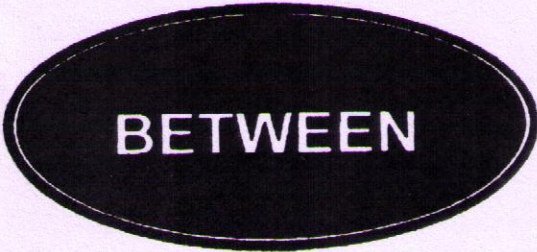


**MEMORANDUM
OF
UNDERSTANDING**

2011 - 12



BETWEEN

MINISTRY OF POWER, GOVERNMENT OF INDIA

AND

POWER FINANCE CORPORATION LIMITED

MEMORANDUM OF UNDERSTANDING (MoU)

BETWEEN

POWER FINANCE CORPORATION LIMITED

&

GOVERNMENT OF INDIA THROUGH MINISTRY OF POWER

FOR THE FINANCIAL YEAR 2011-12

PART I

I.I VISION / MISSION

VISION

To be the leading institution in financing for sustainable development of the Indian Power Sector and its linkages, with an eye on global operations.

MISSION

PFC shall strive to become the most preferred Financial Institution in power and financial sectors, providing best products and services; to promote efficient investments in Power Sector to enable availability of power of the required quality at minimum cost to consumers; to reach out to the global financial system for financing power development; to act as a catalyst for reforming India's Power Sector; and to build human assets and systems for the Power Sector of tomorrow.

I.II OBJECTIVES

1. To provide financial resources and to encourage flow of investments to the power and associated sectors.
2. To work as a catalyst to bring about institutional improvements in streamlining the functions of its borrowers in finance, technology and management areas to ensure optimum utilisation of the available resources.
3. To classify the States into various categories in terms of performance parameters and status of reform process in the States as well as commercial

MOU 2011-12
Approved By DPE/TF

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viability of the utilities, and accordingly to offer differential interest rates to encourage the performing States and Utilities.

4. To mobilise various types of resources, viz. domestic and international, at competitive rates
5. To strive for upgradation of skills in the Power Sector for effective and efficient growth of the sector.
6. To maximise the rate of return through efficient operations and to introduce innovative financial instruments and services for the Power Sector.
7. To facilitate and promote identified schemes/programmes launched by the Govt. of India, such as the establishment of the Ultra Mega Power Projects and the restructured Accelerated Power Development Reform Programme.

PART II

EXERCISE OF ENHANCED AUTONOMY AND DELEGATION OF FINANCIAL POWERS

- To develop ultra-mega power projects, PFC has to play a lead role in setting up the shell companies in the name of the projects. PFC shall require to incur a capital expenditure towards the same.
- Similar dispensation is proposed for implementation for transmission & hydro projects to be developed through competitive bidding route.

PART III

PFC's PERFORMANCE TARGETS FOR 2011-12

In order to achieve the objectives mentioned above, PFC's endeavour would be to achieve the targets as indicated in the enclosed statement and the performance of PFC be judged on the basis of the criteria weights and targets stipulated therein.

PART IV

COMMITMENTS OF GOVERNMENT OF INDIA

Ministry of Power would provide required assistance in getting resolved issues requiring inter-ministerial consultations which may be brought to its notice by PFC from time to time related to mobilisation of cheaper financial resources, which may include Tax Free

Approved by the Govt.


Bonds/ SLR Bonds/ Taxable Bonds/ Infrastructure Bonds/ Bonds U/s 54EC of IT Act), loan from Banks/ Institutions and ECB (External Commercial Borrowings)/ Direct WB/ ADB Loans etc. Furthermore, required assistance would be provided to PFC for taking up of the issue related to extending exemptions to PFC from NBFC Guidelines of RBI.

Ministry of Power would provide necessary funds from budgetary allocation for R-APDRP scheme. Certain targets under R-APDRP are based on contracts entered between State Utilities and Implementation Agencies and hence are beyond control of PFC. As such, PFC will bring to the knowledge of Ministry of Power, the practical difficulties and factors which turn out to be beyond the control of PFC. Ministry of Power will take up the matter with DPE for getting the targets suitably pruned.

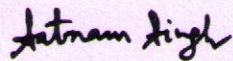
PART V

ACTION PLAN FOR IMPLEMENTATION AND MONITORING OF MOU

Review of performance under each target:

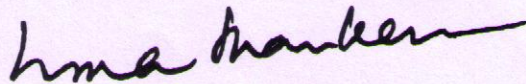
- (i) By CMD and Directors on a monthly basis
- (ii) By BoD and MoP on a quarterly basis

The monitoring of performance vis-à-vis MOU targets would be carried out quarterly during the Performance Review Meetings being held in the Ministry of Power.



