

SUZLON ENERGY

Analyst/Investor Conference Call

May 25, 2007

Moderator

Good afternoon ladies and gentlemen. I am Rita, the moderator for this conference. Welcome to the Suzlon Energy analyst conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to the international bridge. After that, question and answer session will be conducted for participants connected to India. Today on the call we have with us Mr. Tulsi Tanti, Chairman and Managing Director. Mr. Kirti Vagadia, Group Head of Corporate Finance. Mr. Patrick Krahenbuhl, Global CFO. Mr. Andre Horbach, Global CEO. I would now like to handover the floor to Mr. Tulsi Tanti. Thank you and over to you sir.

Tulsi Tanti

Thank you very much, and Good Morning and Good Afternoon everybody. It is my pleasure to be with you all again so soon. Let me introduce my team here with me. I have here - Mr. Andre Horbach, CEO, Mr. Patrick Krahenbuhl, CFO and Mr. Kirti Vagadia, Head - Corporate Finance.

I am very pleased to announce that we signed a binding framework agreement with Areva, bringing the bidding to a successful conclusion.

With this, we have secured the voting rights to around 61% of REpower's capital and through pooling of voting rights under structured agreements.

And over the next one week will know the number of shares that have finally tendered into our offer.

Uptil now we paid EUR 100 million for 7.84% stake acquired by us, Areva will be paid after a minimum period of one year and Martifer after minimum period of two years.

We have tied up the financing of the Deal at the time of Offer itself. It is in various tranches with repayment period ranging from 1 to 7 years. This will give flexibility and optimize cost. Now, depending on the total requirement the utilization of Facilities will be made.

We are confident that the complimentary strengths of Suzlon, Areva and Martifer will create immense value for all stakeholders of REpower.

With this acquisition, Suzlon will emerge as a true global player with a strong footprint across all key wind energy markets, a geographically diversified manufacturing base and superior turbine technology and global management bandwidth team.

Europe is 50% of the world wind market, where REpower has a strong footprint which will accelerate Suzlon's growth in Europe.

REpower and Suzlon are not competing with each other either at the marketplace, product portfolio or supply chain and technological development.

REpower is an extremely strategic asset and with this acquisition, we have strengthened our global reach, manufacturing and R&D which will deliver the next generation of cutting edge wind power products faster into the market, and it will give great value to our customers.

Our differentiated business model successfully combines organic growth with significant acquisitions each of which strengthen either our technological platform – in the case of Hansen; or our market reach and product portfolio – with REpower's access into Europe and developed offshore technology.

We will work closely to drive REpower into leadership position in its key markets by supporting it with reliable and cost efficient Supply Chain. Suzlon will help REpower achieve rapid growth, and help the company achieve double digit margins.

I am fully convinced that REpower's strong team with their focus on innovative technology development now has the right platform to deliver the true potential of this business.

The acquisition also stands on its own as a major achievement and a historic landmark for India and its industries.

With tomorrow's world threatened by challenge of global warming and climate change, this acquisition is a major step forward for the development of next generation of renewable technologies which can help the world with huge green power development and create a good societal value.

Thank you very much. I would now like to handover to Andre to share his thoughts.

Andre Horbach

Thank you Tulsibhai. Again as Mr. Tanti referred to, we are very happy about this deal. It is a very strategic deal for Suzlon and for REpower and we look at this deal basically that it will enabled both companies to be a leader in the global wind markets and in that sense it is really strategic deal that goes beyond the next 10 years. If you look at it from the market point of view, this deal creates really a global player and in the combined Suzlon and REpower capability that will have a strong presence in all global markets in Asia, Americas, Australia, and in Europe. From the manufacturing and a supply chain point of view, we see tremendous synergies in working together with REpower; first of all in reducing potentially production costs, in avoiding component shortage and meeting more commitments to customers. As you know the philosophy of Suzlon is to be fully backward integrated in the supply chain which is not the case with REpower, so the opportunity arises right now to offer blade production capability, generator production capability, and capability of producing more gear boxes into REpower which will help us to enhance some of the bottlenecks or lift some of the bottlenecks that today exists within the supply chain of REpower. Further we think that in supply chain there is tremendous synergy because of those approaches that will result in stronger leverages in negotiations process vendors. From an R&D point of view, we are particularly happy about the deal since it combines two companies with superior technology in different parts of the world and in that sense the technology leadership of those companies can be enhanced by the combination of both the resources. From a product point of view, it is basically a company that is very complementary in the products that it has. Suzlon has a strong product portfolio serving the Indian markets, the Asian markets, and growing strongly in the United States right now while REpower traditionally has a very strong product portfolio to serve the European markets, as well the new product portfolio to serve the offshore markets. So again from the product portfolio it creates basically a combination that can offer any products to any markets, any customer available wherever in the world.

Besides that having some of the financial strengths of Suzlon to some of the opportunities that REpower offers, is another opportunity to drive growth and enhance growth in a faster way not only driven by trying to lift shortages in the supply chain of components but also by looking with more financial strengths for instance into the offshore markets, and trying to develop that market faster. So we are very happy and very encouraged about this deal. What will happen is that over the next couple of weeks we will start working together closer with the REpower management. Obviously during the all transaction that was prepared so far from the assessment side we have made a close assessment from our point of view on what the synergies could be and we will work that out in more detail over the next weeks to come together with the REpower management and also put an order of priority on what actions we want to take by what point in time. So again we are very happy about this and I want to open it up right now for questions and answers.

Tulsi Tanti

Thank you Andre.

Moderator

Thank you very much sir. At this moment I would like to hand over the proceedings to the international moderator to conduct the Q&A session for participants connected to the international bridge. After this we will have the Q&A session for participants connected to the India bridge. Thank you and over to you Salvia.

