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# SUZLON ENERGY LIMITED

*(Incorporated with limited liability under the laws of the Republic of India)*

## **U.S.\$300,000,000 Zero Coupon Convertible Bonds Due 2012 Convertible Into Ordinary Shares (including U.S.\$100,000,000 aggregate principal amount of Zero Coupon Convertible Bonds due 2012 to be issued pursuant to the option)**

**ISSUE PRICE: 100 per cent.**

The U.S.\$300,000,000 Zero Coupon Convertible Bonds due 2012 (the "Bonds") (including U.S.\$100,000,000 aggregate principal amount of Bonds to be issued pursuant to an option granted by the Company to Deutsche Bank AG, Hong Kong Branch (the "Lead Manager"), which was exercised in full by the Lead Manager on 16 May 2007) will be issued by Suzlon Energy Limited ("Suzlon" or the "Company").

The Bonds will not bear interest. The Bonds are convertible at any time on and after 22 July 2007 up to the close of business on 5 June 2012 by holders into fully paid equity shares with full voting rights with a par value of Rs.10 each of the Company (the "Shares") at an initial Conversion Price (as defined in the "Terms and Conditions of the Bonds") of Rs.1,800.00 per Share with a fixed rate of exchange on conversion of Rs.40.830 to U.S.\$1.00. The Conversion Price is subject to adjustment in certain circumstances. The closing price of the Shares on the National Stock Exchange of India Limited (the "NSE") on 5 June 2007 was Rs.1,353.70 per Share and the closing price of the Shares on the Bombay Stock Exchange Limited (the "BSE") on 5 June 2007 was Rs.1,354.00 per Share.

Unless previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed in U.S. dollars on 12 June 2012 at 145.23 per cent. of their principal amount. The Bonds may be mandatorily converted into Shares, in whole but not in part, at the option of the Company on or at any time after 11 June 2009, subject to satisfaction of certain conditions, at the date fixed for such mandatory conversion at the prevailing Conversion Price on the date fixed for conversion, if the Closing Price of the Shares (translated into U.S. dollars at the Prevailing Rate) for each of the 45 consecutive Trading Days prior to the date upon which notice of such mandatory conversion is given is at least 120 per cent. of the applicable Early Redemption Amount divided by the Conversion Ratio. The Bonds may also be redeemed, in whole but not in part, at any time at the option of the Company, subject to satisfaction of certain conditions, at the Early Redemption Amount, if less than 10 per cent. of the aggregate principal amount of the Bonds originally issued is outstanding. The Bonds may also be redeemed in whole, but not in part, at any time at the option of the Company, subject to satisfaction of certain conditions, at the Early Redemption Amount, in the event of certain changes relating to taxation in India. The Company will, at the option of any holder of any Bonds, redeem such all (but not less than all) of such holder's Bonds at the Early Redemption Amount, upon a Delisting of the Shares or upon the occurrence of a Change of Control in respect of the Company or upon a Non-Permitted Conversion Price Adjustment Event.

Approval in-principle has been received for the listing of the Bonds on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained herein. Admission of the Bonds to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Company or the Bonds. In-principle approval for listing of the Shares issuable upon conversion of the Bonds has been received from each of the NSE and the BSE. The issue of Bonds was authorised by a resolution of the Board of Directors passed on 15 May 2006 and by a resolution of the Shareholders passed on 28 June 2006.

FOR A DISCUSSION OF CERTAIN INVESTMENT CONSIDERATIONS RELATING TO THE BONDS, SEE "INVESTMENT CONSIDERATIONS".

The Bonds will be represented initially by a Global Certificate (as defined herein) in registered form, deposited with, and registered in the name of a nominee of, the common depository for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") (together, the "Clearing Systems") on or about 11 June 2007 (the "Closing Date") for the accounts of their respective accountholders.

The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds are being offered and sold outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). For a description of certain restrictions on offers, sales and transfers of the Bonds and the Shares to be issued upon conversion of the Bonds and the distribution of this Offering Circular, see "Subscription and Sale". The Bonds may not be offered or sold directly or indirectly in India or to, or for the account or benefit of, any resident of India.

A copy of this Offering Circular will be delivered to the NSE and the BSE, the Reserve Bank of India (the "RBI"), the Securities and Exchange Board of India (the "SEBI") and the Registrar of Companies Gujarat, India for their information.

*Global Coordinator and Sole Bookrunner*

**Deutsche Bank**

*Sole Financial Advisor*

**YES Bank Limited**

Offering Circular dated 7 June 2007

The Company accepts full responsibility for the information contained in this Offering Circular and, having made all reasonable enquiries, confirms that this Offering Circular contains all information with respect to the Company, the Bonds and the Shares which is material in the context of the issue and offering of the Bonds. The statements contained in this Offering Circular relating to the Company, its subsidiaries and joint ventures (the "Group"), the Bonds and the Shares are in every material particular true and accurate and not misleading and the opinions and intentions expressed in this Offering Circular with regard to the Company, the Group, the Bonds and the Shares are honestly held, have been reached after considering all relevant circumstances and information which is presently available to the Company, and are based on reasonable assumptions. There are no other facts in relation to the Company, the Group, the Bonds and the Shares the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company, Deutsche Bank AG, Hong Kong Branch (the "Lead Manager"), Deutsche Trustee Company Limited (the "Trustee") or the Agents (as defined in the "Terms and Conditions of the Bonds") to subscribe for or purchase, any of the Bonds, and may not be used for the purpose of an offer to, or a solicitation by, any person in any jurisdiction in which such offer or invitation would be unlawful. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Lead Manager to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Bonds and distribution of this Offering Circular, see "Subscription and Sale".

None of the Lead Manager, the Trustee or any of the Agents has separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Lead Manager, the Trustee or the Agents as to the accuracy or completeness of the information contained in this Offering Circular or any other information supplied in connection with the Bonds or the Shares. Each person receiving this Offering Circular acknowledges that such person has not relied on the Lead Manager, the Trustee or the Agents or on any person affiliated with the Lead Manager, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision and each such person must rely on its own examination of the Company and the merits and risks involved in investing in the Bonds.

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Company, the Lead Manager, the Trustee or the Agents. The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

Market data and certain industry forecasts used throughout this Offering Circular have been obtained from market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Company, the Lead Manager, the Trustee or the Agents makes any representation as to the accuracy of that information.

In connection with the issue of the Bonds, Deutsche Bank AG, Hong Kong Branch as the stabilising manager (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may, to the extent permitted by applicable laws and regulations, over-allot the Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds.

The Ministry of Finance of India has issued certain amendments that provide that erstwhile Overseas Corporate Bodies, as defined under applicable regulations in India, that are not eligible to invest in India, and entities prohibited from buying, selling or dealing in securities by SEBI, shall not be eligible to participate in an offering of foreign currency convertible bonds. Each purchaser of the Bonds is deemed to have acknowledged, represented and agreed that it is eligible to invest in India under applicable law, including under the Issue of Foreign Currency Convertible Bonds and Ordinary shares (Through Depository Receipt Mechanism) Scheme, 1993, as amended from time to time and has not been prohibited by SEBI from buying, selling or dealing in securities.

Certain statements in this Offering Circular constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's and the Group's present and future business strategies and the environment in which the Company and the Group will operate in the future. Important factors that could cause the Company's and the Group's actual results, performance or achievements to differ materially from those in the forward-looking statements include, *inter alia*, the condition of, and changes in, India's political and economic status. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Investment Considerations" and "Business". These forward-looking statements speak only as at the date of this Offering Circular. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based.

## CONVENTIONS

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to “Bondholders” and “holders” are to holders of the Bonds from time to time; all references to “India” are to the Republic of India and its territories and possessions; all references to the “U.S.” and “United States” are references to the United States of America and its territories and possessions; all references to the “United Kingdom” are to the United Kingdom of Great Britain and Northern Ireland and its territories and possessions; all references to the “Indian Government” are to the Government of India and to the “Companies Act” are to the Companies Act, 1956, as amended; and all references to the “Civil Code” are to the Code of Civil Procedure, 1908, as amended.

References in this Offering Circular to a particular “fiscal year” are to the fiscal year ended on 31 March. The Company prepares its financial statements in accordance with generally accepted accounting principles in India (“Indian GAAP”). The Company’s financial statements included in this Offering Circular include its audited consolidated financial statements as at and for the years ended 31 March 2005, 2006 and 2007 which have all been prepared in accordance with Indian GAAP.

The Company publishes its financial statements in Indian Rupees. All references herein to “Indian Rupees” and “Rs.” are to Indian Rupees, all references herein to “U.S. dollars” and “U.S.\$” are to United States dollars, all references to “€” or “Eur” are to Euros and all references to “S\$” are to Singapore dollars. All translations from Indian Rupees to United States dollars were made (unless otherwise indicated) on the basis of the noon buying rate in New York City on 31 March 2007 for cable transfers in Indian Rupees, as certified for customs purposes by the Federal Reserve Bank of New York, of Rs.43.10 to U.S.\$1.00. All amounts translated into United States dollars as described above are provided solely for the convenience of the reader, and no representation is made that the Indian Rupee, or United States dollar amounts referred to herein could have been or could be converted into United States dollars, Euros or Indian Rupees, as the case may be, at any particular rate, the above rate or at all.

Certain monetary amounts in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

### **Enforceability of Civil Liabilities**

The Company is a limited liability public company incorporated under the laws of India. A substantial majority of the Company’s directors and executive officers are residents of India and all or a substantial portion of the assets of the Company and such persons are located in India. As a result, it may not be possible for investors to effect service of process upon the Company or such persons in jurisdictions outside of India, or to enforce against them judgments obtained in courts outside of India. India is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments. Recognition and enforcement of foreign judgments is provided for under Section 13 of the Code of Civil Procedure, 1908 (the “Civil Code”). Section 13 of the Civil Code provides that a foreign judgment shall be conclusive as to any matter thereby directly adjudicated upon except (i) where it has not been pronounced by a court of competent jurisdiction, (ii) where it has not been given on the merits of the case, (iii) where it appears on the face of the proceedings to be founded on an incorrect view of international law or a refusal to recognise the law of India in cases where such law is applicable, (iv) where the proceedings in which the judgment was obtained were opposed to natural justice, (v) where it has been obtained by fraud or (vi) where it sustains a claim founded on a breach of any law in force in India.

Section 44A of the Civil Code provides that where a foreign judgment has been rendered by a superior court in any country or territory outside India which the Indian Government has by notification declared to be a reciprocating territory, it may be enforced in India by proceedings in execution as if the judgment had been rendered by the relevant court in India. However, Section 44A of the Civil Code is applicable only to monetary decrees not being in the nature of any amounts payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty and is not applicable to arbitration awards.

The United States has not been declared by the Indian Government to be a reciprocating territory for the purposes of Section 44A of the Civil Code. However, the United Kingdom has been declared by the Indian Government to be a reciprocating territory. Accordingly, a judgment of a court in the United States may be enforced only by a fresh suit upon the judgment and not by proceedings in execution. The suit must be brought in India within three years from the date of the judgment in the same manner as any other suit filed to enforce a civil liability in India. It is unlikely that a court in India would award damages on the same basis as a foreign court if an action is brought in India. Furthermore, it is unlikely that an Indian court would enforce a foreign judgment if it viewed the amount of damages awarded as excessive or inconsistent with Indian practice. A party seeking to enforce a foreign judgment in India is required to obtain approval from the RBI to repatriate outside India any amount recovered pursuant to such execution.

## DEFINITIONS

*In this Offering Circular, unless the context otherwise requires, the following terms shall have the meaning set out below:*

AERH .....	AE-Rotor Holding B.V.
AERT.....	AE-Rotor Techniek B.V.
AIL .....	Aspen Infrastructures Limited (formerly known as Suzlon Infrastructure Limited)
Articles/Articles of Association.	The Articles of Association of Suzlon Energy Limited
Associate Companies .....	ALL, SIL Transmission (Rajasthan) Limited, SRL, Kurumadikere Energy Limited, Samiran Jaipur Windfarms Private Limited, Samiran Jaisalmer Windfarms Private Limited, Samiran Jodhpur Windfarms Private Limited, Samiran Udaipur Windfarms Private Limited, Shubh Realty (South) Private Limited, Shubh Realty (Gujarat) Private Limited, Sunset Windfarms Private Limited, Samimeru Windfarms Private Limited, Sunrise Wind Project Private Limited, Super Wind Project Private Limited, Simran Wind Project Private Limited and SE Energy Park Limited
Auditors .....	The statutory auditors of the Company are SNK & Co. and S.R. Batliboi & Co., Chartered Accountants
Board of Directors/Board .....	The board of directors of the Company or a committee constituted thereof
BSE .....	Bombay Stock Exchange Limited
BTM .....	BTM Consult ApS
BTM 2007 Report.....	The market study report published by BTM in March 2007 relating to the calendar year 2006
China .....	The People's Republic of China
CMS .....	Central monitoring station
Companies Act.....	The Companies Act, 1956, as amended from time to time
CWET .....	The Centre for Wind Energy Technology
Depositories Act .....	The Depositories Act, 1996, as amended from time to time
Depository .....	A body corporate registered under SEBI (Depositories and Participant) Regulations, 1996, as amended from time to time
Depository Participant.....	A depository participant as defined under the Depositories Act
Director(s) .....	Director(s) of Suzlon Energy Limited, unless otherwise specified
EWEA .....	The European Wind Energy Agency
Elin.....	Elin EBG Motoren GmbH, Austria
FEMA .....	Foreign Exchange Management Act, 1999, as amended from time to time, and the regulations framed thereunder

FII .....	Foreign Institutional Investor (as defined under Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000) registered with SEBI under applicable laws in India
Financial Year/fiscal year/ FY/Fiscal .....	Period of 12 months ended March 31 of that particular year, unless otherwise stated
Group .....	The Company, its subsidiaries and joint ventures
GWEC .....	Global Wind Energy Council
GWEC 2006 Report .....	The Global Wind 2006 report published by GWEC relating to the calendar year 2006
Hansen Transmissions .....	Hansen Transmissions International N.V.
HUF .....	Hindu undivided family
IEA .....	The International Energy Agency
Indian GAAP .....	Generally Accepted Accounting Principles in India
Income Tax Act .....	The Income Tax Act, 1961, as amended from time to time
karta .....	The head of a HUF
KVA .....	Kilo volt amperes
KW .....	Kilo watts
kWh .....	Kilo watt hours
Martifer .....	Martifer SGPS, S.A.
Memorandum/Memorandum of Association .....	The Memorandum of Association of Suzlon Energy Limited
MNRE .....	The Ministry for New and Renewable Energy, Indian Government
m/s .....	Metres per second
MT .....	Metric tonnes
MW .....	Mega watts
NSE .....	National Stock Exchange of India Limited
O&M .....	Operations and maintenance
Promoter Group .....	The Promoters and Promoter Group Entities
Promoter Group Entities .....	Vinod R. Tanti, Jitendra R. Tanti, Sangita V. Tanti, Lina J. Tanti, Girish R. Tanti, Rambhaben Ukabhai, Vinod R. Tanti (as karta of Vinod Ranchhodbhai HUF), Jitendra R. Tanti (as karta of Jitendra Ranchhodbhai HUF), Pranav T. Tanti, Nidhi T. Tanti, Rajan V. Tanti (through guardian Vinod R. Tanti), Brij J. Tanti (through guardian Jitendra R. Tanti), Trisha J. Tanti (through guardian Jitendra R. Tanti), Girish R. Tanti (as karta of Girish Ranchhodbhai HUF), Suruchi Holdings Private Limited, Sugati Holdings Private Limited, Sanman Holdings Private Limited and Samanvaya Holdings Private Limited



Promoters.....	Tulsi R. Tanti, Tanti Holdings Limited, Gita T. Tanti, Tulsi R. Tanti (as karta of Tulsi Ranchhodhbhai HUF), Tulsi R. Tanti (as karta of Ranchhodhbhai Ramjibhai HUF) and jointly by Tulsi R. Tanti, Vinod R. Tanti and Jitendra R. Tanti
R & D .....	Research and development
RBI .....	The Reserve Bank of India
Registered Office.....	The registered office of the Company being “Suzlon”, 5, Shrimali Society, Near Shri Krishna Complex, Navrangpura, Ahmedabad 380009, India
Reserve Bank of India Act/ RBI Act.....	The Reserve Bank of India Act, 1934, as amended from time to time
REpower .....	REpower Systems AG
SEBI .....	The Securities and Exchange Board of India constituted under the SEBI Act
SEBI Act.....	The Securities and Exchange Board of India Act, 1992
SEBI Guidelines.....	SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 27, 2000, as amended, including instructions and clarifications issued by SEBI from time to time
SEG.....	Suzlon Energy GmbH
SERC.....	State Electricity Regulatory Commission
SICA .....	Sick Industrial Companies (Special Provisions) Act, 1995
SISL .....	Suzlon Infrastructure Services Limited (formerly known as Suzlon Windfarm Services Limited)
SRL.....	Sarjan Realities Limited (formerly known as Sarjan Realities Private Limited)
State Governments .....	State governments of India
Suzlon Generators.....	Suzlon Generators Private Limited
Suzlon Structures .....	Suzlon Structures Private Limited
SWECO.....	Suzlon Wind Energy Corporation
SWG .....	Suzlon Windenergie GmbH
WOG.....	Windpark Olsdorf WATT GmbH & Co. KG
WTGs .....	Wind turbine generators

## SUMMARY

### Overview

The Group is Asia's leading manufacturer of WTGs and was ranked fifth in the world in terms of annual installations with market share of 7.7 per cent. for the year ended 31 December 2006 (*Source: BTM 2007 Report*). The Group is the leading provider of integrated WTG solutions in India and has expanded its operations in the international markets with a presence in Australia, Brazil, China, Italy, Portugal, South Korea and the United States. The Group's accumulated WTG sales were 2,091 MW and 3,547 MW up to 31 March 2006 and 31 March 2007, respectively. India, with 954.60 MW, and the international markets, with 501.65 MW, accounted for 65.55 per cent. and 34.45 per cent. of the Group's WTG sales (by volume) in the year ended 31 March 2007. In May 2006, the Group acquired Hansen Transmissions, the second largest gearbox and drive train manufacturer for WTGs worldwide. With the acquisition of Hansen Transmissions, the Group has entered into a new line of business, namely the manufacture and sale of gearboxes used in the wind industry and for other industrial uses. For the period from May 2006 to March 2007, Hansen Transmissions and its subsidiaries generated a turnover of €318.20 million (Rs.18,560.74 million) and earnings before interest depreciation and taxes of €49.94 million (Rs. 2,912.81 million). See "Business – Hansen Transmissions" for further details on the business of Hansen Transmissions.

The Company recently announced that it had been successful in its bid for REpower. In aggregate, the Group now controls, either directly or through voting pool agreements, approximately 87 per cent. of the votes in REpower. REpower is currently one of the leading turbine producers in the German wind energy sector. See "Recent Developments and Prospects – Acquisition of REpower Systems AG" for further details on the REpower acquisition and the business of REpower.

The Group develops and manufactures technologically advanced WTGs with an emphasis on high performance and cost-efficiency. The Group's current product range includes 0.35 MW, 0.60 MW, 1.25 MW, 1.50 MW and 2.10 MW WTGs and it is among the first Asia-based companies to manufacture WTGs with MW and multi-MW capabilities. The Group considers itself to be an integrated developer of WTG focused on the design, engineering and development of WTGs and components and the development and in-house manufacture of rotor blades for its MW and multi-MW WTGs, tubular towers, control panels, nacelle covers and generators. The Group also has established supply sources for the components that it does not manufacture in-house for its WTGs, such as rotor blades for its 0.35 MW WTGs, gearboxes, casting parts and a portion of its nacelle cover, tower, and generator requirements. Raw materials for WTG rotor blades, such as glass fibre, epoxy resin and foam are also sourced from leading suppliers. The Group is in the process of integrating the operations of Hansen Transmissions and plans to source part of its gearbox requirements from Hansen Transmissions from the second quarter of Fiscal 2008. The Group is also in the process of setting up facilities to manufacture forging and foundry components that are required for the manufacture of WTGs and its components. These facilities are expected to be operational in the next twelve months.

The Group conducts research and development activities primarily through its subsidiaries, SEG, Suzlon Windkraft GmbH and AERT. These subsidiaries focus on designing and developing new WTG models, upgrading the Group's current models and developing efficient and effective rotor blade technology for its WTGs. Further, the Group also conducts R&D in gearboxes through Hansen Transmissions. The Group usually gets its design, manufacture, operations and maintenance services certified as ISO 9001:2000 by Det Norske Veritas. The Group's WTG models are generally validated with type certification by either Germanischer Lloyd or CWET, an autonomous body attached to the MNRE.

With respect to the Indian market, the Group, together with its Associate Companies, has positioned itself as an integrated solution provider of services related to wind energy. Besides manufacturing WTGs, the Group is involved in wind resource mapping, identification of suitable sites and technical planning of wind power projects. The Group also provides after-sale O&M services through SISL for WTGs it supplies in India. The Group's Associate Companies, including SRL, acquire sites that have been identified by the Group as suitable for wind energy projects, which are then sold or leased to its customers.

With respect to the international markets, the Group primarily operates as a manufacturer and supplier of WTGs. It also assists its customers in the supervision of project execution and provides training to the employees of its customers so that they can carry out the O&M of projects developed by them. In select markets and with respect to certain projects, the Group also undertakes infrastructure development, installation and commissioning of WTGs and connection to power grids. In some cases, the Group also provides O&M services to its customers for an agreed period of time.

The Group's consolidated total income was Rs.19,659.20 million in Fiscal 2005, Rs.39,154.94 million in Fiscal 2006 and Rs. 80,822.30 million in Fiscal 2007. Consolidated profit after tax was Rs.3,651.24 million in Fiscal 2005, Rs.7,605.19 million in Fiscal 2006 and Rs. 8,648.04 million in Fiscal 2007.

The following table shows the breakdown of the Group's total consolidated income:

Sales	For the year ended 31 March					
	2005	per cent. of Total Income	2006	per cent. of Total Income	2007	per cent. of Total Income
(amounts are in Rs. millions)						
WTG and its Components .	19,165.21	97.49	37,911.03	96.82	59,975.24	74.21
Gearboxes . . . . .	—	—	—	—	18,560.74	22.97
Others . . . . .	259.61	1.32	499.27	1.28	1,321.32	1.63
<b>Total Sales . . . . .</b>	<b>19,424.82</b>	<b>98.81</b>	<b>38,410.30</b>	<b>98.10</b>	<b>79,857.30</b>	<b>98.81</b>
Other Income <sup>(1)</sup> . . . . .	234.39	1.19	744.64	1.90	965.00	1.19
<b>Total Income . . . . .</b>	<b>19,659.21</b>	<b>100.0</b>	<b>39,154.94</b>	<b>100.0</b>	<b>80,822.30</b>	<b>100.00</b>

Note:

(1) Other income consists primarily of interest received from bank deposits, interest received from customers for delayed payments and interest on loans granted to Associate Companies, as well as dividend income, net profits from the sale of investments and other miscellaneous income, which is primarily comprised of rent for premises leased by certain Associate Companies. Other income also includes income from the sale of tax incentives relating to the Group's activities in the State of Maharashtra.

