CEFC
CLEAN ENERGY FINANCE CORP

CORPORATE PLAN

2018-19

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

CONTENTS

1 INTRODUCTION

The Board, as the accountable authority of the Clean Energy Finance Corporation (CEFC), presents the 2018-19 Corporate Plan, covering the four financial years commencing on 1 July 2018 and ending on 30 June 2022, as required under paragraph 35(1)(b) of the Public Governance, Performance and Accountability Act 2013 (PGPA Act).

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 operates and invests. 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 to invest in clean energy.

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

The responsible Ministers may provide the Board directions about the performance of the CEFC's investment function. At the date of publishing this Corporate Plan, the Clean Energy Finance Corporation Investment Mandate Direction 2016 (No. 2) is 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 from 1 July 2018, to make up at least half of our funds invested for the purposes of our investment function.

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 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, among other things, 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 adopt a commercially rigorous approach to our investment activities and manage risk prudently. 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 or low emissions technologies.

2. PUBLIC POLICY PURPOSE

Our primary purpose is to facilitate the increased flows of finance into the clean energy sector to assist Australia's transition to a low emissions economy. While we operate with an objective of financial sustainability, profit maximising is not our single objective. 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 catalysing 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 appropriate 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 to 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. As an investor of public funds, we seek to adopt the lowest risk position that allows sensible investments to proceed. We consciously seek to minimise the likelihood of capital losses across the portfolio, but this is balanced with pursuing our public policy purpose to facilitate investment in emissions reductions.

4. 'CROWDING IN'

We encourage and actively seek to facilitate others investing in the clean energy sector. The CEFC works with private sector financers, 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 financiers or investors, 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.

