		
Corporate Commonwealth entity payment	9,505	8,504
<b>Total revenue from Government</b>	<b>9,505</b>	<b>8,504</b>

Funding received or receivable from the Department of Industry, Innovation and Science (appropriated to NAIF as a Corporate Commonwealth Entity payment item) is recognised as Revenue from the Government when NAIF gains control of the funding. If the funding is in the nature of an equity injection, such amounts are recognised directly in contributed equity in the year received.

# Notes to and forming part of the Financial Statements *continued*

## FINANCIAL POSITION

For the period ended 30 June 2019

	2019 \$'000	2018 \$'000
<b>NOTE 2.1 FINANCIAL ASSETS</b>		
<b>2.1A Cash</b>		
Cash at bank	5,275	5,118
<b>Total cash</b>	<b>5,275</b>	<b>5,118</b>

Cash is held on deposit and is available at call

<b>2.1B Other Receivables</b>		
Goods and services tax	33	40
<b>Total other receivables</b>	<b>33</b>	<b>40</b>

<b>NOTE 2.2 NON-FINANCIAL ASSETS</b>		
<b>2.2A Other non-financial assets</b>		
Prepayments	23	10
<b>Total other non-financial assets</b>	<b>23</b>	<b>10</b>

<b>NOTE 2.3 PAYABLES</b>		
<b>2.3A Suppliers</b>		
Trade creditors and accruals	2,668	2,249
<b>Total suppliers</b>	<b>2,668</b>	<b>2,249</b>

Suppliers payables are recognised at cost to the extent that goods and services have been received irrespective of having been invoiced. Credit terms for goods and services is usually within 30 Days.

<b>2.3B Other Payables</b>		
Salaries and wages	44	33
Superannuation	3	3
<b>Total other payables</b>	<b>47</b>	<b>36</b>

The liability for salaries and wages and superannuation recognised represents outstanding amounts for the final fortnight of the financial year.

# Notes to and forming part of the Financial Statements *continued*

## PEOPLE AND RELATIONSHIPS

For the period ended 30 June 2019

### 3.1 KEY MANAGEMENT PERSONNEL REMUNERATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The entity has determined the key management personnel to be the Board members, the Chief Executive Officer, Chief of Staff, General Counsel, the Minister for Northern Australia, and the Portfolio Minister. Key management personnel remuneration is:

	2019 \$	2018 \$
Short-term employee benefits	1,473,144	2,510,481
Post-employment benefits	130,498	187,826
Other Long-term employment benefits	23,450	-
<b>Total key management personnel remuneration expenses</b>	<b>1,627,092</b>	<b>2,698,307</b>
Total number of key management personnel that are included in the above table are:	10	13

This table has been based on the requirements stipulated in the Resource Management Guide No. 138 Commonwealth entities Executive Remuneration Reporting Guide for Annual Reports.

The above key management personnel remuneration excludes the remuneration and other benefits of the Minister for Northern Australia and the Portfolio Minister. The Minister for Northern Australia and the Portfolio Minister's remuneration and other benefits are set by the Remuneration Tribunal and are not paid by NAIF.

The Board and CEO remuneration and other benefits are set by the Remuneration Tribunal. The Board members and CEO are not paid performance awards.

### 3.2 RELATED PARTY RELATIONSHIPS

The entity is an Australian Government controlled entity. Related parties to the entity are the key management personnel as defined above and other Australian Government entities.

Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens.

Significant transactions with related parties can include provision of corporate and administration services to NAIF, the provision of insurance, the provision of leases and the purchases of goods and services.

Where a NAIF Board member has an actual, apparent or potential conflict of interest in relation to a potential investment decision, that member does not receive papers or participate in discussions on that transaction. A conflicts of interest register is maintained to record Board members' disclosed interests. Minutes from Board meetings record recusals as and when they occur.