The following table represents the percentage breakdown of the Group's total sales geographically:

Particulars	For the year ended 31 March		
	2005	2006	2007
India . . . . .	99.67	91.91	52.21
Europe . . . . .	—	—	20.49
USA . . . . .	0.33	8.09	20.68
China . . . . .	—	—	3.94
Others . . . . .	—	—	2.68
<b>Total . . . . .</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Note: Hansen Transmissions contributed to 23.24 per cent. of the Group's consolidated revenue for the year ended 31 March 2007.

### Competitive Strengths

The Group believes that the following are its principal competitive strengths:

- **Focus on providing "integrated solutions" wind energy packages with its Associate Companies to customers in India.** The Group's business model for the Indian market has historically involved, in conjunction with its Associate Companies, providing "integrated solutions" packages for wind energy projects. The Group's key activities include: (a) designing, developing and manufacturing WTGs; (b) wind resource mapping; (c) identifying suitable sites for wind farms; (d) coordinating with its Associate Companies in the acquisition and development of

these sites and installation of WTGs; and (e) providing after-sales O&M services. This business model allows the Group's Indian customers to benefit from the cost-efficiencies and economies of scale wind farms can offer. At the same time, the Group's customers do not need to undertake the cumbersome processes associated with developing wind farms, which requires expertise in various areas such as wind study, land acquisition and project execution/management skills. The Associate Companies, as part of the "integrated solutions" package, are also involved in the construction of power transmission facilities to transmit the power generated by the wind farm to the grid.

- **Track record of executing large-scale wind power projects.** The Group has, along with its Associate Companies, a track record of executing a number of large-scale wind power projects in different regions in India. These complex projects have allowed the Group and its Associate Companies to develop the capabilities and expertise needed for wind farm projects and the Group's customers benefit from the experience it has gained from its WTGs operating in different operating environments and its industry knowledge. The Group believes that the successful development of these wind farm projects has enhanced its recognition in the wind power marketplace.
- **In-house technology and design capabilities.** Through its subsidiaries' design capabilities, the Group has been able to develop its MW and multi-MW WTG models, as well as the rotor blades for these WTGs. The Group has also been able to develop many of the processes and technologies that enable it to manufacture certain key components, such as nacelle covers, nose cones control panels, the construction of tooling and moulds used for the manufacture of rotor blades, generators and gearboxes. These were achieved as a result of the Group's recognition that various countries in Europe have developed strengths in different facets of the design of WTGs, which led to its establishment of research and development subsidiaries in Europe. This has enabled the Group to access the personnel with the requisite technical background and expertise to assist it in designing, developing and upgrading WTGs and their key components.
- **Cost-efficient manufacturing and supply-chain.** The Group's manufacturing facilities located in India and China give it a significant cost advantage in terms of capital, manufacturing and labour costs over some of the Group's larger competitors whose manufacturing facilities are in higher cost regions, such as Western Europe. Further, the Group is able to efficiently source many key components, such as castings, generators and towers, from lower-cost suppliers based in India and China.
- **Global production platform and access to an integrated manufacturing base.** With production facilities in India, China, Belgium (Hansen Transmissions) and the United States, the Group has created a global production platform for supplying to the key growth markets. Also, the Group has an integrated manufacturing base with most of the key components such as rotor blades, generators, control panel and towers manufactured in-house. The Group also manufactures other components such as nose cones and nacelle covers and is establishing facilities to manufacture forging and foundry components used in WTGs and its components.
- **Market leader in India and presence in several other high growth markets.** For the last nine fiscal years, the Group has been the leading WTG manufacturer in India with a market share of 52.3 per cent of the total capacity installed in India during the year ended 31 December 2006, with India being the third largest wind power market in terms of annual installed capacity during the same period (*Source: BTM 2007 Report*). The Group has established a market presence in seven states, among which are the states that have the highest installed capacity of wind energy, including Tamil Nadu, Karnataka, Maharashtra, Rajasthan and Gujarat. The Group's leading market share makes it well-positioned to leverage existing customer relationships and its reputation as India's leading WTG manufacturer to take advantage of future growth in domestic demand for renewable energy sources such as wind energy.

The Group has over the last four years established a significant presence in some of the key wind markets such as Australia, China and the United States. It has successfully implemented projects in the United States and is currently implementing projects in Australia and China. The Group has also initiated marketing activities in several parts of Europe and has received orders for WTGs from Italy and Portugal.

- **Operations and maintenance expertise.** The Group believes that its ability to provide WTG O&M services to its customers has helped it in assessing and enhancing the performance of WTGs under operational conditions. The Group's introduction of the CMS concept as part of its O&M services provides its personnel and customers with real-time data relating to the WTGs. This allows the Group's technical personnel to control and monitor WTG performance on-line, even from remote locations, and even during adverse weather conditions. The Group believes this helps in reducing WTG downtime and maintenance costs. Further, the Group's research and development teams are able to use the operational data gathered by its operations and maintenance teams in order to upgrade its current WTG models and to design, develop and roll-out newer and more cost-efficient WTG models.
- **Strong management team.** The Group's top management brings with them extensive experience in the design, engineering, manufacture, marketing and maintenance of WTGs. The Group's senior management team located primarily in India and Europe, who are in charge of research and development, manufacturing, finance, sales, business development and strategic planning have extensive experience in the wind energy industry.

## **Business Strategy**

The Group seeks to expand its global presence by penetrating key growth markets and to further enhance its position in India as a provider of integrated wind energy solutions. The Group intends to accomplish this through:

- **Expanding its presence in international growth markets.** In order to increase its share of the world market for wind energy, the Group plans to continue to grow its overseas operations. The Group considers its key international markets to be North America, in particular the United States, which has many sites that offer wind conditions that are optimal for WTGs and also offer tax incentives for power generated by WTGs; China, where the level of demand for energy is high and where the government is encouraging the development of renewable energy sources; Australia, which also has sites with optimal wind conditions and where the government has declared that it intends to encourage a sustainable and internationally competitive renewable energy industry; and key growth markets in Europe, including France, Portugal, Italy, Spain and the United Kingdom, which have the potential for further development and investment in renewable energy, and wind power in particular. Further, the Group is also seeking to increase its presence in markets in Europe through its recent acquisition of REpower and locating its global senior management team in Europe.
- **Maintaining its strategic focus on the Indian market.** The Group believes that India is and will continue to be an important growth market for wind power. The Group intends to continue to focus on growing its India business by leveraging its status as the leading "integrated solution provider in wind" by continuing to develop, with its Associate Companies, large-scale wind farm projects. The Group will also continue to utilise the experience and expertise gained in its Indian operations to win and execute orders from international customers.
- **Expanding manufacturing capacity in domestic and key international markets.** The Group is in the process of constructing additional manufacturing facilities in India for WTGs and key components and expects these facilities to be located close to markets with growing demand for power generated by wind energy. Some of these facilities may be located in geographies that are eligible for fiscal incentives. In furtherance of the Group's goal of expanding its international presence, the Group

has established an integrated WTG manufacturing facility in Tianjin, China. The Group has also established a rotor blade unit in the United States, in order to meet increasing demand for wind energy projects in certain regions of North America. The Group's strategy is to expand its WTG and/or component manufacturing footprint in markets which have a the potential for growth and where the Group believes it will be able to develop a strong marketing foothold.

The Group also intends to expand its manufacturing capacity for gearboxes in Belgium and set up new manufacturing capacities in India to cater to new customers, increasing demand from existing customers and part of the in-house requirements of the Group.

- ***Expanding its WTG product line and improving existing models.*** The Group intends to leverage the WTG design and development capabilities that it has developed through its R&D subsidiaries to enhance its existing WTG models and develop new models, particularly in the MW and multi-MW class. The Group plans to strengthen its research and development capabilities further by setting up an "innovation centre" in Europe. Further, the Group aims to take advantage of its vertically integrated setup to combine WTG research with its R&D platform at the component level to design and develop more advanced and cost efficient WTGs.
- ***Integrated manufacturing.*** The Group has developed and implemented a backward integration strategy that allows it to manufacture rotor blades in-house. In March 2005 the Group began in-house manufacture of a portion of its tubular towers requirements through its 75 per cent.-owned subsidiary, Suzlon Structures. The Group has established an in-house manufacturing facility for a portion of its generator requirements through its 75 per cent.-owned subsidiary, Suzlon Generators. In May 2006, the Group also completed the acquisition of Hansen Transmissions, which is the second largest gearbox and drive train manufacturer for wind turbines worldwide. The Group is in the process of expanding production capacity in Hansen Transmissions to meet part of the Group's in-house gearbox requirements. The Group also manufactures certain other components in-house which include nose cones, control panels and nacelle covers. The Group believes that increasing its component manufacturing capabilities will allow it to lower WTG manufacturing costs, give it greater control over the supply chain for key WTG components and enable quicker and more efficient assembly and delivery of WTG components to its customers.
- ***Growing its business through strategic acquisitions and alliances.*** The Group will evaluate on a case-by-case basis potential acquisition targets and alliance partners that offer an opportunity to grow its business and/or expand its capabilities or geographical reach. The Group intends only to pursue those transactions that complement its key strengths, are synergistic and, in its assessment, have manageable integration risks. In line with this strategy, the Group has recently acquired REpower. See "Recent Developments and Prospects – Acquisition of REpower Systems AG".

## SUMMARY OF THE TERMS OF THE OFFERING

*The following is a general summary of the terms of the Bonds. This summary is derived from, and should be read in conjunction with, the full text of the "Terms and Conditions of the Bonds" and the Trust Deed constituting the Bonds, which prevail to the extent of any inconsistency with the terms set out in this section. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the "Terms and Conditions of the Bonds".*

Company .....	Suzlon Energy Limited.
Bonds .....	U.S.\$300,000,000 Zero Coupon Convertible Bonds due 2012 (including U.S.\$100,000,000 aggregate principal amount of Zero Coupon Convertible Bonds due 2012 to be issued pursuant to the option described below), convertible into fully-paid ordinary shares with a par value of Rs.10 each of the Company.  The Lead Manager was granted an option by the Company to purchase at any time, in whole or in part on one or more occasions, up to and including the 30th day after the Closing Date, up to an additional U.S.\$100,000,000 aggregate principal amount of Bonds. The option was exercised in full by the Lead Manager on 16 May 2007. Accordingly, U.S.\$300,000,000 in aggregate principal amount of Bonds will be issued on the Closing Date.
Issue Price of the Bonds .....	The Bonds will be issued at 100 per cent. of their principal amount.
Issue Date .....	11 June 2007.
Maturity Date.....	12 June 2012.
Interest.....	The Bonds do not bear interest except default interest in the event of non-payment.
Status of the Bonds.....	The Bonds will constitute direct, unsubordinated, unconditional and (subject to "– Negative Pledge" below) unsecured obligations of the Company and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to "– Negative Pledge" below, at all times rank at least equally with all of its other present and future direct, unsubordinated, unconditional and unsecured obligations.
Rating of the Bonds.....	The Bonds are not, and are not expected to be, rated by any rating agency.
Conversion Right .....	The Bonds are convertible by holders into Shares, at any time on and after 22 July 2007, up to the close of business on 5 June 2012 or, if the Bonds shall have been called for redemption before the Maturity Date, then up to the close of business on a date no later than seven business days prior to the date fixed for redemption thereof.

Conversion Price . . . . .	Rs.1,800.00 per Share. The Conversion Price will be subject to adjustment for, among other things, subdivision or consolidation of Shares, bonus issues, dividends, rights issues, distributions and other dilutive events as further described under "Terms and Conditions of the Bonds – Adjustments to Conversion Price". In addition, the Conversion Price may be adjusted on a Change of Control.
Conversion Price Reset . . . . .	If the average of the Volume Weighted Average Price of a Share for the period of 21 consecutive Trading Days ending on the day immediately prior to 11 June 2008 (the "Reset Date") (the "Reference Price"), converted into U.S. dollars at the Prevailing Rate is less than the Conversion Price on the Reset Date, converted into U.S. dollars at the Fixed Exchange Rate, the Conversion Price shall be adjusted on a one-time basis on the Reset Date in accordance with the formula set out in "Terms and Conditions of the Bonds – Conversion Price Reset".
Negative Pledge. . . . .	<p>So long as any Bond remains outstanding:</p> <ul style="list-style-type: none"> <li>(i) the Company will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("Security") upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any International Investment Securities, or to secure any guarantee of or indemnity in respect of any International Investment Securities;</li> <li>(ii) the Company will procure that no Subsidiary or other person creates or permits to subsist any Security upon the whole or any part of the undertaking, assets or revenues present or future of that Subsidiary or other person to secure any of the Company's or any Subsidiary's International Investment Securities, or to secure any guarantee of or indemnity in respect of any of the Company's or any Subsidiary's International Investment Securities; and</li> <li>(iii) the Company will use its best endeavours to procure that no other person gives any guarantee of or indemnity in respect of any of the Company's or any Subsidiary's International Investment Securities,</li> </ul> <p>unless, at the same time or prior thereto, the Company's obligations under the Bonds and the Trust Deed (a) are secured equally and rateably therewith to the satisfaction of the Trustee, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution of the Bondholders. See "Terms and Conditions of the Bonds – Negative Pledge".</p>



Financial Covenants . . . . .

The Issuer must ensure that:

- (a) Consolidated Total Net Borrowings do not:
  - for the period from 1 April 2007 to 31 March 2008 exceed 2.35 times Consolidated Tangible Net Worth; and
  - at any time thereafter, exceed 1.0 times Consolidated Tangible Net Worth;
- (b) the ratio of Adjusted Consolidated EBIDTA to Debt Service for any Measurement Period ending on any Calculation Date is not, less than 1.33 to 1; and
- (c) Consolidated Total Net Borrowings do not:
  - for the Measurement Periods ending on or after 31 March 2007 but prior to 31 March 2008 exceed 5.25 times Consolidated EBITDA for that Measurement Period;
  - for Measurement Periods ending on or after 31 March 2008 but prior to 31 March 2009 exceed 4.0 times Consolidated EBITDA for that Measurement Period;
  - for Measurement Periods ending on or after 31 March 2009 but prior to 31 March 2010 exceed 3.0 times Consolidated EBITDA for that Measurement Period; and
  - for each Measurement Period ending on or after on or after 31 March, 2010 exceed 2.0 times Consolidated EBITDA for that Measurement Period.

Each of the capitalised terms above are defined in the Terms and Conditions. See “Terms and Conditions of the Bonds – Financial Covenants”.

Mandatory Conversion at the Option of the Company . . . . .

On or after 11 June 2009, the Company may require a mandatory conversion of the Bonds in whole, but not in part, into Shares on the date fixed for mandatory conversion, provided that no such mandatory conversion may be made unless the Closing Price of the Shares (translated into U.S. dollars at the Prevailing Rate) for each of the 45 consecutive Trading Days prior to the date upon which notice of such mandatory conversion is given, is at least 120 per cent. of the applicable Early Redemption Amount divided by the Conversion Ratio.

The Bonds may also be redeemed, in whole but not in part, at the option of the Company at any time, subject to satisfaction of certain conditions, at the Early Redemption Amount, if less than 10 per cent. in aggregate principal amount of the Bonds originally issued is outstanding. See “Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Mandatory Conversion at the Option of the Issuer”.

Redemption at Maturity . . . . .

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Bond at 145.23 per cent. of its principal amount on the Maturity Date.

Redemption for Taxation

Reasons.....

At any time the Company may redeem all, and not some only, of the Bonds at the Early Redemption Amount, on the date fixed for redemption, if (i) the Company satisfies the Trustee immediately prior to the giving of such notice that the Company has or will become obliged to pay additional amounts pursuant to Condition 9 as a result of any change in, or amendment to, the laws or regulations of India or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 16 May 2007; and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Upon such notice being given, a Bondholder may elect not to have its Bonds redeemed by the Issuer, in which case such Bondholder will not be entitled to receive payment of such additional amount. See "Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Redemption for Taxation Reasons".

Redemption for Change of

Control .....

Upon the occurrence of a Change of Control and to the extent permitted by applicable law, the holder of each Bond will have the right at such holder's option to require the Company to redeem in whole, but not in part, such holder's Bonds on the Relevant Event Put Date at the Early Redemption Amount. See "Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Redemption for Change of Control".

Delisting Put Right .....

In the event that the Shares cease to be listed or admitted to trading on the BSE and the NSE, each Bondholder shall have the right, at such Bondholder's option, to require the Company to redeem all (but not less than all) of such Bondholder's Bonds at the Early Redemption Amount. See "Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Delisting Put Right".

Non-Permitted Conversion

Price Adjustment Event  
Repurchase Right .....

To the extent permitted by applicable law, unless the Bonds have been previously redeemed, converted or purchased and cancelled, if the Company is unable to provide the Trustee with a Price Adjustment Opinion prior to the occurrence of an event triggering an adjustment to the Conversion Price (a "Non-Permitted Conversion Price Adjustment Event"), the Company shall, within 10 business days after the occurrence of the relevant event triggering such adjustment, notify the Bondholders of such Non- Permitted Conversion Price Adjustment Event, and each Bondholder shall have the right, at such Bondholder's option, to require the Company to repurchase all (or any portion of the principal amount thereof which is U.S.\$1,000 or any integral multiples thereof) of such Bondholder's Bonds at the Early Redemption Amount. See "Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Non-Permitted Conversion Price Adjustment Event Repurchase Right".

RBI Approval Required for Early Redemption.....	Under current regulations of the RBI applicable to convertible bonds, the Company will require the prior approval of the RBI before providing notice for or effecting any redemption prior to the Maturity Date.
Form and Denomination of Bonds.....	The Bonds will each be issued in registered form in denominations of U.S.\$1,000 each or in integral multiples thereof. The Bonds will be represented by a global certificate (the "Global Certificate") which on the Issue Date will be deposited with, and registered in the name of, a nominee of a common depository for Euroclear and Clearstream, Luxembourg.
Events of Default.....	For a description of certain events that will permit acceleration of repayment of principal and premium of the Bonds, see "Terms and Conditions of the Bonds – Events of Default".
Share Ranking.....	Shares issued upon conversion of the Bonds will be fully paid with full voting rights and will rank <i>pari passu</i> with the Shares in issue on the relevant Conversion Date. Shares shall not be entitled to any rights, the record date for which preceded the relevant Conversion Date. See "Description of the Shares – Dividends" and "Terms and Conditions of the Bonds – Conversion".
Market for the Shares, Listing and Share Ownership Restrictions.....	<p>The outstanding Shares of the Company are listed on the NSE and BSE.</p> <p>There are certain restrictions applicable to investments in shares and other securities of Indian companies, including the Shares, by persons who are not residents of India. See "Foreign Investment and Exchange Controls".</p>
Clearance.....	The Bonds will be cleared through the Clearing Systems. The Clearing Systems each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders.
Global Certificate.....	For as long as the Bonds are represented by a Global Certificate, the Global Certificate will be held by a common depository for the Clearing Systems. Payments of principal and premium in respect of the Bonds represented by the Global Certificate will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of the Global Certificate to or to the order of the Paying Agent for such purpose. The Bonds which are represented by a Global Certificate will be transferable only in accordance with the rules and procedures for the time being of the relevant Clearing System.

Indian Taxation .....	All payments in respect of the Bonds by the Issuer will be made free from any restriction or condition and without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of India or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. The Company will gross up the net taxable amount to the extent set out in Condition 9 and will be required to account separately to the Indian tax authorities for any withholding taxes applicable to payments attributable to such tax. The Bonds will have the benefit of the tax concessions available under the provisions of Section 115AC of the Income Tax Act. Under current Indian laws, tax is not payable by the recipients of dividends on Shares. See "Taxation".
Selling Restrictions .....	There are restrictions on the offer, sale and/or transfer of the Bonds in, among others, the United Kingdom, United States, India, Hong Kong, Japan and Singapore. For a description of the selling restrictions on offers, sales and deliveries of the Bonds, see "Subscription and Sale".
Listing .....	Approval in-principle has been received for the listing of the Bonds on the SGX-ST.  The Bonds will be traded on the SGX-ST in a minimum board lot size of U.S.\$200,000 for so long as the Bonds are listed on the SGX-ST.  In-principle approval for listing of the Shares issuable upon conversion of the Bonds has been received from each of the NSE and the BSE.
Trustee .....	Deutsche Trustee Company Limited.
Principal Agent .....	Deutsche Bank AG, London Branch.
Registrar .....	Deutsche Bank, Luxembourg S.A.
Governing Law.....	The Bonds will be governed by, and construed in accordance with, the laws of England.
Use of Proceeds.....	The net proceeds of the issue of the Bonds after the deduction of fees, commissions and expenses are expected to be approximately U.S.\$296,500,000 and will be used by the Company as set out in "Use of Proceeds". The use of the net proceeds shall be in accordance with the end-use restrictions specified by the RBI and the Indian Government.

Indian Government Approvals .

The Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993, as amended (the "FCCB Scheme"), the Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2000, as amended (the "FEM Regulations"), the External Commercial Borrowings Guidelines dated 1 August 2005 and the Master Circular No.07-2006-07 dated 1 July 2006 issued by the RBI (the "Master Circular") permit Indian companies to issue foreign currency convertible bonds ("FCCBs") up to U.S.\$500 million under the "automatic route" (i.e. without the prior approval of the RBI), subject to compliance with certain conditions specified therein. The Company is undertaking the present issue of the Bonds in accordance with these guidelines and regulations.

Common Code for the Bonds . .

030206924

ISIN for the Bonds . . . . .

XS0302069249

Lock-ups . . . . .

The Company has agreed in a subscription agreement dated 16 May 2007 between the Company and the Lead Manager (the "Subscription Agreement") that neither it nor any persons acting on its behalf, will issue, offer, sell, contract to sell, grant, pledge or otherwise transfer or dispose of (or publicly announce any such issuance, offer, sale or disposal or otherwise make public an intention to do so), directly or indirectly, any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants, options or other rights to purchase Shares or any security, contract or financial product whose value is determined, directly or indirectly, by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares, whether or not such contract is to be settled by delivery of Shares or such other securities, in cash or otherwise; except for the Bonds, the Shares issued pursuant to the conversion of the Bonds, the Shares to be issued upon exercise of the options granted to the employees under the Employee Stock Option Plans as set out in the section of this Offering Circular entitled "Employee Stock Option Plan" or pursuant to an obligation in existence at the date of this Agreement, which has been disclosed to the Lead Manager, in any such case without the prior written consent of the Lead Manager (such consent not to be unreasonably withheld or delayed) for a period of 60 days from the date of the Subscription Agreement.

Each member of the Promoter Group has also entered into a lock-up agreement on the terms set out above, provided that the Promoter Group shall be permitted to enter into pledges with respect to Shares held by the Promoter Group of an aggregate of up to 20 per cent. of the outstanding issued share capital of the Issuer as at 16 May 2007.

