

CORPORATE PLAN
2017-18

CEFC

CEFC MISSION

TO ACCELERATE AUSTRALIA'S TRANSFORMATION
TOWARDS A MORE COMPETITIVE ECONOMY
IN A CARBON CONSTRAINED WORLD,
BY ACTING AS A CATALYST TO INCREASE
INVESTMENT IN EMISSIONS REDUCTION

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1 INTRODUCTION



The Board, as the accountable authority of the Clean Energy Finance Corporation (CEFC), presents the 2017-18 Corporate Plan, covering the four financial years commencing on 1 July 2017 and ending on 30 June 2021, as required under paragraph 35(1)(b) of the Public Governance, Performance and Accountability Act 2013 (PGPA Act).

A handwritten signature in black ink, appearing to read "Am. Skala".

Steven Skala AO
Chair
Clean Energy Finance Corporation

2 ABOUT US

The CEFC was established under the *Clean Energy Finance Corporation Act 2012* (CEFC Act), which defines how the CEFC invests and operates. The CEFC is an independent statutory authority, defined as a corporate Commonwealth entity under the PGPA Act. The CEFC has access to \$10 billion in capital, by way of appropriations, to invest in clean energy.

We are governed by an independent Board that reports to Parliament through our responsible Ministers, the Minister for the Environment and Energy, and the Minister for Finance. Staff are employed under the CEFC Act and are not members of the Australian Public Service.

The responsible Ministers provide formal directions to the Board about the performance of the CEFC investment function. At the date of publishing this Corporate Plan, the Clean Energy Finance Corporation Investment Mandate Direction 2016 (No. 2) was the operative direction.

We invest in businesses and projects, that are solely or mainly Australian-based, across the various sectors of the economy that have high potential to contribute to emissions reduction. We have a strong focus on investment in renewable energy technologies, which are required to make up at least half of our funds invested from 1 July 2018.

3 PURPOSE

Our purpose, as set out in the CEFC Act is:

“To facilitate increased flows of finance into the clean energy sector.”

Consistent with this statutory objective, the Board has established the following Mission:

“To accelerate Australia’s transformation towards a more competitive economy in a carbon constrained world, by acting as a catalyst to increase investment in emissions reduction.”

Ultimately, our purpose and mission will be achieved through investing, directly and indirectly, in clean energy technologies and projects and through leveraging our own investment to attract private sector investment.

To increase the aggregate flows of finance into the clean energy sector over the longer term, it is important that we share our insights and expertise with project sponsors, co-investors, other public-sector bodies and agencies, as well as the energy sector and other industry bodies.

4 INVESTMENT APPROACH

We invest responsibly and manage risk prudently, adopting a commercially rigorous approach to our investment activities. The CEFC investment approach encompasses the following elements:

1. COMPLYING INVESTMENTS

Under the CEFC Act, we may only invest where the investment meets the complying investment criteria. This requires investments to be solely or mainly Australian-based, clean energy technologies or projects where such clean energy technologies include renewable energy, energy efficiency and low emissions technologies.

2. PUBLIC POLICY PURPOSE

While we operate with an objective of financial sustainability, our primary purpose is not profit maximisation. We differ from private sector financial institutions in that we have a public policy purpose where we place considerable value on external benefits associated with our financing activities. Those external benefits include emissions reductions, moving new technologies down the cost curve, productivity gains achieved through energy efficiency, technology diversity in the energy mix, innovation, developing capability and leveraging private sector funds into the clean energy sector. In some circumstances, we may provide concessional finance where we consider that public policy benefits are promoted through the concessionality provided.

3. COMMERCIAL RIGOUR

We apply commercial rigour in our investment approach, using financial products and structures designed to address the barriers inhibiting private sector investment that contribute to Australia's emissions reduction activities. We are not a grant making organisation. We invest with an expectation that our portfolio of investments will generate positive financial returns, noting that individual investments will differ in their underlying risk profiles. Careful risk assessment and mitigation through structuring and financing terms are a critical enabler of our investment activities. We seek to adopt the lowest risk position possible to minimise the likelihood of capital losses, while noting the level of expected emissions reductions and other public policy benefits.

