

Suzlon Energy Limited
Investor/Analyst Conference Call
March 04, 2008

Moderator: Good afternoon Ladies and Gentlemen. I am Gaurav, the moderator for this conference. Welcome to the Suzlon Energy Limited Investor/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 international bridge. After that, the question and answer session will be conducted for participants in India. I would now like to hand over the proceedings to Mr. Andre Horbach. Thank you and over to you sir.

Andre Horbach: Good afternoon everybody. Dear friends, I would welcome you on behalf of Suzlon to this information conference call on the subject of the blade retrofits. We hope that with the information provided during this call, our valued investors and analysts will get a clear picture of our plans in this regard. Mr. Tulsi Tanti, Chairman and Managing Director, will respond this call from our Pune office. Also, joining from Pune are Mr. Toine Van Megen and Mr. Kirti Vagadia, the members of the Group Supervisory Council, and with them is also Mr. Pradeep Kumar, the CTO of Suzlon.

As you are all aware on January 29, 2008, we had communicated to you appearance of cracks on some of the blades supplied by us for S-88 model, 2.1 megawatts wind turbines. At that stage, we had found the cracks on 34 blades pertaining to 34 wind turbines. At that time, we had announced a provision of Rs. 190 million for replacement of those 34 blades as a sign of commitment to our customers and uninterrupted operation of their projects. We had also announced that we would be investigating the reasons for the occurrence of these cracks, which would help us to determine the course of action to be taken to stop their recurrence.

Now, after around a month of analysis of the rotor blade structure, pattern of damage, and operating conditions, we have finalized the safest course of action, which is strengthening of all blades of this version that we have supplied so far. We have therefore announced on Monday, March 3, 2008, that we are embarking on a 6-month retrofit program of 1,251 rotor blades supplied globally inclusive of 102 rotor blades mentioned earlier. Total cost of this retrofit program is anticipated to be an additional Rs. 1 billion which will be provided for during Q4 financial year 2008.

Before I discuss the retrofit program further, I would like to highlight some aspects of the blade design, manufacture, and quality control process in order to provide you with the correct perspective.

All Suzlon products are brought to the market after well established processes. The first step is design where our technically strong R&D teams design the component and create technical drawings. After this, the design is presented for validation to independent agencies,

such as Germanischer Lloyd and following certification, a well-defined manufacturing process is established. We have vigorous in-house and third party quality assurance checks at each stage of the manufacturing process. In addition to this, Suzlon submits its blades to a vigorous testing program at the Technical University of Delft, at a university in the Netherlands. The last phase in this process includes testing and measurements after instillation of the blades on the turbine rotor. It is only after this stage that the blade is cleared for commercial production and installation.

We have studied the pattern of damage to the blades and determined that a combination of various stresses arising due to dynamic load conditions, predominantly shear stresses have given rise to cracks in one particular location on the outer shell of the blade. The appearance of these cracks is in a localized area of the blade structure pointing to the need for strengthening that particular area. We have drawn out a simple but effective solution for the strengthening of this localized area of each blade by applying an additional layer of laminated fiberglass material. By doing this, stress levels in the material are reduced and adequate strengthening is achieved.

In case of the 1,251 blades forming part of the retrofit program, we are applying this strengthening layer externally on already manufactured rotor blades. The total provision of Rs. 1.19 billion made by us covers the cost of retrofitting including replacement of damaged blades, additional material for strengthening undamaged blades, labour, logistics, and allied costs. In order to minimize the downtime of the turbines due to the retrofit program, we are also introducing a rolling stock of about 20 rotor blades that is to be used as temporary replacements of blades sent for retrofit. The amount of provision also includes the interest cost on this rolling stock.

We do not anticipate that cracks will occur in all blades. However, we are taking these proactive preventive measures to safeguard our customer's interest. We are keeping our customers informed about the steps we are taking to ensure trouble-free operation of all our turbines. Further, we believe that the market is mature and understands that issues of this nature can happen and that what matters most is professional and solution oriented management and adequate resources to carry out the proposed retrofit program. Since this matter will receive top priority management attention in our company and since all the required resources are available with us, we are very confident that our customers will be satisfied with the results and that there will be no negative impact on existing and future orders. With this, I declare the floor open for your questions. Thank you.

Moderator:

Thank you very much sir. At this moment, I would like to handover the proceedings to Lucy to conduct the Q&A for participants connected to international bridge. After this, we will have a question and answer session for participants at India bridge. Thank you and over to you Lucy.

International Moderator: Thank you Gaurav. We will now begin the Q&A session for participants connected to the international bridge. Please press 01 to ask a question. Mr. Rajesh from Doric Capital, please go ahead sir.

Mr. Rajesh: Good afternoon and thanks a lot for taking the time to explain to us the actions you are taking regarding the rotor blade issue. I just wanted to clarify so that I am sure that I understand at this stage based on your root cause analysis, have you identified the problem on why the rotor blade cracks happened or that is still an ongoing investigation?

Andre Horbach: No, as you remember from our end of January, Q3 conference call, we had installed a cross-functional R&D investigation team and that team has come clearly forward with the conclusion that the cause of the blade cracks is a lack of blade surface stiffness at the location of the crack and the routine inspections at some of the US sites have led to the discovery of the cracks in a very well-defined and localized area on a number of blades and to mitigate this, we are implementing basically a very simple but effective solution which means the strengthening of the limited effected area which is local on each blades. So, we do not anticipate that the cracking issue would affect all blades even without the retrofit, but however, as I said in my speech, we are taking this proactive and preventive measure to safeguard our customer's interest.

Mr. Rajesh: Okay and what I wanted to understand was, whether this crack happened because of a design issue or a manufacturing issue or that you did not adequately anticipate the wind conditions, what is the cause for this in the sense that, you know, you will be making blades or the world has been making blades for a while, so there must be a reason why this happened, right?

Andre Horbach: No, in this sense, I think it is a combination of two things. It is a combination of the design and probably very specific wind and vibration condition on some of these turbines. What we basically do is that, you design your blades within a certain window of parameters and in the certain window of operation. As I explained also in my speech, we go through very vigorous testing procedures, and when we design these blades, basically they pass all these testing procedures including the Germanischer Lloyd certification. So, it is possible though that due to a combination of design and very specific conditions on certain machines that this can lead to some of these cracks. We have identified in which area of the blade this risk might exist and that is why we are taking this proactive action to strengthen those blades.