International Moderator

Thank you Rita. We will now begin the Q&A session for participants connected to the international bridge. Please press 01 to ask a question. The first question is from Mr. Alexander Karnick from Deutsche Bank.

Alexander Karnick

Yeah, hi this is Alexander Karnick from Deutsche Bank, I have two topics of questions if I may, the one relates to the transaction itself. If I read the press release correctly, I am not sure if I heard it correctly, Areva has agreed with you on the put option to sell to Suzlon basically their stake. Could you give us a little bit of more insight if possible on the structure of that put option i.e. may be the timing, if there are preset price, may be at what level, that is the first question. The second question would be after you count out lets say how much of the shares were tendered to you which may add up to your 32% current holding with what level of complete holding or lets say complete control would you feel comfortable with i.e. do you see the possibility of further buying shares in the market after the deal acceptance period has closed? And the second topic of question is more relating to the future business developments; could you give us an idea in terms of the synergies, a quantitative idea in terms of the synergy you see for REpower, you just mentioned basically your advantage of a backward integration you deliver to them, whether you have enough gear box and blade capacity to cover basically the full output of the combined entity Suzlon and REpower, and what you implied by "to speed up the acceleration of the offshore business?" Thank you very much.

Tulsi Tanti

Yeah, we appreciate your questions. Your first question about the transaction namely with the Areva, the put option, understanding is very clear. From today onwards whenever they want to sell the exclusive right is available with the Suzlon, but the first one year it has to retain this stock and after one year they can exercise this option. As far as concerned about the timing, it is any time after one year meaning going continuous second, third, or any years they can sell but exclusive right with us. As far as concerned about the price, based on the fair market valuations it will be transferred

after the second year, so they have a good comfort of their exit options and they have a clear understanding with us to develop the business and they will support in all the business development, management, and all aspects, and they have transferred all the voting rights to us, so that is the clear understanding with the Areva. On top of that we are doing lot of projects in India and outside India and we required a lot of infrastructure for the grid infrastructure particularly substation and grid or evacuation facilities which we are outsourcing from the different suppliers, so now being a partner with us in the REpower, Areva can be a supplier for us for the domestic and international market wherever we do the projects, so that is the additional business opportunity we are growing with them. So they will be can become a supplier to Suzlon for the T&D areas.

Regarding your second question, currently today we are holding 32% including 23% of the Martifer stock, so this is the current position, and deal is today is open and today we are expecting some more shares will come, but that we will come to know on Monday, and we are predicting and expecting somewhere 10 to 15% will come, so 60 to 62% is with Areva and Suzlon, and 10 to 15% will be available from the market today. So after that we do not see we require to acquire the stocks after the bid, so that is very clear for us. So we can own 70 to 75% of the stocks and 25% will remain with the shareholders and that we are also expecting to continue that so that they will get also the synergy benefit of the future.

Regarding your third question about the synergy, it is very strategic, our investment is there, we have clearly mentioned that it is a good complementing asset for us, whether it is a market place, whether it is a product portfolio, whether it is a supply chain issues. So in these all three areas we are complementing each other and we can create good value. Our first objective is to increase the volume by giving the good support of components, whatever the components requirement is in 2007, 2008, 2009. So we will increase our capacity with us, and we have some of the component capacity with us so we can accelerate the volume growth, that is first priority we see. The second area will be how to improve the margins, because REpower is running with 82% raw material cost, where Suzlon is running 62 to 63%. So we can improve the margin, it cannot give the affect immediately, but whatever the additional volume we are increasing those portions, that margin will increase immediately and going forward we will further improve the margin. So this area means the high growth and high margin we are targeting in the REpower. The most important asset they have, which is a commercialized product is ready - 5 megawatt - and going forward they are developing 6 megawatt also for the offshore market. We will accelerate that growth because for them the key need was this, a very strong financial support which now Suzlon can offer, and Areva is also the business partner in the company, so that strength will be available to the REpower customer. Also the supply chain, regarding the 5 megawatt machine, we can accelerate that component manufacturing for all the components. So within one or two years we can increase those capacities through Suzlon and we can grow the offshore business very fast. So all these three areas we see it is a good synergy. Last most important, we will integrate the product portfolio so that we can take the advantage of the economies of scale of the each component and

large scale manufacturing will be done, so that it can give the more additional value and that will be also available to some extent to the customers. So we will become more and more competitive for the customer also, not just to increase our own margin, but we will share some synergy benefit to the customer also. So we can create a good value for all the stakeholders. The timing point of view, may be the first 6 months we cannot be able to do much more, but after 6 months the synergy benefit will start step by step and going forward it will create a great value for all the stakeholders.

Alexander Karnick

Thank you very much for that, may be a quick follow up. I understand the meaning of economies of scale once you are able to boost the volume output of REpower, aside from that is there anything else that you have in mind that could further be of a positive impact to the margin?

Tulsi Tanti

Sorry?

Alexander Karnick

My question was aside from lets say the economies of scale impact or the benefit on the margin of REpower is there anything else beyond that that you have in mind, I mean the economies of scale that is probably cheaper source and cost for key components, but aside from these two effects is there anything additional more from a production cost point of view that you have in mind that could have a positive impact on REpower's margins?

Tulsi Tanti

Yeah, one is because of the increase of volume, it gives the good leverage in the fixed cost area so that will improve the margin. B, the raw material cost will go down, average cost, existing vendor should be continued and new additional capacity whatever required can be managed by the Suzlon supply chain network so that the raw material price can go down. And third area, the integration of R&D technology, because it is a little bit long term, after 18 months that effect will come. The component R&D technology we are owning and turbine technology they have, integrating those and we can create the product - whatever today's product is there - more cost competitive with the help of the integrated R&D technologies, component technology versus turbine technology will be integrated. So that will reduce some of the material and some of the different materials, so that can reduce further cost. So there is three way how margins will improve:

- A) With the help of the volume,
- B) The additional capacity will be at low cost of the supply chain, and

C) With the integration of the component technology and turbine technology will optimize the cost of production.

