REPORT OF THE COMMITTEE OF INDEPENDENT DIRECTORS OF POWER FINANCE CORPORATION LIMITED ("PFC"/ "COMPANY"/ "TRANSFEREE COMPANY") RECOMMENDING THE DRAFT SCHEME OF MERGER AMONGST REC LIMITED ("REC"/ "TRANSFEROR COMPANY"), AND POWER FINANCE CORPORATION LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

Present Members:

1. Dr. Sudhir Mehta, Independent Director
2. Mr. Pankaj Gupta, Independent Director

In attendance:

1. Dr. Sudhir Mehta, Independent Director
2. Mr. Pankaj Gupta, Independent Director
3. Mr. Manish Kumar Agarwal, Company Secretary

1. Background

a) The proposed scheme of merger provides for a merger by absorption involving PFC and REC and their respective shareholders and creditors ("**Scheme**"), wherein REC shall merge into and with PFC in terms of Section 230 to Section 232 and other applicable provisions, if any, of the Companies Act, 2013 ("**Act**") read with the rules and/ or regulations made thereunder (including any statutory modification(s) or re-enactment(s) or other amendment(s) thereof for the time being in force), Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (**"Listing Regulations"**), and other applicable laws including the Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023 (as amended from time to time) ("**SEBI Scheme Circular**"), Master Circular no. SEBI/HO/DDHS/DDHS-PoD-1/P/CIR/2025/0000000103 dated July 11, 2025 ("**SEBI Debt Scheme Circular**") or any other applicable circulars issued by the Securities and Exchange Board of India ("**SEBI**") time. The Scheme was presented to the Committee of Independent Directors on June 28, 2026 for its consideration and making recommendation to the Board of Directors of the Company ("**Board**").

b) As per paragraph A(2)(i) of Part I of SEBI Scheme Circular, the Committee of Independent Directors of the Company is required to adopt a report recommending the Scheme, taking into consideration, *inter alia*, that the Scheme is not detrimental to the interests of the shareholders of the Company. Accordingly, this report is prepared to comply with the aforesaid requirements.

c) While deliberating on the Scheme, the Committee of Independent Directors, *inter-alia*, considered and has taken on record the following documents:

   i. Draft Scheme of Merger;

   ii. Report of the Audit Committee of the Company dated June 28, 2026 recommending the Scheme for approval by the Board of the Company, Stock Exchanges and other appropriate authorities.

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iii. Joint valuation reports dated June 28, 2026 submitted by by M/s. RBSA Valuation Advisors LLP appointed by the Transferee Company and M/s. Ernst & Young Merchant Banking Services LLP appointed by the Transferor Company in relation to recommendation of fair equity share exchange ratio for the equity shareholders and fair exchange ratio for the NCD holders of Transferor Company for proposed merger of Transferor Company into Transferee Company ("**Valuation Report(s)**");

iv. Fairness opinions dated June 28, 2026 submitted by SBI Capital Markets Limited.

v. Statutory Auditors certificate inter alia confirming that the accounting treatment included in the Scheme is in compliance with the applicable accounting standards specified by the Central Government under section 133 of the Act read with applicable rules, and/or the accounting standards issued by the Institute of Chartered Accountants of India and other generally accepted rules, and

vi. Other presentations, documents and information made to/furnished before the Committee of Independent Directors, pertaining to the Scheme.

2. Salient Features of the Scheme

a) The Scheme is pursuant to the provisions of Sections 230 to 232 and other applicable provisions of the Act, and provides for inter alia the following: The Scheme provides for the merger by absorption of REC Limited ("**Transferor Company**") into Power Finance Corporation Limited ("**Transferee Company**") with effect from Appointed Date and the consequent dissolution of the Transferor Company without being wound up and on a going concern basis, and the issuance of Consideration Shares to the equity shareholders of Transferor Company in accordance with the Share Exchange Ratio.

b) Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 and the rules made thereunder and in accordance with Section 2(6) of Income Tax Act, 2025, and other applicable provisions of the same and the relevant provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and other applicable laws, rules, regulations and guidelines, as may be applicable from time to time, shall govern the Scheme.

c) Appointed Date shall mean the opening of business on April 1, 2027, or such other date that is mutually agreed in writing between the Transferor Company and the Transferee Company.

d) Effective Date shall mean the (i) the Appointed Date; or (ii) date on which the last of the approvals, sanctions, orders, or filings required under this Scheme and Applicable Law have been obtained or made, and specifically the date on which the certified true copy of the order of the Ministry of Corporate Affairs sanctioning the Scheme is filed by the Transferee Company with the Registrar of Companies, after all conditions set out in the Scheme have been satisfied or waived in accordance with the terms thereof, whichever is later. The Scheme shall be effective from the Appointed Date but shall be operative from the Effective Date.

e) Upon the coming into effect of the Scheme and with effect from the Appointed Date and subject to the provisions of the Scheme, the Undertaking of the Transferor Company shall, pursuant to the sanction of the Scheme by the MCA and pursuant to the provisions of Sections 230 to 232 and other applicable provisions of the Companies Act, stand transferred to and vested in and/or be deemed to have been transferred to and vested in the Transferee Company, as a going concern, in accordance with Section 2(6) of the Income Tax Act, 2025, without any further act, instrument, deed, matter or thing.