Mr. Rajesh: Okay. After having gone through this exercise is there any learning that you have derived in terms of what changes or improvements you need to make in the design and manufacturing process beyond just a particular fix for this particular problem?

Andre Horbach: No, I think in this sense, we still believe that the original setup of our design and manufacturing processes is very robust. It is very much in line also with what the industry standards are. I think this is going back to a very specific problem, a very specific set of combined

factors that can occur on this machine. So, for this part of the design of the blade, we will definitely take those learnings into account for future designs, but I do not think it changes radially our design structure process.

Mr. Rajesh: Okay and lastly questions regarding this, one is how much does this affect your manufacturing capacity and manufacturing cost on an ongoing basis, the changes that you will have to put in place and second is how much does this affect your sales process, now does it mean that your existing customer like Edison and Future US or European customers would take a wait and watch attitude before they place new orders with you.

Andre Horbach: First of all, there is no impact on our manufacturing capability. We are in a process of expanding our manufacturing capability anyhow. This is a very much defined retrofitting process that we will apply on the existing blades, and it does not have any impact on our manufacturing capability going forward over the next six months. Then, further, whether this has an impact on our business and the way we take orders with customers. You see, our philosophy in issues like this is to, we meet and we have an open communication with all our customers. So, we have informed our customers and the taskforce and technology team that has come up with this solution has been in dialogue with the technology teams of our customers. The customers know what we are changing, what we are planning to do. The cooperation continues to be very good. I do not expect any issues on business going forward in this respect.

Mr. Rajesh: Okay, and your other customers say in Europe or Australia, have they asked you about this?

Andre Horbach: Yes, we are in dialogue with those customers also, and the blades basically that we are talking about some of them have been delivered into the United States, some of them have been delivered into Europe. So, we are taking the similar action as we are taking in the United States, we are taking that forward to the European level blades also.

Mr. Rajesh: Right, right you said, these are in specific environmental conditions in US which caused this, does it apply to Europe or you are just doing it because of over-precaution sort of thing?

Andre Horbach: First of all it is not specific environmental conditions. It is specific conditions with respect to wind, wind turbulence condition on a specific site on specific machines. It might be even on a specific site, but as I said, even though we do expect that not all the machines, not all the blades would have cracks in the future, we are taking basically a precaution and we have decided to strengthen all these types of blades. Well, in that sense, it is a very proactive move you could say.

Mr. Rajesh: Okay and the customers are happy with that response?

Andre Horbach: Yes, so far as I said, the communication with our customers is going very constructive and positive with regard to this.

Mr. Rajesh: If you look at how you account for these costs, I mean you are writing it off in Q4, but let us say, you have a five year warranty for Edison, what is your warranty provision policy and how does this particular expense sit against that?

Andre Horbach: Basically, our warranty policy is normally per the industry standards, meaning that the warranties are for one or two years, and basically, the customers can buy an option for warranties for an additional period, sometimes going up to five years. So, in that sense, when we do these provisions, we do the provision for the retrofit, but it does not have the material impact on our warranty conditions.

Mr. Rajesh: No, what I mean is, let us say every time you make a sale to Edison, do you make a booking for warranty provisions as far as your cost and how much is that?

Andre Horbach: No, when we normally do our provisioning processes, when we do a sale, we provide for various types of contractual commitments to be fulfilled at different points of the project lifecycle, meaning OEM warranties, power curve warranties, machine availability warranties, liquidated damages, etc., and these provisions are made on the basis of contractual obligations and field statistics for each model and not as a fixed percentage of the total sales. So, these provisions are done on a global basis. We make additions or deductions based on the true events, and in this way, I think we do not see any change in this respect.

Mr. Rajesh: What I mean is do you create a buffer like an insurance, right. I mean when you give all of these basically like an insurance and therefore you need to create a buffer every quarter, every month basically saying okay, for a future event, I will provide X.....

Andre Horbach: Yes.....

Mr. Rajesh:so is that something you wouldhow much is that and is that amount likely to change ?

Andre Horbach: No, we do not foresee that due to disadvantages and not needs to be changed.

Mr. Rajesh: Okay. Last question, again on the warranty. The 95% commitment you have with Edison for instance. According to Edison, they said they have a five-year uptime thing. How much room do you have left because there will be some downtime you will be taking because of changing the blades now. So, if you do that just as a precaution, you are actually eating into your sort of buffer, right, because for if there are any future problems, then that does comes out of your pocket.

Andre Horbach: Yeah, but I think the way we have designed this whole change process or this whole strengthening process of the blades, it is basically completely designed to minimize the impact on downtime and on customer's machines availability. I announced that we are taking a rolling stock of about 20 blade sets, which we are supplying into the sites into the United States. So, what we will do is, we will remove the blades of a certain machine, we will immediately out of the

20 sets, we will put new blades on that have been strengthened already, and then basically on the grounds, we will do this retrofitting process. So, the downtime that impacts the customer due to this whole program is actually very, very minimal.

Mr. Rajesh: Less than a day or more than day

Andre Horbach: We can do this probably, each machine we can do probably in less than a day.

Mr. Rajesh: And you have tested this, you have actually done it in a few sites and see that it works, this process ?

Andre Horbach: We have basically, we are in the stage right now that we are rolling out this program. We have done the application of the retrofitting process. We have done that in some of our plants to test how quickly it can be applied and how quickly it can work. We actually did some improvements still to the proposed procedures, and you know, the change of blades, we are familiar with, how to do this in an efficient way. So, I think, both components, both how to retrofit the blade and both how to exchange, the time has to be noticed is very well known by us.

Mr. Rajesh: So, you do not foresee any problems when you actually go a site to work?

Andre Horbach: No, we do not foresee it right now. It will be obviously a bigger operation, but we are very confident that we can manage that within the anticipated time.

Mr. Rajesh: Okay, thanks a lot. Sorry for so many questions.

Andre Horbach: You are welcome.

International Moderator: Next question comes from Karthik from Lehman Brothers in Hong Kong. Please go ahead sir.