So all three will help. And the fourth area when Suzlon is manufacturing component, when we produce more component based on the REpower additional requirements, so that economies of scale will come also in the component side where also there is some margin improvement will come on Suzlon side also.

Alexander Karnick

Okay, thank you very much.

International Moderator

Thank you sir. Next online is Mr. Karthik from Lehman Brothers.

Karthik

Yeah, good afternoon gentlemen, and congratulations on securing REpower. My question is essentially in two parts. The first part is understanding more about the put option on Areva. Now after 1 year when Areva wants to sell can I take it that the offer price will be somewhere around 150 euro? And second upon, I wanted to understand a little bit more on the margin improvement front, what could be the minimum timeframe that you would require in terms of development work to start supplying gear boxes which are compatible with REpower? And also regarding lets say potential markets where there could be some level of say cannibalization, like in India where REpower has a joint venture which is signed recently, how to do you propose to address those, and will you continue to have REpower functioning as an independent company? Thank you very much.

Tulsi Tanti

Yeah, I understand. We understand your question. Regarding the put option I think already I have clarified, after 1 year anytime whenever Areva wants to sell, they can get the agreed value and we will purchase at the fair market value, so that will go like that. The second area you are talking about, the synergy benefit areas, so also I have explained in quantity and some supply chain and raw material margin and also in the integration of the technology can help us on that. The third area is about the current joint venture and relations. The REpower management has planned out organic growths whatever REpower has planned, either it is in China, India, Europe, and USA, so the teams will sit together, REpower and Suzlon, and we will work out what is the best value can be created by the company and accordingly it will be our further action plan based on long term plan further. The third area the component which required for the REpower products can be developed - in the different different component, lead time in the certain things is different, like the current requirement of bearings is there, so that can be available within 6 months because of that some volume will increase. Then

second component is required, the rotor blade, which can be developed within the 9 months, because of that also there some volume will increase. The third is the gear box, which is required, already REpower and Hansen is working before this deal also because as a customer, so that will be available within 12 to 16 months, so this each phase wise the volume will increase on different different stages and different different growth will come.

Karthik

Sir, just a follow up, is there any minimum base level guidance that you are giving in terms of margin improvement say like 300 or 400 basis points which is like a bare minimum you can do?

Tulsi Tanti

Because each year is improving, the current financial year we do not see the much improvement will come because affect will start after 6 to 9 months, and the financial year as per that FY08 it is 9 month is there, so it is a marginal improvement will come in the volume only, so we can increase the volume. The next financial year it will give more benefit on the margin, it will improve because of volume and because of the material cost, so currently they are running with low margin but going forward our target is to achieve the margin of double digit.

Karthik

Thank you very much sir.

Tulsi Tanti

Welcome.

International Moderator

Thank you sir. Participants who wish to ask questions please press 01 now. Please press 01 to ask a question. At this moment there are no further questions from participants at international bridge. I would like to hand over the proceedings back to India moderator, Rita.

Moderator

Thank you Salvia. We will now begin the Q&A interactive session for participants connected to the India bridge. Participants who wish to ask questions kindly press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question kindly press *1 now. First in line we have Mr. Peter from Kaupthing. Over to you sir.

Peter

Thank you very much. Peter from Kaupthing & Cohagen. A couple of questions; regarding the supply chain you said that you can expand this within different time span of lets say 6 through 16 months and that you want to leverage on your own supply chain, will this be a disadvantage to some of the customers that you are supplying to today or can you expand your current supply chain in the timely manner and the right quality within the short timeframe? That is the first question.

Tulsi Tanti

Yeah, I understand. First of all regarding the supply chain, we are expanding the capacity like gear box capacity we are expanding in Belgium, so that capacity will be doubled within the next 12 months. So that capacity will be available for the gear box, and some of the other capacity like we have in China, also we have a capacity in USA, we have a capacity in India, and we are expanding the component capacity in all the three areas. So we do not see the difficulty and this is on an above organic growth of the Suzlon, so the component capacity is also the larger than Suzlon requirement we have planned, so that will be available. The same point of time whatever the supply is coming to the REpower currently that will be continued, but additional capacity will be fed by the Suzlon support, so that we can increase the volume on a continuous basis, the first priority, and then going forward we will optimize further margins, so that will be the long term plan based on that.

Peter

I understand the gearbox capacity is not really the cost factor here, it is more the bearing and forged parts, are you capable of expanding that in house capacity in a timely manner and quality as well?

Tulsi Tanti

The forging capacity is under construction today in Suzlon and that capacity is more than enough than requirement of Suzlon and REpower also, not only that going forward the forging capacity will be available to the other customer also because we want to grow that business strategy also. so that capacity is available. Regarding the bearing and other things we are working more strategic development with the key bearing suppliers. They have a problem of forging raw materials, so we are in the process of long term arrangement with the bearing suppliers. We will supply the forging material for the bearing and they will supply the bearing to us. So it is a good win-win situation for the bearing supplier and for us, and those bearing will be available to Hansen and also to Suzlon and REpower. Regarding the bearing going forward is comfortable and regarding the forging material and even casting materials also we are under the construction of the project. The capacity is large enough to supply Hansen, supply REpower, to supply Suzlon, and top of that also we can supply to others also. So that

capacity is available. Rotor blade is not too much lead time. We can build the production facility anywhere in the world and we can start the production within 12 months. Like China project we have completed within 9 months and we have started the production. The US project we have completed within 8 months and we have started the production. So that strength and capability and capacity we have to manage the project for the manufacturing facility and we have in-house expertise and competency to build the production facility and to put in the production including the manpower training and learning curve process. So we are going more aggressively on that. So we don't see any constraint going forward for the next 3-4 years for Suzlon or for REpower and also for the Hansen. Any raw material or any component constrain we will not face. We have a good plan and we have a good execution capability and strength to do this. Sometime some delay of unforeseen and external force, sometimes delay by 1 or 2, weeks that is always there because of the very tight control situation in the supply chain.