4. 'CROWDING IN'

We encourage and actively seek to facilitate others investing in the clean energy sector. The CEFC works with private sector financiers, project sponsors and business owners, to facilitate and leverage increased flows of finance into the clean energy sector. The CEFC does not seek to displace private sector banks nor disrupt areas where the financial markets are functioning well.

More detail regarding our investment approach can be found in the CEFC Investment Policies, published on the CEFC website www.cefc.com.au.

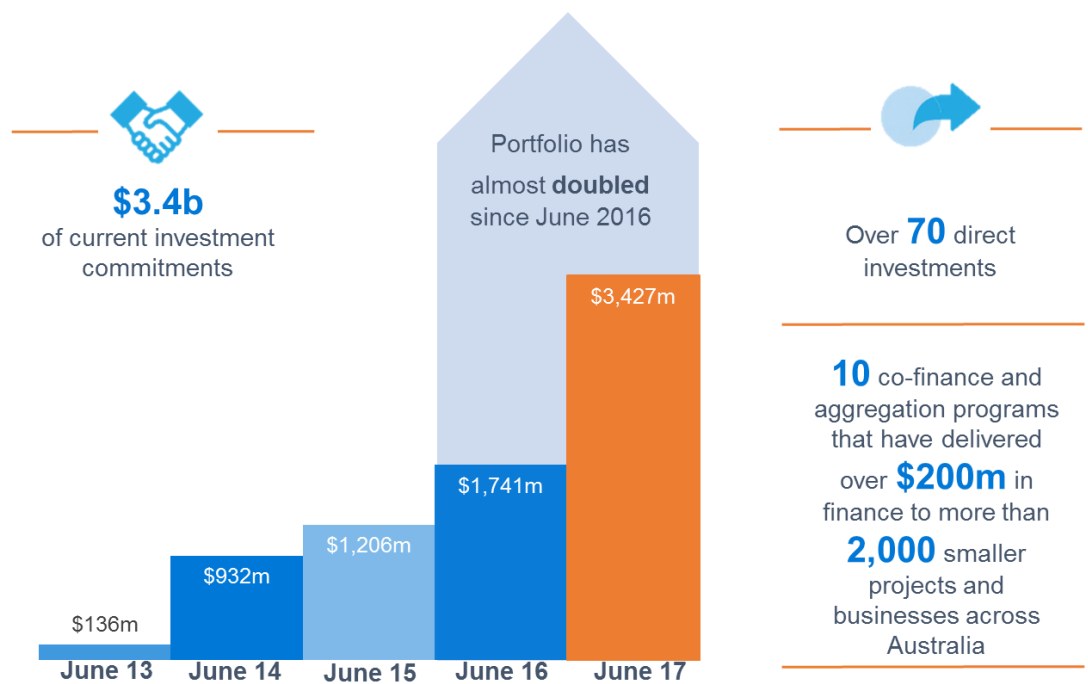
5 INVESTMENT PORTFOLIO

At the commencement of the plan period, being 1 July 2017, we have been in operation for four full financial years and have made cumulative investment commitments of \$4.3 billion to projects with a total value of \$11 billion.

In the 2016-17 financial year, we made new commitments of over \$2 billion across 35 new transactions with the increased value and scale of CEFC activity eclipsing prior year investment commitments. The breadth and depth of our investment commitments signals strong growth in business and investor appetite for clean energy assets.

After accounting for repayments of our investments over the year, the portfolio of investment commitments almost doubled in the year, to \$3.4 billion of current commitments at 1 July 2017.

FIGURE 1: CEFC portfolio of investment commitments to 30 June 2017



6 STRATEGY

Our strategy seeks to maximise the impact that finance into the clean energy sector has on Australia's emissions reduction efforts.

6.1 Strategic context

On 10 November 2016, Australia ratified the Paris Agreement and the Doha Amendment to the Kyoto Protocol, reinforcing Australia's commitment to action on climate change.