## INVESTMENT CONSIDERATIONS

*This offering involves a high degree of risk. Any potential investor in, and purchaser of, the Bonds should pay particular attention to the fact that the Company is an Indian company and is subject to a legal and regulatory environment which in some respects may be different from that which prevails in other countries. Prior to making an investment decision with respect to the Bonds offered hereby, all such prospective investors and purchasers should carefully consider all of the information contained in this Offering Circular, including the investment considerations set out below and the financial statements and related schedules thereto. The occurrence of any of the following events could have a material adverse effect on the Group's business, results of operations, financial condition and future prospects and cause the market price of the Bonds and the Shares to fall significantly.*

### RISKS RELATING TO THE REPOWER ACQUISITION

**The Group's acquisition of REpower may negatively impact the Company's financial condition and results of operations.**

The final offer of the Group of € 150.00 for each ordinary equity share values the equity share capital of REpower at approximately €1.35 billion, based on the outstanding equity share capital of REpower as at the date of this Offering Circular and represents a premium of 109.9 per cent. on the average volume weighted share price of REpower for the three months prior to the announcement by Areva of its intention to make an offer for REpower on 23 January 2007 (the "Areva Announcement").

The acquisition is subject to all the attendant risks associated with acquisitions. See "The Group may, in the future, enter into strategic alliances, investments, partnerships and acquisitions. These may harm its business, dilute shareholdings and cause it to incur debt".

In particular, REpower made net losses of €9.57 million and €6.75 million in the years ended 31 December 2004 and 2005, respectively. Although REpower reported consolidated net income of €7.1 million in the year ended 31 December 2006, REpower will initially be earnings dilutive to the Group, and there can be no assurance as to when (if at all) it will become earnings accretive. In addition, the acquisition will result in the Group recognising a significant amount of goodwill, in addition to the amount of Rs.17,633.03 million already recognised in relation to the Hansen Transmissions acquisition. Pursuant to Indian GAAP, the Group is required to assess in its annual and interim financial statements whether such goodwill is impaired. Any significant impairment charge may have a material adverse effect on the Group's results of operations.

The Group will need to increase its outstanding long-term debt in order to finance the REpower Offer. The Group has paid approximately €450 million for the aggregate number of REpower shares purchased or subscribed to date. In addition, the Group has potential future commitments to purchase REpower shares from Martifer and Areva pursuant to option arrangements (see "Recent Developments and Prospects – Acquisition of REpower Systems AG). The REpower Offer is being financed by the relevant tranches of a €1.575 billion syndicated loan arranged by ABN AMRO Bank N.V. (the "Acquisition Facility"). As at 31 March 2007 the Company's net debt to equity ratio was 1.06 (as calculated under the Acquisition Facility), but since 31 March 2007 an additional €825 million has been drawn down under the Acquisition Facility for the purposes of the REpower Offer and for general corporate purposes. Such increased debt raises risks as set out below in "The Group's indebtedness could adversely affect its financial condition and results of operations".

Due to the nature of the REpower Offer, no formal due diligence (financial, legal or otherwise) has been undertaken in relation to REpower. Although the Company is unaware of any material adverse factors in relation to REpower, the lack of formal due diligence increases the risk that adverse information may come to light after the Group takes control of REpower. This may have a negative impact on the Group's financial performance and operations.

## **RISKS RELATING TO THE WIND POWER INDUSTRY**

### **The demand for wind power projects is primarily dependent on the demand for electricity.**

The demand for electricity in India and in international markets such as the United States, China, Australia and Europe is closely linked to economic growth in these countries. As the economy grows, economic activities, such as industrial production and personal consumption, also tend to expand, which increases the demand for electricity. Conversely in economic downturns, activities such as industrial production and consumer demand decline or stagnate, causing demand for electricity to decrease. If either the Indian economy or the economies of major international markets, such as the United States, China, Australia and Europe do not continue to grow at their current rate, or if there is an economic downturn, demand for electricity generally and demand for renewable energy sources such as wind power particularly are likely to decrease. A sustained economic downturn would have a material adverse effect on the Group's business, financial condition and results of operations.

### **The viability of wind power projects is dependent on the price at which it can sell electricity and the cost of wind-generated electricity compared to electricity generated from other sources of energy.**

The viability of wind power plants is dependent on the price at which it can sell electricity and the cost of wind-generated electricity compared to electricity generated from other sources of energy. Governments in certain jurisdictions have introduced pricing incentives to encourage generation of electricity from renewable sources. See "The decrease in or elimination of government initiatives and incentives relating to renewable energy sources, and in particular to wind energy may have a material adverse effect on the demand for wind power." In addition, wind power plants require higher initial capital investment per kWh of energy produced from the Group's customers as compared to that required for a fossil fuel-based power plant. The cost of electricity produced by wind power plants is dependent on the cost of establishment of the wind power plants themselves, including access to the grid, financing costs, maintenance costs and wind conditions at the designated site. The cost of oil, coal and other fossil fuels are key factors in determining the effectiveness of wind power from an economic perspective, as cheaper and large supplies of fossil fuels favour non-wind power generation, while more expensive and limited supplies of fossil fuels favour wind power generation. Also, continued investment in product techniques and technical advances in WTG design have led to an overall reduction in the cost per kWh of power from wind energy over a period of time. However, an increase in cost competitiveness or a leap in technology for other sources of power generation, the discovery of new and significant oil, gas and coal deposits or a decline in the global prices of oil, gas and coal and other petroleum products, could result in lower demand for wind power plants, which would have a material adverse effect on the Group's business, financial condition and results of operations.

### **The viability of wind power is dependent on wind patterns.**

As the viability of wind power is dependent on wind patterns, which are not constant and which vary over time, WTGs are generally not considered as viable base load sources of electricity. This means that while demand for wind power may increase, it is unlikely that wind power will be considered a large-scale substitute for fossil-fuel generated power and for renewable energy from more reliable sources, such as hydropower. This may adversely affect the future growth prospects of the wind power industry in general and the Group's growth prospects in particular.

### **The terms of financing that the Group's customers can obtain for wind power projects has a significant influence on the Group's business, financial condition and results of operations.**

Where customers obtain bank financing for purchasing a WTG, the financing terms obtained for investments in wind power have a significant influence on the wind power industry's opportunities to sell its products. Interest rates in general have been rising globally over the last couple of years. Higher interest rate levels cause the costs of investing in wind power to increase, thus making wind power a less attractive investment proposition. The creditworthiness of a wind power project proponent and the terms of any such financing also determine whether financing for a project can be obtained. Further, wind power plants are financed over terms that are shorter than for fossil fuel based power plants. As a result, WTG customers assume a higher degree of risk regarding upward interest rate movements in the

event a WTG project requires refinancing. Factors having an adverse impact on the financing terms for wind power plants therefore influence the Group's opportunities for selling its products and could adversely affect its business, financial condition and results of operations.

The ability to obtain financing for a wind power project also depends on the willingness of banks and other financing institutions to provide loans to the wind power industry, including their willingness to participate in financing of large wind power projects. If banks and other financing institutions decide to reduce their exposure to the wind power industry or to one or more suppliers of WTG components, this could have a material adverse effect on the Group's business, financial condition and results of operations.

**The decrease in or elimination of government initiatives and incentives relating to renewable energy sources, and in particular to wind energy, may have a material adverse effect on the demand for wind power.**

In recent years, governments in many countries, including India, have enacted legislation or have established policies that support the expansion of renewable energy sources, such as wind power, and such support has been a significant contributing factor in the growth of the wind power industry. Support for investments in wind power is provided through fiscal incentive schemes or public grants to the owners of wind power systems, for example through preferential tariffs on power generated by WTGs or tax incentives promoting investments in wind power. In India, various State Governments have also provided wind power generators with wheeling facilities and have also allowed wind power generators to bank power with the grid, due to wind being an intermittent source of power. In addition, the governments of some countries also prescribe specified levels of electricity that utilities are required to obtain from renewable energy sources. Further, international attention being paid to reducing carbon dioxide emissions and the possibility of trading carbon dioxide emission quotas taking place has led to extra duties being applied to those sources of energy, primarily fossil fuels, which cause carbon dioxide pollution. The imposition of these duties has indirectly supported the expansion of power generated from renewable energy and, in turn, the wind power industry in general.

In the past, the decrease in or elimination of direct or indirect government support schemes for renewable energy including wind power in a country has had a negative impact on the market for wind power in that country. There can be no assurance that any such government support will continue at the same level or at all.

If direct and indirect government support for wind power was terminated or reduced, this would make producing electricity from wind power less competitive. The Group's ability to sell WTGs and to offer, in coordination with its Associate Companies, wind power-related services could therefore decline sharply, which would adversely affect the Group's financial condition and results of operations.

**The construction and operation of wind power projects has faced opposition from local communities and other parties.**

The construction and operation of wind power plants in a number of countries has faced opposition from the local communities where these plants are located and from special interest groups. WTGs cause noise and are considered by some to be aesthetically unappealing. Certain environmental organisations have expressed opposition to wind turbines based on the allegations that wind farms kill birds and have other adverse effects on flora and fauna. Legislation is in place in many countries, which regulate the accepted distance between wind power plants and urban areas to guard especially against the effects of noise. It is possible that such legislation could be amended to place further restrictions on distance, or to limit the size or height of WTGs in a given area, to prohibit the installation of WTGs at certain sites, or to impose other restrictions, such as noise requirements. A significant increase in the extent of such legislation or other restrictions could cause significant constraints on the growth of the wind power industry as a whole. This would have a material adverse effect on the Group's business, financial condition and results of operations.



**The construction and operation of wind power projects is subject to regulation, including environmental controls, and changes in these regulations could have a material adverse effect on the Group's business, financial condition and results of operations.**

Many countries, including India, have introduced legislation governing the manufacture, erection, operation and decommissioning of WTGs, including compliance with procedures relating to the acquisition of land to be used for wind power plants, compliance with relevant planning regulations and approvals for the commencement of a wind power project, including clearances from environmental regulators. Further, the extraction activities on land used for wind farms and the refining and consumption of raw materials used in the manufacture of WTGs, the impact of noise pollution from manufacturing facilities and noise from the transport to and from production sites are subject to regulation. In the event legislation and regulation relating to the foregoing activities are made more stringent, such as increasing the requirements for obtaining approvals or meeting government standards, this could result in changes to the infrastructure necessary for wind power projects and the technical requirements for WTGs and the methods used to manufacture them, increasing the costs related to changing production methods in order to meet government standards and increasing penalties for non-compliance. These could have a material adverse effect on the Group's business, financial condition and results of operations.

**The demand for wind gearboxes is dependent on the demand for wind power projects.**

The demand for gearboxes used in WTG's is dependent on the demand for wind power projects which in turn is subject to various risks, including the demand for electricity, the cost of wind-generated electricity compared to electricity generated from other sources of energy, terms of financing for wind power projects and government policies and regulations, as discussed above. A material adverse impact caused by any such factors could have a material adverse effect on the Group's gearbox business. In addition, a shift towards direct drive turbines or gearless turbines may have an impact on demand for wind gearboxes.

**The Group may be unable to keep pace with rapidly evolving technology in the design and production of WTGs and WTG components.**

The global market for WTGs and gearboxes used in WTG's involves rapidly evolving technology. WTGs are progressively becoming larger and their operational performance have improved, resulting in the Group's customers demanding more cost efficient WTGs. To maintain a successful business in the Group's field, it will have to quickly and consistently design and develop new and improved WTGs and WTG components that keep pace with technological developments and changing customer standards and meet the constantly growing demands of its customers in terms of WTG performance. The Group's ability to design, develop, manufacture and market financially viable and cost-efficient WTGs on an ongoing basis is particularly important. The Group's inability to adequately respond to the technological changes in the Group's industry in a timely manner would have a material adverse effect in its business, financial condition and results of operations.

The Group will also have to keep pace with the developments in gearbox technology. The Group's inability to adequately respond to changes in gearbox technology in a timely manner would have a material adverse effect in its business, financial condition and results of operations.

**The market for WTGs and gearboxes is highly competitive, which could limit the Group's ability to grow.**

The market for WTGs and gearboxes is intensely competitive. Important factors affecting competition in the wind turbine industry include performance of WTGs, reliability, product quality, technology, price, and the scope and quality of services, including O&M services, and training offered to customers. Although the Group has expended considerable resources on design, development and manufacture of WTGs and gearboxes, some of its competitors have longer industry experience and greater financial, technical, personnel, marketing and other resources. Some competitors may also be able to react faster to trends and changes in customer demand. The Group's competitors may be willing and able to spend more resources to develop products and sales and may be able to provide products faster or at a lower price than the Group can. If the Group's competitors consolidate through joint ventures or cooperative agreements with each other, or even otherwise, the Group may have difficulty competing with them.

While the Group believes that it has historically been able to provide its products and services in its principal markets at competitive prices, there can be no assurance that it will be able to do so in the future, as its competitors may be able to offer products and services that are more effective than the Group's.

Growing competition may result in a decline in the Group's market share or may force it to reduce the prices of its products and services, which may reduce revenues and margins, any of which could have a material adverse effect on the Group's business, financial condition and results of operations. The Group cannot be reasonably certain that it will be able to compete successfully against such competitors, or that it will not lose potential customers to such competitors. Additionally, the Group's ability to compete also depends in part on factors outside its control, such as the price at which its competitors offer comparable products and services.

## **RISK RELATING TO THE GROUP'S BUSINESS**

### **Changes in or termination of government policies that encourage investment in power projects in general, and wind power projects in particular, may have a material adverse effect on wind power projects.**

The Group's future success will depend on continued demand for and market acceptance of its WTGs and gearboxes in India and internationally, its ability to provide, in coordination with the Associate Companies, integrated wind power solutions in India and the overall market for renewable energy sources. Changes in government policies or incentives, as well as other factors, could reduce demand for, or market acceptance of, the Group's WTGs and gearboxes and this could have a material adverse effect on the Group's business, financial condition and results of operations.

For example several countries have adopted policies that encourage investment in wind power projects. In India, these include among others, renewable portfolio standards which require power utilities to source a certain percentage of their power requirements from renewable sources. In addition, relatively low wheeling charges are imposed by the SERC for captive power generation facilities, as well as allowing private sector power generating facilities to sell electricity to third parties. The United States has allowed a production tax credit of U.S.\$1.9 cents per kWh of energy produced from wind for the years 2005 to 2008 and has also introduced a mechanism whereby utility companies would be required to procure a certain specified percentage of their power supply requirements from renewables. Many of the Group's customers have purchased WTGs and participated in wind farm projects due to these policies. In the event these policies change in a manner that makes it less attractive for investors to establish captive generating facilities in general and wind power projects in particular or governments decide not to extend the effective date for these policies, demand for the Group's WTGs could decrease and this would have a material adverse effect on the Group's business, financial condition and results of operations.

### **The Group's revenues and results fluctuate due to seasonal factors.**

The Group's revenues and results are affected by seasonal factors. For instance, in India, WTG sales are usually higher during the second and fourth quarters of each fiscal year. The Group believes that this seasonality is primarily for two reasons, namely commissioning of WTGs in time to take advantage of the high wind season and availment of the policy benefits prior to the end of the fiscal year. Therefore, a large portion of revenue is generated and cost of materials is incurred during these periods. Further, the seasonality in the wind turbine business also impacts the wind gearbox business. However, a significant portion of the Group's overhead expenses cannot be adjusted for seasonal variations in business activity. As a result, a drop in sales revenue in one quarter may have a disproportionately adverse effect on the Group's results of operations in such quarter. The Group's revenues and results of operations may therefore vary significantly in the future from period to period. Therefore, the Group believes that period-to-period comparisons of its results of operations may not be necessarily meaningful and may not be relied upon as an indication of its future performance. It is possible that in the future some of the Group's results of operations may be below the expectations of market analysts and its investors, which could cause the price of the Company's Shares to decline significantly.

**The Group may, in the future, enter into strategic alliances, investments, partnerships and acquisitions. These may harm its business, dilute shareholdings and cause it to incur debt.**

As part of the Group's growth strategy, it may enter into strategic alliances, make strategic investments, establish partnerships and/or make acquisitions relating to raw materials, components, complementary businesses, technologies, services or products. The Group may not be able to identify suitable investment opportunities, partners or acquisition candidates. If it does identify suitable investment opportunities, partners or acquisition candidates, it may have difficulty in accurately assessing the candidates, risks, placing an accurate valuation on it and it may be unable to negotiate terms commercially acceptable or favourable to it or complete those transactions at all. If the Group acquires another company or forms a new joint venture or other strategic partnership, it could have difficulty in integrating and assimilating that company's business, including products, components, personnel, operations, technology and culture, with its business. In addition, the key personnel of an acquired company may decide not to work for the Group. Any potential acquisition, alliance or joint venture could involve a number of specific risks, including diversion of management's attention, higher costs, unanticipated events or circumstances, legal liabilities, failure of the business of the acquired company, fall in value of investments and amortisation of acquired intangible assets, some or all of which could have a material adverse impact on the Group's business, financial condition and results of operations. In the event that the Group plans to acquire or invest in an overseas company, it may be required to obtain the prior approval of the RBI, other regulators and/or the Government of India and there can be no assurance that such approvals will be obtained in a timely manner or at all.

The Group may finance future investments, partnerships or acquisitions with cash from operations, its existing cash balances, debt financing, the issuance of additional Shares or a combination of these or any other forms of financing. The Group cannot guarantee that it will be able to arrange financing on acceptable terms, if at all, to complete any such transaction. Investments, partnerships or acquisitions financed by the issuance of its Shares would dilute the ownership interest of its shareholders and debt financing would increase its leverage and financial risks. See "Risks Relating to the REpower Acquisition".

**The Group has incurred a number of risks in regard to its acquisition of Hansen Transmissions.**

In May 2006, the Group completed the acquisition of Hansen Transmissions, which is the second largest gearbox and drive train manufacturer for wind turbines worldwide. The results of operations of Hansen Transmissions are material to the Group. Hansen Transmissions accounted for Rs.18,560.74, or 23.24 per cent. of the Group's total consolidated revenue, and Rs.1,402.88, or 16.24 per cent. of the Group's total consolidated net profit, for the year ended 31 March 2007, notwithstanding that financial statements of the Group have only consolidated the 11-month results of operations of Hansen Transmissions from May to March 2007. Unforeseen contingent risks or latent liabilities relating to Hansen Transmissions may only become apparent after a period post the completion of the acquisition and there may be difficulties in the integration and management of business operations and systems, in the retention of select personnel or in the co-ordination of sales and marketing efforts. Hansen Transmissions has announced plans to increase its annual capacity from 3,600 MW to 5,800 MW in Belgium at an estimated cost of Rs.8 billion, by fourth quarter of Fiscal 2008. Further it will set up a gear box manufacturing plant in India at an estimated cost of Rs.9.8 billion with approximate capacity of 3,500 MW which is expected to commence by fourth quarter of Fiscal 2009. With the proposed capacity expansion, the Group is expected to source part of its gearbox requirements from Hansen Transmissions by Fiscal 2008. If the Group is unable to integrate the operations of Hansen Transmissions successfully or profitably, its growth plans may not be met and its revenue and profitability may decline.

In addition, the acquisition of Hansen Transmissions was financed by debt. The Group entered into a €450 million facility with ICICI Bank Limited, State Bank of India, Deutsche Bank AG and Barclays Bank PLC (which has since been refinanced by a new loan from ABN AMRO Bank N.V. and ICICI Bank Limited) for which the Company had provided a corporate guarantee as security, resulting in additional leverage for the Group. The Group's leverage may continue to constrain its ability to raise incremental financing or the cost at which it could raise such financing. The agreements in respect of some of the Group's debt contain certain covenants including compliance reporting requirements and other restrictions which may limit its ability to borrow additional funds, make capital expenditure and investments, declare dividends, merge or incur additional liens. The Group may similarly need to obtain

the consent of some or all of its lenders to undertake some or all of these activities. Although the Group anticipates that it will be able to repay or refinance such debt, together with any other indebtedness when they mature, there can be no assurance that it will be able to do so.

**The Group's revenues and results of operations fluctuate depending on many factors, particularly on the timing of sales, and can vary significantly from period to period, which could adversely affect the Group's results of operation and could cause the Company's Share price to decline.**

Given the relative value of the Group's WTG products, the size and timing of sales from a major client in a particular financial period can have a material impact on revenues. The Group recognises revenues at the time of transfer of significant risks and rewards to the respective customer, which is dependent on the terms of the purchase order of the customer. Generally, the transfer of risks and rewards coincides with the delivery of all key components of the WTG's. Delay in delivery of the key components of the WTG's can prevent recognition of revenues, which could result in such WTG components being recognized as inventory.

Other key factors which affect the Group's results of operations include, *inter alia*:

- the ability to modify and upgrade the Group's WTG models based on customer needs and evolving technologies;
- changes in the Group's marketing strategy and commercial terms of sales or those of its competitors;
- the Group's ability to pass increases in cost of goods sold to customers;
- the size and timing of expansion of facilities;
- unanticipated cancellations, contract terminations or deferrals of projects; and
- unanticipated variations in the duration, size and scope of projects.

A significant part of the Group's total overhead expenses, particularly expenses related to personnel and facilities, are fixed in nature. As a result, unanticipated variations in the number and timing of orders for the Group's WTGs and gearboxes may cause significant variations in its operating results in any particular period.

There are also a number of factors, other than the Group's performance, that are not within the Group's control that could cause fluctuations in its operating results from period to period. These include:

- changes in tax and accounting regulations, including the availability and duration of tax holidays or exemptions and the availability of other incentives, including those relating to the renewable energy sources;
- changes to policies relating, to and regulatory support for renewable energy sources;
- the occurrence of natural disasters, such as floods, earthquakes, storms, cyclones and tsunamis;
- currency exchange rate fluctuations, such as when the Rupee depreciates in value against foreign currencies, which affects the cost of key components which the Group import from foreign suppliers;
- changes in law relating to the acquisition and development of land for wind power projects and to regulations relating to the construction and operation of wind power projects, as well as changes in environmental regulations;
- changes in law relating to foreign exchange management and to foreign equity ownership that could constrain the Group's ability to raise capital;
- oil, gas, coal and other fossil fuel prices which affect the effectiveness of wind power to the Group's customers; and

- the economies of India, the United States, Europe, China and other international markets, as well as other general economic factors.

Any of these factors could adversely affect the Group's business, financial condition and results of operations.

**The Group's indebtedness could adversely affect its financial condition and results of operations.**

As of 31 March 2007 the Group's indebtedness to banks and financial institutions and others totalled Rs.51,620.28 million. Since 31 March 2007, the Group has drawn down €825 million under the Acquisition Facility. The Group has entered into agreements with certain banks and financial institutions for short-term loans and long-term borrowings. Some of these agreements contain certain restrictive covenants, such as requiring lender consent *inter alia* for issuance of new shares, incurring further indebtedness, creating further encumbrances on or disposing of its assets, undertaking guarantee obligations, declaring dividends or incurring capital expenditures beyond certain limits. Some of these borrowings also contain covenants, which limit the Group's ability to make any change or alteration in its capital structure, make investments, effect any scheme of amalgamation or restructuring and enlarge or diversify its scope of business. In addition, certain of these borrowings contain financial covenants, which require the Group to maintain, amongst others, a specified net worth to debt ratio, debt service cover ratio, fixed asset coverage ratio and maintenance of security coverage. There can be no assurance that the Group will be able to comply with these financial or other covenants or that it will be able to obtain the consents necessary to take the actions it believes are necessary to operate and grow its business. A default under one debt instrument may also trigger cross-defaults under its other debt instruments. An event of default under any debt instrument, if not cured or waived, could have a material adverse effect on the Group. The Group's level of existing debt and any new debt that it incurs in the future has important consequences. For example, it could:

- increase its vulnerability to general adverse economic and industry conditions;
- limit its ability to fund future working capital, capital expenditures, research and development and other general corporate requirements;
- require it to dedicate a substantial portion of its cash flow from operations to service its debt;
- limit its flexibility to react to changes in its business and the industry in which it operates;
- place it at a competitive disadvantage to any of its competitors that have less debt;
- require it to meet additional financial covenants; and
- limit, along with other restrictive covenants, among other things, its ability to borrow additional funds.