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f) Upon the Scheme coming into effect, the entire authorized share capital of the Transferor Company, shall stand transferred to and be merged/combined with the authorised share capital of the Transferee Company.

g) Upon the coming into effect of the Scheme and with effect from the Appointed Date, and in consideration of the transfer and vesting of the Undertaking of the Transferor Company in the Transferee Company, the Transferee Company shall, without any further application, act or deed, issue and allot Consideration Shares to all Eligible Shareholders (*i.e.*, each Person (other than the Transferee Company) whose name appears in the register of members of the Transferor Company on the Record Date *(as defined in the Scheme)* (or to such of their respective heirs, executors, administrators or other legal representatives or other successors in title as may be recognized by the Board of the Transferee Company), at the Share Exchange Ratio on the basis of the relevant Valuation Report and relevant Fairness Opinion. The Consideration Shares shall be listed on the Stock Exchanges.

h) All the Transferor Company Shares held by the Transferee Company as on the Effective Date shall stand cancelled without any further application, act or deed.

i) Upon this Scheme becoming effective and with effect from the Appointed Date, all Debt Securities, shall, without any further act, instrument or deed become the Debt Securities of the Transferee Company with same terms and conditions and all rights, powers, duties and obligations in relation thereto shall be and shall stand transferred to and vested in or deemed to be transferred to and vested in and shall be exercised by or against the Transferee Company as if it were the issuer of such Debt Securities, so transferred and vested. The Transferee Company shall undertake all actions as may be required under the Applicable Law (including executing appropriate documents) for the issuance and/or allotment and/or acquisition of debentures, bonds, notes, commercial papers, or such other securities of the Transferee Company (as the case may be), on same terms and conditions as those of the corresponding Debt Securities of the Transferor Company, in favour of each holder of such Debt Securities as on the Record Date, or such holder's legal heirs, executors, or administrators, or, where such holder is a body corporate, its successors-in-interest;

j) Upon the coming into effect of the Scheme and with effect from the Appointed Date, the Transferor Company shall stand dissolved without being wound up.

k) The effectiveness of the Scheme is conditional upon fulfilment of the actions specified in the Scheme, which *inter-alia* include:

   i. The requisite consent, approval or permission of relevant Governmental Authorities including, but not limited to, the President of India, CCEA and RBI in relation to the Scheme, having been obtained by the relevant Parties;

   ii. The receipt of no-objection letters from the Stock Exchanges in accordance with the LODR Regulations, the SEBI Scheme Circular, and the SEBI Scheme Circular - Debt in respect of the Scheme, prior to filing the Scheme with the MCA;

   iii. Compliance with all other conditions prescribed by SEBI under the SEBI Scheme Circular and the SEBI Debt Circular;

   iv. The Scheme being approved by the Central Government/Ministry of Corporate Affairs in accordance with Government Notification G.S.R. 582(E) dated June 13, 2017;

   v. The approval of the members of the Parties to the Scheme:

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(i) by the requisite majorities in number and value of such classes of members as may be directed by Central Government/Ministry of Corporate Affairs or any other competent authority, as may be applicable (through postal ballot/ e-voting, as applicable); and

(ii) with the votes cast by the respective public shareholders of the Parties in favour of the Scheme being more than the number of votes cast by the respective public shareholders of the Parties against the Scheme (through e-voting); and

in each case in compliance with the provisions of the Applicable Law, including the Act, the SEBI Circular and the LODR Regulations;

vi. The approval of the respective creditors including holders of non-convertible debentures, bonds, notes, as may be applicable, of the Parties (through e-voting) to the Scheme, in compliance with the provisions of the Applicable Law, including the Act, the SEBI Circular, SEBI Circular – Debt and the LODR Regulations;

vii. All Parties to the Scheme having undertaken all necessary actions to ensure that post effectiveness of the Scheme: (a) the Transferee Company continues to qualify as a Government Company; and (b) Government of India continues to retain majority voting rights and control in the Transferee Company (directly or indirectly), in each case by, (I) Government of India and/or its nominees, directly or indirectly, subscribing to additional equity or any other instruments or securities, in accordance with Applicable Law and/or (II) any other manner as the Government of India approves and/or directs, and any dilution to the public shareholders pursuant to the issuance of shares/securities to Government of India and / or its nominees shall be undertaken in accordance with Applicable Law as may be determined by an independent registered valuer in accordance with rules and regulations of SEBI;

viii. Each of the Parties having filed the certified copies of the order of the MCA sanctioning the Scheme with the ROC within the statutory timelines; and