The Paris Agreement aims to strengthen the global response to the threat of climate change with a key objective of:

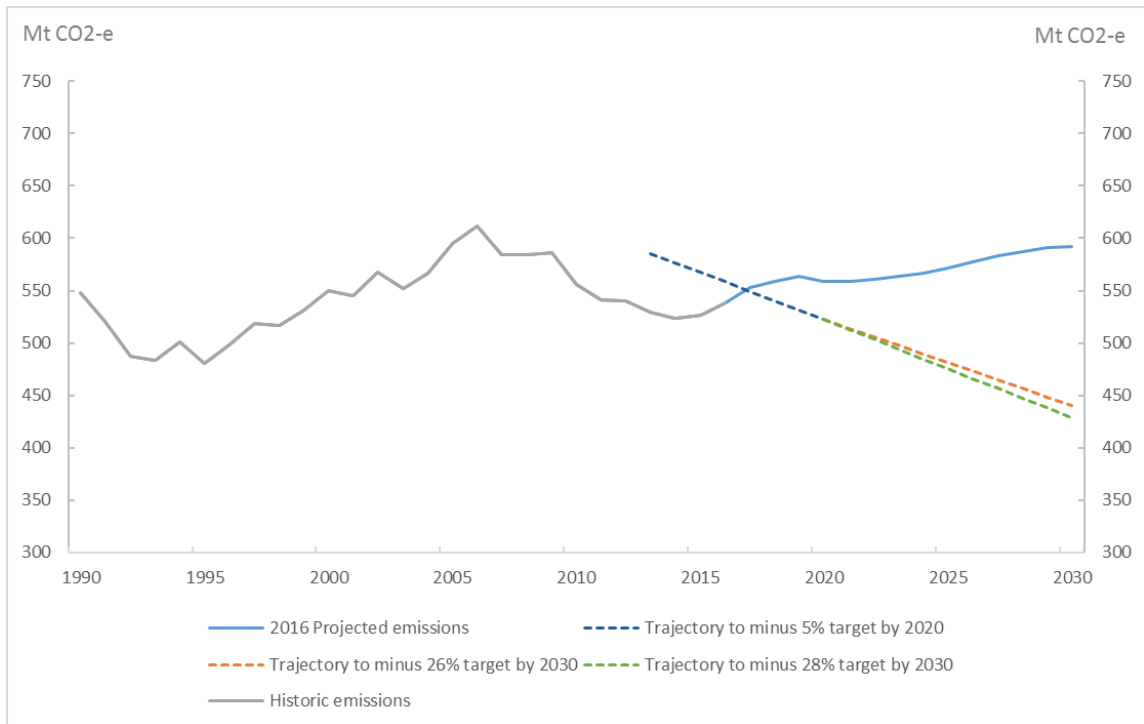
"...holding the increase in global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change."

Further, in order to achieve these long-term temperature goals, Article 4 of the Agreement requires that parties aim to achieve net-zero emissions in the second half of this century, with developed countries to take the lead by undertaking economy-wide absolute emissions reductions targets.

In pursuit of these longer-term goals, each party prepares nationally determined contributions that it intends to achieve. Australia has committed to reduce emissions by 26-28 per cent below 2005 levels by 2030. Australia's future nationally determined contribution will progressively step up ambition over time as is required under the Agreement. The 2030 emissions reduction task is shown in Figure 2.

At the time of publication of this Corporate Plan, the Australian Government is undertaking a review of the suite of Climate Change Policies to ensure Australia is well placed to meet its obligations under the Paris Agreement. State and Territory Governments are also developing and implementing policies to facilitate emissions reductions.

FIGURE 2: Australian Government emissions projects 2016, MtCO₂e, 1990 to 2030 (Department of the Environment and Energy 2016)



Energy use is the most significant source of emissions in the Australian economy. While the electricity generation sector has a very central role to play in Australia’s emissions reduction efforts, other sectors are also important. The CEFC is focussing its investment activities across the areas that best serve Australia’s decarbonisation pathways.

The 2030 national emissions reduction target of 26-28% and the longer-term objective, under the Paris Agreement, of limiting global warming to well below 2°C, will require further emissions reductions beyond 2030. We recognise that investment in assets that will have a useful life beyond 2030 will need to be capable of meeting emissions levels below and beyond the 2030 target.