Mr. Karthik: Good afternoon sir. Thank you very much for the call. I just have a couple of questions. Firstly, the sets of blades that are undergoing this program, they are predominantly 2.1 megawatts. So, would you kind of conclude that this problem is only pertaining to these sites' turbines and secondly we have around 1,251 blades which will undergo this program. Now, that translates into close to 875 megawatts. I just wish to know whether these installations are predominantly going to be only in the US and Europe, so we could kind of conclude that blades in China or may be Australia are relatively free from these kind of problems. Thank you.

Andre Horbach: You see, this is specific to the S-88 machine, and in that sense, every blade is very specifically designed to a specific machine. So, in that sense, we have observed this problem on the S-88 and hence we are taking this action related to the S-88. Concerning your question and indeed it is correct, it is 1,251 rotor blades. Out of these rotor blades, 930 already have been installed and the rest of the blades are still on

the ground. Your question on the geographies out of the 1,251 blades, 942 have been supplied to the United States and 303 of these blades are in Europe and Brazil.

Mr. Karthik: Sir, just to take it further, let us say from some of your big customers like Edison, are you seeing any kind of may be order withdrawals or any slow down in orders from your big customers or are they deferring any orders as of now ?

Andre Horbach: We do not expect that. As a matter of fact, we continue to discuss future orders in a very positive spirit and in a very positive way with our customers and you know, as I said before, it is also our philosophy that when problems like this occur, that immediately we want to have an open and honest conversation with our customers and that is Suzlon style, Suzlon culture and policy. We have done this in this respect from the beginning, and I think that is the basis for our continued good relation with our customers. So, I do not expect that this is going to do any negative impact on the business.

Mr. Karthik: And sir lastly, given the fact that 2.1 is perhaps the large-sized turbines that Suzlon is into and that is predominantly catering to the high wind speed sites in the US and Europe, would it be fair to say that perhaps we are still early on the learning curve when it comes to larger-sized turbines as opposed to say our other peers who are doing business in the US and that is perhaps one of the reasons why something like this came up?

Andre Horbach: No, I do not think so. Yes, the 2.1 MW machine is the larger machine that we have in our program, but I do not think, that in this respect this problem can be contributed specifically due to the fact that this is a larger machine. You see, I do think that the S-88 is a young product, so in that sense, problems like this might occur in the early days of the product which we are correcting right now, but I do not see any relation with the size of the machine.

Mr. Karthik: And sir the entire provision will be taken up in Q4, so which means for Q4-09, there will be no spillover of any provisions as of now, is it?

Andre Horbach: Correct.

Mr. Karthik: Thank you very much sir.

Andre Horbach: You are welcome.

International Moderator: Next is Mr. Robert Clover from HSBC, the UK. Please go ahead sir.

Robert Clover: Good morning gentlemen. Good afternoon I should say. Thank you very much for this opportunity to speak to you. I have got three questions really, actually past transposed on the other potential technical issues with the S-88. Could you perhaps give us an idea of your confidence that these are the only issues that you are experiencing with the S-88 and these represent the total charges that you expect to take going forward. That is the first question. Second one is, if you could kindly comment on persistent reports saying in

addition to the blade issues that you are experiencing with the S-88, the turbine is delivering around 3% to 4% below the stated power curve as well as experiencing very low availability rates of around 65% to 70%. The last question is could you please comment on the reports in the German press that you are trying to secure licence to both REpower's MM92 turbine and also REpower's blades' spoiler technology and how this reflects on your confidence on your S-88 turbine and your international strategy. Thank you very much.

Andre Horbach: Okay. Well with respect to your first question, at this point in time, we do not anticipate any further reservations with respect any order availability issues on machines in respect to the S-88. The second question.....what was your second question again ?

Robert Clover: The second question really was, we are hearing a lot of reports particularly from the US that the output of the S-88 is that its deliverings around 3% to 4% below the stated power curve.....

Andre Horbach: Yeah.....

Robert Silva: which may result in some nonperformance charges and also that you appear to have very low availability rates at least for some of the early instillations in the US and the number we have heard is around 65%.

Andre Horbach: I think first of all on these availability numbers, obviously I do not know what information you got, but obviously, when you take a couple of machines out of operation because you have cracks on blades, that has a significant impact on the availability because you have to understand that we have to organize getting blades to the sites and doing these retrofit programs. That might have an impact on some of the rumors that you might have heard. The discussions that you have mentioned in the press in Germany with respect to REpower, I want to make a clear statement to that respect, these types of allegations that have been put out there to Suzlon, from my point of view are complete nonsense. The cooperation with REpower from our point of view is excellent. Our focus with REpower at this point in time is mainly connecting REpower to our backward integrated supply chain acting as a potential supplier, and due to the structure that both companies have legally, it would be completely impossible to basically take any technology regarded to the MM92 or to blades or whatever from REpower without a clear understanding and a clear licence agreement from REpower. So, in that sense, you know, I think many things that you have seen in the German press are just completely impossible in the legal structure as it is right now, and hence, from my point of view are completely irrelevant.

Robert Clover: But can you just confirm whether or not you are actually trying to get a licence to the MM92 and some of the blade technology or the spoiler technology that REpower enjoys, and if so, what does that mean for your S-88 in the international strategy?

Andre Horbach: No, we are not trying to get any licence for our international business related to the MM92.

Robert Silva: Okay, thank you very much. Just one clarification on the thing, you mentioned the legal structure pertaining to REpower. What point might you expect to be able to exercise the domination agreement in order to effectively fully control REpower, and do you need to have 75% beneficial ownership rather than just control of voting stakes, perhaps you could clarify that as well. Thank you very much.

Andre Horbach: As I said, at this point in time, our focus in the cooperation with REpower is completely focused on allowing REpower to grow faster. We are doing that by focusing on two things. First of all, helping REpower in the limited supply of parts by trying to connect the REpower business to our supply chain in the sense as acting as a potential supplier and increasing our capacity and our technical capability. Further, you have seen that we have announced a joint venture together with REpower on the technology front, the Renewable Energy Technology Center that will be set up in Hamburg, and further, I do not want to give any speculation or any comments with regards to any possible or not possible domination agreement.

Robert Clover: Okay, thank you very much Mr. Horbach. I really appreciate your comments. Thank you. Bye, bye.

Andre Horbach: Thank you.

International Moderator: Next is Mr. Vivek from Boyer Allan in the UK. Please go ahead sir.