3. Rationale of the Scheme

The Independent Directors noted the rationale of the Scheme and noted that the Scheme results in the following, inter-alia, benefits:

a) The merged entity would emerge as the Government's principal institution for implementing power sector reforms and flagship programmes, serving as the primary vehicle for translating national policy objectives into measurable sectoral outcomes. By leveraging its enhanced scale, financial strength, and institutional capabilities, the merged entity would maximise the effectiveness, reach, and impact of Government initiatives, thereby accelerating the development and transformation of the power sector

b) As India moves towards the ambitious goal of Viksit Bharat 2047, the power sector will require substantial capital investment. On a consolidated basis, the merged entity is expected to benefit from improved balance sheet strength, stronger capital base, and higher operational efficiencies, enabling large-scale funding and improved credit flow across the power sector value chain.

c) The merged entity would serve as a key financier of India's energy transition and strategic infrastructure buildout, supporting generation, transmission, distribution, renewable energy, and next-generation technologies such as green hydrogen, energy storage, small modular nuclear reactors, and grid modernization. Combining greater scale, technical expertise, and sector knowledge, it would be better equipped to deploy capital and capture opportunities arising from these emerging growth areas.

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d) With enhanced scale, diversified exposure, and deeper sector expertise, the merged entity would strengthen market confidence by improving project bankability, enabling more effective risk sharing, accessing longer-tenor capital, and structuring complex infrastructure financings with greater resilience and stability.

e) The merger will strengthen the balance sheet, improve borrowing capacity and financial flexibility. By combining credit lines, improving credit metrics, and expanding capital access channels, the merged entity can support more competitive pricing for customers, easing funding constraints for critical infrastructure and enabling a greater credit flow across the power sector and the broader economy.

f) The merged entity would become the primary vehicle for implementing a majority of government schemes for the power sector and would maximize sector benefits through these programs.

4. Benefits of the Scheme

a) The merger will establish a single, larger listed platform with a simplified corporate and shareholding structure. By bringing governance, risk management, internal controls, and reporting under a common framework, the merged entity will enhance transparency, strengthen accountability, simplify compliance, and reinforce investor confidence.

b) By combining the strengths of both institutions, the merger will unlock revenue and cost synergies through the integration of operations, processes, technology, and support functions. This will create a more efficient operating model, improve cost discipline, and strengthen execution capabilities across the business.

c) The merged entity will operate under a unified strategic and capital allocation framework, enabling a more coordinated approach to business development and investment decisions. This alignment will support the efficient deployment of resources across the power sector value chain and strengthen overall strategic focus.

d) By bringing together a broader talent pool, deeper sector expertise, and collective institutional experience, the merger will strengthen organizational capability and leadership depth. The combined organization will be better positioned to execute complex transactions, manage risks effectively, and support long-term growth at scale.

e) REC's regional network and training infrastructure will provide the merged entity with broader market access, deeper stakeholder engagement, and stronger project origination capabilities. At the same time, a shared operating platform will support workforce development and drive efficiencies across the organization.

f) The integration of institutional capabilities, systems, and risk management practices will strengthen credit appraisal, portfolio oversight, and asset quality management. A more unified operating framework will also enable faster decision-making and more effective resolution of stressed assets, supporting disciplined and sustainable growth.

5. Scheme not detrimental to the shareholders of the Company

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The Committee of Independent Directors deliberated upon the rationale, salient features of the Scheme, expected benefits of the Scheme, Valuation Report, Fairness Opinion, Auditors' Certificate and specific points mentioned above including the interest of shareholders of the Company.

In light of the aforementioned rationale of the Scheme, the Scheme, the Valuation Report, Fairness Opinion and other documents (and/or presentations) presented before the Committee of Independent Directors, the Committee is of opinion that there will be no detrimental impact on the shareholders of the Company due to the Scheme, as, *inter-alia*, the proposed merger will be in accordance with the share exchange ratio, recommended under the relevant Valuation Report and in relation to which, the relevant Fairness Opinion has been provided to the Company.

6. Recommendation of the Committee of Independent Director

The Committee of Independent Directors on the basis of its evaluation and due consideration of the terms of the Scheme, Valuation Report, Audit Committee report, Fairness Opinion, presentations and documents related to the Scheme, after taking into consideration that the Scheme is not detrimental to the shareholders of the Company, recommends the Scheme for favourable consideration by the board of directors of the Company, the Reserve Bank of India, Ministry of Corporate Affairs, Stock Exchanges, SEBI and such regulatory/ administrative authorities, as may be applicable.

For and behalf of Committee of Independent Directors of PFC

Name: PANKAJ GUPTA

Designation: Chairman/ Any member authorised by Committee

Date: June 28, 2026

Place: Kovalam, Kerala

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