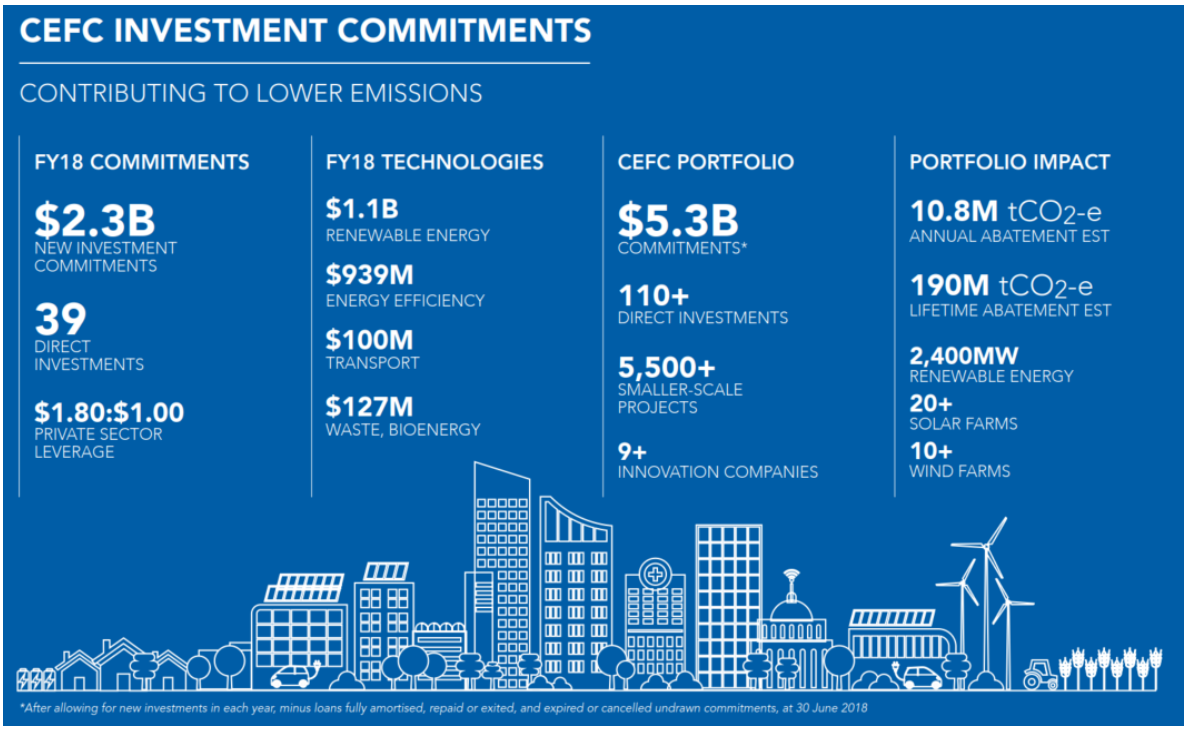
5 INVESTMENT PORTFOLIO

At the commencement of the plan period, being 1 July 2018, we have been in operation for five full financial years with current investment commitments of $5.3 billion to projects with a total value of $16.3 billion that are estimated to deliver annual abatement of 10.8 metric tonnes of CO_2 equivalent ($MtCO_2e$) per annum.

In the 2017-18 financial year, we made new commitments of $2.3 billion across 39 new transactions, leveraging additional private sector capital of $4.1 billion. We continued to invest across the economy in renewable energy, energy efficiency and low emissions technologies.

After accounting for repayments of investments over the year, our portfolio of investment commitments increased from $3.4 billion to $5.3 billion at 30 June 2018.

FIGURE 1: **CEFC investment commitments to 30 June 2018**



6 STRATEGY

Our strategy is to catalyse investment in emissions reduction across the Australian economy.

6.1 Strategic context

In 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:

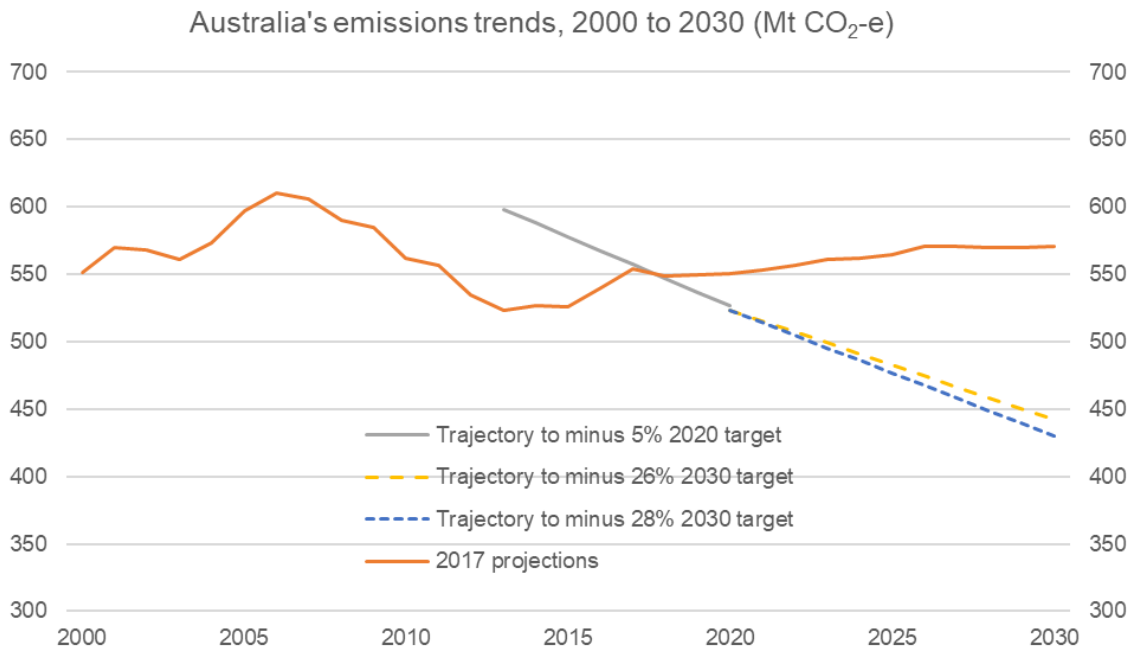
"…holding the increase in global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change."

Further, to achieve these long-term temperature goals, Article 4 of the Paris 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 reduction targets.

In pursuit of these longer-term goals, each party prepares nationally determined contributions that it intends to achieve. Australia has committed to reduce economy-wide 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 Paris Agreement. The 2030 emissions reduction task is shown in Figure 2.