6.2 Strategic approach

Our strategic approach is to identify the main sources of carbon emissions in the Australian economy and to understand and align our activities to the pathways that will facilitate a lower emissions economy in the future. The priority energy-related pathways (which ultimately address the majority of Australia's emissions) are:

1. **Low carbon electricity**, through the increased deployment of clean energy technologies;
2. **Ambitious energy efficiency**, which in all sectors will play a critical role in reducing energy intensity; and
3. **Electrification and fuel switching**, from fossil fuels to bioenergy and high emissions fuel sources to lower emissions fuel sources.

These pathways inform how we structure our operations to assist with the energy decarbonisation challenge. This transition will be achieved through a mix of centralised and decentralised new energy growth capacity. Focussing on low carbon electricity is a core function of our business, noting the requirement under the CEFC Act that half of our portfolio be invested in renewable energy from 1 July 2018.

LOW CARBON ELECTRICITY

Electricity generation is currently highly emissions intensive and there are proven clean energy technologies that can be employed to reduce the emissions intensity of the electricity system. Decarbonisation of the electricity system is also an important precursor to realisation of the full benefits of electrification. If the electricity system remains emissions intensive the full emissions reduction benefits of electrifying the transport fleet cannot be realised.

AMBITIOUS ENERGY EFFICIENCY

This will be an important enabler of emissions reduction and energy productivity in the broader economy. Reducing the energy intensity of homes, offices and plants will help limit the amount of investment required in the new electricity generation assets, while helping to reduce users' energy consumption.