The Group cannot provide any assurance that its business will generate cash in an amount sufficient to enable it to service its debt or to fund its other liquidity needs. In addition, it may need to refinance all or a portion of its debt on or before maturity. The Group cannot provide any assurance that it will be able to refinance any of its debt on commercially reasonable terms or at all.

**The Group is dependent on its Associate Companies in providing integrated wind energy solutions packages to customers in India; the Group does not control its Associate Companies.**

The Group's business strategy in India involves the ability to offer customers integrated solutions relating to wind power projects. This involves the acquisition and/or lease by certain of the Group's Associate Companies of land identified by the Group as suitable for wind farms, which is then sold or leased or sub-leased exclusively to its customers by these Associate Companies.

The Group's integrated solutions strategy previously involved another Associate Company, AIL, which was engaged up to 31 March 2007 in development of wind farm sites and the installation and commission of WTGs sold by the Group. These activities relating to

the development of wind farm sites and the installation and commission of WTGs are now conducted by a wholly-owned subsidiary of the Group, SISL, with effect from 1 April 2007. Further, certain of the Group's Associate Companies are involved in the development of wind farm projects and for this purpose they apply for approvals from the Indian Central Government and various State Governments to participate in the development of wind farm projects. Upon receiving the required approvals, these wind farm projects are developed by the Group and its Associate Companies.

The Group enters into agreements with certain affiliated companies, pursuant to which these companies undertake to procure land identified by the Group as suitable for wind farms and to exclusively offer such land for sale, lease or sub-lease, as appropriate to its customers, and cannot sell, lease or sub-lease such land to any other persons or entities without the Group's prior consent.

Notwithstanding these agreements, as the Group does not exercise any degree of control, whether directly or indirectly, over the business or operations of any of its Associate Companies, it can provide no assurance that these agreements will be complied with or continued. Neither can the Group provide any assurance that customers will agree to use the land acquired by its Associate Companies or engage their services. In the event an Associate Company breaches its agreement with the Group or customers chose not to enter into transactions with an Associate Company, the Group may be required to incur significant expense and undertake the acquisition of land for wind farm projects in its own name which would involve substantial capital risks and expense, especially from lawsuits by others claiming rights over land acquired, which would involve significant and direct management attention. Further, if the Group incurs higher costs than those that would have been incurred by its Associate Companies in carrying out their activities, this would increase the cost to the Group's customers of using wind farms developed by it and so adversely affect the competitiveness of the Group's wind farm projects. Any of the foregoing could materially adversely affect the Group's business in India and accordingly, the financial condition and results of operations.

**The Group has a significant number of transactions with its Associate Companies for its WTG business in India.**

As the Group's business strategy involves providing integrated wind power solutions in coordination with its Associate Companies, it has a significant number of transactions with these companies. In certain states, such as Rajasthan and Maharashtra, the Group along with its Associate Companies have applied for approvals from the relevant state nodal agency for the allocation of generating capacity and/or government land to be used for wind power projects. Further, the Group often provides financial assistance to its Associate Companies in the form of advances and has also guaranteed their obligations to banks and other financial institutions. As of 31 March 2007, loans and advances to Associate Companies totalled Rs.4,433.41 million and the Group had guaranteed Rs.3.04 million of its Associate Companies' loans. The Group is not paid any consideration for providing these guarantees. The Group also leases certain properties to Associate Companies, for which it is paid rent. Further, under the Group's agreements with them, SRL is required to be paid an annual commission of 11 per cent. and its other Associate Companies are required to be paid an annual exclusivity fee of Rs.10,000 per megawatt (for the windfarm developers) in relation to the services offered by them.

As both the Group and its Associate Companies are controlled by the Group's Promoter Group, there can be no assurance that transactions with Associate Companies will be entered into on an arm's-length basis. Further, because the Group's Promoters, along with other members of the Group's Promoter Group, are the controlling shareholder of both the Group and the Group's Associate Companies and has a conflict of interest with respect to dealings between the Group and its Associate Companies, there can be no assurance that any dispute that may arise between the Group and its Associate Companies will be resolved in the Group's favour.

**The Group is dependent on the acceptance and marketability of WTGs and gearboxes which carry a high degree of technical risk.**

The Group's future performance depends almost entirely on the acceptance and marketability of WTGs and gearboxes, and in particular, on the future success of the models which it currently manufactures or is developing. The performance of the Group's WTGs and gearboxes in the medium and long-term is subject to important technical and physical risks.

Although the product is designed for a 20-year life cycle, no definitive statements can be made about the service life of WTGs or WTG components, or about their medium to long-term operational reliability. While the direct risk from limited operational reliability and reduced life of WTGs is borne by the Group's customers, disputes between WTG manufacturers and customers based on actual or alleged product defects may take place. Further, the Group undertakes various testing processes on new models of WTG and WTG components in different operating conditions to acquire data for making decisions for series production of such new models and the WTGs and WTG components used in the course of such tests may get damaged or become unfit to be used. Based on the Group's understandings with customers to whom such new models are sold, any loss incurred in the course of such tests, is borne by the Group. Such instances could damage the reputation of the Group's products and therefore impair the marketability of its products.

Further disputes or claims may arise in relation to any performance warranties for the Group's WTGs and gearboxes that it provides to customers. If such disputes or claims do occur, defence against claims from customers, even if such claims are without merit, could be expensive and divert the Group's attention and resources from its business, and its financial condition and results of operations may be adversely affected. See "Investment Considerations – The Group faces product liability and warranty risks and may face related claims".

Further, if demand for the Group's products declines, or the marketability or life span of its products diminishes so that the products can no longer be sold on the market or can only be sold in small quantities, the Group's business, financial condition and results of operations could be adversely affected.

**The Group can provide no assurance that its new products will be commercially successful.**

The Group's growth depends on designing, developing and marketing new and more cost-efficient WTGs and gearboxes. The development of new WTG models and gearboxes require significant investments. Whether the Group's WTGs and gearboxes will be accepted by and be successful in the market and whether it will recoup the costs of developing such new WTGs and gearboxes cannot be assured. For a variety of reasons, including uncertainties in forecasting future developments in technology, the success of the Group's products cannot be predicted with any certainty. There can be no guarantee that it will succeed in introducing new products into the market in a timely manner, that the newly introduced products will be accepted in the market, or that such acceptance will continue for any period of time. Any of these factors could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group plans to invest significantly in research and development and to commit a significant investment in personnel for product development over the next few years. However, there is a risk that development of new and existing products may be delayed, may result in incurrence of higher than expected costs or may fail technologically. It cannot be assured that the Group will be able to develop more cost-efficient products or that this will lead to profits for it or that it will be able to continue to successfully develop and exploit its expertise in the future. In addition, it cannot be assured that the costs of developing new products will not be greater than future income from those products. Any of these factors could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group faces product liability and warranty risks in relation to its WTG business and may face related claims.**

As part of the Group's business model, it may provide its customers with a warranty for each WTG purchased. This warranty can consist of (a) an absolute "unit" warranty on the number of units of electricity that will be generated by the WTG, subject to grid availability although regardless of fluctuations in wind speed (this is generally only provided in the India market and is being progressively phased out) or (b) a power curve warranty pursuant to which it warrants that a WTG will produce a specified number of units of electricity at different wind speeds. For the years ended 31 March 2005, 2006 and 2007, the Group paid customers Rs.57.36 million, Rs.230.43 million and Rs.632.31 million respectively, arising from generation guarantee claims. While the Group believes it has made adequate provisions for potential claims arising from warranties, there can be no assurance that the provisions it has made or may make will be sufficient to cover these claims. In May 2007, two customers of the Group claimed Rs. 440.7 million with respect to a generation guarantee and the future

shortfall in generation. See “Business — Legal Proceedings”. With regard to customers to whom the Group has provided unit warranties, there can be no assurance that wind patterns will be such that the unit warranty will be achieved. In the event such provisions are not sufficient, the amount of claims arising from the failure of the Group’s WTGs to meet generation warranties could have a material adverse effect on the Group’s business, financial condition and results of operations.

The Group also offers O&M services for its WTGs in India and some select international markets, which includes round-the-clock monitoring and maintenance and repair of the units. The Group’s standard service package includes preventive and planned maintenance of WTGs, transformers and related structures and includes a warranty on machine availability, which typically ranges from 95 per cent. to 97 per cent. depending on the agreement reached with the customer, as well as warranties relating to the maximum allowable percentages of reactive power and transmission losses. If the machine availability warranty is not met, the Group is liable to its customers up to a certain percentage of the annual maintenance fees it receives for each WTG that did not perform as warranted. The Group also offers, for a higher fee, a comprehensive service package that includes free repair or replacement of damaged components in addition to the services offered in the standard service package. Depending on the number of WTGs that a customer has acquired and that do not perform as warranted or are damaged, the amount of claims against the Group can be significant. Although the Group’s WTGs are tested comprehensively before delivery and ongoing production is subject to quality assurance measures, there can be no assurance that defects will not arise or latent defects will not become apparent during the operation of WTGs that would entitle its customers to seek compensation based on warranties or component breakdowns. The costs related to addressing and settling claims against the Group arising from the Group’s O&M services, including costs related to repairing and replacing WTG components, could have a material adverse effect on the Group’s business, financial condition and results of operations.

In addition, the Group does not obtain insurance coverage for product warranty claims for WTGs sold in India. As such, product defect or warranty claims brought against it by its Indian customers may adversely affect its financial condition and results of operations. The Group only carries insurance coverage covering claims arising from defects in the construction, materials and manufacture, including warranty claims, only for WTGs and WTG components sold to customers outside India. In connection with product defect or warranty claims that could be brought against the Group by international customers, there can be no assurance that its insurance coverage will prove adequate.

Hansen Transmissions also provides warranties in relation to design, materials, and manufacturing defects in its products. These warranties are usually for a duration of six months to a year. While these warranties are insured, there can be no guarantee that such insurance is adequate to cover all warranty claims.

There is also a risk that product liability claims, including claims arising from manufacturing defects, could also be filed against the Group by its customers or third parties who may be harmed by defective WTGs or WTG components that the Group has sold or may sell in the future. Claims for damages brought by these third parties against the Group could be substantial and could have material adverse effects on its business, financial position and results of operations.

WTGs and WTG components supplied by the Group may get damaged where the design loads are exceeded. Insurance coverage may not be available for such damage or may not be sufficient to cover the costs incurred, in which event, there may be claims made by customers and the Group may be required to bear such claims or replace the WTG or WTG components.

Further, any WTG or WTG component malfunction or the failure of WTGs to meet specified performance levels could damage the reputation of the Group’s products and therefore impair the marketability of its products, materially adversely affecting the Group’s business and results of operations.

**The Group may be unable to seek compensation from suppliers for defective components or raw materials used in WTGs as well as for manufacturing gearboxes.**

In the event the Group becomes subject to product liability or warranty claims caused by defective components or raw materials obtained from an outside supplier, it can attempt to seek compensation from the relevant supplier. However, the Group’s agreements with



suppliers often include limitations against recovery for lost profits and indirect or consequential losses. In some cases, warranties provided by suppliers may be for shorter periods than the warranty periods the Group provides to its WTG and gearbox customers. Further, warranty claims against suppliers may be subject to certain conditions precedent. Also, the Group only carries insurance coverage covering claims arising from defective materials only for WTGs sold to customers in overseas markets. If no claim can be asserted against a supplier, or amounts that the Group claims cannot be recovered from either a supplier or from the Group's insurer, and the defective raw materials or components affects a large number of the relevant WTG or gearbox model or various WTG series using identical components or raw materials or a particular series of gearboxes, the Group's business, financial condition and results of operations could be materially adversely affected.

**The Group and its Associate Companies may not be able to secure suitable locations for wind farm projects.**

In certain markets the Group's business model requires it to identify suitable land and procure relevant regulatory approvals. The ability of the Group and Associate Companies to acquire sites that the Group has identified as suitable for wind farms either through lease agreements or purchase agreements depends on many factors, among which are whether the land is private or state-owned, whether the land is classified in a manner that allows its use for a wind farm site and the willingness of the owner or owners to sell or lease their land. In many cases the area that has been identified as a suitable site is owned by numerous small landowners. Further, in certain cases the approval of government authorities is required for the purchase or lease of land. The Group also faces competition from other WTG manufacturers and operators in the acquisition of suitable sites for wind farms. Given that the acquisition of these sites is of fundamental importance to the Group's "integrated solutions" business strategy in India and further growth of WTG business in other international markets, difficulties in acquiring new sites could have a significant impact on future project development by the Group and its Associate Companies as well as its sales. Any of these could have a material adverse effect on the Group's business, financial condition and results of operations.

In certain states in India, the Group is required to directly acquire the land on which a wind farm will be established. Further, if the Group were to acquire private land in India, this would involve it in the difficulties related thereto, such as litigation relating to ownership of and liens on land, where title records are often inaccurate, as well as negotiations with numerous land owners, with wind farm sites potentially owned by numerous small landowners, and obtaining government approvals. The Group may also become liable for environmental hazards on land that it acquires.

Each of the foregoing can be time-consuming, require the Group to incur additional costs and can involve a significant amount of attention and effort from its management and in certain cases it may not be able to acquire land at all, which would adversely impact the Group's ability to increase its international presence and provide "integrated solutions" to its customers in relevant jurisdictions. Any of the foregoing could have a material adverse effect on the Group's business, financial condition and results of operations.

**If wind patterns at sites the Group or developers have previously identified as suitable for wind farm projects change, its business, financial condition and results of its operations could be adversely affected.**

The viability of a wind power project is dependent on the supply of wind, which by its very nature is intermittent. The viability of wind farm projects at sites the Group or the developers have identified is primarily dependent on the wind patterns at these sites conforming to the patterns that were used to determine the suitability of these sites for wind farm projects. In India, although both the Indian Government and the Group conduct wind resource assessments based on long-term wind patterns at identified sites, there can be no assurance that wind patterns at a particular site will remain constant. Any changes in wind patterns at particular sites that the Group or developers have previously identified as suitable for wind farm projects could affect the Group's ability to sell WTGs to potential customers. Also, changes in wind patterns at wind farms where the Group's WTGs have been installed could give rise to warranty claims from customers whom the Group has provided an absolute "unit" warranty. Further, any change in wind patterns at sites the Group has identified as suitable for wind farms could also damage its reputation and the reputation of the wind power industry as a whole. Any of these could have a material adverse effect on the Group's business, financial condition and results of operations.

**If the Group is unable to implement its growth strategies in a timely manner, its business and results of operations could be adversely affected.**

As a part of the Group's growth strategy, it has made substantial investments in new production capacities in India, the United States, China and Belgium for the manufacture of WTGs and components such as generators, gearboxes, tubular towers and rotor blades. The Group has established an integrated WTG manufacturing facility in Tianjin, China and rotor blade manufacturing facility in Minnesota in the United States, and will be making further investment in marketing and distribution to increase penetration levels in the domestic market and acquisition of more customers in the overseas markets. The Group's success will depend on, among other things, its ability to secure required financing, assess potential markets, time capital investments, control input costs, attract new customers in India and in international markets, maintain and enhance its position with current customers both in India and internationally and maintain sufficient operational and financial controls. The Group's growth strategy may place significant demands on its management and other resources.

The Group's growth strategies involve risks and difficulties, many of which are beyond its control and accordingly there can be no assurance that it will be able to complete its plans on schedule or without incurring additional expenditures or at all. If market conditions change, if operations do not generate sufficient funds or for any other reasons, the Group may decide to delay, modify or forego some aspects of its growth strategies. The Group's future results of operations may be adversely affected if it is unable to implement growth strategies successfully.

**Expanding the Group's market outside of India could increase costs and may decrease profits.**

The Group's strategic objective of expanding manufacturing and sales of its WTGs, gearboxes and other WTG components to overseas customers carries certain significant risks. For the year ended 31 March 2007 the Group generated Rs.38,164.05 million in revenue from the sale of its WTGs, gearboxes and other WTG components in foreign markets.

Cost structures and business dynamics are different in each of the countries in which the Group operates, which may result in lower margins as compared to Indian operations. Also, the Group's international marketing experience is limited and there can be no assurance that it will be able to expand international activities as planned. The Group's business strategy of further expansion into foreign markets will require it to adapt its products and marketing strategy to foreign markets. To the extent that the Group expands through joint ventures and other cooperation arrangements, there can be no assurance that the Group will be able to negotiate attractive terms or prevail in a potential disagreement with its business partners.

The Group's expansion into foreign markets will also expose it to risks associated with different legal and taxation regimes and economic conditions in each country and to different (and potentially more onerous) legal regimes with respect to product liability and warranty requirements. The Group will also increase its exposure to risks of fluctuation in foreign currency exchange rates. As a result, the Group's strategy of expansion into markets outside India could increase its costs of operations and thereby could have an adverse effect on the Group's future prospects, financial condition and results of operations.

**Any disruption affecting the Group's manufacturing facilities could have a material adverse effect on its business, financial condition and results of operations.**

At present the Group's manufacturing facilities are predominantly located in India, the United States, China and Belgium. The manufacture of the Group's WTGs, WTG components and gearboxes involve many significant hazards that could result in fires, explosions, spills, and other unexpected or dangerous conditions or accidents. Any significant interruption to the Group's operations as a result of industrial accidents, floods, severe weather or other natural disasters could materially and adversely affect its business, financial condition and results of operations. There can be no assurance that such events or natural disasters may not occur in the future and that if they do occur, that the Group's manufacturing ability and capacity would not be materially and adversely impacted.

The Group is also subject to mechanical failure and equipment shutdowns. In such situations, undamaged manufacturing units may be dependent on or interact with damaged sections of the Group's facilities and, accordingly, are also subject to being shut down. If such

events occur, the Group's manufacturing capacity may be materially and adversely impacted. In the event the Group is forced to shut down any of its manufacturing facilities for a significant period of time, it would have a material adverse effect on the Group's earnings, other results of operations and financial condition as a whole.

The Group also requires power for its manufacturing facilities and it is currently able to provide sufficient power for its facilities. However, industrial accidents, natural disasters or other factors that may affect the Group's ability to produce or procure the necessary power to operate its manufacturing facilities. This could have a material adverse effect on the Group's business, financial condition and results of operations.

**As a manufacturing business the Group's success depends on the smooth supply of raw materials and components to its plants and transportation of its WTGs and gearboxes from its plants to its customers, which are subject to various uncertainties and risks.**

The Group depends on various forms of transport, such as air, seaborne freight, rail and road, to receive raw materials and components used in the WTG and gearbox production and to deliver its products from its manufacturing facilities to its customers. These transportation facilities may not be adequate to support the Group's operations. Further, disruptions of transportation services because of weather-related problems, strikes, lock-outs, inadequacies in the road infrastructure and port facilities, or other events could impair the ability of its suppliers to deliver raw materials and components and the Group's ability to supply its products to its customers. Finally, the Group also has limited storage facilities and may not be able to store sufficient WTG components and raw materials.

The Group's employees and third parties may also sustain injuries in the course of manufacturing, transporting or loading and unloading its WTGs and WTG components, such as rotor blades, nacelles and towers and gearboxes, which could cause delays in delivery of its products.

Although the Group has not encountered any significant disruptions in the supply of its raw materials and components and in the transportation of its products, the Group can provide no assurance that such disruptions due to occurrence of any of the factors cited above will not occur in the future.

**The Group is dependent on external suppliers for key raw materials and components.**

Wind turbines require certain components which are specifically designed for application in wind in general and further the type and configuration of the WTG in particular. Recently, WTG suppliers, including the Group, have witnessed supply shortages of certain key components such as gearboxes due to inability of the component suppliers to match the demand. In certain cases, this has also led to delay in supplying and commissioning of WTGs. While the Group manufactures key components needed for the manufacture of WTGs inhouse, it also sources from outside suppliers raw materials that it uses to manufacture WTG components, such as steel, glass fibre and epoxy resin for rotor blades, as well as several key WTG components, such as gearboxes, yaw and pitch drives and a portion of its tower and generators requirements, from suppliers in India and overseas. The quality of the Group's products and customer acceptance of the Group's products depends on the quality of raw materials and components and its ability to deliver its products in a timely manner. The failure of the Group's suppliers to deliver these raw materials or components in the necessary quantities or to adhere to delivery schedules or specified quality standards/technical specifications, could adversely affect the Group's production processes and its ability to deliver orders on time and at the desired level of quality giving rise to contractual penalties or liability, for failure to perform contracts, and a loss of customers and damage its reputation, any of which could materially adversely affect its results of operations.

Some key components, such as the gearboxes for the Group's WTGs and the rotor blades for its 0.35 MW WTG, are developed and manufactured by particular suppliers specifically approved for it. As there are very few suppliers who are able to supply the gearboxes and the 0.35 MW rotor blades, the Group believes it is not practical for it to broaden its base of suppliers to any significant extent. Also, the ability to meet the necessary quality and technical standards for these components and it would be time-consuming and costly for it to qualify other suppliers for these components. Although the Group has recently acquired Hansen Transmissions, which is a key manufacturer of gearboxes for WTGs, due to capacity constraints Hansen Transmissions will not be able to supply gearboxes to the Group until the second half of 2007. Even from the second half of 2007, gearboxes supplied by Hansen will

meet only a small percentage of the total gearbox requirements of the Group. As a result, any increase in the prices of rotor blades for the 0.35 MW WTG and gearboxes, the inability of the Group's suppliers to meet its supply needs or the failure of its suppliers to deliver these components in a timely manner may adversely affect its business, financial condition and results of operations. Also, qualifying alternative suppliers that can meet the Group's technical and quality standards, and who can supply these components in necessary quantities, would entail substantial cost and could cause delays in deliveries of its products. Any of the foregoing could have a material adverse effect on the Group's business, financial condition and results of operations.

Further, if the costs of raw materials and components were to rise due to factors such as rises in input and commodity prices or shortages in supply (as has been the case in the last few years), and the Group is not able to recover these costs through cost saving measures elsewhere or by increasing the prices of its WTGs or gearboxes, the Group's results of operations could be adversely affected. In addition, under the terms of the Group's agreements with customers, prices for its WTGs and gearboxes are generally fixed as of the date of the agreement, with limited or no mechanisms for periodic price increases. As such, should cost of raw materials or components rise, the Group can provide no assurance that it will be able to pass on any additional costs to its customers, and accordingly its results of operations could suffer. Finally, as the Group often purchases in advance raw materials and components based on its estimate of customer demand for an upcoming period, in the event prices for these raw materials and components subsequently decline there can be no assurance that it will be able to price its WTGs or gearboxes based on the raw material and component costs actually incurred, which would make its WTGs or gearboxes uncompetitive compared to those of competitors who have not locked in raw materials supplies.