Peter

Okay, the next question about the organization and integration, you have been growing pretty fast organically and you have acquired a number of companies and now get control of REpower, so what is your view about the current organization and how you look into integrating the company?

Tulsi Tanti

We have simultaneously focused on the human resources and global management bandwidth expertise of the people, and we have established a global management set ups in the Amsterdam and global management team lead by the Andre. Andre you can explain about how going forward our management team will manage this different products and different brands. So may be you can share your views.

Andre Horbach

Yes, you know we as I said before the first step will be that we plan to sit together is the REpower management and workout a detailed plan for the next months and also for the next couple of years, on what the specific synergies are, that have to be defined, what are the additional growth opportunities, workout how we want to capture these growth opportunities, and then we basically build draft an action plan that from both sides we will agree on. We feel very strong about the REpower management that is in place, so we will work from the Amsterdam office together with the REpower management team in Hamburg and at the same point in time since we envision a strong growth of the company we will start working also on expanding the leadership capability in all aspects of the team, and one of the first focus is that you have seen already before is that Suzlon has announced to set up a global technology center in Hamburg which was in first instance completely independent from whether the REpower deal would be successful yes or no. Now it is successful, obviously given the fact that REpower R&D is close to Hamburg there is a lot of opportunities and synergies

possible there also, which requires obviously also more resources and more recruitment into the company. So the whole recruitment plan to facilitate the growth going forward will be an integral plan of the whole synergies that we are planning to set up.

Peter

Okay and in respect of integration do you expect any integration cost from this transaction?

Tulsi Tanti

For integration of the REpower and Suzlon you mean?

Peter

Yeah.

Tulsi Tanti

Sorry?

Peter

Yeah. Correct.

Tulsi Tanti

No, I do not see there is a extra cost, but whatever in the management areas some operative cost will be there, nothing much more, because REpower will work very independent organization and that growth will continue in REpower also, at the same point of time Suzlon will also work independently and the growth will be continued organic growth of the Suzlon. Only in some of the area, product and supply chain, the synergy will be developed each other organization along with the Hansen also.

Peter

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. **Jinder** from German Press. Over to you sir.

Jinder

Yes Mr. Tanti I have got a short question please. Will you join the board of REpower and will you take the chair of the board please?

Tulsi Tanti

Yes, you are absolutely right.

Jinder

Thank you.

Moderator

Thank you very much sir. Next in line we have Ms. Shilpa from Kotak. Over to you mam.

Shilpa

Yeah, good afternoon everybody.

Tulsi Tanti

Yes, very good afternoon.

Shilpa

Yeah, I have a few questions probably I will you know address them one by one. The first is on this question on synergy gains, although you have specified a very clear timeframe of 6 to 16 months could you tell us what is the delivery capacity of REpower at this point of time and what do you expect it will be over the next 15 months?

Tulsi Tanti

Yes, we understand your question very well. The current capacity of REpower we have to define two way, one is the assembly capacity because they are not manufacturing any component, and another is the management bandwidth and the people capacity. So we have to expand the management and people capacity, we have to increase that strength so that they can grow faster, which is not a constraint. There is a certain skill and competent manpower are available in Germany, so we can increase that strength for the growth point of view. And from manufacturing capacity, particularly they have assembly, and that capacity is currently what they have it is somewhere is 1000 megawatt and it is scalable very fast, so it is not the difficult capacity, so we can build that capacity very fast, so there is no constraint. The biggest bottleneck in the whole sector, in the whole wind market globally is the components availability and that capacity, and that is a hard core manufacturing facility and that

facility, always lead time is so long that is why that facilities are not coming very fast. It is a very capital intensive and highly technology driven and huge skill is required in the people, and the long learning curves to establish those steps of the facility; and to achieve the full production. So that is the bottleneck of the sectors, so in that area the Suzlon strength is very very strong so that we can add that and we can supply more and more component to REpower and they can produce the turbine assembly and everything can be faster and they can market the product in Europe very faster, so we do not see any constraint to increase the present and future capacity.

Shilpa

Got it. So with your help can they take it up to lets say 3000 megawatt or 4000 megawatt?

Tulsi Tanti

It is more quantified future number is there, but everybody wants to develop and grow faster - each and every organization in the sector, but the size will be decided by the supply, so we will go more step by step and we want to grow the organization the way we are growing in Suzlon.

Shilpa

Okay, so I do understand that you are not really committing yourself on a clear number for the potential assembly capacity 1 year down the line, but hopefully we will get more clarity on that going forward?

Tulsi Tanti

Currently, they have a 1000 megawatt capacity, if you want to build depending on which market business is increasing the second production facility can be on those areas and that can be built within 6 to 9 months, another 1000 megawatts. It is not heavily capital intensive for the assembly shops, so it is very easy to scale up everywhere, so that is not a bottleneck.

Shilpa

Okay, my question was more on you know once you resolve these bottlenecks, you identify lets say gearboxes and you know foundry capacity etc., I do know the assembly capacity is not a big deal to ramp up but then when you do the debottlenecking what will be the ultimate capacity of REpower or will it be just 1000 megawatt or it will be more than that?

Tulsi Tanti

No it will grow on year-on-year it will increase because the industry is growing 25% and Suzlon and REpower have a minimum target to grow more than 50% year-on-year.

Shilpa

Okay great. Mr. Tanti my second question is on REpower's tie up with the Ruias in India, now with you know Suzlon taking over REpower is it confirmed that the tie up with Ruias is off and or is there something more to it?