The Australian Government's *2017 Review of Climate Change Policies* identified the important role the CEFC plays in providing finance for commercial deployment of projects and technologies as part of the suite of policies in place to reduce emissions.

FIGURE 2: **Australian emissions projections 2017, MtCO2e, 2000 to 2030 (Department of the Environment and Energy 2017, CEFC)**



Energy use is a significant source of emissions in the Australian economy. While the electricity generation sector has a central role to play in Australia's emissions reduction efforts, other sectors are also important. We are continuing to focus our investment activities across a broad range of technologies and sectors.

The 2030 national emissions reduction target of 26-28 per cent and the longer-term objective, under the Paris Agreement, of limiting global warming to well below 2°C, will require further emissions reduction beyond 2030. We recognise that investments in assets with useful lives beyond 2030 will need to be capable of contributing to meeting emissions levels below and beyond the 2030 target.

6.2 Strategy overview

We have been operating for five years, and at the commencement of the Plan period we have investment commitments of $5.3 billion to business and projects that will help reduce emissions across the Australian economy. Our track record is sound, and we recognise that our business will be required to evolve to continue to meet the needs of clients and stakeholders. Over the Plan period our strategy is built around three key themes of **impact**, **innovation** and **organisational effectiveness**.

Impact	We are seeking to enhance further the impact of our investment activities. This includes seeking to unlock greater emissions reduction for every dollar we invest, leveraging more private sector capital, supporting nationally significant infrastructure projects that underpin the energy transition and leveraging our brand to share and amplify our knowledge with stakeholders.
Innovation	We will continue to support energy innovation businesses and venture capital markets through our Innovation Fund and develop new investment solutions within our core portfolio that meet the needs of clients within our sectors and across geographies. We will develop our capability actively to manage assets and recycle capital to ensure we are able to meet the needs of the market and facilitate continued investment in technologically and geographical diverse emissions reduction projects and businesses.
Organisational Effectiveness	Increasing our impact and delivering innovative solutions to our client sectors will be facilitated by us retaining and attracting high performing people. We will refresh our people and culture strategy in order to improve the engagement and alignment of our people. We will invest in improving our business systems to enable our people to continue delivering on our objectives effectively and efficiently.

6.3 Strategic investment 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 pathways that guide our investment origination focus are:

1. **low carbon electricity**, through the increased deployment of clean energy technologies, including storage;
2. **energy efficiency,** in all sectors which will play a critical role in reducing energy intensity;
3. **electrification and fuel switching,** from fossil fuels to lower emissions fuel sources such as bio-fuels; and
4. **bio-sequestration and other emissions reductions,** including reduced waste to landfill and adoption of lower emissions materials within the supply chain.

These pathways inform how we structure our operations to unlock investments in line with the decarbonisation pathways. This transition to a lower emissions economy will be achieved through a mix of technologies being employed, including centralised and decentralised electricity generation. Focussing on low carbon electricity is a core function of our business, noting that from 1 July 2018, the CEFC Act requires that at least half of the funds invested for the purposes of our investment function are invested in renewable energy technologies.

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. Transitioning from a centralised, emissions intensive generation system to a more distributed, low emissions system, will require investment in storage, transmission and distribution assets along with new and innovative technologies. 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.

ENERGY EFFICIENCY

The Australian Government's *National Energy Productivity Plan* (NEPP) seeks to accelerate delivery of a 40 per cent improvement in Australia's energy productivity by 2030. Achieving this will be an important enabler of emissions reduction as well as delivering energy productivity benefits in the broader economy. Reducing the energy intensity of homes, offices and plants can help limit the amount of investment required in new electricity generation assets, while helping to reduce users' energy consumption. Therefore, energy efficiency technologies are an important focus across multiple sectors.

ELECTRIFICATION AND FUEL SWITCHING

This pathway 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 emissions electricity can lower emissions. For those uses that are not immediately suited to electrification, switching to less carbon intensive fuel sources, such as bioenergy or hydrogen produced from low emissions sources, 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.