Mr. Vivek: Hello, there. I just have two very quick questions. First question is with regards to these problems that you have actually encountered. Has that kind of changed your expectation of what your shipments that you actually have in the near-term and also going out into the next year, and secondly, with regards to the problems that you actually had with the S-88, you know, just wanted to get your feel that, you know, when were these machines actually deployed and when did you actually, you know, I know this was in Q3, but when specifically did you start seeing these problems occurring for the first time and has the intensity of these problems, i.e., the incidences of these problems, you know, kind of increased in regularity since then ?

Andre Horbach: First of all I think I have answered before already, we do not expect any impact on shipments with respect to our normal running business neither in the short-term and neither in long-term. With the capacity that we have in our facilities, we can fulfill our current business plans and on top of this, we have organized to execute this program within the window of the next six months. So, in that sense, a normal business and this retrofit program will be possible to go next to each other. What was your second question again.....I am sorry.

Mr. Vivek: Okay and the second question is, I mean to say, have you seen the regularity of the incidence of some of these cracks that were occurring actually increased over the last few months.....

Andre Horbach: Yes.....okay...

Mr. Vivek:which is basically.....

Andre Horbach: Yeah, I got your question again. Basically, we have noticed or we got the first information from the field team that there were issues with cracks, basically second part of December. We ordered at that point in time an immediate investigation and a full inspection program of all the machines which basically has led to the conclusion that we communicated in the end of January relating to the 34 cracks observed at that point in time. We have seen so far some additional cracks in February going up to 45, but the rate of cracks seems to be constant. Hence, our focus is on rolling this program out as quickly as possible and also limiting it from the timing point of view to the six months as mentioned, and by doing that, we basically plan to limit our damages.

Mr. Vivek: Okay, thank you.

International Moderator: Next is [unclear audio] from KBC, UK. Please go ahead sir. [unclear audio]?

Male Speaker: Hello ?

Andre Horbach: Hello.

International Moderator: Next we have, Grace Chung from Hong Kong BNP Paribas.

Grace Chung: Hello?

International Moderator: Hi Grace, go ahead please.

Grace Chung: My question is single, how could you ensure the output from the production line to be able to meet standards for customers' requirements in the future and the second question is as far as my understanding of this is the problem, the problem comes from the 2.1 megawatts machines and my understanding is Suzlon plans to move up to the more advanced level in terms of technology, any plan to handle more advanced model so as to meet market requirements.

Andre Horbach: I am sorry, I got your second question, but I did not get your first question.

Grace Chung: Perhaps you comment of the second question, then I will repeat my first question.

Andre Horbach: Okay, thank you. Well, with respect to 2.1 going into further advanced models, as I said before, you know, the testing procedures, the design procedures, the manufacturing procedures that we have in place, we feel is very well designed to basically design any type of machine. So, in this respect, a very specific problem occurred here on the 2.1. I do not think that the way we operate or the way we work would have any impact on plans to go in to further advanced models.

So, in that sense, I do not see any relation between any potential future plans and this problem. Your first question was again.....

Grace Chung: How could you ensure output from the production line would be able to meet the standards for the customers' requirements in the future.....

Andre Horbach: Okay.....

Grace Chung: First just wanted to understand in this conference call, you keep mentioning that the design is not a problem, so I guess that the problem comes from the production line?

Andre Horbach: No, no, no.....there is a misunderstanding here. As I said, it is a very specific problem that is related to the design of the blade surface stiffness at a certain location on the blade and probably the combination with very specific conditions that we have on some of these machines on that part of the blade, so in that respect, you know, part of the taskforce was also to check the quality procedures in our manufacturing facilities, to check whether there could have been any relation with respect to production in one of the sites, and we have not found that. So, in that sense, I do not think that there was any impact coming from our production process, our quality procedures in the plants, or the way that we produce these kinds of products. It is clearly going back to the blade surface stiffness, the way it is designed on that part of the blade and some specific conditions on these sites or it is a combination of factors, but it is not related to the manufacturing process.

Grace Chung: So, let me clarify my understanding from your comment. It is not a problem from your manufacturing line, but it is a problem from other fault of material. Is that correct?

Andre Horbach: The problem is indeed not from the manufacturing line. As I said, the problem is going back to the design of the blade surface stiffness at that specific location where the crack occurs and that is why we are taking this corrective action to stiffen the blade by a very simple corrective action actually on that part of the blade.

Grace Chung: Thank you. Thank you very much.

Andre Horbach: You are welcome.

International Moderator: Next we have, [unclear audio] from KBC, UK. Please go ahead sir.

Male Speaker: Yes, hi. Just a couple of questions regarding the last questions that were asked. If you speak to some of your competitors like Vestas or Gamesa or DeWind, these manufacturers are increasingly adopting carbon fiber composites in order to increase the stiffness of the surface of the blades. From what we understand speaking to people familiar with Suzlon's technology, it does not seem that Suzlon has moved to that area and it is still pretty much adopting glass fiber technologies. Can you clarify, what if any plans you might have in kind of changing the composites going forward?

Andre Horbach: A very good question. You see that basically, in our product design strategy, as we have it right now, it is indeed based on glass fiber and we do not see any material reason and particularly not any economical reason also to include carbon fiber into our technology. The current technology and materials that we use provides sufficient manufacturing ease. It is a good process to fulfill our quantity needs, cost efficiency, and it fully basically fulfills our technical properties for the blades, so I think with the basic technology that we use, there is nothing wrong with this in respect to this issue; however, you know, as a thought of ongoing research and our development actions, we are following new developments in the field of composite and new materials very closely. We have basically also a pretty broad department that is involved in this. We are working together with universities with respect to R&D of new materials concerning blade technology. So, in that sense, I think we are very active to innovate our technologies for the future, but we have not seen the need to make any changes so far based on the glass fiber technology that we are using.

Male Speaker: Okay and just one last question in regards to the improvements you would like toin kind of remedying the problems of the existing blades. You said you would like to somehow fix these blades, but from what I understand, once the cracks appear, it will be very, very difficult to actually fix the existing blades. How these fittings would actually work?