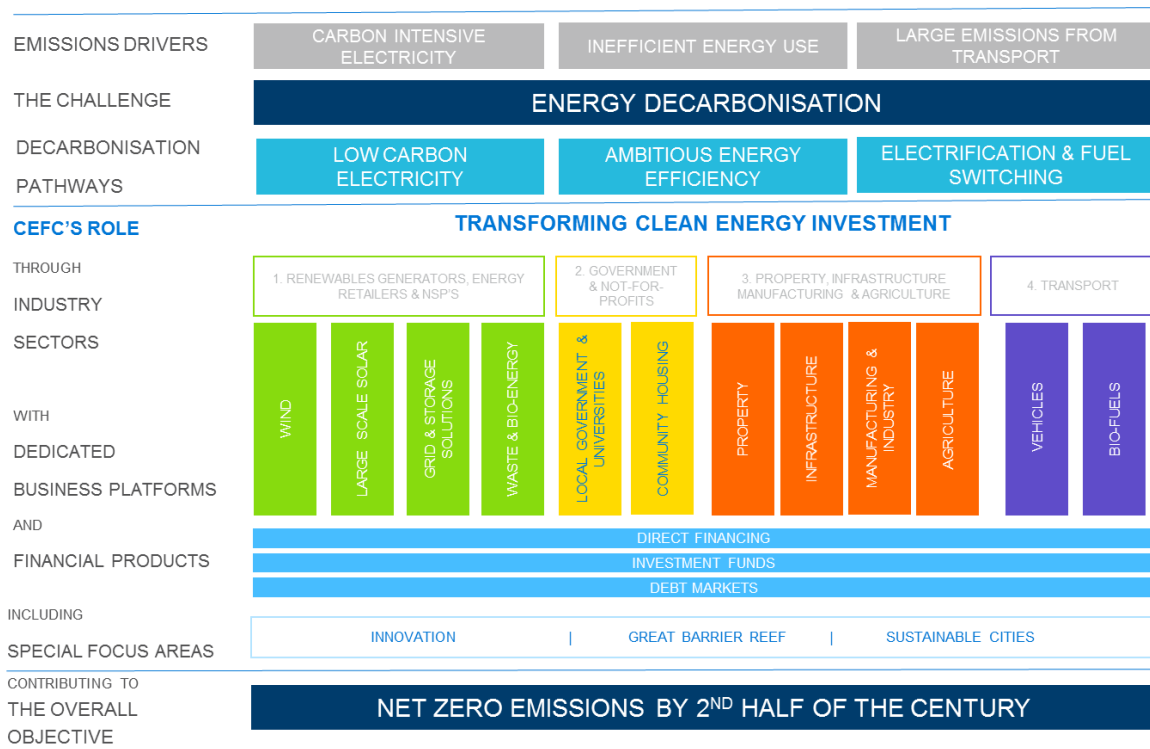
ELECTRIFICATION AND FUEL SWITCHING

This is focussed on reducing emissions associated with liquid fuel combustion, that today is the major energy fuel source for transportation. With technology advances, switching to electric vehicles that can then be charged by low emission electricity or renewable self-generation can lower emissions. For those uses that are not immediately suited to electrification, switching to less carbon intensive fuel sources, such as bioenergy, can further reduce emissions. These transitions will require investment in supply chain contributors (such as lithium-ion producers for batteries and new bio-fuel production capability) as well as infrastructure, such as electric charging stations.

6.3 Strategic framework

Reflecting our focus on these high priority decarbonisation pathways, our strategic framework focuses on industry sectors with the strongest potential for emissions reductions, including electricity generation, transport, property, infrastructure and manufacturing. By transforming investment in these sectors, we support these industries as they transition to a lower emissions environment, through low carbon electricity, ambitious energy efficiency and electrification and fuel switching. This is essential as the Australian economy moves towards net zero emissions by the second half the century.

FIGURE 3: CEFC Strategic Framework



7 CAPABILITY

As a small, responsive organisation, operational efficiency is critical to our performance. Our internal structures and processes are tightly aligned with our strategic objectives.

7.1 Strategic linkage to our purpose

Aligning our investment strategy and our organisational focus to the identified decarbonisation pathways of low carbon electricity, ambitious energy efficiency and electrification and fuel switching, will contribute to Australia's energy transition in the near term, the 2030 emissions reduction target of 26-28% and the longer-term aspirations of net zero emissions by the second half of the century.

7.2 Sector focus

We have recruited and developed in-house expertise in each of the prioritised industry sectors. Understanding the business drivers and investment opportunities within these sectors is critical to being able to identify and unlock emissions reduction opportunities. Our experience has also highlighted the benefits of first-of-a-kind transactions within sectors that pave the way for greater uptake of more ambitious emissions reduction projects thereafter. The impact of our finance on emissions reductions can often go beyond the initial project that was financed.

7.3 People

We are a services business and the quality of our people is critical to the effectiveness and efficiency of our operations. It is important that we maintain a professional, purposeful and passionate team. We recognise that as we plan for growth in our investment activities, including origination, asset and risk management activities, we must also plan for growth in our staff and our overall capabilities¹. In adopting a commercial approach, increases in employees are commensurate with the level of investment activity and revenues that we generate, to ensure we remain financially sustainable over the Plan period and beyond.

7.4 Systems and processes

Our business has grown over the past four years and we recognise the need to review our systems and refine our processes to ensure they are fit for purpose for the coming years. To this end, we will review our systems requirements and establish a roadmap to implement the identified enhancements in the Plan period. Engaging and retaining the appropriate number of high performing people, supported by the right systems and processes, underpins the quality and effectiveness of everything we do, including our origination activity, portfolio management and risk management activities.

7.5 Financial products

We have developed a range of financial products and structures to encourage and support emissions reductions in different markets. These range from senior secured debt through to the Clean Energy Innovation Fund and early stage equity. Developing the right product for the right segment is a key enabler. For example, finance for consumers and small businesses is most efficiently and effectively delivered via existing financial institutions who have an extensive network of retail and business bankers whose reach is beyond that which could be achieved by us directly. Conversely, our impact on the emissions profile of large scale infrastructure projects is heightened through direct engagement and project financing.

¹ For example, the financial projections included in the Australian Government Portfolio Budget Statements for 2017-18 are based on planned increases in average staffing levels from 80 to 126 over the four-year plan period.

