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Endless energy. Infinite possibilities.

GREEN FINANCE FRAMEWORK

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1 Introduction

Established in 1969, REC is a leading Central Public Sector Enterprise accorded with Maharatna Status under the Ministry of Power (MoP), Government of India. The Company is a Non-Banking Financial Company (NBFC) categorized as Infrastructure Finance Company (IFC), lending predominantly in the power sector. Financing activities of REC cover the entire gamut of activities in the power sector including generation, transmission & distribution, for renewable as well as conventional sources of energy, in public and private sector. REC also acts as nodal agency, project implementation / management agency for various Government programmes of national importance.

Since March 2019, the Company's majority equity stake is held by Power Finance Corporation Limited (PFC), another Central Public Sector Enterprise (CPSE) under the aegis of MoP.

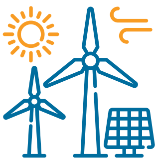
Customers of the Company include State Governments, Central/State power utilities, State Electricity Boards, independent power producers, private sector utilities etc.

REC aspires to emerge as the leading lender of renewable energy and energy transition projects in the coming years. REC is also looking to diversify into financing non-power infra structure and logistics sector to maximize the value for its stakeholders.

In view of environmental considerations, the Hon'ble Prime Minister of India further enhanced the ambition on addressing climate change, as compared to India's Nationally Determined Contributions (NDCs)[1] at the COP26 conference held in Glasgow in November 2021. These include five nectar elements (Panchamrit) of India's climate action:

India's Panchamrit Goals

1



Reach **500 GW non-fossil energy** capacity by 2030

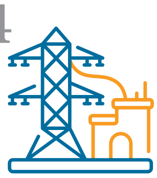
2

50% of electricity demand from non-fossil fuel sources by 2030

3

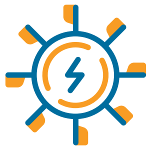
Reduction of total projected carbon emissions by **one billion tonnes** from now to 2030

4



Reduction of the carbon intensity of the economy by **45%** by 2030, over 2005 levels

5



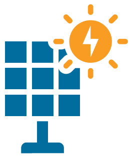
Achieving the target of **net zero** emissions by 2070

REC supports the Government's overall targets, particularly in terms of increase in non-fossil energy capacity and reduction of carbon intensity through its involvement in financing in renewable energy projects, e-mobility infrastructure, manufacturing of solar cells & modules, hybrid renewables, PM-KUSUM projects, pollution control equipment, smart-grid and smart- metering.

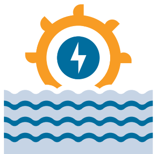
1 Per India's NDCs, it targets to reduce emission intensity of GDP by 33-35 percent by 2030 as compared to 2005 levels; and increase the share of non-fossil fuel-based energy resources to 40 per cent of installed electric power capacity by 2030. India's commitments under the United Nations Framework Convention on Climate Change (UNFCCC) and its Paris Agreement reflect the principle of equity and the principle of common but differentiated responsibilities and respective capabilities in the light of national circumstances.

Over span of few years,the renewable energy sector has witnessed a transformational growth in terms of both installed capacity and increasing share of renewable energy in total power generation of the country. India has now become the fastest-growing energy market in the world. India has achieved renewable power capacity of 120.9GW as on 31.12.2022, which is around 29% of the total installed capacity. The resource-wise contribution is:

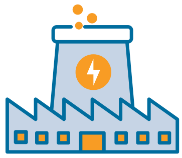
Sectorwise Contribution of Renewable Energy in India



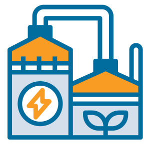
63.3 GW
of Solar Power projects



5.0 GW
of Small Hydro projects



0.5 GHW
of Waste-to-Energy projects



10.2 GW
of Bio Energy projects

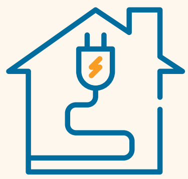
Also, India is becoming a preferred destination for global investors for investing Power Sector. In the renewable sector, large investors are considering investments in operating assets that are relatively stress free and are able to repatriate surplus cash flows to the investors in tax efficient manner. 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.

REC's Sustainability Strategy

As a power sector financing organization, REC has been consistently improving its renewable energy portfolio. REC has financed nearly 16.5 GW of capacity under renewable energy projects as of 31 December 2022. During the financial year 2021-22, the Company sanctioned loans aggregating to C 14,734 crore towards 15 renewable energy projects,with total generation capacity of~1.6GW.Further, during the nine months ended December 31, 2022, the Company sanctioned loans aggregating to C 25,433 crore towards 20 renewable energy projects, with total generation capacity of ~ 5.9 GW.

REC prepared Environmental Social Impact Analysis (ESIA) report in year 2016, under Official Development Assistance -KfW-III LoA between REC & KfW, applicable for financing renewable energy projects. ESIA serves as the roadmap for REC to address environmental & social issues in financing renewable power projects.