Andre Horbach: Okay, basically let me explain it a little bit more on the technical background. You see the analysis that we have done has shown that the cracks originated from the PVC foam and the resin bridges in between. So, you have normally the foam and there are resin bridges between the different foam parts in the bridge. Now normally, in the composite interfaces, it is common to expect that some latent stresses due to the very nature of the bonding of these dissimilar materials exists. So, you know, having some type of stress between the two types of materials is a normal phenomenon. So, what happens is that, these type of materials show cracks due to a combination of stresses of which the shear stress appears to be the dominant one, and by introducing this thin piece of additional laminate very specifically in this area, the stress levels in the materials are reduced and that has shown in all the calculations and simulations that we have done. Also, in cooperation with outside agencies and institutes that the adequate strengthening is to keep by introducing this additional laminate in this area. Does this answer you question?

Male Speaker: Okay. Yes it does.

Andre Horbach: Thank you.

Male Speaker: Thank you very much.

Andre Horbach: Thank you.

International

Moderator: At this moment, there are no further questions from the participants at international bridge. I would like to hand over the proceedings back to Gaurav.

Moderator: Thank you Lucy. We will now begin the Q&A interactive session for participants at India. Participants who wish to ask questions may please 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 the questions. To ask a question, participants may please press *1 now. First in line, we have Mr. Rajesh from CLSA.

Mr. Rajesh: Good afternoon sir.

Andre Horbach: Hello, Mr. Rajesh, how are you doing?

Mr. Rajesh: I am fine sir, how are you?

Andre Horbach: Fine, thank you.

Mr. Rajesh: Sir, if I heard you right, you said that the total number of blades where the cracks have appeared so far is 45?

Andre Horbach: Yes, so far to date, we have found 45 cracks in the fields.

Mr. Rajesh: Okay, and sir, typically how much time does it take for the cracks to appear after the instillation of turbines?

Andre Horbach: You know, we have seen a lot of variation in this. On some machines, it happened very quickly after installation and in some machines it happened only after a month or so. So, that also underlines that the cracking phenomena is a very specific combination of factors, probably again what I said before, due to the blade surface stiffness on that specific location and then probably also due to very specific conditions that can occur on that specific machine. The very strange thing for instance is that we have seen on some sites a crack on a machine that happens very quickly and then for weeks on the machines that are standing immediately next to it, no cracks at all. So, it is another proof that it is a very specific combination of factors.

Mr. Rajesh: Okay, and sir, are the blades close to the root of the blade or towards the end of the blade?

Andre Horbach: No, it is very much close to the root. It is in the top part of the blade.

Mr. Rajesh: Okay, and sir, how much time would it take once you take a set of blades down, how much time would it take to repair and would you have to take the blades back to your blade plant to repair them or you can do it on the site itself ?

Andre Horbach: At this point in time, we are organizing to do several blade sets per day. So, we are planning to go with as much as possible speed as we can deploy, again given to go through this action as quickly as possible and limit the impact to our customers. At this point in time,

we do not think that we need to take the blades back to our plants, but that we can do it with local repair procedures on the site.

Mr. Rajesh: And sir, in nine months of FY-08, how much provision of for warranties and guarantees have you made for the turbines and how much of it would be for domestic supplies and how much of it would be for international supply?

Kirti Vagadia: Rajesh, we shall provide you these details a little later.

Mr. Rajesh: Okay sir. Fine. Sir, now this solution, which you have found for blades, this appears to be in a way a short-term solution of providing this additional laminate. What is the long-term solution you have in mind for this problem?

Andre Horbach: The long-term solution is in that sense very similar to the short-term solution. You see once we started understanding in the last period what could be the potential root cause of this problem, we started the strengthening procedure that we now are rolling out to the sites, we started implementing that immediately into our manufacturing facility. So, the blades that are produced right now have an additional strengthening already in the product that goes out of the facility. That was also a very quick interference that we did as soon as we understood it to obviously limit the impact on the field.

Mr. Rajesh: That is right, so there would be in the long-term no change in the design of the turbine or the design of blade foreseen.....

Andre Horbach: You know, we are always working on finding ways to optimize our blades, you know, from different angles and energy efficiency. We are looking at new materials, so there is a constant strive to improve our products and you might see in the future different versions of the blades, but you have to see that in the normal optimization programs that any company does in this regard.

Mr. Rajesh: Okay, sir, typically, what is the average testing time, you know, you test the machine yourself before you launch a machine in the market, and how does that time compare with the other global majors.

Pradeep Kumar: The machine testing time varies depending on what specific testing is being carried out. There are several layers of testing as they progress on the machine. For example, in case of a blade testing, it is done at three stages. First are the functional tests where we do the laboratory testing and checking which is backed up the software analysis through computerized stress analysis, CFT analysis, then for finite element analysis for stress distribution, etc. When once this is done, the laboratory testing normally goes for about 20 days to about a month's time, and here, we test the endurance of the blades. When once these tests are successfully completed, and the blades are taken on the turbine, that is when the total commissioning is done, then the machines are tested for a period of about 3 to 4 months, and during the laboratory testing, we also check for the endurance test where the blades are repeatedly subjected to varying stresses and strengths, and we have a system to capture what kind of stresses they are undergoing, and these are finally tested on loads at site and then

these measurements again go for about a month and month and a half. So, you can say, total period of 3 to 3-1/2 months can reasonably predict the health of the blades.

Mr. Rajesh: I was asking more in terms of, if you are launching the new turbine, let us say a 2.1 megawatt turbine, and once you have the prototype ready, and between getting the prototype ready and commercial launch of that machine, that machine would be undergoing various tests, so what is the time duration typically in case of Suzlon, and what would you have an idea about how would the time duration be in case of let us say Vestas or Gamesa.

Pradeep Kumar: Yes, these prototypes undergo more than a year of operation at site. In the sense, we expect these machines to cover all the vagaries of the seasons, and therefore, it is very conventional to keep them operating beyond a year, where you see all the seasons, and then we estimate the performance for all the wind conditions.

Mr. Rajesh: Okay, is this testing time for you usually less or more than your competitors?

Pradeep Kumar: No, it is quite comparable across, and you know, there are IEC guidelines today which also specify how the machine needs to be tested which is again common to all the manufacturers.

Mr. Rajesh: Okay, Sir, my last question is if you look at, you know, Vestas for instance, the warranty and guarantee provisions they make as a percentage of sales is usually 4% to 5%, and that number was around 2.7% for Suzlon. Do you see in light of the recent problems which you have faced in the U.S., that the warranties and guarantees you provide for that are likely to increase?