7.6 Mandated focus areas

Since our inception, we have supported Government policy through our investment activities. Through the Investment Mandate, the Government has directed us to make finance available to the following special focus areas, for which we have also developed the required organisational capability:

- \$1 billion of investment finance over 10 years for the Reef Funding Program
- \$1 billion of investment finance over 10 years for the Sustainable Cities Investment Program
- \$200 million for debt and equity investment through the Clean Energy Innovation Fund

REEF FUNDING PROGRAM

We continue to work closely with key stakeholders in the Reef catchment area to support the Reef 2050 Plan. The two biggest threats to the Reef have been identified as climate change and water quality from land based run-off. We are actively seeking opportunities to invest in relevant clean energy technologies and projects that address these threats to the Great Barrier Reef.

SUSTAINABLE CITIES INVESTMENT PROGRAM

We seek to unlock investment in clean energy projects and businesses that improve the productivity, accessibility and liveability of cities. These activities include street lighting upgrades, commercial building and manufacturing upgrades, infrastructure that supports more efficient use of energy and finance to support community housing providers to build and retrofit energy efficient, affordable homes.

CLEAN ENERGY INNOVATION FUND

We invest in clean energy projects and businesses that have technologies that have passed beyond the research and development stages, but are not yet established or of sufficient maturity, size or otherwise commercially ready to secure enough private sector capital. We work with the Australian Renewable Energy Agency (ARENA) in operating the Innovation Fund, leveraging ARENA's technical expertise in relation to innovative new technologies and business models.

8 KEY PERFORMANCE TARGETS

In executing our strategy, the Board has identified key performance indicators that assist in managing the performance of the business and the effectiveness of the strategy in seeking to increase the flow of finance to the clean energy sector.

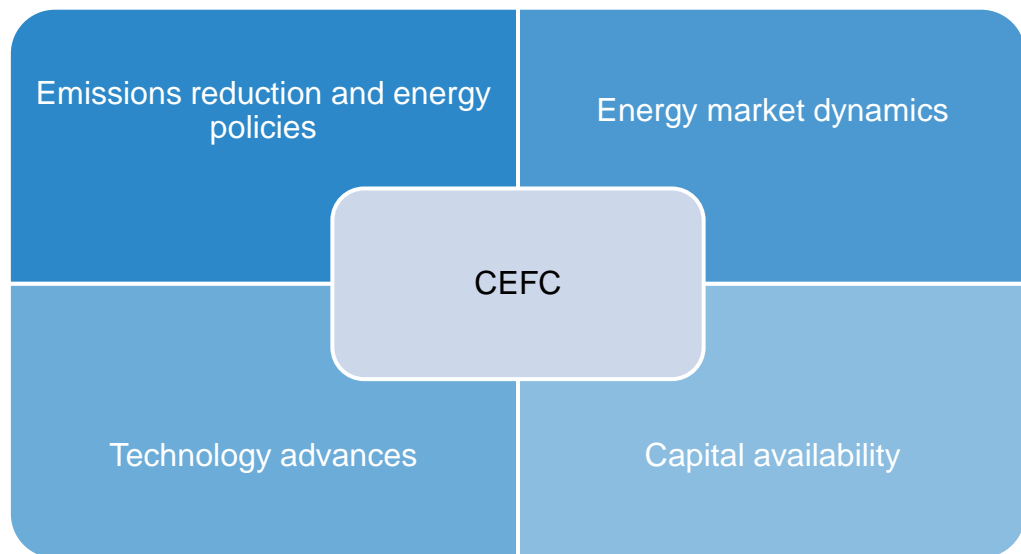
FIGURE 4: CEFC performance criteria and targets

Performance Criteria	Measure	2017-18	2018-19	2019-20	2020-21
Investment in renewable energy, low emissions and energy efficiency technology	Dollar value of new investment commitments	\$0.9b to \$1.1b	\$1.0b to \$1.2b	\$1.0b to \$1.2b	\$1.0b to \$1.2b
Placement of funds into the clean energy sector	Dollar value of capital deployed	>\$650m	>\$650m	>\$650m	>\$650m
	Expected carbon abatement from committed projects at negative cost	<\$0	<\$0	<\$0	<\$0
	Financial leverage in projects financed	>1:1	>1:1	>1:1	>1:1
Financial sustainability	Own source revenue*	\$81m	\$92m	\$117m	\$147m
	Operating profit margin	50%	50%	50%	50%
	Net profit margin	11%	11%	11%	11%
Stakeholder engagement and industry leadership	Insights, relationships, impact and amplification	The degree to which we positively contribute to outcomes that foster increased investment in the sector, through our engagement with industry, other public sector bodies/agencies and private sector financiers.			
*Revenue excluding unwind of concessional loan discount.					