REC has also contributed towards achieving village and house hold electrification in the country, especially in the far-flung areas,with dedicated efforts of many years. The Company has been the nodal agency for key power sector schemes such as Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY) and Pradhan Mantri Sahaj Bijli Har Ghar Yojana (SAUBHAGYA). During the financial year 2021-22, REC has contributed towards electrification of 4.41 lakh households in the country, under the SAUBHAGYA scheme.



REC has contributed towards electrification of
4,41,000
HOUSEHOLDS
in the country

REC is currently playing the role of nodal agency for Revamped Distribution Sector Scheme (RDSS), for revamping the distribution sector which has been struggling for long with various financial & operational issues.

REC's wholly owned subsidiary, REC Power Development and Consultancy Limited (RECPDCL) is doing significant work in the fields of smart metering, 11 kV Rural Feeder Monitoring Scheme and monitoring of household electrification works, all aimed at betterment of power sector in the country.

2 Green Finance Framework Overview

As a part of sustainable financing initiative, REC has established this Green Finance Framework (the "Framework") as the basis to issue green bonds,loans and any other financial instruments ("Green Financing Instruments") which are used to finance and/or refinance Eligible Green Projects that conform to the green finance principles listed below.

The purpose of this Framework is to have a single methodology in place for all future Green Financing Instruments, ensuring that for each instrument issued the principles of this Framework apply and the proceeds are invested in renewable energy and energy efficiency in a manner that is consistent with REC's sustainable values.

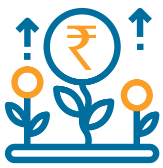
Generally, the Framework is aligned with Climate Bonds Standard version 3.0[2], the Green Bond Principles ("GBPs") 2021 (with June 2022 Appendix) published by the International Capital Markets Association (ICMA)[3] and the Green Loan Principles ("GLPs") 2021 [published by the Loan Markets Association("LMA"), Asia Pacific Loan Market Association("APLMA") and Loan Syndications and Trading Association ("LSTA")[4]. These are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the sustainable finance market.

In aligning with the above principles and guidelines, the Green Bond Framework is presented through the GBP's/GLP's four core components:

REC's Green Finance Framework will be published on its website (https://www.recindia.com).

Use of Proceeds

Process for Project Evaluation and Selection



Management of Proceeds

Reporting

2 For more details visit https://www.climatebonds.net/standards/standard_download)

3 In alignment with ICMA Green Bond Principles,June2021, https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/

4 In alignment with LMA Green Loan Principles,February2021,https://www.lsta.org/content/green-loan-principles/

3 Use of proceeds

Eligible Green Projects

The proceeds from the issuance of Green Finance Instruments by REC will be applied for re-financing/ on-lending to green projects which meet the eligibility criteria of the following Eligible Green Project categories ("Eligible Green Projects").

A maximum 2-year look-back period would apply for refinanced projects and REC expects each issuance under this framework to be fully allocated within 2 years from the date of issuance.

In harmony with India's objective of climate change mitigation by adding renewables in the grid and offsetting CO_2 emissions from the grid which will help in reducing the emission intensity of the grid, the Eligible Green Projects will, subject to availability of sector-specific technical criteria under Climate Bonds Standard:

Project Category	Eligibility Criteria
Renewable Energy	■ **Solar energy** – photo voltaic solar electricity, concentrated solar power (with ≥85% of electricity generated to be derived from solar energy), infrastructure and manufacturing, transmission[5]; ■ **Wind energy** – offshore and onshore wind farms (at least 85% of electricity generated from wind energy), infrastructure and manufacturing, transmission[3]; ■ **Bio energy** – renewable feed stocks (emissions less than 100gCO2/kWh, sourced from sustainable feedstock), infrastructure and manufacturing, networks; ■ **Hydro power**, including pumped storage with (i) power density > 10W/m2 or (ii) GHG emissions less than 50g CO2e/kWh); ■ **Geothermal** – geothermal electricity (direct emissions less than 100gCO_2/kWh), geothermal heat pump (GHP) technology; ■ **Other renewable energy** – sea and ocean-derived energy sources; ■ **Green Hydrogen** – decarbonisation measures within facilities producing hydrogen, production facilities dedicated to the production of hydrogen ■ **Energy distribution & management** – transmission&grid infrastructure dedicated to energy from renewable sources, smart systems/grids/ meters, heating management; ■ **Energy storage** – hydro storage systems, thermal heat storage, new technologies. ■ **Financial assistance** provided to the Power Utilities for meeting their mandated Renewable Purchase Obligations (RPOs)
Energy Efficiency	■ Projects aiming to promote energy efficiency, such as investment in smart energy grids, energy meters, management systems and battery storage facilities ■ Projects to reduce electricity grid losses.