#### **Hansen Transmissions has a limited number of customers, who are competitors of the Group**

Hansen Transmissions has two key customers that comprise significantly all of Hansen Transmissions' WTG gearbox sales. WTG gearbox sales comprise approximately 90 per cent. of Hansen Transmissions total sales. Both of these customers are competitors of the Group. If either of these customers substantially reduces or terminates its relationship with Hansen Transmissions, its business would be adversely affected which could have a material adverse effect on the Group's business, financial condition and results of operations.

#### **Fluctuation in the value of the Rupee against other currencies could adversely affect the cost of the Group's borrowings and repayment of indebtedness, the costs of its raw materials, revenues from exports and profitability.**

In Fiscal 2005, Fiscal 2006 and Fiscal 2007, imported raw materials and components accounted for approximately 50.16 per cent., 54.81 per cent. and 58.82 per cent., respectively, of the Company's raw material cost, respectively. A devaluation or depreciation in the value of the Rupee increases the total costs of such imports and the Group may be unable to recover these costs through cost-saving measures elsewhere or by passing on these increased costs to its customers. Similarly, the Group sources certain types of equipment from overseas, which it pays for primarily in Euros and U.S. dollars. A depreciation of the Rupee against the Euro or U.S. dollar increases the cost of such equipment in Rupee terms. The Group has not identified the amount of equipment that it will need to import for its future expansion. As the Group's international manufacturing operations expand and its exports and foreign sales increase, the Group will have US dollar and Euro revenues and expenses that will provide it with a natural hedge to a certain extent. In addition, from time to time the Group engages in currency hedging in order to decrease its foreign exchange exposure. However, there can be no assurance that a weakening of the Rupee against the Euro or U.S. dollar (and other major foreign currencies) would not have an adverse effect on the Group's cost of production.

Also, as of 31 March 2007, approximately 51.23 per cent. of the Company's total indebtedness was denominated in foreign currencies, primarily Euros and U.S. dollar. Any depreciation of the Rupee against such foreign currencies increases the Rupee value of the Group's total indebtedness and the cost of servicing such debt from its earnings, which are primarily in Rupees.

Further, the Group exports a significant amount of its products produced in India to overseas customers, generates significant revenues from such customers and receives payment from such customers in foreign currencies. As such, an appreciation of the Rupee

decreases the Rupee value of such revenues and also affects the competitive advantage the Group derives from lower costs in its Indian manufacturing facilities. The Group may also import certain hardware and software for future expansion. An adverse change in currency exchange rates will increase the cost of these imports.

**The Group may not be able to obtain or maintain adequate insurance.**

The Group's operations are subject to hazards and risks inherent in the use of chemicals and other hazardous materials in the course of its production processes, such as explosions, chemical spills, storage tank leaks, discharges or releases of hazardous substances and other environmental risks, mechanical failure of equipment at its facilities and natural disasters. In addition, many of these operating and other risks may cause personal injury and loss of life, severe damage to or destruction of the Group's properties and the properties of others and environmental pollution, and may result in suspension of operations and the imposition of civil or criminal penalties. While the Group believes that its insurance coverage is consistent with industry norms, it does not carry business interruption insurance for its operations in India. Internationally, only Hansen Transmissions carries business interruption insurance. If any or all of the Group's production facilities are damaged in whole or in part and its operations are interrupted for a sustained period, there can be no assurance that its insurance policies will be adequate to cover the losses that may be incurred as a result of such interruption or the costs of repairing or replacing the damaged facilities or any third party claims. If the Group suffers a large uninsured loss or any insured loss suffered by it significantly exceeds its insurance coverage, the Group's business, financial condition and results of operations may be adversely affected. The Group does not take insurance during the WTG erection process.

The Group does not carry any product liability insurance or insurance in relation to product defects for WTGs or WTG components sold in India.

In addition, the Group's insurance coverage is generally subject to annual renewal. In the event premium levels increase, it may not be able to obtain the same levels of coverage in the future as it currently has or it may only be able to obtain such coverage at substantially higher cost than it is currently paying. If it is unable to pass these costs to its customers, the costs of higher insurance premiums could have an adverse effect on its financial condition and results of operations. Alternatively, the Group may choose not to insure, which, in the event of any damage or destruction to its facilities or defects to its products, could have a material adverse effect on its business, financial condition and results of operations.

**The failure to keep the Group's technical knowledge confidential could erode its competitive advantage.**

Like many of the Group's competitors, it possesses extensive technical knowledge about its products. The Group's know-how is a significant independent asset, which may not be protected by intellectual property rights such as patents, but is protected only by keeping it secret. As a result, the Group cannot be certain that its know-how will remain confidential in the long run. In the case of gearboxes, Hansen Transmissions has a number of patents in respect of certain of its products, as set out in the section of this Offering Circular entitled "Business – Intellectual Property Rights and Technical Know-How". Most employees of Hansen Transmissions have a contract in which a confidentiality clause is included. The confidentiality agreement is not limited in time. In a number of cases there is also a non-competition clause foreseen in the contract that prevents the employee to join a competitor. This clause is limited in time, in some cases one year, in some other cases two years and is callable by Hansen Transmissions at the time when the employee leaves the company.

Even if every possible precaution, whether contractual or otherwise, is taken to protect confidential technical knowledge about the Group's products or its business, there is still a danger that such information may be disclosed to others or become public knowledge in circumstances beyond its control. In the event that confidential technical information or know-how about its products or its business becomes available to third parties or to the public, the Group's competitive advantage over other companies in the wind energy and gearbox industry could be harmed, which could have a material adverse effect on its current business, future prospects, financial condition and results of operations.

**Disruptions in telecommunications and basic infrastructure could harm the Group's ability to provide O&M services, which could result in client dissatisfaction and a reduction of its revenues.**

One aspect of the Group's O&M service methodology is to link, via satellite or telephone lines, its on-site CMSs, to its technical personnel located in its corporate offices in Pune, India, as well as its engineers based in the Netherlands and Germany. The Group cannot guarantee that it will be able to maintain active voice and data communications between on-site O&M centres and CMSs, on the one hand, and off-site technical and engineering personnel, on the other hand. Any significant loss in the Group's ability to communicate could affect its ability to provide O&M services to its customers. This, in turn, could lead to delay in reactivate of broken-down WTG as well as customer dissatisfaction, and have a material adverse effect on the Group's business, financial condition and results of operations.

Further, any disruption in basic infrastructure could negatively impact the Group's business since it may not be able to provide timely or adequate services to its customers. The Group does not maintain business interruption insurance for its India operations or its international operations (except Hansen Transmissions) and may not be covered for any claims or damages if the supply of power, infrastructure or telecommunications lines is disrupted, and these disruptions have occurred in India from time to time. This may result in the loss of customers and claims for damages against it, impose additional costs on it and have an adverse effect on its business, financial condition and results of operations.

**The loss of the services of the Group's Chairman and Managing Director, or of its key senior management personnel could adversely affect its business.**

The Group's success depends in part on the continued services of its Chairman and Managing Director, Mr. Tulsi Tanti, and other key members of senior management. The Group has "key man" insurance for a limited number of its Directors and senior management. If it loses the services of the Chairman and Managing Director or any of its key senior management personnel, it would be very difficult to find and integrate replacement personnel in a timely manner and could significantly impair the Group's ability to develop and implement its business strategies. This would have a material adverse effect on the Group's financial condition and results of operations.

**The Group may not be able to hire and retain sufficient numbers of qualified professional personnel that it needs because these personnel are limited in number and are in high demand.**

If the Group fails to hire and retain sufficient numbers of qualified personnel for functions such as finance, marketing and sales, engineering, research and development and operations and maintenance services, its business, operating results and financial condition could be adversely affected. The success of the Group's business will depend on its ability to identify, attract, hire, train, retain and motivate skilled personnel. Competition for qualified professional personnel is intense as these personnel are in limited supply, particularly as the wind power and gearbox industry continues to grow and mature. The Group might not be able to hire and retain sufficient numbers of such personnel to grow its business. There can be no assurance that the Group will be able to successfully attract, assimilate or retain sufficiently qualified personnel.

**In the ordinary course of its business, the Group may inadvertently infringe upon the intellectual property rights of others.**

While the Group takes care to ensure that it complies with the intellectual property rights of others, it cannot determine with certainty whether it is infringing upon any existing third-party intellectual property rights which may force it to alter its technologies, obtain licences or significantly cease some portions of its operations. The Group may also be susceptible to claims from third parties asserting infringement and other related claims. Regardless of whether such claims that the Group is infringing patents or other intellectual property rights have any merit, those claims could: (a) adversely affect its relationships with current or future customers; (b) result in costly litigation; (c) cause product shipment delays or stoppages; (d) divert management's attention and resources; (e) subject it to significant liabilities; (f) require it to enter into royalty or licencing agreements; and (g) require it to cease certain activities.

An adverse ruling arising out of any intellectual property dispute could subject the Group to significant liability for damages, prevent it from using technologies or developing products, or require it to negotiate licences to disputed rights from third parties. Although patent and intellectual property disputes in the technology area are often settled through licencing or similar arrangements, costs associated with these arrangements may be substantial and could include licence fees and ongoing royalties, which could be prohibitively expensive. Furthermore, necessary licences may not be available to the Group on satisfactory terms, if at all. Any of the foregoing could materially and adversely affect the Group's business, results of operations and financial condition.

**Compliance with, and changes in, safety, health and environmental laws and regulations may adversely affect the Group's results of operations and its financial condition.**

The Group is subject to a broad range of safety, health and environmental laws and regulations in the areas in which it operates. The Group's manufacturing facilities located in India, the United States, China and Belgium are subject to laws and government regulations of such countries on safety, health and environmental protection. The development and operation of wind farms is subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on the Group's air and water discharges, on the storage, handling, discharge and disposal of chemicals, employee exposure to hazardous substances and other aspects of its operations and products. Some of the manufacturing and O&M processes of the Group are hazardous and require stringent safety standards to be met. The Group has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, it has made and expects to continue to make capital expenditures on an ongoing basis to comply with safety, health and environmental laws and regulations. While the Group believes it is in compliance in all material respects with all applicable safety, health and environmental laws and regulations, the discharge of its raw materials that are chemical in nature or of other hazardous substances or other pollutants into the air, soil or water may nevertheless cause it to be liable to the Indian Government or the State Governments or Union Territories or any analogous liability in the United States, China or Belgium where its manufacturing facilities and wind farms are located, or to third parties. In addition, it may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

Further, the adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require that the Group make additional capital expenditures or incur additional operating expenses in order to maintain its current operations, curtail its production activities or take other actions that could have a material adverse effect on its financial condition, results of operations and cash flow, or affect its ability to provide, in coordination with its Associate Companies, integrated wind power solutions to its Indian customers. Safety, health and environmental laws and regulations in India, in particular, have been increasing in stringency and it is possible that they will become significantly more stringent in the future.

The costs of complying with these requirements could be significant. The measures the Group implements in order to comply with these new laws and regulations may not be deemed sufficient by governmental authorities and its compliance costs may significantly exceed current estimates. If it fails to meet environmental requirements, it may also be subject to administrative, civil and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against it as well as orders that could limit or halt its operations.

There can be no assurance that the Group will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters in the future, the costs of which could be material. Clean-up and remediation costs of the Group's sites and related litigation could adversely affect its cash flow, results of operations and financial condition.

### **The Company's earnings from its overseas subsidiaries may be subject to double taxation**

A part of the Company's earnings may comprise dividends received from its overseas subsidiaries. The Company may be subject to double taxation on any dividends paid by its overseas subsidiaries. Further, dividend payments will also be subject to foreign currency fluctuations. In such an event, the Group's earnings may be adversely affected.

### **The Group may face labour disruptions that would interfere with its operations.**

The Group is exposed to the risk of strikes and other industrial actions. As of 31 March 2007, the Group employed approximately 10,881 employees. Other than 122 employees at its operations and maintenance centres in Vankusawade, Dhule, Kutch, Nagda and Sangli, and those employed by Hansen Transmissions, none of its employees belong to a union. The Group believes its relationship with its employees is generally good. However, work stoppages as a result of labour issues include:

- (1) in June and July 2004, employees at its operations and maintenance centre at Vankusawade went on strike to demand revision in wages, allowance, overtime payments and changes in working conditions;
- (2) on 28 July 2006, there was a fatal accident at the Pondicherry factory. Management closed the factory for two days until completion of the funeral rights for the deceased; and
- (3) from 5 March 2007 to 8 March 2007, work at the Pondicherry factory was suspended due to an employee strike. Employees made several demands, including for an increase in salaries. Work normalised at the factory on 9 March 2007.

The Group cannot guarantee that its other employees will not unionise or that it will not experience any strike, work stoppage or other industrial action in the future. Any such event could disrupt the Group's operations, possibly for a significant period of time, result in increased wages and other benefits or otherwise have a material adverse effect on its business, financial condition or results of operation.

### **The Company's principal shareholders may have the ability to determine the outcome of any shareholder resolution.**

The Company's principal shareholders, comprising of the Promoter Group, own 69.72 per cent. of the Company's currently issued Shares as at the date of this Offering Circular. As significant shareholders, the Promoter Group may have interests that are adverse to the interests of other shareholders and/or the Group's own interests and may have the ability to determine the outcome of any shareholder resolution. Specifically, the Company's Chairman and Managing Director along with other members of the Promoter Group are the controlling shareholders of both the Company and its Associate Companies and so, with respect to dealings between the Company and its Associate Companies, has a conflict of interest and there can be no assurance that any such conflict will be resolved in the Company's favour. In addition, the Promoter Group need not consider the interests of minority shareholders in making any determinations regarding shareholder resolutions.

### **The Company may have to incur additional tax liability in relation to its current employee stock option plan.**

The Income Tax Act, 1961 (as amended by the Finance Act, 2007) provides that employee stock option plans granted to employees shall be treated as a fringe benefit to the employees and in terms thereof, the value of the fringe benefit is the difference between the exercise price and the "fair market value" of the shares on the date of exercise of options by the employees.

In terms of the current employee stock option plan of the Company, 30 per cent. and 40 per cent. of the 921,000 options granted shall vest in June 2007 and June 2008 respectively (subject to satisfaction of the listing requirements of the scheme) which may be exercised anytime thereafter. The shareholders of the Company have also approved a new employee stock option scheme allowing grants of up to 116,200 options to employees of the Company and 24,700 options to employees of its subsidiaries. As of the date of this Offering Circular no options have been granted under this new scheme.



While the fringe benefit tax is required to be borne by the employer, it is permissible under the Income Tax Act to recover the amount of fringe benefit tax that the employer is required to pay, from the respective employees. The rules for computing the “fair market value” are yet to be notified by the Central Board of Direct Taxes and as such, this liability cannot be ascertained at present. In the event that the Company is not able to recover the fringe benefit tax from its employees, the financial results of the Company may be affected.

**The Company’s transactions with its subsidiaries are subject to transfer pricing regulations. These transactions may be subject to regulatory challenges, which may subject the Company to higher taxes and adversely affect its earnings.**

The Company enters into transactions with its subsidiaries in the ordinary course of its business. The Company also extends loans to some of its wholly-owned subsidiaries. Pursuant to these transactions, it has determined transfer prices that it believes are the same as the prices that would be charged by unrelated parties dealing with each other at arm’s length. However, if the tax authorities of India or other jurisdictions were to successfully challenge these transactions or past transactions or require changes in its transfer pricing policies, the Company could be required to redetermine transfer prices and/or pay additional taxes with respect to past transactions which may result in a higher tax liability to it and as a result its earnings would be adversely affected. The Company believes that it operates in compliance with all applicable transfer pricing laws in all applicable jurisdictions. However, there can be no assurance that it will be found to be in compliance with transfer pricing laws, or that such laws will not be modified, which, as a result, may require changes to the Company’s transfer pricing policies or operating procedures. Any modification of transfer pricing laws may result in a higher overall tax liability to the Group and adversely affect its earnings and results of operations.

**The Group has significant planned capital expenditures; its capital expenditure plans may not yield the benefits intended.**

The Group’s operations require significant capital expenditure to be utilised for the purpose of setting up new manufacturing facilities, setting up of new storage facilities and expansion of its existing manufacturing and storage facilities. The capital expenditure plan for the setting up of new facilities and the expansion of existing facilities is Rs.33,100 million. The figures in the Group’s capital expenditure plans are based on management estimates and have not been appraised by any bank, financial institution or other independent organisation. In addition, the Group’s capital expenditure plans are subject to a number of variables, including possible cost overruns; construction/development delays or defects; receipt of critical governmental approvals; availability of financing on acceptable terms; and changes in management’s views of the desirability of current plans, among others. The Group may also require additional financing to expand and upgrade its existing facilities. The actual amount and timing of its future capital requirements may differ from the Group’s estimates as a result of, among other things, unforeseen delays or cost overruns, unanticipated expenses, regulatory changes, engineering design changes, weather-related delays and technological changes. Some of the equipment the Group intends to deploy is expected to be imported and must be paid for in foreign currency. Changes in foreign exchange rates adversely affecting the value of the Rupee may adversely affect the cost of some of the projects. There can be no assurance that any capacity addition or improvement at the Group’s facilities will be completed as planned or on schedule or that the Group will achieve its planned capacity, operational efficiency or product base, or its targeted return on investment. The Group cannot provide any assurance that it will be able to execute its capital expenditure plans as contemplated. If the Group experience significant delays or mishaps in the implementation of its capital expenditure plans or if there are significant cost overruns, then the overall benefit of such plans to its revenues and profitability may decline. To the extent that completed capital expenditure does not produce anticipated or desired revenue or cost-reduction outcomes, the Group’s profitability and financial condition will be adversely affected.

**The Group requires certain registrations and permits from government and regulatory authorities in the ordinary course of business and the failure to obtain them in a timely manner or at all may adversely affect its operations.**

The Group requires certain approvals, licences, registrations and permissions for operating its business, some of which have expired and for which the Group has either made or are in the process of making an application for obtaining the approval or its renewal. If the Group fails to obtain any of these approvals or licences, or renewals thereof, in a timely manner, or at all, the Group’s business may be adversely affected.

**The Group's multinational operations subject it to risks that could adversely affect its business.**

The Group has a direct presence in several countries, including China, Denmark, Belgium, the United States and Australia and intends to expand the amount of its revenues that are derived from international markets. The Group's future revenue growth depends upon the successful continued expansion of its sales, marketing, support and service teams in various countries around the world where its current or potential customers are located. This expansion will require that it establishes new offices, hire new personnel and manage offices in widely disparate locations with different economies, legal systems, languages and cultures and will require significant management attention and financial resources. Due to the global nature of its operations, the Group are affected by various factors inherent in international business activities, including:

- coordinating and managing global operations;
- political instability and related uncertainties;
- different economic and business conditions;
- difficulties in staffing and managing foreign operations, including fully understanding local business and regulatory requirements;
- difficulties is sourcing sufficient quantities of raw materials and components for its WTGs to supply customers in international markets;
- immigration and labour laws of various countries may prevent it from deploying or retaining an adequate number of employees in foreign countries;
- foreign currency exchange rate fluctuations;
- restrictions on repatriation of earnings;
- tariffs and other restrictions on trade and differing import and export licencing and other legal requirements;
- multiple and possibly overlapping tax structures;
- limited protection for intellectual property rights in some countries;
- exposure to varying legal standards;
- unexpected regulatory, economic or political changes; and
- travel restrictions.

Any of these risks could have a material adverse effect on the Group's business, financial condition and results of operations.

**RISKS RELATING TO INDIA**

**Political instability or changes in the government in India could delay the further liberalisation of the Indian economy and adversely affect economic conditions in India generally and the Group's business in particular.**

In the years ended 31 March 2006 and 2007, 91.91 per cent. and 52.21 per cent., respectively, of the Group's total sales was derived from the Indian market. The Group's business may be affected by foreign exchange rates and controls, interest rates, changes in government policy, taxation, social and civil unrest and other political, economic or other developments in or affecting India. Since 1991, successive Indian governments have pursued policies of economic liberalisation, including significantly relaxing restrictions on the private sector. Nevertheless, the roles of the Indian central and state governments in the Indian economy as producers, consumers and regulators have remained significant. A significant change in India's economic liberalisation and deregulation policies could adversely affect business and economic conditions in India generally, and the Group's business in particular, if new restrictions on the private sector are introduced or if existing restrictions are increased.

**If regional hostilities, terrorist attacks or social unrest in India increase, the Group's business could be adversely affected and the trading price of the Bonds could decrease.**

The Asian region has from time to time experienced instances of civil unrest, terrorist attacks and hostilities among neighbouring countries, including between India and Pakistan. Since May 1999, military confrontations between India and Pakistan have occurred in Kashmir. Also, since early 2003, there have been military hostilities and civil unrest in Afghanistan and Iraq. Military activity or terrorist attacks in India in the future could influence the Indian economy by creating a greater perception that investments in Indian companies involve higher degrees of risk. These hostilities and tensions could lead to political or economic instability in India and a possible adverse effect on the Indian economy, the Group's business, its future financial performance and the trading price of the Bonds.

Furthermore, India has also experienced social unrest in some parts of the country. If such tensions occur in other parts of the country, leading to overall political and economic instability, it could have an adverse effect on the Group's business, future financial performance and the trading price of the Bonds.

**Financial instability in other countries, particularly countries with emerging markets, could disrupt Indian markets and the Group's business and cause the trading price of the bonds to decrease.**

The Indian financial markets and the Indian economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. Financial turmoil in Asia, Latin America, Russia and elsewhere in the world in recent years has had limited impact on the Indian economy and India was relatively unaffected by financial and liquidity crises experienced elsewhere. Although economic conditions are different in each country, investors' reactions to developments in one country can have adverse effects on the securities of companies in other countries, including India. A loss of investor confidence in the financial systems of other emerging markets may cause volatility in Indian financial markets and, indirectly, in the Indian economy in general. Any worldwide financial instability could also have a negative impact on the Indian economy. This in turn could negatively impact on the movement of exchange rates and interest rates in India. In short, any significant financial disruption could have an adverse effect on the Group's business, future financial performance and the trading price of the Bonds.

**If inflation were to rise in India, the Group might not be able to increase the prices of its products in order to pass costs on to its customers and the Group's profits might decline.**

The annual rate of inflation, as measured by variations in the wholesale price index, on a point-to-point basis, was 5.1 per cent in the financial year 2005, 4.1 per cent in the financial year 2006 and 5.7 per cent. in the financial year 2007. In its Annual Policy Statement for 2007-2008, the RBI inflation rate forecast for financial year 2008 is 5.00 per cent. However, the rate of inflation may rise in the future and the Group may not be able to pass these costs on to its customers by increasing the price the Group charges for its products. If this occurs, the Group's profits may decline.

**Any downgrading of India's debt rating by an international rating agency could have a negative impact on the Group's business and the trading price of the Bonds.**

Any adverse revisions to India's credit ratings for domestic and international debt by international rating agencies may adversely affect the Group's ability to raise additional financing and the interest rates and other commercial terms at which such additional financing is available. This could have an adverse effect on the Group's business and future financial performance and the Group's ability to obtain financing to fund its growth, as well as the debt rating and trading price of the Bonds.