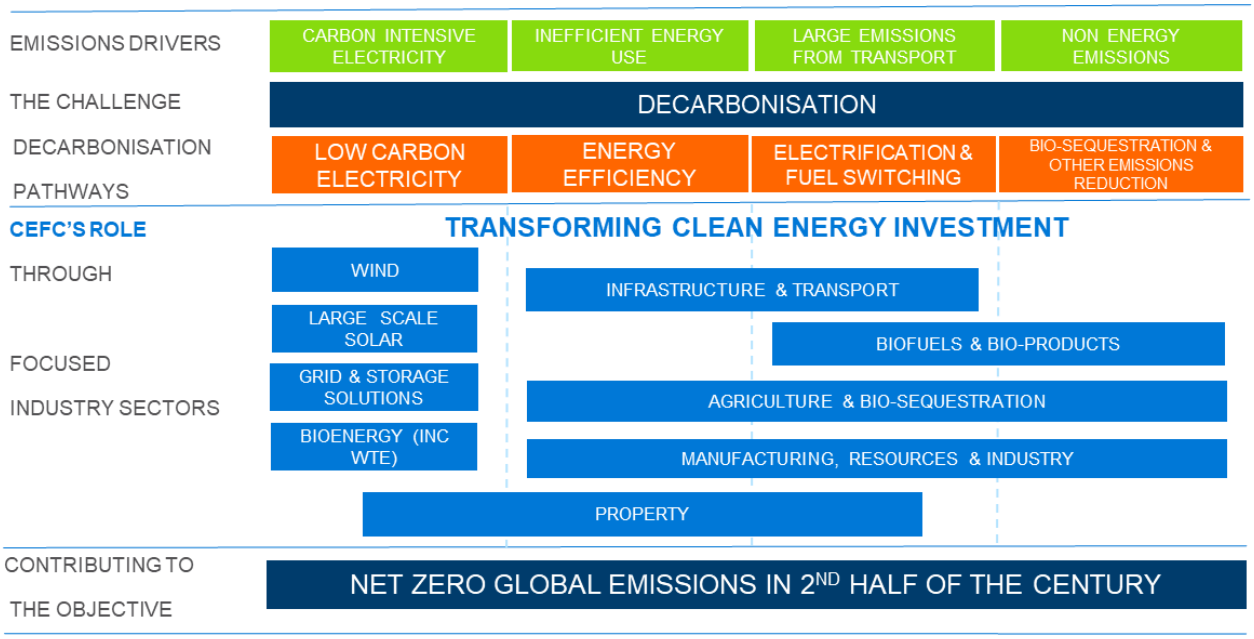
BIO-SEQUESTRATION AND OTHER EMISSIONS REDUCTION

The first three pathways are focussed on using energy more efficiently and producing energy by employing lower emissions technologies. The final pathway focusses on the potential to deliver emissions reduction in non-energy activities which accounted for 30% of Australia's emissions in 2017[1]. Activites under this pathway include activities such as better management of waste streams, employment of precision agriculture for reduced fertilizer consumption and reductions in direct emissions from various industrial processes.

[1] Department of the Environment and Energy, Australia's emissions projections 2017

Reflecting our focus on the decarbonisation pathways, our investment origination framework focuses on industry sectors with the strongest potential for emissions reductions, as set out in Figure 3. Each of these industry sectors has a role to play in lowering economy wide emissions which will be essential as the Australian economy moves towards lower emissions. Within each of these sectors we seek to invest in projects and businesses that can deliver emissions reduction and catalyse further investment beyond our investment commitments.

FIGURE 3: **CEFC Investment origination framework**



7 CAPABILITY

As a financier, we are heavily reliant on the quality and skills of our people, enabled by secure and efficient business systems, that will allow us to deliver on our strategic objectives.

7.1 People and culture

We are a financial 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 our investment activities including origination, asset and risk management have increased, we must enable our people to grow and develop. We are developing a refreshed People & Culture Strategy that will underpin the development, engagement and alignment of our people during and beyond the Plan period. We will review our values and ensure that these are embodied in our brand and the way that we engage with our clients and stakeholders.