Giving consideration to relationships with related entities, and transactions entered into during the reporting period by the entity, it has been determined that there are no material related party transactions to be separately disclosed.



# Notes to and forming part of the Financial Statements *continued*

For the period ended 30 June 2019

	2019 \$'000	2018 \$'000
<b>NOTE 4: OTHER INFORMATION</b>		
<b>Note 4.1: Aggregate assets and liabilities</b>		
<b>Assets expected to be recovered in:</b>		
No more than 12 months	5,331	5,168
More than 12 months	-	-
<b>Total assets</b>	<b>5,331</b>	<b>5,168</b>
<b>Liabilities expected to be settled in:</b>		
No more than 12 months	3,519	3,001
More than 12 months	180	58
<b>Total liabilities</b>	<b>3,699</b>	<b>3,059</b>
<b>Total aggregated assets and liabilities</b>	<b>1,632</b>	<b>2,109</b>

# Index of Statutory Reporting Requirements

The Board of NAIF is obligated under section 46 of PGPA Act to prepare an annual report and the PGPA Rule sets out the mandatory content requirements.

## Part A – Public Governance, Performance and Accountability Act 2013

Section	Subject	Location within Report	Page
<i>Public Governance, Performance and Accountability Act 2013</i>			
s 46	The NAIF Board must prepare and give an annual report to NAIF's responsible Minister, for presentation to the Parliament, on NAIF's activities during the period.	Report of operations, Financial Statements and Independent Auditors Report	1-73
<i>Public Governance, Performance and Accountability Rule 2014</i>			
s 17BB	The NAIF Board must approve and sign the annual report which is to include: <ul style="list-style-type: none"> <li>• Details of how and when approval of the annual report was given; and</li> <li>• State that the NAIF Board is responsible for preparing and giving the annual report to the NAIF's responsible Minister in accordance with s 46 of the Act.</li> </ul>	Chairman and CEO Reports	2
s.17BE(a) – (b)	The annual report must detail NAIF's enabling legislation, and summarise its objects and functions and its purposes as set out in its corporate plan for the period.	About Us Annual Performance Statements NAIF Mandatory Criteria	12 20 27
s.17BE(c) – (f)	The annual report must provide details of: <ul style="list-style-type: none"> <li>• The name and title of the responsible Minister of NAIF</li> <li>• Any directions given by the responsible Minister</li> <li>• Any policy orders that applied to NAIF; and</li> <li>• Details of any non-compliance with the above.</li> </ul>	Corporate Governance Accountability <ul style="list-style-type: none"> <li>• Accountability</li> <li>• Ministerial Directions</li> <li>• NAIF Act – section 42 Reporting</li> <li>• NAIF Act – section 42 Reporting</li> </ul>	30 32 34 34
s.17BE(g)	The annual report must include NAIF's Annual Performance Statements.	Annual Performance Statements	20
s.17BE(h) – (i)	The annual report must detail any significant issues reported to the Minister.	Corporate Governance <ul style="list-style-type: none"> <li>• Legislative Reporting</li> </ul>	32
s.17BE(j)	The annual report must detail particulars of the Board.	Board <ul style="list-style-type: none"> <li>• Board Profiles and Photos</li> </ul>	39
s.17BE(k) – (l)	The annual report must detail particulars of NAIF's organisational structure and outline the location of the NAIF's major activities or facilities.	People <ul style="list-style-type: none"> <li>• Organisational Structure and Location</li> </ul>	51
s.17BE(m)	The annual report must outline the main corporate governance practices of NAIF.	Corporate Governance	30