**The Group's profitability would decrease if the Indian Government reduced or withdrew tax benefits and other incentives it currently provides.**

The statutory corporate income tax rate in India is currently 30.0 per cent.. This tax rate is presently subject to a 10.0 per cent. surcharge and an education cess of 3.0 per cent., resulting in an effective tax rate of 33.99 per cent.. The Group cannot assure that the tax rate or the surcharge will not be increased further in the future. Presently, the Group benefits from the tax holidays given by the Indian Government for the establishment of manufacturing facilities in backward areas (as notified by the Indian Government). As a result of these

incentives, which include a five-year full income tax holiday and five-year partial income tax holiday from Indian corporate income taxes for the operation of certain of the Group's Indian facilities, the Group's operations have been subject to relatively low tax liabilities. The Group's income tax exemptions expire at various points of time.

The Group is also entitled to certain sales tax, excise and customs duty exemptions and concessions, for manufacture and sale of renewable energy products and the export of its products. There can be no assurance that similar or greater reductions in tax benefits would not be introduced in future. When these tax benefits expire or terminate, the Group's tax expense could materially increase, reducing its profitability.

**The Indian securities markets are more volatile than certain other securities markets.**

The Indian securities markets are more volatile than the securities markets in certain countries which are members of the Organisation for Economic Co-operation and Development. Indian stock exchanges have, in the past, experienced substantial fluctuations in the prices of listed securities.

Indian stock exchanges have experienced problems which, if such or similar problems were to continue or recur, could affect the market price and liquidity of the securities of Indian companies, including the Shares. These problems have included temporary exchange closures, broker defaults, settlement delays and strikes by brokers. In addition, the governing bodies of the Indian stock exchanges have from time to time imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. Furthermore, from time to time disputes have occurred between listed companies, stock exchanges and other regulatory bodies, which in some cases may have had a negative effect on market sentiment.

**There may be less company information available in the Indian securities markets than securities markets in developed countries.**

There is a difference between the level of regulation and monitoring of the Indian securities markets and the activities of investors, brokers and other participants than that of markets in other more developed economies. SEBI is responsible for monitoring disclosure and other regulatory standards for the Indian securities market. SEBI has issued regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in developed countries, which could adversely affect the market for the Company's Shares.

**Significant differences exist between Indian GAAP and International Accounting Standards ("IAS")/International Financial Reporting Standards ("IFRS"), which may be material to the financial information prepared and presented in accordance with Indian GAAP contained in this Offering Circular.**

As stated in the reports of the Company's statutory auditors included in this Offering Circular, the financial statements included in this Offering Circular are prepared and presented in conformity with Indian GAAP and no attempt has been made to reconcile any of the information given in this Offering Circular to any other principles or to base it on any other standards. Indian GAAP differs from accounting principles and auditing standards with which prospective investors may be familiar in other countries, such as IAS/IFRS. Significant differences exist between Indian GAAP and IAS/IFRS, which may be material to the financial information prepared and presented in accordance with Indian GAAP contained in this Offering Circular. The Company has made no attempt to quantify the effect of any of those differences. In making an investment decision, potential investors must rely upon their own examination of the Group, the Terms and Conditions of the Bonds and the financial information contained in this Offering Circular. See "Summary of Significant Differences between Indian GAAP and IAS/IFRS".

**Investors in the Bonds may not be able to enforce a judgment of a foreign court against the Company.**

The Company is a limited liability company incorporated under the laws of India. All of the Company's directors and executive officers named herein are residents of India and a

substantial portion of the assets of the Company and such persons are located in India. As a result, it may not be possible for investors to effect service of process upon the Company or such persons outside India or to enforce judgments obtained against such parties outside India. For more details see "Enforceability of Civil Liabilities".

## **RISKS RELATING TO THE BONDS AND SHARES**

### **RBI approval is required for repayment of the Bonds prior to maturity, including upon an Event of Default.**

Under the guidelines on policies and procedures for external commercial borrowings issued by the RBI, any prepayment of an external commercial borrowing prior to its stated maturity requires the prior approval of the RBI. Therefore, any repayment of the Bonds prior to maturity as a result of early redemption pursuant to Condition 8 or acceleration of the Bonds pursuant to Condition 10 would require the prior approval of the RBI. There can be no assurance that such approval would be obtained in a timely manner or at all.

### **Certain corporate actions to adjust the Conversion Price of the Bonds may require the approval of the Indian Ministry of Finance.**

The Indian Ministry of Finance, through a notification dated 31 August 2005, amended the foreign currency convertible bonds ("FCCBs") scheme (the "FCCB Scheme") and prescribed certain pricing guidelines in relation to the conversion of FCCBs. The FCCB Scheme provides, among other things, that the conversion price of FCCBs should not be lower than a "floor price" which is calculated with reference to the higher of (i) the six month average share price for the relevant company and (ii) the two week average share price for the relevant company (each such average to be determined on the day which falls 30 days prior to the date of the general meeting approving the issue of the FCCBs). The FCCB Scheme applies to the issue of the Bonds.

There can be no assurance that the potential adjustments to the Conversion Price which are provided for under the Terms and Conditions of the Bonds would be permitted by the Ministry of Finance if an adjustment resulted in the Conversion Price falling below the "floor price" referred to above. There can also be no assurance (i) as to how the Ministry of Finance will apply or interpret the FCCB Scheme or whether the restrictions set forth in the FCCB Scheme would prevent the Company from undertaking certain corporate actions; or (ii) that the Ministry of Finance will not prescribe any further pricing guidelines which would deem any adjustments by way of certain corporate actions (including declaration of dividends, issue of Shares by way of capitalisation of profits or reserves and division of outstanding Shares) to be in contravention of the FCCB Scheme.

### **There is no existing market for the Bonds and an active market for the Bonds may not develop, which may cause the price of the Bonds to fall.**

The Bonds are a new issue of securities for which there is currently no trading market. Approval in-principle has been received for the listing of the Bonds on the SGX-ST. No assurance can be given that an active trading market for the Bonds will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Bonds or the price at which holders of the Bonds will be able to sell their Bonds. In particular, Deutsche Bank will be a significant investor in the Bonds. U.S.\$200 million in principle amount of the Bonds was placed with Deutsche Bank entities. This may either restrict the liquidity of the Bonds if the position is maintained or cause the price of the Bonds to fall if the position is sold down. If an active market for the Bonds fails to develop or be sustained, the trading price of the Bonds could fall. If an active trading market were to develop, the Bonds could trade at prices that may be lower than the initial offering price of the Bonds.

Whether or not the Bonds will trade at lower prices depends on many factors, including: (i) the market for similar securities; (ii) general economic conditions; and (iii) the Group's financial condition, results of operations and future prospects.

### **Upon a Change of Control or Delisting of the Shares from the BSE or the NSE, or upon acceleration following an Event of Default, the Company may not be in a position to redeem or repay the Bonds.**

Upon a Change of Control of the Company, or a Delisting of the Shares from the BSE or the NSE, Bondholders may require the Company to redeem in whole but not in part such Bondholder's Bonds. Following acceleration of the Bonds upon an Event of Default, the

Company would be required to pay all amounts then due under the Bonds. See "Terms and Conditions of the Bonds". The Company may not be able to redeem all or any of such Bonds or pay all amounts due under the Bonds if (i) the requisite RBI regulatory approval is not received or (ii) the Company does not have sufficient cash flow to redeem or repay the Bonds.

**Fluctuations in the exchange rate between the Indian Rupee and U.S. dollar may have a material adverse effect on the value of the Bonds or the Shares, independent of the operating results of the Group.**

Investors that purchase the Bonds are required to pay for them in U.S. dollars. Investors are subject to currency fluctuation risk and convertibility risk since the Shares are quoted in Indian Rupees on the Indian Stock Exchanges on which they are listed.

The exchange rate between the Indian Rupee and the U.S. dollar has changed substantially in the last two decades and may fluctuate substantially in the future. As per the noon buying rate in the City of New York for cable transfers as reported by the Federal Reserve Bank of New York, the Indian Rupee lost approximately 8.89 per cent. of its value relative to the U.S. dollar in the three years ended 31 March 2003, depreciating from a rate of Rs.43.65 = U.S.\$1.00 on 31 March 2000, to a rate of Rs.47.53 = U.S.\$1.00 on 31 March 2003. The Indian Rupee has appreciated approximately 7.21 per cent. in value against the U.S. dollar since 31 March 2004 to an exchange rate as at 1 June 2007 of Rs.40.27 = U.S.\$1.00.

**Bondholders will bear the risk of fluctuation in the price of the Shares.**

The market price of the Bonds is expected to be affected by fluctuations in the market price of the Shares and it is impossible to predict whether the price of the Shares will rise or fall. Trading prices of the Shares will be influenced by, among other things, the financial position of and the results of operations of the Group, and political, economic, financial and other factors. Any decline in the price of the Shares may have an adverse effect on the market price of the Bonds.

**Future issues or sales of the Shares may significantly affect the trading price of the Bonds or the Shares and such issues or sales may not result in an adjustment to the conversion price provisions in the Terms and Conditions of the Bonds and the Trust Deed.**

A future issue of Shares by the Company or the disposal of Shares by any of the major shareholders of the Company, or the perception that such issues or sales may occur, may significantly affect the trading price of the Bonds or the Shares. Other than the lock-up contained in the Subscription Agreement, there is no restriction on the Company's ability to issue Shares or the ability of any of its shareholders to dispose of, encumber or pledge its Shares, and there can be no assurance that the Company will not issue Shares or that such issue will result in an adjustment to the conversion price provisions in the Terms and Conditions of the Bonds and the Trust Deed (as defined in the "Terms and Conditions of the Bonds").

**There are restrictions on daily movements in the price of the Shares, which may adversely affect a Bondholder's ability to sell, or the price at which it can sell, Shares at a particular point in time.**

The Company is subject to a daily circuit-breaker imposed by the NSE and the BSE which does not allow transactions beyond certain volatility in the price of the Shares. This circuit-breaker operates independently of the index-based market-wide circuit-breakers generally imposed by SEBI on Indian stock exchanges. The percentage limit on the Company's circuit-breaker is set by the Indian Stock Exchanges based on the historical volatility in the price and trading volume of the Shares. The Indian Stock Exchanges do not inform the Company of the percentage limit of the circuit-breaker from time to time, and may change it without the Company's knowledge. This circuit-breaker effectively limits the upward and downward movements in the price of the Shares. As a result of this circuit-breaker, there can be no assurance regarding the ability of shareholders to sell the underlying Shares or the price at which shareholders may be able to sell their Shares at a particular point in time.

**Investors in the Bonds may be subject to Indian taxes arising out of capital gains on the sale of the Shares following exercise of their Conversion Rights.**

Sale of the Shares issued on conversion of the Bonds, whether to an Indian resident or to a person resident outside India and whether in India or outside India, would be subject to tax in India. Under applicable Indian laws, a sale of shares may be chargeable to a securities

transaction tax and/or tax on income by way of capital gains in India. See "Taxation". Investors are advised to consult their own tax advisers and to consider carefully the potential tax consequences of an investment in the Bonds or Shares under the laws of India or any other applicable jurisdiction.

**The ability to sell Shares to a resident of India may be subject to certain pricing restrictions.**

A person resident outside India (including a Non-Resident Indian) is generally permitted to transfer by way of sale the shares held by him to any other person resident in India without the prior approval of the RBI or the Foreign Investment Promotion Board (the "FIPB"). However, the price at which the transfer takes place must comply with the pricing guidelines prescribed by the RBI in its circular dated 4 October 2004. The guidelines stipulate that where the shares of an Indian company are traded on a stock exchange:

- (i) the sale may be at the prevailing market price on the stock exchange if the sale is effected through a merchant banker registered with SEBI or through a stock broker registered with the stock exchange; or
- (ii) if the transfer is other than that referred to above, the price shall be arrived at by taking the average quotations (average of daily high and low) for one week preceding the date of application with a 5 per cent. variation.

**Bondholders will have no rights as shareholders until they acquire the Shares upon conversion of the Bonds.**

Unless and until the Bondholders acquire the Shares upon conversion of the Bonds, the Bondholders will have no rights with respect to the Shares, including any voting rights or rights to receive any regular dividends or other distributions with respect to the Shares. Bondholders who acquire the Shares upon the exercise of a Conversion Right (as defined in the "Terms and Conditions of the Bonds") will be entitled to exercise the rights of holders of the Shares only as to actions for which the applicable record date occurs after the Conversion Date (as defined in the "Terms and Conditions of the Bonds").

**There are limitations on the ability of Bondholders to exercise conversion rights.**

The Bonds are convertible into Shares at the option of the Bondholders pursuant to the terms of the Bonds. Bondholders will be able to exercise their conversion right only within the Conversion Period (as defined in the "Terms and Conditions of the Bonds") specified in the Bonds and will not be able to exercise their conversion right during the Closed Periods (as defined in the "Terms and Conditions of the Bonds"). As a result, Bondholders cannot convert for 41 days from the Closing Date. In addition, conversion rights may not be exercised during certain other limited periods. See "Terms and Conditions of the Bonds". As such, a Bondholder's ability to exercise Conversion Rights will be restricted during these periods.

**There may be a delay from when a holder decides to convert Bonds into Shares until the time the resulting Shares are approved to be listed and traded on the Indian Stock Exchanges and, therefore, the risk that the Share price may fluctuate during that period.**

There will be a time gap of up to 40 days from the date on which a Bondholder advises the Paying Agent and Conversion Agent of the intention to convert the Bonds into Shares and the date of allotment of the Shares to the Bondholder, being a date after the Indian Stock Exchanges have granted their final approval for the Shares to be listed and traded. Within this gap, the price of the Shares may fluctuate and this may have an adverse effect on the price that the Bondholder anticipates to receive for the transfer of Shares. Furthermore, any trade in the Shares by the Bondholder will have to be undertaken on a spot delivery basis and the trade will have to be settled within the next settlement cycle.

## MARKET PRICE INFORMATION AND OTHER INFORMATION CONCERNING THE SHARES

The Shares have been listed in India since 19 October 2005. The following table shows the high/low market prices and the total trading volume of the Shares on the NSE during the periods indicated:

<u>Calendar Period</u>	<u>Market Price for Shares</u>		<u>NSE Trading Volume</u>
	<u>High</u>	<u>Low</u>	
	Rs. per share		
<b>2005:</b>			
Fourth Quarter .....	934.40	649.60	116,747,236
<b>2006:</b>			
First Quarter .....	1,356.10	832.30	44,461,094
Second Quarter .....	1,409.50	803.75	38,231,965
Third Quarter .....	1,270.50	922.45	50,006,389
Fourth Quarter .....	1,493.55	1,228.15	39,558,878
<b>2007:</b>			
First Quarter .....	1,320.45	964.05	37,584,873
April .....	1,224.30	952.35	12,675,634
May .....	1,376.10	1,131.60	17,203,683
June (up to 5 June 2007) .....	1,353.70	1,228.50	4,520,822

Source: [www.nseindia.com](http://www.nseindia.com)

The following table shows the high/low market prices and the total trading volume of the Shares on the BSE during the periods indicated:

<u>Calendar Period</u>	<u>Market Price for Shares</u>		<u>BSE Trading Volume</u>
	<u>High</u>	<u>Low</u>	
	Rs. per share		
<b>2005:</b>			
Fourth Quarter .....	933.60	647.40	63,938,234
<b>2006:</b>			
First Quarter .....	1,354.55	831.45	21,979,075
Second Quarter .....	1,407.60	803.95	14,856,835
Third Quarter .....	1,269.90	921.85	22,552,642
Fourth Quarter .....	1,496.15	1,227.10	10,595,429
<b>2007:</b>			
First Quarter .....	1,319.85	963.40	12,482,640
April .....	1,224.85	952.10	4,146,039
May .....	1,378.45	1,131.85	6,563,463
June (up to 5 June 2007) .....	1,354.00	1,285.40	982,555

Source: [www.bseindia.com](http://www.bseindia.com)



As at 31 March 2007, there were 121,630 holders of the Shares according to the records of the Companies Registrar and Transfer Agent.

### Changes in Issued Share Capital

Date of allotment of Shares <sup>(1)</sup>	No. of Shares	Par value	Issue price	Nature of payment	Reasons for allotment	Cumulative paid-up capital	Cumulative share premium
		(Rs.)	(Rs.)			(Rs. millions)	(Rs. millions)
10 April 1995 . . . . .	700	10	10	Cash	Subscribers to the Memorandum	0.00	—
15 November 1995 . . . . .	500,000	10	10	Cash	Further Allotment	5.00	—
31 March 1996 . . . . .	560,000	10	10	Cash	Further Allotment	10.61	—
30 December 1996 . . . . .	437,100	10	10	Cash	Further Allotment	14.98	—
31 March 1997 . . . . .	535,200	10	10	Cash	Further Allotment	20.33	—
20 September 1997 . . . . .	468,000	10	10	Cash	Further Allotment	25.01	—
16 December 1997 . . . . .	57,000	10	10	Cash	Further Allotment	25.58	—
31 March 1998 . . . . .	232,000	10	10	Cash	Further Allotment	27.90	—
16 November 1998 . . . . .	405,500	10	10	Cash	Further Allotment	31.96	—
30 March 1999 . . . . .	404,600	10	10	Cash	Further Allotment	36.00	—
10 January 2000 . . . . .	1,800,050	10	Nil	Bonus	—	54.00	—
31 March 2000 . . . . .	686,800	10	10	Cash	Further Allotment	60.87	—
26 February 2002 . . . . .	6,086,950	10	Nil	Bonus	—	121.74	—
30 September 2003 . . . . .	12,173,900	10	Nil	Bonus	—	243.48	—
19 April 2004 . . . . .	2,577,320	10	194	Cash	Further Allotment	269.25	474.22
10 August 2004 . . . . .	2,049,180	10	244	Cash	Further Allotment	289.74	953.73
25 September 2004 . . . . .	57,948,600	10	Nil	Bonus	—	869.23	953.73
24 June 2005 . . . . .	173,845,800	10	Nil	Bonus	—	2,607.69	953.73
13 October 2005 . . . . .	26,762,680	10	510	Cash	IPO-Fresh Offer	2,875.32	14,335.07
10 July 2006 . . . . .	128,300	10	255	Cash	ESOP-2005	2,876.60	14,366.50
4 October 2006 . . . . .	84,000	10	255	Cash	ESOP-2005	2,877.44	14,387.08
6 November 2006 . . . . .	5,200	10	255	Cash	ESOP-2005	2,877.49	14,388.36
2 December 2006 . . . . .	15,700	10	255	Cash	ESOP-2005	2,877.65	14,392.20
10 January 2007 . . . . .	200	10	255	Cash	ESOP-2005	2,877.65	14,392.25
9 April 2007 . . . . .	600	10	255	Cash	ESOP-2005	2,877.65	14,392.40
<b>Total . . . . .</b>	<b>287,765,380</b>					<b>2,877.65</b>	

*Notes:*

(1) The changes in issued Share capital have been compiled from 10 April 1995 to 5 June 2007.

## DIVIDENDS

For the years ended 31 March 2005, 2006 and 2007, the Company declared a cash dividend of 60 per cent., 50 per cent. and 50 per cent., respectively, of the paid-up share capital. The following table sets forth the cash dividends paid (excluding dividend tax thereon) on the Shares for each of the financial years indicated:

<u>Fiscal year</u>	<u>Interim dividend per Share</u>	<u>Final dividend per Share</u>	<u>Total dividend per Share</u>	<u>Interim dividend</u>	<u>Final dividend</u>	<u>Total dividend</u>
	Rs.	Rs.	Rs.	Rs. in millions	Rs. in millions	Rs. in millions
2004-2005. . . . .	4.00	2.00	6.00	231.84	115.92	347.76
2005-2006. . . . .	2.50	2.50	5.00	718.8	718.8	1,437.6
2006-2007. . . . .	5.00	N/A	5.00	1,438.82	N/A	1,438.82

The form, frequency and amount of future dividends on the Shares will depend upon the Company's earnings, cash flow, financial condition and other factors and will be at the discretion of the Board of Directors and subject to the approval of the Company's shareholders.

The Board of Directors may declare and pay an interim dividend. No dividend may be paid except out of the profits of the Company or pursuant to Section 205 of the Companies Act. The Company's dividend policy is aimed at enabling shareholders to progressively share in the operating performance of the Company. See "Description of the Shares – Dividends".

For information relating to taxes payable on dividends, see "Taxation".

## **SEBI FLOOR PRICE**

The FCCB Scheme provides, among other things, that the conversion price of FCCBs should not be lower than a "floor price" which is calculated with reference to the higher of (i) the six month average share price for the relevant company and (ii) the two week average share price for the relevant company (each such average to be determined on the day which falls 30 days prior to the date of the general meeting approving the issue of the FCCBs).

The floor price applicable to the Bonds is Rs.1,102.99.

## **USE OF PROCEEDS**

The Company estimates that the net proceeds from the offering of the Bonds after deduction of fees, commissions and expenses will be approximately U.S.\$296,500,000.

Subject to compliance with, and as permitted under, applicable laws and regulations, including the RBI Guidelines, the Company intends to use the net proceeds of this offering for refinancing part of the Acquisition Facility.

## CAPITALISATION

Set out below are the Group's total short-term debt, total long-term debt and shareholders' funds as at 31 March 2007, adjusted to reflect the issue of the Bonds. The following table should be read in conjunction with the financial statements and schedules thereto included elsewhere in this Offering Circular. The amounts expressed in U.S. dollars do not form a part of any of the Group's financial statements and are provided solely for the convenience of the reader.

	As at March 31, 2007			
	Actual		As Adjusted	
	Rs (In Million)	US\$ <sup>(1)</sup>	Rs (In Million)	US\$ <sup>(1)</sup>
<b>Indebtedness</b>				
Total Short-Term Debt . . . . .	17,768.28	412.26	17,768.28	412.26
Total Long-Term Debt . . . . .	33,852.00	785.43	33,852.00	785.43
The bonds now being offered . . . . .	—	—	12,930.00	300.00
<b>Shareholders' Funds</b>				
Share Capital:				
Authorized Capital . . . . .				
(i) 430,000,000 Equity Shares of Rs 10 each . . . . .	4,300.00	99.77	4,300.00	99.77
(ii) 1,500,000 10 per cent redeemable cumulative preference shares of Rs 100 each . . . . .	150.00	3.48	150.00	3.48
Issued & subscribed Share Capital:				
(i) 287,764,780 Equity Shares of Rs 10 each . . . . .	2,877.65	66.77	2,877.65	66.77
Share Application Money Pending				
Allotment <sup>(3)</sup> . . . . .	0.15	0.00	0.15	0.00
Employee Stock Options . . . . .	117.11	2.72	117.11	2.72
Management Option Certificates issued by Subsidiary Company . . . . .	890.03	20.65	890.03	20.65
Reserves & Surplus . . . . .	31,225.94	724.50	31,225.94	724.50
Total Shareholders Funds . . . . .	<u>35,110.88</u>	<u>814.64</u>	<u>35,110.88</u>	<u>814.64</u>
<b>Total Capitalisation</b> <sup>(2)</sup> . . . . .	<u><u>68,962.88</u></u>	<u><u>1,600.07</u></u>	<u><u>81,892.88</u></u>	<u><u>1,900.07</u></u>

*Notes:*

- (1) Calculated using an exchange rate of Rs.43.10 to U.S.\$1.00.
- (2) Total Capitalisation consists of Total Long-Term Debt and Total Shareholders' Funds.
- (3) 600 equity shares were allotted on 9 April 2007.
- (4) Other than such adjustments and for the matters referred to in this Offering Circular including €825 million being drawn under the Acquisition Facility (for the purposes of the REpower Offer and for general corporate purposes), there has been no material change in the capitalisation of the Group since 31 March 2007.