5 Transmission will be wholly dedicated to the transmission of energy from renewable energy sources.

Project Category	Eligibility Criteria
Pollution Prevention and Control	■ Investment and expenditures in the construction, operation and maintenance of waste-to-energy facilities for generation of electricity and/or heat subject to: ● The carbon footprint of the energy produced is lower than 100gCO2e/kWh (lifecycle emission threshold for production of energy under EU Taxonomy) ● In accordance with waste hierarchy(i.e. facilities located in countries where there is a public waste management system in place)
Clean Transportation	■ Investments and expenditure in low energy consuming or low emission transportation, including procurement of electric and hybrid vehicles meeting the criteria under 50gCO2/km up to 2025, and zero tailpipe emissions thereafter ■ Investments and expenditure into construction of dedicated charging infrastructure for electric vehicles

Exclusions List

For each Green Finance Instruments issued, REC affirms that it will explicitly exclude funding towards any projects associated with:

- Coal or gas fired power generation assets
- Landfill operations and any incineration of any unsorted waste assets
- Exploration and development of new oil and gas fields
- Coal mining and transportation
- Fossil fuel related activities including refining and transportation of fossil fuel as well as underlying investments in research and development
- Heat or Power facilities with emissions intensity above 100g CO2e/kWh
- Nuclear power generation assets

4 Selection and Evaluation of Eligible Green Projects

Project financing proposals for private sector are received from borrowers and as per existing procedure a two-stage process to assess the overall viability of the project and entity (promoter) based on the defined set of guidelines.

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, REC also provides financial assistance to various State Sector projects based on utility rating and project viability.

Post issuance, independent third party verifier will provide assurance that the nominated projects are in alignment with the Green Finance Framework. 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 REC.

5 Management of Proceeds

The net proceeds from the issue of Green Financing Instrument will be allocated for the financing of Eligible Green Projects including re-financing of existing Eligible Green Projects, to be termed as 'Green Project Portfolio'. Our Green Project Portfolio will be regularly monitored and at least on an annual basis, to detect any potential shortfall in a reasonably short time frame.

REC on a best effort basis will strive to fully allocate the net proceeds of any Green Finance Instrument within 24 months after issuance. Prior to full allocation, balance proceeds will be held in line with our general liquidity/ investment guidelines as appropriate in cash, cash equivalents, and/or other liquid marketable instruments.

REC on a best effort basis will strive to fully allocate the net proceeds of any Green Finance Instrument within 24 months after issuance.

REC has a well-laid internal system namely ERP Accounting System in place which shall be used to monitor the changes in Green Project Portfolio, which will be regularly updated to reflect the loans repaid and new loans financed.

Eligible Green Projects financed by net proceeds of any Green Finance Instrument will not be affected by ex-ante changes to the Green Finance Framework and will remain in the Green Portfolio for as long as they meet the Eligibility Criteria prevailing at the time of the raising such Green Finance Instrument and remain internally/virtually allocated to an outstanding Green Finance Instrument.

6 Reporting

As long as any REC's Green Financing Instrument remain outstanding, REC will report annually the allocation of proceeds of the Green Finance Instruments to Eligible Green Projects through a separate section in the Annual Report. The report will also be published on REC website at www.recindia.com.

Allocation Reporting

Allocation reporting may include the following details:

a. The amount of Proceeds allocated to each Eligible Green Project category

b. When possible, descriptions of the Eligible Green Projects financed, such as project locations, etc.

c. Amount of unallocated Proceeds

Impact Reporting

Where feasible, REC will aim to report on the estimated environmental benefits arising from the implementation of the Eligible Green Projects. Subject to data availability and confidentiality, impact reporting may cover the following impact reporting metrics listed below, and where available, taking reference from the relevant indicators suggested in the ICMA Harmonized Framework for Impact Reporting[6].

Eligible Green Project Categories	Impact Reporting Metrics
Renewable Energy	■ Capacity of renewable energy plant(s) constructed or rehabilitated in MW ■ Annual renewable energy generation in MWh/GWh (electricity) and GJ/TJ (other energy)
Energy Efficiency	■ Number of energy efficiency equipment and appliances installed
Pollution Prevention and Control	■ Waste reduced/avoided(tonnes)
Clean Transportation	■ Type of clean transportation infrastructure built ■ Number of EVs produced

6 https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Handbook-Harmonized-Framework-for-Impact-Reporting-December-2020-151220.pdf

7 Third Party Verification

REC may seek a CBI certification for its green finance issuance. In such event, and before any finance issuance, REC will engage a CBI-approved verifier to provide a verifier's report on the conformance of Green Financing Instruments with pre and post-issuance requirements of the Climate Bond Standard. REC will also get post issuance reviewed by such verifier, 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 or till the time the funds are fully utilized.

Disclaimer

This Green Finance Framework (this "Framework") is intended to provide non-exhaustive and general information. The information contained in this Framework does not purport to be comprehensive. This Framework may contain or incorporate by reference public information not separately reviewed, approved or endorsed by REC Limited ("REC") and, unless differently specified in this Framework, the information contained in this Framework has not been independently verified by any independent third party. Accordingly, no representation,warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by REC as to the fairness, accuracy, reasonableness or completeness of such information. This Framework may contain statements about future events and expectations that are forward- looking statements. Forward-looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in such statements. 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