Section	Subject	Location within Report	Page
s.17BE(q) – (s)	The annual report must detail any judicial and administrative decisions or reviews or reports having a significant effect on NAIF.	Corporate Governance <ul style="list-style-type: none"> <li>Legislative Reporting</li> </ul>	32
s.17BE(t)	The annual report must detail any indemnity applied during the financial year.	Corporate Governance <ul style="list-style-type: none"> <li>Indemnities and Insurance</li> </ul>	36
s.17BE(u)	The annual report must include an index of NAIF's statutory reporting requirements.	Index of Statutory Reporting Requirements	74-75
Sub C of Part 2-3	For KMP, senior executives and other highly paid staff: <ul style="list-style-type: none"> <li>Executive Remuneration policies and practices; and</li> <li>Executive Remuneration financial information</li> </ul>	People <ul style="list-style-type: none"> <li>Executive Remuneration Policies and Practices</li> </ul>	52

## Part B – Other legislation

Section	Subject	Location	Page
<b>Northern Australia Infrastructure Facility Act 2016</b>			
s. 42	NAIF's annual report must include: <ol style="list-style-type: none"> <li>Particulars of any changes to the Investment Mandate during the period and their impact on the operations of the Facility;</li> <li>A summary of the proposal notices given by the Facility to the Minister during the period;</li> <li>A summary of any rejection notices given by the Minister during the period and the Minister's reasons for giving the notices;</li> <li>For financial assistance provided by the Facility during the period, a summary of: <ol style="list-style-type: none"> <li>the amounts of financial assistance and kinds of Northern Australia economic infrastructure concerned; and</li> <li>the kinds of loan contracts used, and their impact features;</li> <li>the risks and returns to the Commonwealth.</li> </ol> </li> <li>A summary of any adjustments or concessions made by the Facility during the period in relation to the Northern Australia economic infrastructure projects that have not progressed as planned.</li> </ol>	Corporate Governance <ul style="list-style-type: none"> <li>NAIF Act Section 42 Reporting</li> </ul>	34
<b>Environment Protection and Biodiversity Conservation Act 1999</b>			
s.516A (3)(6)	Ecologically sustainable development and environmental performance	Corporate Governance <ul style="list-style-type: none"> <li>Environmental Reporting</li> </ul>	36
<b>Work Health and Safety Act 2011</b>			
Sch2, Pt 4, Clause 4(2)	Work health and safety initiatives, outcomes, statistics and investigations	People <ul style="list-style-type: none"> <li>Work, Health and Safety</li> </ul>	54

## Abbreviations and Acronyms

Figure 23: Abbreviations and Acronyms

Abbreviation / Acronyms	Description
AML/CTF	Anti-Money Laundering/Counter Terrorism Financing
ANAO	Australian National Audit Office
BARC	Board Audit and Risk Committee
CEO	Chief Executive Officer
DIIS	Department of Industry, Innovation and Science
ESD	Ecologically Sustainable Development
ESR	Environmental and Social Review of Transactions Policy
FAR	Fixed Annual Remuneration
FC	Financial Close
FIRG	Financial Institutions Remuneration Group
FTE	Full Time Equivalent
FY	Financial Year
IES	Indigenous Engagement Strategy
Investment Mandate	Northern Australia Infrastructure Facility Investment Mandate Direction 2018
KER	Key Enterprise Risks
KMP	Key Management Personnel
KPI	Key Performance Indicator
MFA	Master Facility Agreements
NAIF	Northern Australia Infrastructure Facility
NAIF Act	Northern Australia Infrastructure Facility Act 2016
PBS	Portfolio Budget Statement
PGPA Act	Public Governance, Performance and Accountability Act 2013
RAS	Risk Appetite Statement
RDA	Regional Development Australia
RemCo	Remuneration Committee
RMAC	Risk Management and Compliance
RMF	Risk Management Framework
SLA	Service Level Agreement
STI	Short Term Incentive
WHS Act	Work Health and Safety Act 2011
WHS	Work, Health and Safety