Tulsi Tanti

The REpower management has a lot of tie ups with China, India, and US and Japan also. So based on the management plan that will be continued and we do not want to disturb anything of than plan, but now for the next phase both the teams, I mean Suzlon and REpower will sit together, and they will decide the synergy plan and based on that whatever growth is required, we will continue and we will go ahead with our REpower plan not to disturb anything.

Shilpa

Okay and my final question Mr. Tanti it is regarding these you know the so called cooperation that you have with Areva on the transmission and distribution side, can you give us some quantitative feel on what is the value of the bought out on the T&D side that you hope to source from Areva that you were earlier sourcing from guys like Crompton Greaves etc.?

Tulsi Tanti

We understand, we are doing project execution in India but now also we are expanding that capability to international, particularly in the European market. So the execution facility or grid facilities, its normal investment in India if we calculate is Rs. 30 to 35 lakhs per megawatt cost, which is what we are outsourcing, so assuming to India we are doing 1000 megawatt plus so that much quantum of the business we can share with the Areva. And going forward our growth is already there, so that will be there, so Areva will be the preferred supplier on this outsourcing, and also same way wherever in the world they are the preferred supplier for us for this grid facilities and infrastructure. And going forward very important investment is required in offshore business, so when REpower will expand their capacity in offshore business a lot of grid and infrastructure investment is required which is very highly capital intensive, its per megawatt cost is more than sometime is Rs.1 crore to Rs. 1.5 crores. So those areas will be a supplier also for REpower and for Suzlon, so that is the relation we are building being a partnership relation with Areva.

Shilpa

Excellent, so in India alone potentially Areva can get business of Rs. 350 crores?

Tulsi Tanti

It can be possible 100% subject to if they have a capacity and capability to deliver in time, so it is may be in phase manner how it can increase.

Shilpa

Okay great, thank you so much for your responses.

Tulsi Tanti

Thanks a lot.

Moderator

Thank you very much mam. Next in line we have Mr. Sanjeev from Kotak. Over to you sir.

Sanjeev

Yeah, hello, on the capital-raising program would you be doing FCCBs and what amount are you looking at raising?

Tulsi Tanti

Currently, we have already announced in the market \$300 million we have done, so at this moment \$ 300 million is there, we do not have any such plan immediately.

Sanjeev

What is the coupon rate of this FCCB?

Tulsi Tanti

Sorry, coupon is zero.

Sanjeev

Zero.

Tulsi Tanti

Zero coupon.

Sanjeev

The conversion price of these FCCBs?

Tulsi Tanti

It is Rs. 1800 per share.

Sanjeev

You also mentioned market price for REpower, is what price that you would have to buy from Areva does the same market price mainly market price what it would be prevailing 1 year out or is it a different value?

Tulsi Tanti

No, whenever they decide to sell at that time we have to see what is the fair value of the stocks, based on that, there is no relation with the current price or today's price or anything.

Sanjeev

Not the market price which is prevailing a year out?

Tulsi Tanti

No it is not linked with market price, it will be calculated by independent people as fair market value.

Sanjeev

Okay, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Suhas from UBS. Over to you sir.

Suhas

Hello, can you hear me?

Tulsi Tanti

Yeah hello.

Suhas

Yeah, hi, good afternoon everyone and congrats on this acquisition. Most of the questions have been answered, but one question is you know, you had trouble sourcing components in US last quarter where I think the cost of towers went up unreasonably high, now what kind of confidence do you have that you will be able to pull off synergy gains in REpower, while with your own operations until now REpower is a completely new company, while with your own operations you had difficulty in execution? Another question clearly is by when do you expect these synergy gains and double-digit margins?

Tulsi Tanti

Yeah, we understand Suhas your question. When we are talking about the US, the US the production capacity of the tower is very, very limited versus the demand, so that component is very difficult in the USA. And when you are focusing on the European market tower manufactures are available so many and there is no constraint and there is no supply problem in price and other things regarding the tower. The problem is not in European market and mainly REpower business is more in the European markets, so that growth can be continued and tower can be outsourced without any difficulty and a huge capacity of towers is available in the Europe. So there is no bottleneck in the Europe. The important thing is Martifer is one of our existing shareholder with us and they have also a good production facility in Portugal for tower manufacturing, so they can supply the tower also, so we do not see that as a constraint. Regarding other components, we are expanding the capacity, like in Belgium we are expanding the gear box capacity and also wherever REpower requires rotor blades, whether it is in Europe or whether it is in different market, India, China, US, we have production facilities for the rotor blade and we can produce more also. so we do not see that as a constraint. This tower in US is one off case, because the tower price has shot up because the supply was less and demand was high, and somewhat the steel price was highly volatile. Now as a long term point of view, we are establishing tower facilities and production facility we are expanding in India for that export tower requirement. We are increasing the new products tower capacity of 1500 megawatt, so whatever the US requires, towers we will supply from India, and whatever towers are required in Europe we cannot supply from here but we can buy it from Europe because of huge capacity available and good reasonable price, so more secured supply is there. So that way it can continue the synergy growth of this. Regarding this timeline point of view the double digit things, there are two leverages very, very clear. One, you increase the volume, there is lot of fixed cost because the size of the company of business if 500 megawatt today, and normally in the wind turbine business first 500 never tender any margin, because of huge fixed costs and huge development costs and huge infrastructure costs, market set up costs, it is very large there. So with same base

you can grow the company up to 2000 megawatt, there is no problem for that, and when you are leveraging the fixed cost very fast so volume will give the support very fast. The second is the additional volume will come with a lower cost of the material, good supply, cost efficient supply chain, so that will do. Our target is going forward within 2 years we have to achieve double-digit margin.