9 OPERATING ENVIRONMENT

Our operating environment is strongly influenced by four key external factors. As the environment changes and evolves, these can be expected to impact our performance.

FIGURE 5: Operating environment influencers



9.1 Emissions reduction and energy policies

Investment in the clean energy sector and demand for finance to facilitate that investment is influenced by policies at Commonwealth, State, Territory and Local Government levels, particularly at the confluence of emissions reduction, energy and the environmental policies, all of which have a strong influence on our operating environment. The Commonwealth, along with some States, Territories and Local Governments have established emissions reduction targets and are developing policies and other incentives to achieve those targets. The Renewable Energy Target (RET) and the Emission Reduction Fund (ERF) are key national level policies that encourage investment in emissions reduction.

At the date of publication of this Plan, the 2017 Climate Policy review was underway and the Independent Review into the Future Security of the National Electricity Market (the Finkel Review), led by Dr Alan Finkel AO, had been released. The policies that are adopted and ultimately legislated as a result of these reviews, are likely to have a strong influence on the CEFC operating environment during the plan period.

The ACT, New South Wales, Queensland, South Australia, Tasmania and Victoria governments have established emissions reduction targets consistent with reaching net zero emissions by 2050. The implementation of policies to support these targets is likely to strongly influence the operating environment over the plan period.

9.2 Energy market dynamics

Energy market dynamics strongly influence our activities given our role as a sector specific investor in renewable energy, energy efficiency and low emissions technologies. Market dynamics, including the availability, reliability and cost of supply, as well as the volume and profile of demand, all contribute to energy prices in the spot and forward energy markets.

Australia's energy markets are complex, but fundamentally, when markets are oversupplied, prices are typically lower and the incentive to invest in new generation capacity is lower. At the consumer level, when energy prices are higher, there is a stronger financial incentive to invest in energy efficiency or behind the meter generation, such as roof top solar. As a consequence, this reduces the levels of grid demand for energy.

As noted in the Finkel Review, Australia's energy system is in transition. That transition is being driven both by the need to reduce emissions and the fact that Australia's fossil fuel generation fleet is, for the most part, closer to the end of its useful life than the start. This transition is evidenced by the fact that 9 of the 12 most emissions intensive power stations have closed in the past five years and renewables have gone from 8 per cent in 2004 to 14 per cent today and on a trajectory to be around 23 per cent in 2020, spurred on by the current RET and State-based and Territory initiatives.

Maintaining an internationally competitive energy system is a priority for all governments. We have an important role to play in supporting the energy system transition, in working with governments, industry, project sponsors and private sector financiers to provide the finance required. We expect the transition will continue to drive demand for finance and expertise in the clean energy sector over the plan period.

9.3 Technology advances

Technology advances in renewable energy, energy efficiency and low emissions technologies have been and will continue to be, a strong driver of investment activity. Technological advancements include cost reductions in existing technologies, such as wind and solar, that are achieved through economies of scale in production and installation process, as well as through improved efficiency in the technologies themselves.

Advancements in storage and associated distributed energy resource technologies have accelerated over the past two years and we expect this trend to continue over the next four years. There is likely to be a mix of storage technologies from large scale pumped hydro storage through to increasing instances of consumer installed batteries. As noted in the Finkel Review, demand management technologies are likely to have an important role to play in the energy system of the future. Through the Clean Energy Innovation Fund and working with ARENA, we are making \$200 million available for investment in emerging clean energy technology projects and business that have passed beyond the research and development stages. To date we have invested in businesses that are developing and deploying innovative demand management technologies, storage and energy efficiency technologies. We expect demand for early stage or expansion capital to continue to grow over the plan period.

9.4 Capital availability

Renewable energy, energy efficiency and low emissions technology projects typically require a high proportion of up front capital investment. The availability of capital to finance the build and deployment of these technologies is a key enabler to Australia's clean energy transition.

