

Power Finance Corporation Limited

Green Bond Framework

Introduction:

Power Finance Corporation is committed to promote Renewable Energy Projects in view of their critical importance in the development of economy of the country. Due to environment considerations and India's Energy Security Policy, Government of India has decided to meet the future Power requirements mainly from Renewable Projects.

The Indian Government has formulated various plans / incentives to increase the share of renewable energy sources through ambitious plan of meeting 175 GW by the year 2022. The major portion of 175 GW will come particularly from Solar Energy of 100 GW and the Wind Energy of 60 GW. In order to facilitate achieving this ambitious target, state regulators have set Renewable Purchase Obligations (RPOs) for both solar and non-solar category, which will increase each year.

The country has achieved renewable power capacity of 57,245 MW as on 31.03.2017, which is around 18% of the total installed capacity. The resource-wise contribution is 32,280 MW of Wind Power; 12,289 MW of Solar Power; 4,380 MW of Small Hydro; 8,182 MW of Biomass & Co-gen and 114 MW of Waste to Energy.

PFC has been promoting and financing power projects that are optimizing the use of multiple energy resources with innovative eco-friendly technologies, thereby contributing to the economic development of the country, social upliftment of the society and promoting a healthy environment.

PFC has formulated and implemented a 'Corporate Social Responsibility & Sustainability Policy'. The Corporate Social Responsibility and Sustainable Development (CSR & SD) initiatives of the Company were continued with a view to integrate PFC's business operations with social processes while recognizing the interests of its stakeholders. While identifying such initiatives the Company has adopted an integrated approach to address the community, societal and environmental concerns measured in terms of triple bottom line approach. PFC has been undertaking various initiatives in the fields of sustainability and development programme including environmental sustainability, drinking water facilities, solar smart micro grid lights in select un-electrified/ poorly electrified villages, etc.

Framework Overview:

The Green Bond Framework is established in accordance with the Climate Bonds Standard version 2.1 (for more details visit https://www.climatebonds.net/standards/standard_download) and also adheres to the Green Bond Principles, 2016 issued by the International Capital Markets Association (ICMA).

This Green Bond Framework (framework) broadly lays down PFC's mechanism of fund raising

from Green Bonds and to use the proceeds of those issuance(s) to invest in renewable energy and energy efficiency in a manner that is consistent with PFC's sustainable values.

Use of proceeds:

India is becoming a preferred destination for global investors who are developing financing strategies for funding Power Sector. In the renewable sector, large investors are considering investments in operating assets that are relatively stress free and are able to repatriate surplus cash flows to the investors in tax efficient manner. Considering low gestation period, revenues in Green Energy Projects start getting generated within first year of operation. Further there is no dependency on fuel and lots of incentives are being provided by the Government for renewable sector.

The proceeds from the issuance of Green Bonds by PFC will be applied for on-lending to renewable energy (RE) projects ("Eligible Green Projects"). The Eligible Green Projects will broadly cover the following, subject to availability of sector-specific technical criteria under Climate Bonds Standard:

(A) Renewable Energy

- ✓ Solar energy – photovoltaic solar electricity, concentrated solar power, infrastructure and manufacturing, transmission;
- ✓ Wind energy – offshore and onshore wind farms, infrastructure and manufacturing, transmission;
- ✓ Bioenergy – renewable feed stocks, infrastructure and manufacturing, networks;
- ✓ Hydropower – Run of river and small hydro as approved by Govt. of India;
- ✓ Geothermal – geothermal electricity, geothermal heat pump (GHP) technology;
- ✓ Other renewable energy – sea and ocean derived energy sources;
- ✓ Energy distribution & management – transmission & grid infrastructure, smart systems/meters, heating management;
- ✓ Energy storage – hydro storage systems, thermal heat storage, new technologies.

(B) Energy efficiency

- ✓ Energy efficiency technology / products manufacturing and supply – operational performance will recognise special purpose products needed to ensure buildings meet industry metrics;
- ✓ Energy efficient processes / systems;
- ✓ Cogeneration / tri-generation / combined heat and power;
- ✓ Waste heat recovery;
- ✓ Electrical Vehicles

Combination of the above two or more technologies known as hybrids, where the projects are being set up after due regulatory approvals.