Kirti Vagadia: Rajesh, actually as indicated earlier also on the call that our guarantee provision is not on a percentage basis, and so far as I am aware, all international players are under IFRS, and they are supposed to measure their liability on quarterly basis, and accordingly on actual basis, everybody is making manufacturer provisions, and same way we are also doing provisions accordingly. Now, the percentage maybe higher or lower due to certain coincidences.

Mr. Rajesh: Okay, but does that mean the recent events would result in your percentage also going up?

Kirti Vagadia: No, you see, if I am providing 100 crores in a particular quarter, so in that particular quarter the percentage terms you will see higher provisioning.

Mr. Rajesh: Okay, fine, thanks sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Sachin Trivedi from UTI Mutual Fund.

Sachin Trivedi: Yeah, hi, afternoon sir. Sir, just one question.

Andre Horbach: Good afternoon.

Sachin Trivedi: Sir, one question, the solution that we have identified, has this been certified and agreed upon by any other agency and our customers also?

Andre Horbach: Basically, as I said, the solution has been discussed with our customers, and in that sense, we are working very closely in agreement with our customers. Basically, as the solution, it does not involve any basic design change in the blade itself, so in that sense there is no real need for re-certification. However, what we have done is to identify the solution, we have brought very close to this specialized technical institutes, and the whole change that we are now implementing, the whole strengthening of the blade that we are now implementing, we have also asked a specific specialized engineering company to do a second backup check, and they basically have solidified the solution that we came up with.

Sachin Trivedi: By the solution that we are implying, can we understand that this is the final solution as far as maybe year or two, this is the final solution that we have identified for the current problem.

Andre Horbach: Yes, we believe certainly that this will solve the current problem.

Sachin Trivedi: Okay, and sir, this all 6 months that retrofitting that we will be doing, does it mean that our future growth will suffer at least for a year?

Andre Horbach: No, I don't think that this has any impact on our growth. As I stated before, the strengthening procedure, the retrofitting procedure itself is a very defined action, it does not have any impact on our order books, it does not have any impact on our manufacturing capacity, so in that sense from an execution point of view to our plans for the next year, it does not have any impact.

Sachin Trivedi: Okay, so the current order book that we have, and based on the execution schedule and the future orders that we will get, we are quite certain that we should be able to execute that in time.

Andre Horbach: Yes.

Sachin Trivedi: Okay, and sir, one last and final question. This is about the existing order book that we have from Europe and U.S. for S88 and for even other turbines. Have we seen any cancellation or orders?

Andre Horbach: No, we have not seen any cancellation of orders.

Sachin Trivedi: Okay, thanks.

Andre Horbach: Thank you.

Moderator: Thank you very much sir. Next in line, we have Ms. Krishnan from JP Morgan.

Shilpa Krishnan: Yeah, hi, this is Shilpa Krishnan from JP Morgan. Just have a few questions. Now, to start with, you said that you have discovered cracks in 45 blades as against 34 blades reported earlier. So, does

that mean that for the 11 blades that you have discovered cracks, you would make further provision for replacing these blades?

Andre Horbach: Any up to date information on 45 is included in the reservation that we are making right now. So, that is part of the total reservation.

Shilpa Krishnan: Okay, secondly, could we have the breakup of the 1 billion rupee cost into the cost of the repair vis-à-vis the logistics cost?

Andre Horbach: I don't have the details of that here with me, but it is very evenly distributed between manpower cost, the material cost, and some equipment and some other costs that we need to do.

Shilpa Krishnan: I see, okay, one small math, which I do not completely understand. Earlier, you had provided 190 million rupees for replacing 34 blades, which translated to Rs. 5.6 million per blade, and now, you are providing for Rs. 1000 million for repairing 1251 blades, which translates to under a million per blade, so why is it the cost of replacing is lower than the cost of repairing.

Kirti Vagadia: Shilpa, this is Kirti. When we provided 19 million, sorry 19 crores, at that time it was 34 replacements plus 68 blades repairing at that time also.

Shilpa Krishnan: Sir, 34 replacements and 68 repairing.

Kirti Vagadia: This is on same turbine, the other two blades we would repair simultaneously.

Shilpa Krishnan: Okay, and that was 190 million.

Kirti Vagadia: Yeah, and it was particularly small project which we identified at that time. Now, we are taking it as a big project, so there will be some economics coming into play when we do larger project.

Tulsi Tanti: We have to understand the 3 different stages there. The 45 number of blades is a replacement, that not means it is full loss of the cost is there, that is 45 blade also further it will be repaired, #1. #2 is certain blades are running, that can be repaired on the turbine, and certain blades are lying in the ground that will be repaired. So, the repair cost of the cracked blades is a little bit higher, but those as the ground blades are there, and that is the only retrofit cost is there, so it is a very, very less cost. These are the 3 combinations are there.

Shilpa Krishnan: Okay fine. Now, you also mentioned that going forward you will also be rectifying your future blades through the same process which is applying a small thin layer of laminated fiberglass. Does that mean that the cost of production for your future S88s will go up?

Andre Horbach: The amount of material that we need to apply extra within the existing production cost is very low. So, in that sense, it has only very minimal impact on the total cost of the blade, and since it is done in the manufacturing plant itself, it can be done in a very cost-effective way. So, it has some cost effect, but is very, very minimal.

Shilpa Krishnan: Okay, but if you don't mind, you know, for instance, even it is 1% of the total cost, it impacts margins to that extent, so could we have some order of magnitude of how big is it, 0.5% for instance or is it 3% something like that.

Andre Horbach: No, it is below 1%, and it is something that we feel that we can correct in the course of the next of couple of months due to running productivity actions we have in our plans anyhow.

Shilpa Krishnan: Okay, and finally, could you tell us over how many sites are you doing this entire retrofitting program?

Andre Horbach: I don't have the total sites at hand right now, but we certainly can give you that information.

Shilpa Krishnan: Okay, thanks a lot.

Kirti Vagadia: Shilpa, this 1% of the blade, not the turbines.

Shilpa Krishnan: 1% of the blade cost. Okay, that is all, thank you.

Moderator: Thank you very much ma'am. Next in line, we have Ms. Nandita Parker from Karma Capital. Hello ma'am?