(Satnam Singh)

**CHAIRMAN & MANAGING DIRECTOR
POWER FINANCE CORPORATION LIMITED**

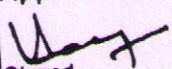


(P Uma Shankar)

**SECRETARY
MINISTRY OF POWER**

Date : 24 MARCH 2011

Place : NEW DELHI

MOU 2011-12
Approved By DPE/TF

Signed

PFC - PERFORMANCE PARAMETERS AND THEIR WEIGHTAGES : YEAR 2011-12

Sl. No.	Parameters	Weights	FY 2011-12					BE (Gond Categor.	
			EXCELLENT	V. GOOD	GOOD	FAIR	POOR	2010-11	2011-12
		%	1	2	3	4	5		
PART A									
1	Static Financial Parameters								
a)	Financial indicators - (Profit related)								
i)	Sanctions excluding R-APDRP (Rs. crore)	10	45,000	42,800	40,800	38,700	36,800	51,900	40,800
ii)	Disbursements excluding R-APDRP (Rs. crore)	6	35,500	33,800	32,200	30,600	29,000	23,400	32,200
iii)	Sanctioned Project Cost by R-APDRP Steering Committee (Cumulative as on 31.03.2012)(Rs. crore)	3	27,518	26,200	24,800	23,600	22,400	NA	24,800
iv)	Disbursements under R-APDRP (Cumulative as on 31.03.2012) (Rs. crore)	2	6,086	5,700	5,500	5,200	4,900	NA	5,500
v)	Resource Mobilisation (Rs. crore)	5	30,300	28,800	27,500	26,100	24,800	24,000	27,500
vi)	Net NPA as % of Loan Assets (%)	4	1.00%	1.05%	1.11%	1.16%	1.22%	1.16%	1.11%
vii)	Return on Networth (%)	5	14.49%	13.80%	13.10%	12.50%	11.80%	15.30%	13.10%
b)	Financial indicators - (Size related)								
i)	Gross Margin (Rs. crore)	5	12,000	11,300	10,860	10,320	9,800	7,880	10,860
ii)	Total Income (Rs. crore)	5	12,360	11,660	11,190	10,630	10,100	8,080	11,190
c)	Financial indicators - (Productivity related)								
i)	Profit Before Depreciation Interest & Tax (PBDIT) / No. of employees (Rs. crore)	5	28.24	26.59	25.55	24.28	23.06	20.51	25.55
	Sub Total Static Financial Parameters (a+b+c)								
		50							
2	Dynamic Parameters								
i)	Overheads/ Total Income (%)	2	1.21%	1.27%	1.34%	1.41%	1.48%	1.80%	1.34%
ii)	Implementation of Recommendations of Energy Audit of PFC Corporate Building- Installation of Capacitors (Date)	2	31.01.2012	15.02.2012	28.02.2012	09.03.2012	15.03.2012	NA	28.02.2012
iii)	HRD - Employee training - Advanced Management /Strategic Management/ Leadership Programmes/Study Tours etc. (no. of mandays)	1	130	123	117	111	106	1,090	117
iv)	HRD - Employee training - Training Programmes on Technical areas/General Management/Financial Management etc. (no. of mandays)	3	1,190	1,133	1,076	1,022	971	1,090	1,076
v)	HRD - Employee training - Training Programmes on Work culture/Productivity enhancement/communication skills etc. (no. of mandays)	1	200	190	180	171	163	1,090	180
vi)	Projects for Sustainable Development - Ring Fencing of towns under R-APDRP for base line data(Cumulative as on 31.03.2012)(No. of towns)	2	1,100	1,040	990	940	890	NA	990

MOU 2011-12
Approved by OPE/TF
and complete validation by
TPICA (Third Party Independent
Evaluation Agency) of
PLU Towns