For more information on the Company's contingent liabilities, see Schedule P Part 11 to the Company's audited financial statements included elsewhere in this Offering Circular.

## SELECTED FINANCIAL INFORMATION

The selected audited income statement data and balance sheet data for the years ended 31 March 2005, 2006 and 2007 set forth below have been derived from the Company's audited consolidated financial statements and schedules thereto for the years ended 31 March 2005, 2006 and 2007 which have been prepared in accordance with Indian GAAP as applicable at the time of their initial preparation and have been audited jointly by SNK & Co., Chartered Accountants and SR Batlibol & Co., Chartered Accountants, the Company's independent joint statutory auditors.

Indian GAAP differs in certain material respects from IAS/IFRS. For a discussion of significant differences between Indian GAAP and IAS/IFRS, see "Summary of Significant Differences between Indian GAAP and IAS/IFRS".

### Consolidated Profit & Loss Accounts

	For the Year Ended March 31,			
	2005	2006	2007 <sup>(1)</sup>	2007
	Rs.	Rs.	Rs.	U.S.\$ <sup>(2)</sup>
	(Audited) (in millions)			
<b>INCOME</b>				
Sales and service income . . . . .	19,424.82	38,410.30	79,857.30	1,852.84
Other income . . . . .	234.38	744.64	965.00	22.39
	<u>19,659.20</u>	<u>39,154.94</u>	<u>80,822.30</u>	<u>1,875.23</u>
<b>EXPENDITURE</b>				
Cost of goods sold . . . . .	11,376.78	23,278.90	48,113.65	1,116.33
Operating and other expenses . . . . .	2,737.77	5,121.39	12,031.55	279.15
Employees' remuneration and benefits . . . . .	617.79	1,215.88	6,495.90	150.72
Financial charges . . . . .	458.25	647.78	2,763.44	64.12
Depreciation . . . . .	493.25	715.90	1,717.98	39.86
Preliminary expenditure written off . . . . .	1.81	1.80	17.14	0.40
	<u>15,685.65</u>	<u>30,981.65</u>	<u>71,139.66</u>	<u>1,650.57</u>
<b>PROFIT BEFORE TAX AND MINORITY INTEREST</b> . . . . .	3,973.55	8,173.29	9,682.64	224.66
Current tax . . . . .	489.09	1,103.00	1,747.81	40.55
MAT Credit Entitlement . . . . .	—	—	(512.32)	(11.89)
Earlier years' tax . . . . .	0.63	1.70	(111.83)	(2.59)
Deferred tax . . . . .	(167.41)	(568.20)	(125.70)	(2.92)
Fringe benefit tax . . . . .	—	31.60	36.64	0.85
	<u>322.31</u>	<u>568.10</u>	<u>1,034.60</u>	<u>24.00</u>
<b>PROFIT BEFORE MINORITY INTEREST</b> . . . . .	3,651.24	7,605.19	8,648.04	200.65
<b>Add/(Less): Share of loss/(profit) of Minority</b> . . . . .	2.11	(10.20)	(7.72)	(0.18)
<b>NET PROFIT</b> . . . . .	3,653.35	7,594.99	8,640.32	200.47
Balance brought forward . . . . .	2,781.83	5,016.58	7,948.07	184.41
<b>PROFIT AVAILABLE FOR APPROPRIATIONS</b> . . . . .	6,435.18	12,611.57	16,588.39	384.88
Interim dividend on equity shares . . . . .	231.84	718.80	1,442.20	33.46
Proposed dividend on equity shares . . . . .	115.92	720.30	3.21	0.07
Dividend on preference shares . . . . .	19.62	16.60	17.00	0.39
Tax on dividends . . . . .	51.22	207.80	211.40	4.90
Transfer to general reserve . . . . .	1,000.00	3,000.00	3,284.20	76.20
	<u>1,418.60</u>	<u>4,663.50</u>	<u>4,958.01</u>	<u>115.04</u>
Balance carried to the Balance Sheet . . . . .	<u>5,016.58</u>	<u>7,948.07</u>	<u>11,630.38</u>	<u>269.85</u>
Earnings per share (in Rs.)				
Basic (Nominal Value of shares Rs.10 (Previous Year Rs.10)) . .	14.34	27.73	29.96	0.70
Diluted (Nominal Value of shares Rs.10 (Previous Year Rs.10)) .	14.34	27.68	29.91	0.69

**Note:**

- (1) The financial statements for the year ended March 31, 2007 have been adopted by the Board of Directors at their meeting dated May 14, 2007, but are subject to approval by the members of the Company at the annual general meeting.
- (2) For the convenience of the reader, Indian Rupee amounts have been translated into U.S. dollar amounts at the rate of U.S.\$1 : Rs.43.10 for the year ended 31 March 2007, being the noon buying rate in New York City for cable transfers in Indian Rupee, as certified for custom purposes by the Federal Reserve Bank of New York, on 31 March 2007.

## Consolidated Balance Sheets

	As at March 31,			
	2005	2006	2007 <sup>(1)</sup>	2007
	Rs.	Rs.	Rs.	U.S.\$ <sup>(2)</sup>
	(Audited) (in millions)			
<b>SOURCES OF FUNDS</b>				
<b>Shareholders' Funds</b>				
Share Capital	2,019.23	3,025.31	2,877.65	66.77
Share Application Money Pending Allotment	0.50	1.87	0.15	—
Employee Stock Options	—	103.64	117.11	2.72
Management Option Certificates issued by Subsidiary Company	—	—	890.03	20.65
Reserves and Surplus	7,023.59	24,217.12	31,225.94	724.50
	<u>9,043.32</u>	<u>27,347.94</u>	<u>35,110.88</u>	<u>814.64</u>
<b>Preference Shares Issued by Subsidiary Company</b>	2.97	25.00	25.00	0.58
<b>Minority Interest</b>	64.48	74.69	141.12	3.27
<b>Loan Funds</b>				
Secured Loans	3,567.18	3,899.05	19,844.25	460.42
Unsecured Loans	390.93	608.10	31,776.03	737.27
	<u>3,958.11</u>	<u>4,507.15</u>	<u>51,620.38</u>	<u>1,197.69</u>
Deferred Tax Liability (Net)	—	—	176.78	4.10
	<u>13,068.88</u>	<u>31,954.78</u>	<u>87,074.06</u>	<u>2,020.28</u>
<b>APPLICATION OF FUNDS</b>				
<b>Fixed Assets</b>				
Gross Block	3,596.88	6,288.52	43,210.76	1,002.57
Less - Accumulated Depreciation	807.68	1,531.45	7,015.82	162.78
Net Block	2,789.20	4,757.07	36,194.94	839.79
Capital work in progress	289.40	1,651.60	4,498.17	104.37
	<u>3,078.60</u>	<u>6,408.67</u>	<u>40,693.11</u>	<u>944.16</u>
<b>Preoperative Expenses, pending allocation</b>	—	16.66	38.64	0.90
<b>Investments</b>	77.62	76.10	155.66	3.61
<b>Deferred Tax Asset (Net)</b>	241.06	817.59	—	—
<b>Current Assets, Loans and Advances</b>				
Inventories	5,755.68	13,801.99	31,362.98	727.68
Sundry Debtors	6,928.89	16,473.10	25,704.02	596.38
Cash and Bank Balances	1,544.64	5,514.82	15,382.95	356.91
Loans and Advances	3,247.31	5,897.22	12,075.50	280.17
	<u>17,476.52</u>	<u>41,687.13</u>	<u>84,525.45</u>	<u>1,961.15</u>
<b>Less: Current Liabilities and Provisions</b>				
Current Liabilities	5,979.97	12,977.04	33,340.00	773.55
Provisions	1,829.03	4,082.82	4,998.80	115.98
	<u>7,809.00</u>	<u>17,059.86</u>	<u>38,338.80</u>	<u>889.53</u>
<b>Net Current Assets</b>	9,667.52	24,627.27	46,186.65	1,071.62
<b>Miscellaneous Expenditure</b>	4.09	8.49	—	—
<i>(To the extent not written off or adjusted)</i>				
	<u>13,068.88</u>	<u>31,954.78</u>	<u>87,074.06</u>	<u>2,020.28</u>

### Note:

- (1) The financial statements for the year ended March 31, 2007 have been adopted by the Board of Directors at their meeting dated May 14, 2007, but are subject to approval by the members of the Company at the annual general meeting.
- (2) For the convenience of the reader, Indian Rupee amounts have been translated into U.S. dollar amounts at the rate of U.S.\$1 : Rs.43.10 for the year ended 31 March 2007, being the noon buying rate in New York City for cable transfers in Indian Rupee, as certified for custom purposes by the Federal Reserve Bank of New York, on 31 March 2007.

## EXCHANGE RATES

The following table sets forth, for the periods indicated, certain information reported by the Federal Reserve Bank of New York concerning the exchange rates between Indian Rupees and U.S. dollars since 1998 based on the noon buying rate in New York City on the last business day of each month during the period for cable transfers in Indian Rupees. The column entitled "Average" in the table below is the average of the daily noon buying rate on the last business day of each month during the year and the average of the daily noon buying rate on each business day during the quarter or the month.

In early July 1991, the Indian Government adjusted the Indian Rupee downward by an aggregate of approximately 20.0 per cent. against the U.S. dollar as part of an economic policy designed to overcome an external payment crisis. In 1994, the Indian Rupee was permitted to float fully for the first time. Between 1980 and 2002, the Indian Rupee declined on an average annual basis against the U.S. dollar. Recently, however, the Indian Rupee has appreciated against the U.S. dollar. The exchange rate as at 5 June 2007 was Rs.40.280 to U.S.\$1.00.

Calendar Period	Indian Rupees per U.S.\$1.00			
	Average	High	Low	Period End Mid Rate
1998	41.36	43.60	38.41	42.52
1999	43.13	43.73	42.43	43.51
2000	45.00	46.95	43.55	46.75
2001	47.22	48.91	46.39	48.27
2002	48.63	49.07	47.96	48.00
2003				
First Quarter	47.80	48.10	47.53	47.53
Second Quarter	47.07	47.46	46.40	46.40
Third Quarter	46.01	46.49	45.72	45.78
Fourth Quarter	45.51	45.95	45.29	45.55
2004				
First Quarter	45.22	45.68	43.40	43.40
Second Quarter	44.85	46.21	43.40	45.99
Third Quarter	46.15	46.45	45.66	45.91
Fourth Quarter	44.82	45.87	43.27	43.27
2005				
First Quarter	43.59	43.82	43.28	43.62
Second Quarter	43.53	43.72	43.21	43.51
Third Quarter	43.61	44.00	43.05	43.94
Fourth Quarter	45.32	46.26	44.00	44.95
2006				
First Quarter	44.26	44.92	43.89	44.48
Second Quarter	45.32	46.25	44.39	45.87
Third Quarter	46.28	46.83	45.74	45.95
Fourth Quarter	44.86	45.97	44.11	44.11
2007				
First Quarter	44.00	44.49	42.78	43.10
April	42.02	43.05	40.56	41.04
May	40.57	41.04	40.14	40.36
June (up to 5 June 2007)	40.35	40.50	40.27	40.28

Source: Federal Reserve Bank of New York



## THE MARKET FOR WIND ENERGY PRODUCTS

*Unless otherwise indicated, the information in this section has been derived from various Indian Government publications, as well as private publications and industry reports prepared by BTM<sup>1</sup>, GWEC<sup>2</sup> and various trade associations, and has not been prepared or independently verified by the Company, or the Lead Manager or any of their respective affiliates or advisers. The information may not be consistent with other information compiled within or outside India. Newly installed capacity refers to the MW capacity installed during a particular year. Unless otherwise specified, accumulated installed capacity refers to the total MW capacity installed taking into account the effect of decommissioning.*

### Electricity Demand

#### **Global Electricity Demand**

The International Energy Agency ("IEA") in its World Energy Outlook 2006, estimates that the world electricity demand is projected to double by 2030. Globally, the power sector is required to add an estimated 5,087 GW of capacity to meet the projected increase in electricity demand and to replace ageing infrastructure. The IEA has estimated that this would require cumulative investment of approximately U.S.\$20 trillion between 2005 and 2030 and more than half of this energy investment will be required by developing countries alone. The IEA also expects that the predominant use of fossil fuels (such as coal, oil and natural gas), for energy production will continue in the future. Nuclear power's contribution is expected to decline and the use of renewable energy sources, such as hydroelectricity, wind power, biomass and solar, is expected to increase. The IEA also estimates that the wind power share of total electricity generation will grow from 0.5 per cent. now to 3.4 per cent. in 2030 and will be the second-largest renewable source of electricity after hydroelectricity.

#### **Indian Electricity Demand**

Historically, the power industry in India has been characterised by energy shortages. According to the Central Electricity Authority, India, (the "CEA") in Fiscal 2007, demand for electricity exceeded supply by an estimated 9.6 per cent. (8.4 per cent. in Fiscal 2006) in terms of total requirements and 13.8 per cent. (12.3 per cent. in Fiscal 2006) in terms of peak demand requirements. Although power generation capacity has increased substantially in recent years, it has not kept pace with the growth in demand or the growth of the economy generally.

According to the Ministry of Power, Government of India, as of 31 March 2007, India's power system had an installed generation capacity of approximately 132,329.21MW. Of the installed capacity, thermal power plants powered by coal, gas, naphtha or oil accounted for approximately 65 per cent. of total power capacity. Hydroelectric stations accounted for approximately 26.2 per cent., nuclear stations accounted for approximately 3.0 per cent. and renewable energy sources accounted for approximately 5.86 per cent. The Indian Government in its mission "Power for all by 2012", estimated that Indian installed generation capacity should be 200,000 MW by the end of its "Eleventh Five Year Plan" in 2012 compared to 132,329.21 as of 31 March 2007.

With increasing urbanisation, industrial growth and per capita consumption, the gap between the actual demand and supply is likely to increase. Some latent demand for electricity may also surface in the event of wider distribution and increased reliability in power supply. In this scenario, the Indian Government expects that alternative sources of energy, such as wind energy and biomass, are likely to play an increasingly important role in bridging the demand supply gap.

1 BTM describes itself as an independent consulting firm focusing on renewable energy sources and was formed in 1986 with its registered office in Denmark. In 1996, BTM began producing an annual survey of the wind energy market. BTM states that the sources of its market data include relevant professional energy sector journals and estimates by consultants, employees of wind turbine manufacturing companies and governmental institutions. The figures used in this Offering Circular are based on a market study published by BTM in March 2007 relating to calendar year 2006 (the "BTM 2007 Report").

2 GWEC is the Global Wind Energy Council. The figures which are sourced from GWEC in this Offering Circular are based on a Global Wind 2006 Report published by GWEC (the "GWEC 2006 Report").

## Wind Energy Demand

### Global Wind Energy Demand

According to the GWEC 2006 Report, the global wind energy industry is valued at U.S.\$23 billion as at the end of 2006. Technological advances have resulted in larger and better quality WTGs with higher generation efficiencies. The Group believes that heightened environmental awareness has also resulted in increased demand for "green power" in developed countries. In 2006, global wind energy exceeded industry expectations with installations of 15,016 MW. The cumulative installed capacity of wind power has increased to 74,306 MW at the end of 2006 (source: BTM 2007 Report).

The following table illustrates the growth in the global wind power industry:

Calendar Year	2001	2002	2003	2004	2005	2006
Newly installed capacity (MW) . . .	6,824	7,227	8,344	8,154	11,542	15,016
Accumulated installed capacity by year end (MW) . . . . .	24,927	32,037	40,301	47,912	59,399	74,306

(source: BTM 2007 Report).

### Geographic demand for Wind Power Globally

The following table illustrates the geographic growth in installed capacity in the three years ending 31 December 2006 and the cumulative installed MW capacity by country and region for the top ten markets:

Country/Region	Cumulative installed MW at end of 2003	2004	2005	2006	Cumulative installed MW at end of 2006	Percentage of global market share
Germany . . . . .	14,612	2,054	1,808	2,233	20,652	27.8
USA . . . . .	6,361	389	2,431	2,454	11,635	15.7
Spain . . . . .	6,420	2,064	1,764	1,587	11,614	15.6
India . . . . .	2,125	875	1,388	1,840	6,228	8.4
Denmark . . . . .	3,076	7	22	14	3,101	4.2
China . . . . .	571	198	498	1,334	2,588	3.5
Italy . . . . .	922	357	452	417	2,118	2.9
UK . . . . .	759	253	447	631	1,967	2.6
Portugal . . . . .	311	274	502	629	1,716	2.3
France . . . . .	274	138	389	810	1,585	2.1

(source: BTM 2007 Report).

According to the BTM 2007 Report, wind power as a percentage of global electricity supply reached 0.82 per cent. by the end of 2006. In Denmark, wind power contributed approximately 20 per cent. to the country's electricity supply, while Germany and Spain derive approximately 7.0 per cent. and 8.0 per cent., respectively, of their electricity requirements from wind. The German government has a long-term target of producing 25 per cent. of the country's electricity from wind energy by 2025. According to the EWEA, the north German state of Schleswig-Holstein has 1,800 MW of installed wind capacity, enough to meet 30.0 per cent. of the region's total electricity demand, while in Navarra, in Spain, 50.0 per cent. of the region's consumption is met by wind power.

As per the BTM 2007 Report, the ten largest markets in global wind power installations accounted for 84.7 per cent. of the new installations in 2006. The main growth countries in Europe, including Italy, France, Portugal and the United Kingdom, and Asian countries

including India and China, all experienced strong growth in annual WTG installations in 2006. In addition, the number of countries with wind power installations grew to over 70 countries by the end of 2006. Large multinationals such as General Electric and Siemens have entered the wind power market through the acquisition of existing wind turbine manufacturers.

### **Indian Wind Energy Demand**

The annual increase in newly installed MW capacity and the cumulative installed MW capacity in India for the past four years are as follows:

	2003	2004	2005	2006
Newly installed Capacity (MW) . . . . .	423	875	1,388	1,840
Year-on-year Growth in new installations (percentage) . . . . .	92	107	59	33
Cumulative installed capacity by year end (MW) . . . . .	2,125	3,000	4,388	6,228
Year-on-year Growth in cumulative capacity (percentage) . . . . .	25	41	46	42

*(source: BTM 2007 Report).*

### **Key Growth Drivers**

The Company believes that the market for wind power has become significant due to the following factors:

**Increasing Electricity Demand:** In World Energy Outlook 2006, the IEA estimates the global electricity consumption to double between 2004 and 2030, with demand for electricity likely to increase at a much faster pace in developing countries like India and China. The IEA also estimates the share of wind power's share of total electricity generation to grow from 0.5 per cent. now to 3.4 per cent. in 2030 and that it will be the second-largest renewable source of electricity after hydroelectricity.

**Increasing cost competitiveness:** The continuous focus on improving the cost efficiency of WTGs has resulted in wind power becoming increasingly cost competitive compared to traditional sources of energy. The American Wind Energy Association ("AWEA"), in its report dated 22 December 2000 estimated that the cost per kWh of wind generated electricity has fallen from U.S.\$0.38 in the early 1980s to anywhere from U.S.\$0.03 to U.S.\$0.06, at some wind sites. Some of the factors that have contributed and are expected to continue to contribute to reduced costs are increasing focus on larger projects, technological advancements resulting in WTGs with higher capacity, economies of scale resulting from increase in the size of WTG manufacturers and the ability to obtain financing for wind power projects.

**Environmental awareness and government initiatives:** Generating electricity from fossil fuel energy sources releases carbon dioxide which contributes to global warming. As such, many countries, such as India, the United Kingdom, the United States and Germany, have provided fiscal incentives and schemes to encourage the growth of renewables. These incentives and schemes range from preferential tariffs or tax credits for renewable energy projects to taxing those who contribute to emission of carbon dioxide.

In order to combat the greenhouse effect at a global level, the Kyoto Climate Summit was held in 1997 to further implement the commitments agreed upon at the Rio Earth Summit in Rio de Janeiro, Brazil. According to the Kyoto Protocol, which became effective in February 2005, the participating countries have agreed to a long-term reduction of their carbon-dioxide emissions by an average of 5.2 per cent. per annum compared to the level of emissions for 1990, by 2012. The greenhouse gas reduction targets have cascaded down to a regional and national level. These in turn have been translated into targets for increasing the proportion of renewable energy. Countries such as Australia, certain states in India and 21 states in the United States, have introduced the "Renewable Portfolio Standard" which mandates that renewable energy sources contribute a specified minimum percentage of total electricity supply. In Australia, the existing "Mandatory Renewable Target" requires that renewable energy make up a further 2 per cent. of total power generated by 2010. China has also introduced its "Renewable Energy Law" with effect from January 2006. Further, the system of carbon trading has also been initiated in countries in European Union and countries such as

Japan. Carbon trading refers to a system wherein emitters of carbon dioxide and other harmful gases are required to purchase green certificates from clean energy producers including renewable energy producers. Trading in green certificates may also provide an additional stream of revenue for wind power projects.

**Repowering:** Repowering involves the replacement of old WTGs with new and more cost efficient WTGs. It is expected to become one of the growth drivers in relation to the future market for wind power, particularly for countries in Europe that have a large number of ageing WTG installations with relatively low capacity and outmoded technology.

**Offshore Market:** The offshore WTG market presents a new opportunity for wind power, especially in Europe. Several offshore projects have commenced operations, with Denmark accounting for a majority of them. The cumulative offshore installed capacity stood at 877 MW at the end of 2006. With the introduction of larger WTGs targeted at the offshore market, significant developments are expected in the offshore market in the future.

## Market Potential

### *Global Wind Energy Market Potential*

Wind power installations are heavily concentrated in Europe, the United States, India and China, which accounted for about 93 per cent. of cumulative installed capacity, as of 2006 and Europe continues to account for over 65 per cent. of the cumulative installed capacity in 2006. As per the BTM 2007 Report, the cumulative installed capacity for wind power is expected to grow from 74,306 MW in 2006 to 203,151 MW by 2011, representing an average growth rate for cumulative installation up to 2011 of 22.3 per cent. per annum, and to 455,852 MW by 2016. The BTM 2007 Report estimates that the penetration of wind power in worldwide generation of electricity will increase from 0.82 per cent. in 2006 to 4.04 per cent. in 2016.

The BTM 2007 Report estimates that Europe's share in cumulative installations will decline to 53 per cent. by 2011 from 65% in 2006, with the share of the Americas (including the United States) expected to increase from 18 per cent. in 2006 to 23 per cent. in 2011. OECD Pacific countries such as Australia, New Zealand, Japan and South Korea are estimated to increase their share of the cumulative installed capacity from 3.5 per cent. in 2006 to 4.0 per cent. in 2011. South Asia and East Asia are expected to have significant growth rates in the next five years, particularly due to countries like India and China. Its share of the cumulative installations is expected to increase from 12 per cent. in 2006 to 18 per cent. in 2011. The following table sets forth the forecast for wind power development from 2007 to 2011 for certain key markets:

Markets	Cumulative installed capacity as of end 2006	Forecasted installed capacity between 2007-11	Cumulative installed capacity by end of 2011
	(MW)	(MW)	(MW)
Germany.....	20,652	9,300	29,952
Spain.....	11,614	9,500	21,114
United States.....	11,635	22,400	34,035
India.....	6,228	11,800	18,028
China.....	2,588	14,800	17,388
UK.....	1,967	8,900	10,867
France.....	1,585	7,200	8,785
Canada.....	1,459	7,050	8,509
Italy.....	2,118	4,800	6,918
Portugal.....	1,716	3,800	5,516

(source: BTM 2007 Report).