Nandita Parker: Hello?

Moderator: Yeah, you can go ahead ma'am.

Nandita Parker: I just wanted a clarification on what are the circumstances which led to the sudden resignation of Patrick Krahenbuhl as your CFO.

Andre Horbach: I think that has nothing to do with the issue that we are discussing right now. However, I can comment on it. Patrick has decided basically to leave the company, and you see when you set up new management teams like we are doing at this point in time in Suzlon, sometimes the chemistry between individuals works very well and sometimes it does not, and if the latter is the case, you know then you need to face decisions which we basically have done from both sides, from the individual side as well from the company side, and we basically have done that in very good mutual agreement, so in that sense there is no specific issue. I would say it is a misfit of personalities.

Nandita Parker: Okay, so it is not any for the process related issues or a difference of opinion in terms of accounting and all of that, that stuff.

Andre Horbach: No, it does not have anything to do with that.

Nandita Parker: Okay, thank you very much.

Moderator: Thank you very much ma'am. Next, we have Mr. Venkatesh from Citi Group.

Mr. Venkatesh: Sir, I have two very specific questions. First of all, your press release says that around this retrofit program, which is going on, there are

around 930 blades which are already installed and the remaining is for 320 blades which are in transit. Now, first of all on the 930 blades which are installed, now you are going to retrofit this over 6 months, so how many days of generation loss do you expect? I mean, I know that you will do a lot of blades per day, but it is very much possible that you know you might have say 50 days or 60 days of generation loss at least. Now, if that happens, does this 1.19 billion rupees provision cover for generation loss related losses, which an entity can claim because we have heard certain statements, you know, people covering the company Edison, that the liabilities is much, much higher which Edison can claim vis-à-vis whatever Suzlon has provided for, which is around 25 million dollars. Now, the second question is regarding this 320 blades which are in transit. Now, if these blades are in transit, and you are going to stop them from actually getting shipped to the customers and actually you start to do the retrofit program, obviously there will be delays in your supplies in this quarter and the next quarter, so how can you so confidently say that your shipments will not be affected over the next 6 months?

Andre Horbach: Yeah, with respect to your first question. You see, as I said before, probably focusing on this, the whole program we have designed basically to minimize the total downtime, the total impact on the machine, and basically we feel that we can manage this whole exercise within the normal provisions, within the normal reservations that we have for unexpected downtime on equipment. So, to your second question, if we would be running at full capacity spread out, you see basically with the current capacity that we have in our blade facilities, these 20 blade sets are not a problem at all to produce extra. It is actually within the variance of our normal manufacturing output, and in that sense we had these blades on stock ready, and we decided to ship them and need to be into the United States. So, from a capacity point of view, you know, we are constantly working to stretch the capacity in our facilities and next for the investments in fundamental expansions, and also over the last couple of months, we have been very successful to increase some of the capacity in our existing plants and additional capacity, we clearly can handle this issue.

Mr. Venkatesh: The last question would be on the side of out of your 3,358 megawatt order backlog, at the end of the third quarter, how many megawatts are basically S88 related?

Andre Horbach: I don't have this number by hand, you have that Kirti?

Kirti Vagadia: I will just find out and give it to him.

Andre Horbach: Okay.

Tulsi Tanti: Another thing we want to like to add with you. These 6 months, that means, all turbines are running, only 45 turbines whatever the crack is there, that is not running, all other turbines are in running condition. It is not required to stop if anything is there, but 45 is directly replacement of the blade and then 45 blades will be repaired, and then it will be a rollout for other retrofit process, so the existing turbines' blade will be removed and they will put new blades, and then

the retrofit will be done, and then the rolling will be continuous basis, so the downtime and generation times are not much affecting each turbine point of view, one or two days the downtime will come and not more than that.

Mr. Venkatesh: Sir, for each turbine, if there is 1 or 2-day downtime. So, if there is 930 blades, we are talking about roughly around 310 days of downtime. So, 310 days of downtime, so you have a year's loss, so should not you be providing for a year's generation loss?

Tulsi Tanti: Year loss of one turbine you are talking?

Mr. Venkatesh: Yes.

Tulsi Tanti: That is within that limit because our commitment with the customer is 95% availability is there, so that time is sufficient for that.

Mr. Venkatesh: Okay sir, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Darshan from Enam Securities.

Bhavin Vithlani: Good afternoon sir. I had a few questions. Firstly, what has come out from the U.S. media is that Edison is one of the clients, and they have put it out in their SEC filing, but are there any other clients besides Edison to which this problem has occurred?

Andre Horbach: Any other clients than Edison you mean?

Bhavin Vithlani: Yeah, other clients besides Edison with which you have cracked blades.

Andre Horbach: Yes, we have this issue with several clients. I mean it is in line with the distribution of the blades over different projects that we have done. So, in that sense, we are working together with all customers.

Bhavin Vithlani: Hello?

Andre Horbach: Hello.

Bhavin Vithlani: Yeah, secondly, you said that 95% is the guarantee that you have given, but earlier you said that these cracks were developed in Jan, so I guess that 5% buffer is already being used in the last 1 month. So, now, how do you plan to make up for that buffer because Edison in its con call was pretty specific that if you know the replacements are not done within time, it would press for, you know, I am just quoting from there, so excuse me, that they would press for charges against Suzlon, and it would expect Suzlon to repay.

Andre Horbach: Yeah, I think what you have said in...I mean, that is why we are rolling out this whole blade retrofitting program as quickly as possible, and we try to condense the time, and that is also why we have decided to immediately ship these many sets of additional blades, so we replace those blades on some of the damaged machines immediately, you know, everything is in retrospect related to limit the downtime to an

ultimate minimum, to keep the machines as good as possible and operational.

Bhavin Vithlani: Okay, so you are confident that you will be able to get them up and running, so that you will not face any generation losses at least, no claims towards that as of now.

Andre Horbach: Yeah, that is the goal.

Bhavin Vithlani: Okay, and just one last question sir. I missed the amount. You said your cost would go up next year because of these extra reinforcement, by how much percentage sir?

Andre Horbach: It is less than 1% of the total blade cost, so not of the turbine cost, of that of the blade cost.

Bhavin Vithlani: Alright.

Andre Horbach: In that sense, it is a very minimal amount.