## Contact Details

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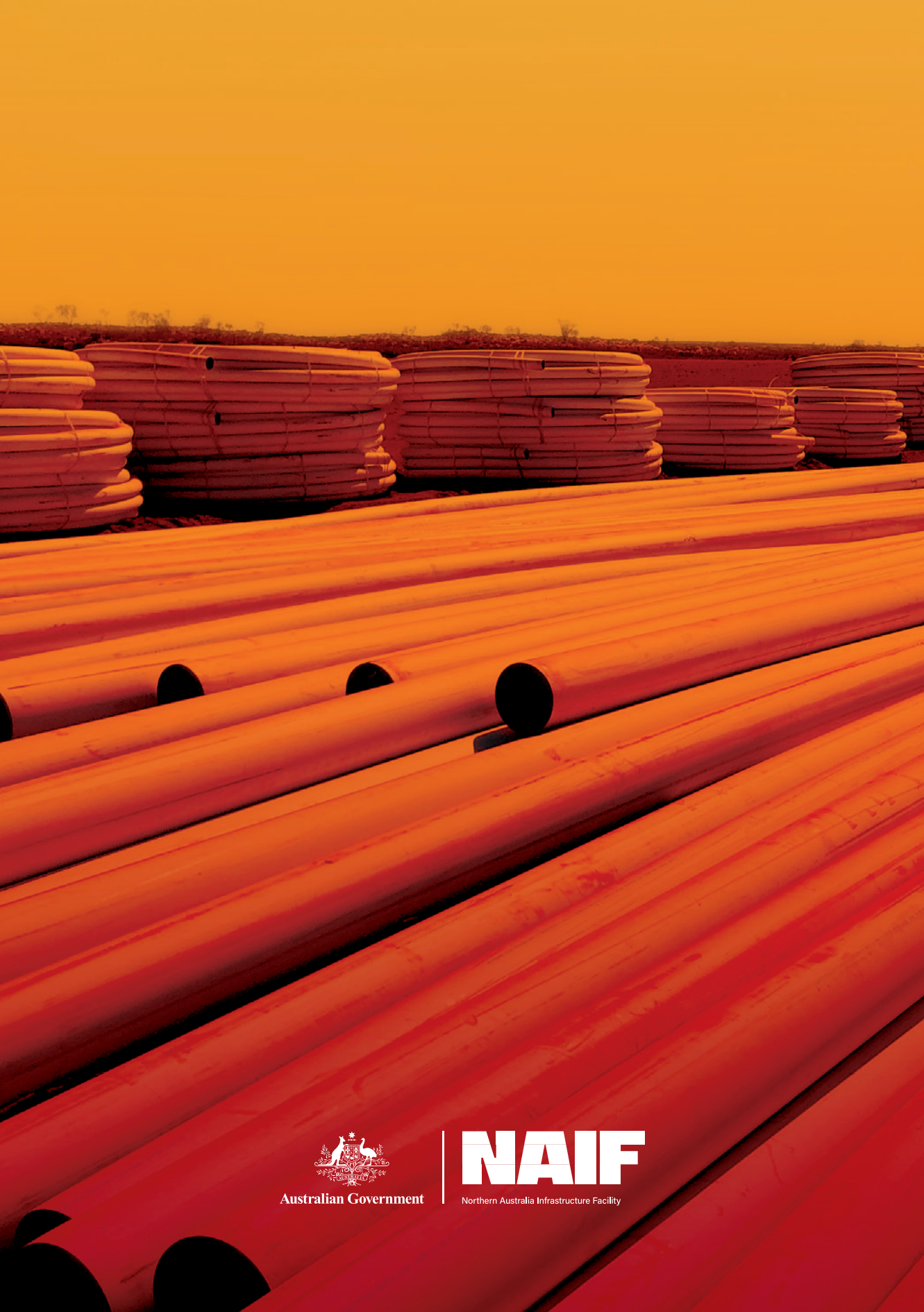
[www.naif.gov.au/reporting](http://www.naif.gov.au/reporting) and

[www.transparency.gov.au](http://www.transparency.gov.au)

 [naif.gov.au](http://naif.gov.au)

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