Increases in employee numbers have and will continue to be commensurate with the level of investment activity and revenues that we generate, to ensure we remain financially sustainable over the Plan period and beyond. To this end, employee numbers are planned to increase from 101 to 129 over the Plan period while the forecast net surplus (after allowing for the additional employees) is forecast to increase from $52.5m to $93.5m in FY2021-22.

7.2 Client sector focus

We have recruited and developed in-house expertise in each relevant industry sector. Understanding the business drivers and investment opportunities within these sectors is critical to be being able to identify and unlock emissions reduction opportunities. Our experience has also highlighted the benefits of catalytic, 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 reduction can often go beyond the initial financed project and we continue to seek out these catalytic investment opportunities.

7.3 Systems and processes

Our business has grown over the past five years and we recognise that our business systems and processes need to evolve to ensure they are fit for purpose for the coming years. Over our initial five years of operation we have gone from an investment balance of nil to a portfolio of investment commitments of more than $5 billion. During FY2017-18 we established a roadmap for systems improvements and we have commenced an enterprise information management (EIM) project to improve the efficiency and effectiveness of our operations. This project will be delivered during the Plan period, with completion of phase one during FY2018-19.

In addition, during the Plan period we will develop and build our capability to recycle capital in order to ensure we are able to continue investing in innovative and impactful emissions reduction projects and businesses both during the Plan period and beyond.

7.4 Financial product solutions

Different client sectors and different applications of technologies to those sectors require different financial products to address the barriers to investment in emissions reduction. Therefore, we have developed a range of financial products and structures to encourage and support emissions reductions in different sectors. These range from senior secured project finance debt, subordinated debt and preferred capital through to early stage equity provided by the Clean Energy Innovation Fund. Developing the right product for the right segment is a key enabler for investment in emissions reduction. 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.

7.5 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 and will continue to seek 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, we have 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

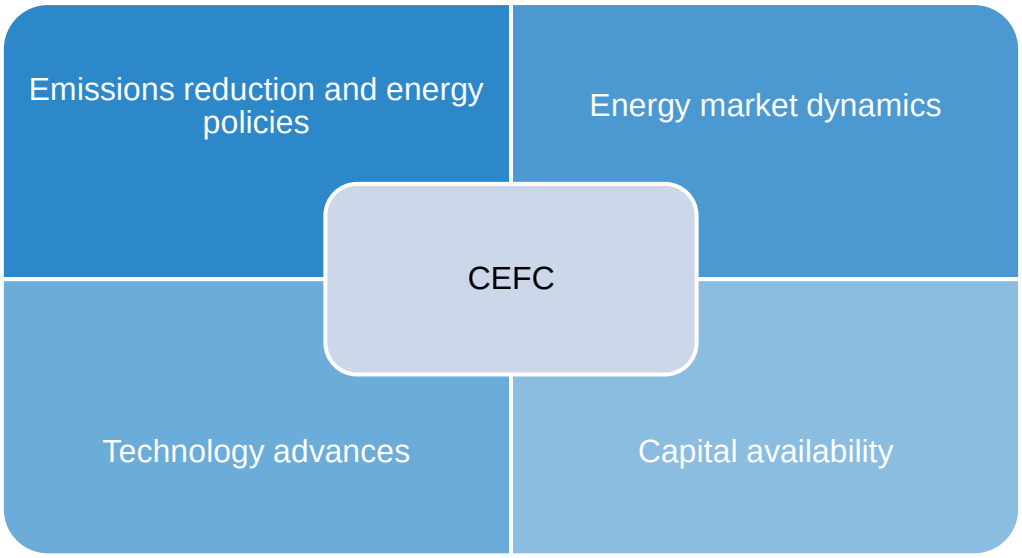
Performance Criteria	Measure	2018-19	2019-20	2020-21	2021-22
IMPACT					
Operating Result[2]	Financial operating result	$92m	$103m	$112m	$114m
Capital committed	Dollar value of capital committed	$1.0b	$1.0b	$1.0b	$1.0b
Capital deployed	Dollar value of capital deployed	$1.0b	$1.0b	$1.0b	$1.0b
Financial leverage	Financial leverage in projects financed	>2:1	>2:1	>2:1	>2:1
Contribution to emissions reduction	Forecast emissions reduction pa from capital committed during the period	1.9Mt CO_2e	1.9Mt CO_2e	1.9Mt CO_2e	1.9Mt CO_2e
INNOVATION					
Develop markets in new sectors, technologies and geographies	The degree to which we contribute to transformation of the clean energy investment market across all States and Territories through investments that are catalytic.				
Build asset and capital management capability	Build asset and capital management capability to support continued investment in clean energy technologies.				
ORGANISATIONAL EFFECTIVENESS					
Business systems enhancements and security	Deliver phase one of the Enterprise Information Management Project. Achieve a NIST cyber security framework score of 2.5.				
Design and implement a refreshed people and culture strategy to strengthen engagement and build an inclusive, high performing workplace culture	Develop a People and Culture Strategy that will address priorities from the 2018 Employee Engagement Survey. Implementation of the strategy to deliver improved 2019 Employee Engagement Survey results.				
Design and implement a refreshed brand strategy to further our ability to unlock investable opportunities in the clean energy sector	Design a refreshed Brand Strategy, including confirmation of CEFC mission and values, refreshed market positioning and messaging and recommendations re CEFC visual brand.				