Suhas

Okay, and just one last question, you mentioned that you will have to spend about 250 million euros would be your cost of acquisition this year, and next year you might have to pay for Areva and the following year you might have to pay for Martifer shares, and in addition to these what will be your capex for Suzlon as a whole?

Tulsi Tanti

Yeah the capex plan is very clear. The last financial year partly we have done somewhere Rs. 300 to Rs. 400 crores and current financial year our total capex plan is Rs. 3300 crores which is taking care of forging, foundry, gearbox, generators, rotor blade, tower everything, for Suzlon and for additional some capacity for Hansen and some capacity for REpower also going forward. So that is already we have planned, so it is Rs. 3300 crore and out of this Rs. 300 crores is already invested and Rs. 3000 crore will be invested in the current financial year when most of that is coming and partly also is coming in the next financial year particularly in the gearbox area, so this is the capex plan.

Suhas

So you could say this year is about Rs. 2000 crores.

Tulsi Tanti

Yeah roughly about Rs. 2000 to Rs. 2200 crores.

Suhas

Okay and as most of it how will it be funded?

Tulsi Tanti

It is 25 to 30% is from the cash accruals and partly may be we have a reserve from the first IPO also some amount is there which we are utilizing for this project, and balance will be through debt and partly from the FCCB also, which we already raised \$300 million.

Suhas

Okay, so there may not be any of the further raising is what you are saying?

Tulsi Tanti

At this moment because this funding is on the €250 million, so whatever the FCCB currently we have done partly we can utilize and partly from the cash accruals and partly from the debt, so we do not require any additional money, and at the same point of time we are generating good cash also.

Suhas

And just one last thing in terms of financing for Areva share acquisition and Martifer which obviously coming 1 year down the time, suppose Areva you will have to spend say 420 million or 450 million euros on Areva, what do you think your source of funding might be, that even you will still have expanded capex requirements for next year as well?

Kirti Vagadia

See we have already have debt in place because before making offer we have already organized for full value of debt, so debt is already in place, but since it is 1 year plus down the line definitely we can explore another option of using our cash flow also partly.

Suhas

Okay and what rate is that debt is taken?

Kirti Vagadia

That we have communicated that average rate is about 5.25, it is linked with EURIBOR.

Suhas

Okay, thank you very much.

Tulsi Tanti

You are welcome.

Moderator

Thank you very much sir. Next in line we have Mr. Rajesh from CLSA. Over to you sir.

Rajesh

Good afternoon sir this is Rajesh here.

Tulsi Tanti

Yeah Rajesh.

Rajesh

Yes sir, sir one question was on can you give us what is the main point of differences between the technology currently being used by Suzlon and that of REpower?

Tulsi Tanti

Yeah, it is very good technical question, so the important point is that in each turbine suppose 2 megawatt machines in the US, India, China, or Europe it is always is a 2 megawatt machines, but the configuration and the concept of the machines is always different based on the market. So the REpower product is a variable speed machines whereas Suzlon is the fixed speed machines, so that is the difference, so our product is very good for the Indian and China market, but for the European market variable speed generators are very very good and preferred from the customer side and it is very good for grid friendly because more stabilized grids are available there, so our type of the generators are very good friendly for the India and China grids where erratic conditions are there, so it is good, so both the turbines will be best for different markets because it gives more reliability and more performance of the machines. So that is the basic difference - variable speed and fixed speed, it is a basic difference in the generator only. The turbine will be the same, gearbox, rotors, tower, and everything, but only basic generator philosophy and the power electronics will be more in REpower machines and power electronics is almost nil in Suzlon machines. it is very simple robust machine for Indian and Chinese grids.

Rajesh

Okay and given that most of the new capacity expansions would be targeted for the overseas market, would it mean that the new capacity which you are putting up in India the 1500 megawatt green field that could use the REpower technology because those machines are meant for European and US markets?

Tulsi Tanti

Yeah, whatever the production capacity we are expanding either in Belgium or India or US and China, we will optimize the product portfolio of Suzlon and REpower, and based on that we can plan out which component and what quantity we have to produce and that we have to scale up also based on the requirement, and current plan is

enough for next 1 or 2 years, but going forward we have to increase more capacity component for the REpower also, that is after 2 years it is required not first 2 years.

Rajesh

Yeah, but the new capacity 1500 megawatt you are setting up most of it would be targeted for the overseas, so that would be variable speed machines right?

Tulsi Tanti

The generator is the only difference is there, first of all, and my generator plants within Chakan or new plant we are establishing we can produce both type of the generators, it is more not a state of art product it is more commodity product, so you can produce any type of the generator, whether you require variable speed or this fixed speed you can produce at the same point of time, and it is not a difficult product to ramp up the production also, if 1500 megawatt generator plant if I want to produce 2000 MW I can go up to that also, it is easy to ramp up, that is the advantage is there.

Rajesh

Okay, sir you mentioned that the acquisition of the REpower the price will be whatever stake you buy from Areva the price will be decided at that point of time based on fair value, now there would be certain agreed parameters on which that fair value would be determined, can you share that with us?

Tulsi Tanti

That is mainly we have to appoint the third party and based on the standard value calculations process is there, which we have to adopt and based on that we will come to the common understanding that okay it is okay for both.

Rajesh

Because on their website Areva says that there would be at least 350 million euros of value creation for them which implies a price of 162 euros, so you have mentioned on television that there is no guarantee from your side, right?

Tulsi Tanti

It is what they have calculated, I am not aware about that, possibility is that because they have a very low cost of the shares first of all and based on the bid whatever the current bid price is there in the market today which is open, so based on that may be they have calculated that numbers.

Rajesh

Okay, sir my last question is on you mentioned that operating synergies will be gained, one is the volume growth itself will drive that, and second is there would be component supply from your side, but if you look at REpower's first quarter results though there has been a very strong growth in revenues, there is a 40% growth in revenues, the EBIT margins have actually gone down, because again there also we have seen increase in material costs as a percentage of sales as well as increase in employee expenses and other expenses, so do you think that because of the component shortages material cost are going up and employee expenses also seem to be going up, this year we may not see much improvement compared to the last year in REpower's margins?