The operating environment is impacted by broader macroeconomic conditions, policy uncertainty, investor appetite and, more particularly, by the state of credit markets. In difficult economic and market conditions, we play an important role in investing and catalysing funds into the clean energy sector.

Investor appetite and the availability of private sector capital also impacts on the cost of the capital of both debt and equity. Where there is ample supply to meet demand, returns on investment will be lower than at times when there is insufficient supply of capital relative to demand.

For a variety of reasons, including the perceived risk profile, the clean energy sector has often been unable to attract a sufficient share of the available private sector capital. Large scale renewable energy projects provide economic returns over a useful life of 20 to 30 years, so the capital required to finance these projects is optimally also long dated.

Given the volume of investment that is likely to be required to finance the energy transition, we expect demand for both private sector and CEFC finance to remain strong during the plan period.

10 RISK MANAGEMENT

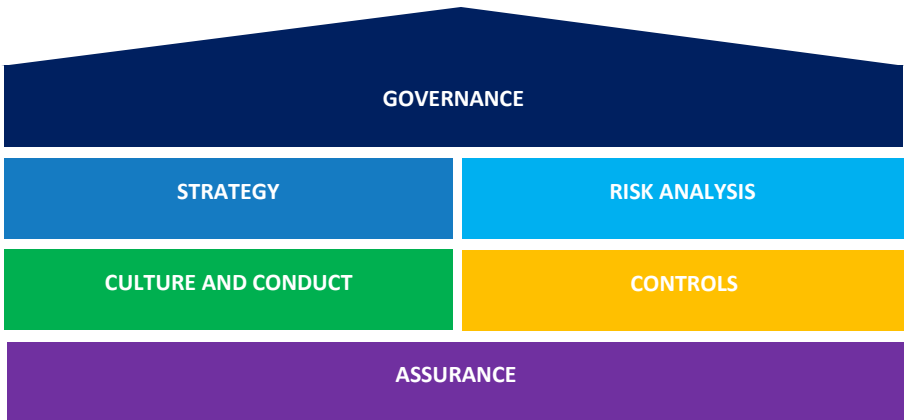
The CEFC Board is ultimately responsible for the overall performance of the business, including oversight of risk management. To assist in risk oversight, the Board has established an Audit and Risk Committee, which is in turn assisted and advised by an Executive Risk Committee, an Executive Investment Committee, a Joint Investment Committee (with ARENA) for the Clean Energy Innovation Fund and an Asset Management Committee.

The Board has established an enterprise-wide Risk Management Framework to monitor and manage all areas of risk that our business faces, including strategic, investment and financial risks, operational risks and regulatory risks. Consistent with section 68 of the CEFC Act, the Risk Management Framework sets out the manner in which risk is managed for the CEFC's investments and for the Corporation itself.

With respect to investment risk, we have a dedicated Investment Risk team that reviews and assesses credit and other risks associated with each proposed investment, independent of the investment origination team. The Investment Risk team provides advice to the Executive Investment Committee and the Board on transaction level risks, as well as to the Asset Management Committee and the Audit and Risk Committee on investment portfolio matters.

The Risk Management Framework, along with the CEFC Investment Policies, embeds active management and mitigation of risks into all areas of our investment functions, portfolio management and broader business operations.

FIGURE 5: The Risk Management Framework



The Risk Management Framework identifies six interactive pillars through which the CEFC manages risk, as set out in the diagram below

Governance is the key overarching pillar where the Board establishes the tone from the top and an operating environment and culture that facilitates sound, transparent and well-informed decision making.

Strategy and **Risk Analysis** ensure key areas of risk are identified and considered together when strategy is developed and risks are routinely reviewed to ensure the mitigation plans remain appropriate.

Culture and conduct references the day to day behaviours of employees that is a critical enabler of effective risk management and performance.

Risk management is further supported through the implementation of appropriate **controls** and ongoing **assurance** activities for the CEFC’s investments and other operations.

We recognise that effective risk management across all of our business will help mitigate against unexpected financial and/or reputational consequences and in turn, assist in managing the CEFC’s performance under this Corporate Plan.

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