[2] Measured before concessionality and excluding impairments from Innovation Fund investments

9 OPERATING ENVIRONMENT

Consistent with previous years, 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), the Emissions Reduction Fund (ERF) and the National Energy Productivity Plan (NEPP) are key national level policies that encourage investment in emissions reduction.

The ACT, New South Wales, Queensland, South Australia, Tasmania and Victoria governments have established emissions reduction targets that seek to reach 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, margins are 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 2018 Integrated System Plan, published by the Australian Energy Market Operator (AEMO), 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 a number of emissions intensive power stations have already closed in the past five years and renewables are on a trajectory to account for around 23 per cent of generation in 2020, spurred on by the RET as well as 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 technologies and associated distributed energy resource technologies have accelerated over recent 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 and further employment of demand response enabled through smart technologies. Through the Clean Energy Innovation Fund and working with ARENA, we are investing 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 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 ability of large scale generation projects to attract finance in the absence of long term offtake agreements was identified by the Australian Competition and Consumer Commission in its report dated June 2018, *Restoring electricity affordability and Australia's competitive advantage*.

The availability of capital from the private sector is impacted by a number of factors, including macroeconomic conditions, policy uncertainty, investor appetite and 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

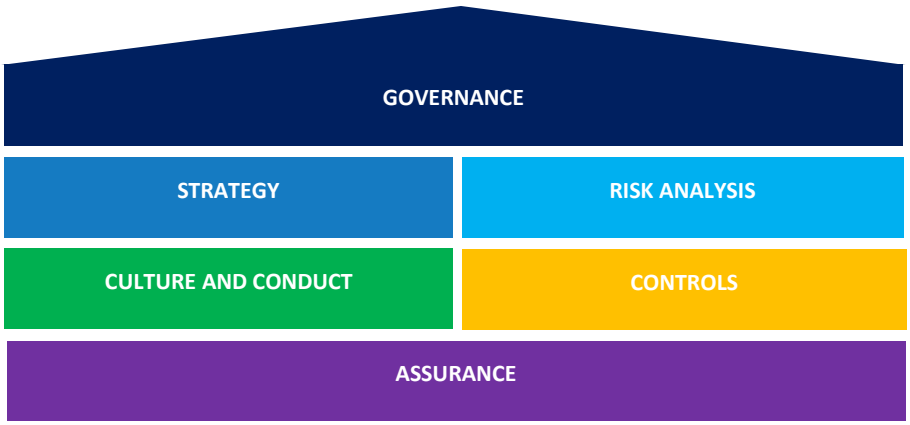
The CEFC Board is ultimately responsible for the overall performance of the business, including oversight of risk management. To assist in risk oversight, the Board has established an Audit and Risk Committee, which is in turn assisted and advised by an Executive Risk Committee, an Executive Investment 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 6: The Risk Management Framework



The Risk Management Framework identifies six interactive pillars through which the CEFC manages risk.

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 are 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.

Effective risk management across all 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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