Tulsi Tanti

Rajesh, in our industry one thing is very important, quarter by quarter lot of fluctuation can come because some of the fixed cost and some of the cost is already established, and if small volume change is there, margin impact will come immediately and when REpower is running with the very low percentage of the margin if any 10 to 20 megawatt or 30 megawatts out of the plan, any delay or the thing, immediately they can lose the margins, so that is sensitive areas, so that is quarter-on-quarter is always there, suppose in next quarter the same volume compared to the plan if it is increasing because of the backlog, the margin will further improve immediately, you have to see on the annual basis, that is the only best way is there.

Rajesh

Okay, thanks sir.

Tulsi Tanti

You are welcome.

Moderator

Thank you very much sir. Next in line we have Mr. Bhavin from Enam. Over to you sir.

Bhavin

Good afternoon sir. Sir could you share I mean we mentioned that we could make the variable speed generators in India as well, so what is the logic behind buying REpower? And second is if we were to set up through our own R&D you could manufacture those things you could develop these kind of products in house what was the time lag and what could be the total cost of the R&D of this variable speed drives as well as the offshore turbines?

Tulsi Tanti

First of all we have to understand the product development and product economies in component areas like gearbox. If REpower places the order with the Hansen, Hansen has to develop the product and the product development cost is always built in the price of the supply. It is not a separate cost any component manufacturer is charging, so they will develop the first prototype and they will load the development cost on going forward, so that is there. In generator also it is not a complex product, it is more a commodity product, so the development cost is not as expensive first of all, so whatever cost of the development is always loaded in the say first 50 generators or first 100 generators, it is spread always, so that is going like that. As far as the concern about the fixed speed machine and variable speed machines, the concept of the product is different but the manufacturing process is the same, so it is not a constraint to produce any type of the product, at a time we can switch over the production, at a time we can increase the one type of the requirements so that is more flexibility on that type of products are available.

Bhavin

Sir my question was like if you could have developed those type of technology in house, then why pay such a high price for a company in Europe which is a high cost base, so I am trying to understand your perseverance behind buying the company at such high price?

Tulsi Tanti

First of all we are not buying this company for the same type of the component, if we have certain strength of the component and other things, it is not a component manufacturing company, so we should not compare like that. The company based in Europe, more established brand, and more reputed company and very good product suitable for the European market, very good customer network in the Europe, and very good performance of the running product establishment is there. The same thing Suzlon can do in the European market it takes 3 years to establish the same levels, so here we are buying the time and we are accelerating our growth in the European markets which is the 50% market of the world. Last year out of 15,000 megawatt 7600 megawatt was installed by the Europe, and going forward next 3 to 4 years Europe will remain the 50% size of the market. So this is the large market, they are established clear in the large market, so that is the things we can accelerate our market growth in the European market. And next they have a product technology and also we have R&D product technology and we are integrating this and we have each, and component R&D technology, so that is the key asset of any organization in the wind industry. So we are integrating that very fast first step, and what we are focusing leadership and the technology because they have that skill and Suzlon has a certain skill. By integrating we will achieve leadership in the technology, so that going forward we will develop more new and new products with the more reliability and more cost competitive and create a value life cycle cost to the customer. So that we can achieve very fast and we can

roll out our product very aggressively. And second thing area we have offshore technology, which is 5 megawatt of machine which is the largest turbine in the world today, best part is that the product is already commercialized and they are marketing this product. If Suzlon wants to do it takes 3 to 4 years, it takes time to establish that product, to establish that product performance. So here when the industries are in the high growth phase, 25 to 30%, in that scenario it is a good sense to acquire this type of the asset and we are not buying this asset as expensive, it is a very, very reasonable investment we are doing. 1.35 billion euro size of the company we are just investing today 250 million euro only, so it is a good strategic investment and it is not expensive for us, but it is creating a huge value for both the stake holders, so that is the objective, it is not just one component issues.

Bhavin

Sir my second question would be say for instance all the other investors tender the shares to Suzlon today, so would Suzlon take their entire shares currently because the current market price is ruling is around what Suzlon's offer price is?

Tulsi Tanti

Whatever the shares at the existing shareholder will put in offer we will purchase and we have to purchase.

Bhavin

Sure, and final question being if \$300 million FCCB is basically zero coupon or 50% premium on redemption, for instance if it is not redeemed and it is not converted in this year, so would we provide the 7.6% interest rate in FY08?

Kirti Vagadia

We are not required to provide as per Indian accounting standard, even according to IFRS we are not required to provide because it is convertible instrument.

Bhavin

Sure, okay, thank you very much and all the best.

Moderator

Thank you very much sir. Next in line we have Mr. Saurabh from JP Morgan. Over to you sir.

Saurabh

Hi sir, this is Saurabh. Sir I have three questions. Sir, one is what is your capex plan for REpower over the next 2 years? The second is could you share with us your current debt and cash levels, I remember you had said it for about Rs. 1500 crores of cash in the last conference call, if you can give an updated number today? And the third is sir on the accounting, sir basically if I understand it correctly you will consolidate 70% assuming you get 70% of REpower's economic interest in your P&L and the debt will be probably be around 18% only, 15 to 18%, after taking out Areva stake and Martifer stake, is that a correct understanding?

Kirti Vagadia

Let me answer firstly on cash and bank balance. Cash and bank balance changes every day, so on March it was Rs. 1500 crore plus, and every day I think it will not be there for us to share the cash in hand and bank balances, that is one thing. Secondly, on accounting side, definitely on revenue front we should be in a position to consolidate about whatever percentage we are controlling because we are controlling at management level. On balance sheet side, let me tell you our analysis that depending on whatever shares we are holding that much only we should be in a position to do it otherwise I need to make provision for liability payable to Martifer and Areva also.