Bhavin Vithlani: Alright, sure sir.

Andre Horbach: You see the, maybe for your understanding the, the whole strengthening procedure, it sounds like a big interference but because it is basically related to glass fiber material, it is only a very thin layer that you basically need to bring in, so in that sense, it is within the existing manufacturing processes, something that is very easily can be applied without much additional time.

Bhavin Vithlani: Alright, thanks a lot sir.

Andre Horbach: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Srivatsa from Dolat Capital.

Mr. Srivatsa: Good afternoon sir.

Andre Horbach: Good afternoon.

Mr. Srivatsa: You hear my voice. Hello, can you hear me?

Moderator: Yeah, Mr. Srivatsa, you are audible sir, you can go ahead.

Mr. Srivatsa: Yeah, I have a question. How much is the blade cost of the total turbine cost. How much the blade cost constitute in the total turbine cost.

Andre Horbach: You see, we don't want to answer the question for competitive reasons. We don't want to go into specific cost of specific components on our total product.

Mr. Srivatsa: Okay sir, thanks a lot sir.

Moderator: Thank you very much sir. Next, we have Mr. Milan from JM Financial.

Mr. Milan: Hello sir, I just have one question. I just wanted to know by what time is the life of the blade improved by this retrofitting and after what period of time do these blades again come for retrofitting.

Andre Horbach: Normally, we designed the machines for minimum lifetime of 20 years, and in retrofit, there is no change.

Mr. Milan: No, after considering this retrofitting, as you said, this is just a thin layer that is to be applied on the existing blade.

Andre Horbach: So, it would be....

Mr. Milan: So, I was just wondering whether these blades would again come for refitting after maybe 2 to 3 years or 5 years.

Andre Horbach: No, that would not be the case.

Mr. Milan: Alright, thank you sir.

Moderator: Thank you very much sir. Participants who wish to ask questions, may please press *1 now. Next in line, we have Mr. Jayesh Rao from SBI Mutual Fund.

Jayesh Rao: Hi, good afternoon. I just wanted to know is there any penalty clause for supplying, you know, defective parts of anything with any of your clients.

Andre Horbach: No, there are no specific penalty clauses with the client in this respect. So, the whole focus as I said....

Jayesh Rao: So, you are not going to be liable for....

Andre Horbach: Excuse me?

Jayesh Rao: You are not going to be liable for any penalties whatsoever especially in this case.

Andre Horbach: No, we don't foresee that at this point in time. There are no penalties in the contract that would apply to this in a very specific manner, and as I said before, the focus with our clients is to implement the solution as quickly as possible now.

Jayesh Rao: Alright, is there any provision in your supply contract for cancellation of further order in case of supply of faulty or damaged, I mean, defective turbines or blades? Can any of your client go back on its contractual commitment of buying turbines from you.

Andre Horbach: There are cancellation clauses in our contracts, and if clients would like to exercise these, there would be penalties, but at this point in time I don't foresee, also based on the constructive discussions that we have with our clients on this, I don't foresee any discussions on any cancellations. The customers are working with us to resolve this problem as quickly as possible, and in that sense, I think there is no breach of confidence in the system.

Jayesh Rao: Okay, alright, thank you so much.

Moderator: Thank you very much sir. Next in line, we have Mr. Srivastav from Sarjan Consultants.

Mr. Srivastav: Hello?

Andre Horbach: Hello.

Mr. Srivastav: Good afternoon sir.

Andre Horbach: Good afternoon.

Mr. Srivastav: Sir, what should be the timeframe to look at regarding the performance of this replaced blades, with your time horizon where it can be said this problem had been taken care of adequately?

Andre Horbach: Okay, we are planning basically to run this program out within the next 6 months and complete the all retrofitting program within the next 6 months.

Mr. Srivastav: No, that you will be doing but by what time will you say that there is problem that does not exist anymore and you just proceed to the other level?

Andre Horbach: After 6 months once everything is executed, we expect that this problem is gone.

Mr. Srivastav: Thank you sir. Thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Tapan Tiwari from Reliance Mutual Fund.

Mr. Anupam: Good afternoon sir, this is Anupam.

Andre Horbach: Good afternoon.

Mr. Anupam: My question has already been answered. Thanks a lot.

Andre Horbach: Okay, you are welcome. Thank you.

Moderator: Thank you very much sir. At this moment, there are no further questions from participants. I would like to handover the floor to Mr. Tulsi Tanti for the final remarks. Over to you sir.

Tulsi Tanti: Yes, thank you. So, we appreciate everybody's participation and understanding the blade retrofitting programs. Here, I want to say very clearly, our technology team and our engineering team and project execution and manufacturing teams are fully equipped to understand this problem and how to mitigate that and how to execute that. That is the biggest strength we can say because we have fully vertical integrations, the technology, engineering, and manufacturing, and project execution capability we have in-house. So, that to resolve these things in faster manner and more cost-efficient way, it is quite

possible and quite achievable. It is the opportunity for us to demonstrate to the customers to how we are managing and handling these issues and how fast we can satisfy the customers, the requirement and customer satisfaction. So, we are quite confident and our team has started all the actions, so that we can satisfy, we can rectify these things as fast as possible, within the span of the time, and to give the right and good performing product to our customers. The most important things I want to share with you, the team, participation is there we are fully committed to the stakeholders, and we are focusing more efficient way to deliver the right and good product, and at the same point to take care of the investor interest also. This whole process will not affect our any business, current and future also. It will not affect any order book what we have today because the industries and customers are quite mature to understand these types of things, and this is not an extremely serious issue. We have 45 blades, effect of the crack is there, but proactively our team is taking preventive actions to rectify all the blades what we have supplied, 1251, so that there is no future consequences and future risk should come to us, all to the customers, to going with proactive nature, and that is our project strength we want to highlight, so that we are mitigating the future risk, and we are satisfying the customer, and at the same point of time, we are taking care of the investor interest. So, we are fully committed to our stakeholders, and we are quite confident on my technology teams and project execution teams and the task force which we established to execute these things will be completed as soon as possible. So, after 6 months, this problem will be over, and the current and future business will be as usual without any defect and without any problems. Thanks a lot. Thank you very much. Thanks for your time, and participating in the conference call. Thanks a lot, bye bye.

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.