PFC - PERFORMANCE PARAMETERS AND THEIR WEIGHTAGES : YEAR 2011-12

Sl. No.	Parameters	Weights	FY 2011-12					BE (Good Category)	
			EXCELLENT	V. GOOD	GOOD	FAIR	POOR	2010-11	2011-12
			1	2	3	4	5		
vii)	Projects for Sustainable Development - To conduct study for evolving model guidelines for tariff determination process for the Distribution Companies (Date)	1	31.01.2012	15.02.2012	28.02.2012	09.03.2012	15.03.2012	NA	28.02.2012
viii)	Projects for Sustainable Development - Climate Control of PFC Computer Centre(Date)	1	31.01.2012	15.02.2012	28.02.2012	09.03.2012	15.03.2012	NA	28.02.2012
ix)	Expenditure towards Sustainable Development Activities (% of Profit After Tax (PAT) of FY 2010-11)	1	0.10%	0.09%	0.08%	0.07%	0.06%	NA	0.08%
x)	Allocation towards CSR (% of Profit After Tax (PAT) of FY 2010-11)	2	0.50%	0.45%	0.40%	0.35%	0.30%	0.30%	0.40%
xi)	Projects/Activities to be covered under CSR (any three of the activities listed below on approval of Board of Directors)	3							
	Distribution of Solar Lanterns (Number of lanterns distributed)		2,500	2,000	1,500	1,000	500	NA	1,500
	Installing Green Crematoria (Number of units installed)		5	4	3	2	1	NA	3
	LED Street Lighting in a Hill Station of Uttarakhand (Completion Date)		31.01.2012	15.02.2012	28.02.2012	09.03.2012	15.03.2012	NA	28.02.2012
	Skill Development for Employability(Number of persons trained)		1,000	800	700	600	500	NA	700
xii)	Night Shelters (Number of persons)	2	250	200	175	150	125	NA	175
	Compliance of Corporate Governance- Submission of Quarterly Compliance Report on Corporate Governance		Within 10 days from the end of the quarter	Within 12 days from the end of the quarter	Within 14 days from the end of the quarter	Within 15 days from the end of the quarter	After 15 days from the end of the quarter	NA	Within 14 days from the end of the quarter
xiii)	Compliance of Corporate Governance- Meeting of Audit Committee of Directors (No.)	1	4	3	2	1	-	NA	2
xiv)	Compliance of Corporate Governance- Meeting of Shareholders/Investors Grievance Committee (No.)	1	4	3	2	1	-	NA	2
xv)	Compliance of Corporate Governance- Settlement of Audit Paras/ATNs outstanding as on 31.03.2011 (%)	1	95%	90%	85%	80%	75%	NA	85%
xvi)	Representation of Minorities- Recruitment of Minorities during FY 2011-12 (%)	1	8%	7%	6%	5%	4%	NA	6%
xvii)	Research & Development - Quarterly Performance Research Report on State Power Utilities (No.)	4	30	28	27	26	24	21	27
xviii)	Research & Development -To conduct study for exploring the possibility of acquisition of a Bank or establishing a Bank (Date)	1	31.01.2012	15.02.2012	28.02.2012	09.03.2012	15.03.2012	NA	28.02.2012
Sub Total of Dynamic Parameters		30							
PART B									
3	Sector Specific U 2011-12	5	31.01.2012	15.02.2012	28.02.2012	09.03.2012	15.03.2012	28.02.2012	28.02.2012
i)	Submission of report on Performance of State Power Utilities to MoP (Date)								


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PFC - PERFORMANCE PARAMETERS AND THEIR WEIGHTAGES : YEAR 2011-12

Sl. No.	Parameters	Weights	FY 2011-12					BE (Good Category)	
			EXCELLENT	V. GOOD	GOOD	FAIR	POOR	2010-11	2011-12
			1	2	3	4	5		
		%							
ii)	Organizing workshops/seminars relating to R-APDRP Programme (No.)	1	4	3	2	1		2	2
iii)	Training of personnel under R-APDRP and DRUM (Mandays)	1	8,000	7,600	7,200	6,800	6,400	3,450	7,200
iv)	Data Centre (DC)/Disaster Recovery Centre (DR) Commissioning (No. of States/UTs)	1	9	8	7	6	5	NA	7
v)	Building (completion/own/lease), HW, SW Completion without Pilot (No. of States/UTs)	1	11	10	9	8	7	NA	9
vi)	HW, SW procurement (No. of States/UTs)	1	9	8	7	6	5	NA	7
	Sub Total of Sector Specific Parameters	10							
4	Enterprise Specific Parameters								
i)	Part-A Completion (Cumulative as on 31.03.2012)(No. of towns)	2	774	730	700	660	630	NA	700
ii)	Part-B Award/Decision to start in-house (Cumulative as on 31.03.2012)(No. of towns)	2	900	850	810	770	730	NA	810
iii)	SCADA Award (Cumulative as on 31.03.2012)(No. of towns)	2	60	57	54	51	48	NA	54
iv)	To conduct a study for preparation of Long Term Corporate Plan of PFC (Date)	3	31.01.2012	15.02.2012	28.02.2012	09.03.2012	15.03.2012	NA	28.02.2012
v)	Submission of data for Public Enterprises Survey (Date)	1	15.09.2011	01.10.2011	15.10.2011	31.10.2011	After 31.10.2011	NA	15.10.2011
	Sub Total of Enterprise Specific Parameters	10							
	GRAND TOTAL	100							
i)	Definitions:								
ii)	Gross Margin								
iii)	Net worth								
iv)	Profit Before Depreciation Interest & Tax (PBDIT)								
v)	Return on Networth (RoNW)								
vi)	Overheads								
vii)	Net NPA as % of Loan Assets (%)								
viii)	Distribution Reforms Upgrades and Management (DRUM)								
	R-APDRP								

= Profit Before Tax + Depreciation/Amortisation + Interest Expenses excluding other charges + Prior Period Items
 = Paid up capital + Reserves & Surplus Less Reserve for Bad and Doubtful debt
 = Profit Before Tax + Depreciation/Amortisation + Interest Expenses excluding other charges + Prior Period Items
 = Profit After Tax (PAT)/ Networth
 = Personnel & Administrative Expenses + Depreciation + Amortisation of intangible assets
 = (Gross NPAs less Accumulated Provisions)/ Loan Assets
 = A bilateral initiative of the GoI and USAID with PFC as implementation partner.
 = Restructured Accelerated Power Development & Reform Program (R-APDRP)

APPROVED BY DPE/TF


 Signed