Saurabh

Okay, and sir your capex plans for REpower?

Tulsi Tanti

Whatever the REpower management has whatever the capex plan already is planned, that will be continued, but we do not have exact number at this moment. We can tell you later on. Currently from our side after acquisition process, the synergy perspective we do not see for the first 2 years additional capex is required in REpower, only the possibility is if they get some good business on a different market within the Europe for different area and as per the industrial plan with the government sometimes so some capital investment is required, but it is always linked with order, so depending on that we have to do that and which we can do.

Saurabh

Okay, sir coming back to the accounting, if I understand it correctly, this is basically trying to get what the earnings impact will be immediately, in terms of is it fair to say if I just take 70% of the REpower's income and just take the debt rates will be basically net of Areva and Martifer stake and the interest on that will basically be around 5.25%, is that a fair way to calculate?

Kirti Vagadia

Correct, debt what we have taken only for the shares we have acquired, and definitely right now we are not paying, so there is no debt.

Saurabh

So is it fair to say that there I mean there will be dilution next year?

Kirti Vagadia

We do not see any need.

Tulsi Tanti

First of all we have to understand Areva will decide after 1 year whenever they want to sell, at that moment we have to plan for that fund, and currently it is a deferred payment situation like that. Martifer is also very clear, after 2 years, not before that, we are required to pay, so after 2 years we have to plan for that money, either it is from the internal source or by debt or by equity routes, it will be decided at appropriate time.

Saurabh

Okay, thank you sir.

Moderator

Thank you very much sir. Next in line we have Mr. Siddharth Gupta from Macquarie Securities. Over to you sir.

Siddhartha Gupta

Good afternoon everyone, most of my questions have been asked, just a final question; is there any minimum price which is guaranteed to Areva and especially when Mr. Vagadia said that you will have to make provision for liabilities which is payable to Martifer and Areva?

Kirti Vagadia

Okay, on liability front let me clarify that if I consolidate on balance sheet front on their networth in that case I need to do, that is why on balance sheet front I will be in a position to do only the shares which I have acquired.

Siddhartha Gupta

Okay.

Kirti Vagadia

Clear?

Siddhartha Gupta

That means it is not required to do any provisions on the balance sheet?

Kirti Vagadia

Correct.

Siddhartha Gupta

And other than this have you guaranteed any minimum price for Areva, other than the fair market value, I mean is there any flow to that?

Tulsi Tanti

No.

Siddhartha Gupta

Okay, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Venkatesh from Citigroup. Over to you sir.

Venkatesh

Sir just a few questions; firstly, I mean normally in your sales of turbines in India, China, and US what kind of credit period do you give to your consumers and what is the normal custom of giving? What kind of credit periods does REpower or other players in the European market give? The second question was I was just clarifying on the capex thing which Suhas asked regarding what was the capex last year and what is the capex expected this year in Suzlon and Hansen? And lastly, what is the total number of shares outstanding of REpower as of today?

Tulsi Tanti

Regarding the first question about payment terms and condition with the customer, in different markets it is completely different, like India has a different payment condition, normally at the time of order 20 to 25% the customer is giving advance and the

balance payment is on delivery, and the final payment is some commissioning and after commissioning some 30 to 60 days people are paying in India, it depends on the bank disbursement, so that is in India. In China it is more over the state owned companies are buyers and that is very clear, some payment is coming on advance and most of the payment we can say 90% is coming on the delivery, and then third is the on the complete supply of the complete orders, so that is part III is there, so it is on milestone basis. In European market also the same concepts are there, whether it is Areva, whether it is Suzlon, whether it is anybody, the customer is giving 20% to 25% is advance because of the current demand of the turbine is higher. Sometime this advance is more also, and other payment is based on the delivery of the milestone based on tests, so payment terms from the customer side is very comfortable and very reasonable, and sometimes also because of the supply now advance percentage is also increasing.

Venkatesh

The second question was on the capex side sir, a clarification on the capex, how much was the capex last year and how much would be the capex, I was just reconfirming these numbers, Rs. 300 to 400 crores last year, this year around Rs. 2200 crores totally, am I right sir?

Kirti Vagadia

Yeah, last year our capex was about Rs. 650 crores, out of which Rs. 300 to 400 crores on on-going projects partly completed in current year and partly in next year.

Venkatesh

Yes sir, and the total number of shares outstanding in REpower sir?

Kirti Vagadia

It is slightly less than 9 million shares.

Venkatesh

Okay sir, sir one last question, when do you expect the entire entity, I mean if you look at Suzlon plus Hansen, that itself is actually free cash flow negative, is there any point, you have any target of converting the whole entity to free cash flow positive, is it some time line you have in mind sir when this can happen, is it possible?

Kirti Vagadia

See basically it is a choice between growth and free cash flow, the way we are growing at 100% rate whatever cash we are generating is normally deployed in working capital. Now we do have working capital reduction target and part of that you

have seen in current balance sheet and part you will see about 7% reduction in this financial year. So hopefully by next financial year end we should be generating free cash flow, but definitely it is with growth, at the cost of growth we are not going to generate any free cash flow.

Venkatesh

Okay sir, thanks a lot.

Moderator

Thank you very much sir. At this moment I would like to hand over the floor back to Mr. Tulsi Tanti for the final remarks. Over to you sir.

Tulsi Tanti

Yeah, thanks a lot and thank you very much from every participants, and once again I am talking to the analyst it is very good strategic investment and it will create a great value for REpower and Suzlon and we will develop this organization in a very fast way with high growth and with high margin. Thanks a lot and thank you very much, thanks for your cooperation. Thanks a lot.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