Selection and Evaluation of Eligible Green Projects:

PFC appraises the projects on the basis of defined set of guidelines which focuses on the Project Appraisal and Entity (Promoter) Appraisal. India has been relying heavily on fossil fuel Energy Projects. But due to climate change considerations, focus of the Govt today is on Green Power. To promote these projects each Region in PFC is giving special emphasis on funding Renewable Energy Projects. As PFC is having complete information of Renewable Energy Potential in each state and has been working closely with each state since its inception, Renewable projects are being appraised quickly, considering the short gestation period of these projects.

Project financing proposals for private sector are received from borrowers and as per existing procedure a two-stage process is followed, consisting of preliminary appraisal through which the proposal is shortlisted followed by detailed appraisal before the final sanction. The preliminary appraisal relies on the information provided by the borrower while an in-depth analysis is carried out during the detailed appraisal stage.

Project division analyses Project's Techno Financial Viability and Entity division checks the strength of the promoter and borrower. Parameters for project grading are categorized in two sets i.e. Quantitative and Qualitative. Quantitative parameter covers cost of generation, debt service coverage ratio (DSCR) and Qualitative parameters covers engineering, procurement and construction (EPC) contractor's strength, offtaker's risk, resource assessment, operations & maintenance (O&M) contractor's strength etc. Entity grading is obtained by rating the entity based on upfront equity, pro-rata equity, existing business, capacity to raise equity, financial strength etc. Integrated rating is arrived through a defined matrix of project grading and entity grading.

In addition to above, PFC also provides financial assistance to various State Sector RE projects based on utility rating and project viability.

All Renewable Energy and Energy Efficiency projects sanctioned by the PFC as above shall be considered as Eligible Green Projects and the disbursements thereof shall be allocated towards the Green bond issuance.

Post issuance, independent third party verifier will provide assurance that the nominated projects are in alignment with the Green Bond Framework for the inaugural Green Bond issue.

In respect of subsequent issuance of green bonds or changes to the initial list of projects, similar assessment and approval process would be carried out by PFC.

Management of Proceeds:

The proceeds will be allocated for the financing of existing projects including re-financing and new Eligible Green Projects.

The net proceeds from the issue of Green Bonds will be utilized for financing of Eligible Green Projects, to be termed as 'Green Portfolio'. PFC has a well laid internal tracking system through Integrated Power Financing System / Enterprise Resource Planning system (IPFS / ERP) in place which shall be used to monitor, establish and account for the allocation of the proceeds for such

Green Portfolio, which will be regularly updated to reflect loans refinanced or repaid and new loans allocated from the proceeds.

Pending the full allocation to Eligible Green Projects, balance of issuance proceeds will be invested or allocated, as appropriate, in current account, Corporate term deposits/ term deposits with commercial banks, units of debt mutual funds or government securities permitted as per the company's investment policy, applicable guidelines of Reserve Bank of India or any statutory body in this regard.

Reporting:

PFC will report the use of the proceeds by way of sector-wise information of the projects financed under each of PFC's Green Bond issuance through a separate section in the Annual Report. The report will also be published on PFC website at ([http://www.pfcindia.com /](http://www.pfcindia.com/)).

Assurance:

PFC Green Bond framework will be published on its website ([http://www.pfcindia.com /](http://www.pfcindia.com/)). PFC's Green Bond Frame work will be reviewed by independent third party viewer and certified by Climate Bonds Initiative for the Green Bond issue(s).

PFC will also get post issuance reviewed by independent third party viewer, on the basis of which certification will be obtained from the Climate Bonds Initiative to assure that the use of proceeds allocation, ongoing eligibility of the projects and assets, adequacy and output of the Issuer's internal control and systems and use of funds not yet allocated are as per the framework established. Post issuance Certification will be completed within one year from the date of issue of bonds.