## Indian Wind Energy Market

The wind energy market in India has been growing steadily over the last 3-4 years. According to the BTM 2007 Report, in 2006 India was the third largest country in the world in terms of annual installations of 1,840 MW. India has surpassed Spain in terms of annual capacity and Denmark in terms of cumulative capacity. The BTM 2007 Report estimates that cumulative installed MW capacity for wind power in India will grow from 6,228 MW in 2006 to 18,028 MW in 2011, representing a CAGR of 24 per cent. The Indian Government, through MNRE, continues to encourage state governments to implement national policy guidelines set for wind power projects. Several new initiatives are being undertaken by the MNRE to reassess India's gross wind power potential.

### Comparison of wind energy sector with other renewable energy sources\*

Technology	Potential in India	Cost/MW (Rs crore)	Plausible capacity utilisation factor (percentage)	Levelised cost per kWh (Rs/kWh)
Wind Energy .....	45,000 MW	4.5-5.25	22-32	2.5-3.7
Small Hydro .....	15,000 MW	3.5-6.25	30-45	1.8-3.4
Biomass .....	3,500 MW	3.5-4.0	60-80	2.2-3.2
MSW/IW to Energy .....	1,700 MW	5.0-12.0	60-80	2.5-3.5
Solar thermal.....	20 MW/sq.km.	10-12	14-24	8-10

\* The data in this table has been taken from the following sources:

- Tariff Orders on wind energy by Andhra Pradesh Electricity Regulatory Commission, Maharashtra Electricity Regulatory Commission, Madhya Pradesh Electricity Regulatory Commission and Karnataka Electricity Regulatory Commission.
- Tariff Order on biomass energy by Andhra Pradesh Electricity Regulatory Commission and Maharashtra Electricity Regulatory Commission.
- Tariff Order on municipal solid waste to energy project by Maharashtra Electricity Regulatory Commission.
- Tariff Order on small hydro project by Karnataka Electricity Regulatory Commission.
- Assesment for Parabolic Tough and Power Tower solar technology cost and performance forecasts, National Renewable Energy laboratory.

## Renewable Energy Policies

Based on the various stages of their development, different regions/countries have used different policy instruments to promote renewables in general, and wind energy in particular. Specific emphasis has been placed on the following:

- Feed-in tariffs or fixed tariff regimes;
- Renewable Portfolio Standards (RPS)/Renewable Energy Credits (RECs);
- Tendering schemes; and
- Other incentive mechanisms: production & investment tax credits; rebates; low interest loans & loan guarantees; and, production payments.

The policy instruments adopted by identified countries are briefly summarised in the table below:

**Policy Instruments used by different countries**

<b>Renewable Energy Technologies/ Countries</b>	<b>Feed-in tariffs</b>	<b>RPS and Renewable Obligation</b>	<b>Green Certificates</b>	<b>Production/ Investment Tax Credits</b>	<b>Subsidies/ rebates</b>	<b>Fiscal Measures</b>
Germany & Spain .	●				●	●
UK . . . . .		●	●			●
US & Canada . . . . .		●	●	●		●
China . . . . .					●	●
Australia & Japan .		●	●			

**A. Feed-In Tariffs/Fixed Tariff**

Feed in tariff or Fixed tariff policies provide a minimum guaranteed price per unit of electricity produced as approved by the regulator, to be paid to the producer, or as a premium in addition to market electricity prices. Regulatory measures are usually applied to impose an obligation on electricity utilities to pay the renewable energy power producer a price as specified by the government. The level of the tariff is commonly set for a number of years to give investors security on income for a substantial part of the project lifetime. Many different adaptations of the instrument are applied. The level of the tariff need not have any direct relation with either cost or price, but can be chosen at a level to motivate investors for green power production. Major countries following Feed-in tariff/Fixed tariff regimes include Germany and Spain.

**B. Quotas/ Renewable Portfolio Standards (RPS)/Renewable Energy Credits (REC)**

While pricing laws establish the price and let the market determine capacity and generation, quotas (or mandated targets) work in reverse – the government sets a target and lets the market determine the price. However, in practice RPS/REC regimes can be present in combination with fixed tariff regimes. Typically governments/regulators mandate a minimum share of capacity or generation of electricity, or a share of fuel, to come from renewable sources. The share required often increases gradually over time, with a specific final target and end-date. The mandate can be placed on producers or distributors. Over 30 countries have mandated certain percentages including the European Union, China and Australia. More than 11 states in India have also enacted RPS regulations.

**C. Tendering Schemes**

Under tendering systems, regulators specify an amount of capacity or share of total electricity to be achieved, and the maximum price per kWh. Project developers then submit price bids for contracts. Major countries following tendering schemes include Ireland, France and China.

**D. Other Incentive Instruments**

Apart from the dominant renewable energy policy instruments discussed above, some of the other complementary initiatives on the part of the government, primarily to support development of renewable energy technologies are fiscal measures such as investment tax credit, production tax credit, low interest loans, loan guarantees and investment subsidies. Major countries following production tax credit & investment tax credits schemes include: US, Canada (production tax credit schemes); and, India (investment tax credit scheme).

**E. Policy & Regulatory Set-up in India**

Various Indian state commissions (those states having wind resource potential) have mandated a certain percentage of procurement from renewable energy, and have also set tariffs for procurement of the same by various distribution companies in the state, as follows:

## Wind tariffs\*in windy states of India<sup>1</sup>

State	RPS % specified	Tariff fixed by commissions in INR per kWh	Period of PPA (years)	Charges for captive users	Cross subsidy surcharge for sell to third party
Tamil Nadu . . . . .	10%	2.90 (fixed)	20	10% (includes 5% for banking if applicable)	Applicable
Maharashtra . . . . .	3-6%	3.50 + escalation of 0.15 on an annual basis	13	20%-30%	Not applicable
Karnataka . . . . .	Under review (as of date it was 5-10%)	3.40 (fixed)	10	9.5 %	Applicable
Andhra Pradesh . . . . .	5%	3.37 (fixed)	5	Under review	Applicable
Gujarat . . . . .	2%	3.37 (fixed)	20	4%	Applicable
Rajasthan . . . . .	7.5%	3.59 + escalation of 0.02 for the first 12 years + escalation of 0.01 for the balance 8 years	20	10%	Not applicable
Madhya Pradesh (under review) . . . . .	0.5%	3.97 reducing at 0.17 per year till the 4th year; subsequently fixed at 3.30 till the 20th year	20	2%	Not specified
Kerala . . . . .	3%	3.14 (fixed)	20	5%	Applicable
West Bengal . . . . .	3.8%	4.00 (fixed, to be used as a cap)	Flexible	2%	Applicable
Haryana . . . . .	3-10%	4.08 (with 1.5% escalation per year)	Flexible	2%	Applicable

1 The parameters shown in the table are based on the relevant tariff orders/regulations passed by different regulatory commissions for specific states. It has to be understood that the charges for captive users & sell to third party (other consumers), along with cross subsidy surcharge are at times independent of the tariff orders/regulations passed by the commission for specific technology. In this regard, the rates for captive/third party sales may change from year to year as fixed or arrived by the commission, or may be fixed (if specified in the contract of the wind energy generator), and apply as the case may be.

\* Tariffs and regulations are fixed by electricity regulatory commissions, and are subjected to review based on the situation and changes in respective states

## BUSINESS

### Overview

The Group is Asia's leading manufacturer of WTGs and was ranked fifth in the world in terms of annual installations with market share of 7.7 per cent. for the year ended 31 December 2006 (*Source: BTM 2007 Report*). The Group is the leading provider of integrated WTG solutions in India and has expanded its operations in the international markets with a presence in Australia, Brazil, China, Italy, Portugal, South Korea and the United States. The Group's accumulated WTG sales were 2,091 MW and 3,547 MW up to 31 March 2006 and 31 March 2007, respectively. India, with 954.60 MW, and the international markets, with 501.65 MW, accounted for 65.55 per cent. and 34.45 per cent. of the Group's WTG sales (by volume) in the year ended 31 March 2007. In May 2006, the Group acquired Hansen Transmissions, the second largest gearbox and drive train manufacturer for WTGs worldwide. With the acquisition of Hansen Transmissions, the Group has entered into a new line of business, namely the manufacture and sale of gearboxes used in the wind industry and for other industrial uses. For the period from May 2006 to March 2007, Hansen Transmissions and its subsidiaries generated a turnover of €318.20 million (Rs.18,560.74 million) and earnings before interest depreciation and taxes of €49.94 million (Rs. 2,912.81 million). See "— Hansen Transmissions" for a more detailed description of the business of Hansen Transmissions.

The Company recently announced that it had been successful in its bid for REpower. In aggregate, the Group now controls, either directly or through voting pool agreements, approximately 87 per cent. of the votes in REpower. REpower is currently one of the leading turbine producers in the German wind energy sector. See "Recent Developments and Prospects — Acquisition of REpower Systems AG" for further details on the REpower acquisition and the business of REpower.

The Group develops and manufactures technologically advanced WTGs with an emphasis on high performance and cost-efficiency. The Group's current product range includes 0.35 MW, 0.60 MW, 1.25 MW, 1.50 MW and 2.10 MW WTGs and it is among the first Asia-based companies to manufacture WTGs with MW and multi-MW capabilities. The Group considers itself to be an integrated developer of WTGs, focused on: the design, engineering and development of WTGs and components, the development and in-house manufacture of rotor blades for its MW and multi-MW WTGs, tubular towers, control panels, nacelle covers and generators. The Group also has established supply sources for the components that it does not manufacture in-house for its WTGs, such as rotor blades for its 0.35 MW WTGs, gearboxes, casting parts and a portion of its nacelle cover, tower, and generator requirements. Raw materials for WTG rotor blades, such as glass fibre, epoxy resin and foam are also sourced from leading suppliers. The Group is in the process of integrating the operations of Hansen Transmissions and plans to source part of its gearbox requirements from Hansen Transmissions from the second quarter of Fiscal 2008. The Group is also in the process of setting up facilities to manufacture forging and foundry components that are required for the manufacture of WTGs and its components. These facilities are expected to be operational in the next twelve months.

The Group conducts research and development activities primarily through its subsidiaries, SEG, Suzlon Windkraft GmbH and AERT. These subsidiaries focus on designing and developing new WTG models, upgrading the Group's current models and developing efficient and effective rotor blade technology for its WTGs. Further, the Group also conducts R&D in gearboxes through Hansen Transmissions. The Group usually gets its design, manufacture, operations and maintenance services certified as ISO 9001:2000 by Det Norske Veritas. The Group's WTG models are generally validated with type certification by either Germanischer Lloyd or CWET, an autonomous body attached to the MNRE.

With respect to the Indian market, the Group together with its Associate Companies has positioned itself as an integrated solution provider of services related to wind energy. Besides manufacturing WTGs, the Group is involved in wind resource mapping, identification of suitable sites and technical planning of wind power projects. The Group also provides after-sale O&M services through SISL for WTGs it supplies in India. The Group's Associate Companies, including SRL, acquire sites that have been identified by the Group as suitable for wind energy projects, which are then sold or leased to its customers.



With respect to the international markets, the Group primarily operates as a manufacturer and supplier of WTGs. It also assists its customers in the supervision of project execution and provides training to the employees of its customers so that they can carry out the O&M of projects developed by them. In select markets and with respect to certain projects, the Group also undertakes infrastructure development, installation and commissioning of WTGs and connection to power grids. In some cases, the Group also provides O&M services to its customers for an agreed period of time.

The Group's consolidated total income was Rs.19,659.20 million in Fiscal 2005, Rs.39,154.94 million in Fiscal 2006 and Rs. 80,822.30 million in Fiscal 2007. Consolidated profit after tax was Rs.3,651.24 million in Fiscal 2005, Rs.7,605.19 million in Fiscal 2006 and Rs. 8,648.04 million in Fiscal 2007.

The following table shows the breakdown of the Group's total consolidated income:

	For the year ended 31 March					
	2005	per cent. of Total Income	2006	per cent. of Total Income	2007	per cent. of Total Income
(amounts are in Rs. millions)						
<b>Sales:</b>						
WTG and its Components .	19,165.21	97.49	37,911.03	96.82	59,975.24	74.21
Gearboxes . . . . .	—	—	—	—	18,560.74	22.97
Others . . . . .	259.61	1.32	499.27	1.28	1,321.32	1.63
<b>Total Sales . . . . .</b>	<b>19,424.82</b>	<b>98.81</b>	<b>38,410.30</b>	<b>98.10</b>	<b>79,857.30</b>	<b>98.81</b>
Other Income <sup>(1)</sup> . . . . .	234.39	1.19	744.64	1.90	965.00	1.19
<b>Total Income . . . . .</b>	<b>19,659.21</b>	<b>100.0</b>	<b>39,154.94</b>	<b>100.0</b>	<b>80,822.30</b>	<b>100.00</b>

Note:

- (i) Other income consists primarily of interest received from bank deposits, interest received from customers for delayed payments and interest on loans granted to Associate Companies, as well as dividend income, net profits from the sale of investments and other miscellaneous income, which is primarily comprised of rent for premises leased by certain Associate Companies. Other income also includes income from the sale of tax incentives relating to the Group's activities in the State of Maharashtra.

The following table represents the percentage breakdown of the Group's total sales geographically:

Particulars	For the year ended 31 March		
	2005	2006	2007
India . . . . .	99.67	91.91	52.21
Europe . . . . .	—	—	20.49
USA . . . . .	0.33	8.09	20.68
China . . . . .	—	—	3.94
Others . . . . .	—	—	2.68
<b>Total . . . . .</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Note: Hansen Transmissions contributed to 23.24 per cent. of the Group's consolidated revenue for the year ended 31 March 2007.

### Competitive Strengths

The Group believes that the following are its principal competitive strengths:

- **Focus on providing "integrated solutions" wind energy packages with its Associate Companies to customers in India.** The Group's business model for the Indian market has historically involved, in conjunction with its Associate Companies, providing "integrated solutions" packages for wind energy projects.

The Group's key activities include: (a) designing, developing and manufacturing WTGs; (b) wind resource mapping; (c) identifying suitable sites for wind farms; (d) coordinating with its Associate Companies in the acquisition and development of these sites and installation of WTGs; and (e) providing after-sales O&M services. This business model allows the Group's Indian customers to benefit from the cost-efficiencies and economies of scale wind farms can offer. At the same time, the Group's customers do not need to undertake the cumbersome processes associated with developing wind farms, which requires expertise in various areas such as wind study, land acquisition and project execution/management skills. The Associate Companies, as part of the "integrated solutions" package, are also involved in the construction of power transmission facilities to transmit the power generated by the wind farm to the grid.

- **Track record of executing large-scale wind power projects.** The Group has, along with its Associate Companies, a track record of executing a number of large-scale wind power projects in different regions in India. These complex projects have allowed the Group and its Associate Companies to develop the capabilities and expertise needed for wind farm projects and the Group's customers benefit from the experience it has gained from its WTGs operating in different operating environments and its industry knowledge. The Group believes that the successful development of these wind farm projects has enhanced its recognition in the wind power marketplace.
- **In-house technology and design capabilities.** Through its subsidiaries' design capabilities, the Group has been able to develop its MW and multi-MW WTG models, as well as the rotor blades for these WTGs. The Group has also been able to develop many of the processes and technologies that enable it to manufacture certain key components, such as nacelle covers, nose cones control panels, the construction of tooling and moulds used for the manufacture of rotor blades, generators and gearboxes. These were achieved as a result of the Group's recognition that various countries in Europe have developed strengths in different facets of the design of WTGs, which led to its establishment of research and development subsidiaries in Europe. This has enabled the Group to access the personnel with the requisite technical background and expertise to assist it in designing, developing and upgrading WTGs and their key components.
- **Cost-efficient manufacturing and supply-chain.** The Group's manufacturing facilities located in India and China give it a significant cost advantage in terms of capital, manufacturing and labour costs over some of the Group's larger competitors whose manufacturing facilities are in higher cost regions, such as Western Europe. Further, the Group is able to efficiently source many key components, such as castings, generators and towers, from lower-cost suppliers based in India and China.
- **Global production platform and access to an integrated manufacturing base.** With production facilities in India, China, Belgium (Hansen Transmissions) and the United States, the Group has created a global production platform for supplying to the key growth markets. Also, the Group has an integrated manufacturing base with most of the key components such as rotor blades, generators, control panel and towers manufactured in-house. The Group also manufactures other components such as nose cones and nacelle covers and is establishing facilities to manufacture forging and foundry components used in WTGs and its components.
- **Market leader in India and presence in several other high growth markets.** For the last nine fiscal years, the Group has been the leading WTG manufacturer in India with a market share of 52.3 per cent of the total capacity installed in India during the year ended 31 December 2006, with India being the third largest wind power market in terms of annual installed capacity during the same period (*Source: BTM 2007 Report*). The Group has established a market presence in seven states, among which are the states that have the highest installed capacity of wind energy, including Tamil Nadu, Karnataka, Maharashtra, Rajasthan and Gujarat. The Group's leading market share makes it well-positioned to leverage existing customer relationships and its reputation as India's leading WTG manufacturer to take advantage of future growth in domestic demand for renewable energy sources such as wind energy.

The Group has over the last four years established a significant presence in some of the key wind markets such as Australia, China and the United States. It has successfully implemented projects in the United States and is currently implementing projects in Australia and China. The Group has also initiated marketing activities in several parts of Europe and has received orders for WTGs from Italy and Portugal.

- **Operations and maintenance expertise.** The Group believes that its ability to provide WTG O&M services to its customers has helped it in assessing and enhancing the performance of WTGs under operational conditions. The Group's introduction of the CMS concept as part of its O&M services provides its personnel and customers with real-time data relating to the WTGs. This allows the Group's technical personnel to control and monitor WTG performance on-line, even from remote locations, and even during adverse weather conditions. The Group believes this helps in reducing WTG downtime and maintenance costs. Further, the Group's research and development teams are able to use the operational data gathered by its operations and maintenance teams in order to upgrade its current WTG models and to design, develop and roll-out newer and more cost-efficient WTG models.
- **Strong management team.** The Group's top management brings with them extensive experience in the design, engineering, manufacture, marketing and maintenance of WTGs. The Group's senior management team located primarily in India and Europe, who are in charge of research and development, manufacturing, finance, sales, business development and strategic planning have extensive experience in the wind energy industry.

## Business Strategy

The Group seeks to expand its global presence by penetrating the key growth markets and to further enhance its position in India as a provider of integrated wind energy solutions. The Group intends to accomplish this through:

- **Expanding its presence in international growth markets.** In order to increase its share of the world market for wind energy, the Group plans to continue to grow its overseas operations. The Group considers its key international markets to be North America, in particular the United States, which has many sites that offer wind conditions that are optimal for WTGs and also offer tax incentives for power generated by WTGs; China, where the level of demand for energy is high and where the government is encouraging the development of renewable energy sources; Australia, which also has sites with optimal wind conditions and where the government has declared that it intends to encourage a sustainable and internationally competitive renewable energy industry; and key growth markets in Europe, including France, Portugal, Italy, Spain and the United Kingdom, which have the potential for further development and investment in renewable energy, and wind power in particular. Further, the Group is also seeking to increase its presence in markets in Europe through its recent acquisition of REpower and locating its global senior management team in Europe.
- **Maintaining its strategic focus on the Indian market.** The Group believes that India is and will continue to be an important growth market for wind power. The Group intends to continue to focus on growing its India business by leveraging its status as the leading "integrated solution provider in wind" by continuing to develop, with its Associate Companies, large-scale wind farm projects. The Group will also continue to utilise the experience and expertise gained in its Indian operations to win and execute orders from international customers.
- **Expanding manufacturing capacity in domestic and key international markets.** The Group is in the process of constructing additional manufacturing facilities in India for WTGs and key components and expects these facilities to be located close to markets with growing demand for power generated by wind energy. Some of these facilities may be located in geographies that are eligible for fiscal incentives. In furtherance of the Group's goal of expanding its international presence, the Group has established an integrated WTG manufacturing facility in Tianjin, China. The Group has also established a rotor blade unit in the United States, in order to meet

increasing demand for wind energy projects in certain regions of North America. The Group's strategy is to expand its WTG and/or component manufacturing footprint in markets which have a the potential for growth and where the Group believes it will be able to develop a strong marketing foothold.

The Group also intends to expand its manufacturing capacity for gearboxes in Belgium and set up new manufacturing capacities in India to cater to new customers, increasing demand from existing customers and part of the in-house requirements of the Group.

- **Expanding its WTG product line and improving existing models.** The Group intends to leverage the WTG design and development capabilities that it has developed through its R&D subsidiaries to enhance its existing WTG models and develop new models, particularly in the MW and multi-MW class. The Group plans to strengthen its research and development capabilities further by setting up an "innovation centre" in Europe. Further, the Group aims to take advantage of its vertically integrated setup to combine WTG research with its R&D platform at the component level to design and develop more advanced and cost efficient WTGs.
- **Integrated manufacturing.** The Group has developed and implemented a backward integration strategy that allows it to manufacture rotor blades in-house. In March 2005 the Group began in-house manufacture of a portion of its tubular towers requirements through its 75 per cent.-owned subsidiary, Suzlon Structures. The Group has established an in-house manufacturing facility for a portion of its generator requirements through its 75 per cent.-owned subsidiary, Suzlon Generators. In May 2006, the Group also completed the acquisition of Hansen Transmissions, which is the second largest gearbox and drive train manufacturer for wind turbines worldwide. The Group is in the process of expanding production capacity in Hansen Transmissions to meet part of the Group's in-house gearbox requirements. The Group also manufactures certain other components in-house which include nose cones, control panels and nacelle covers. The Group believes that increasing its component manufacturing capabilities will allow it to lower WTG manufacturing costs, give it greater control over the supply chain for key WTG components and enable quicker and more efficient assembly and delivery of WTG components to its customers.
- **Growing its business through strategic acquisitions and alliances.** The Group will evaluate on a case-by-case basis potential acquisition targets and alliance partners that offer an opportunity to grow its business and/or expand its capabilities or geographical reach. The Group intends only to pursue those transactions that complement its key strengths, are synergistic and, in its assessment, have manageable integration risks. In line with this strategy, the Group has recently acquired REpower. See "Recent Developments and Prospects – Acquisition of REpower Systems AG".

## History of the Group

The Company was incorporated in 1995 by Mr. Tulsi Tanti. Mr. Tulsi Tanti was primarily in the textile business and was introduced to wind energy through a wind power project that he had commissioned for his textile factory.

The Company entered into a technical collaboration agreement in 1995 with a German company, Sudwind GmbH Windkraftanlagen to source the latest technology for the production of WTGs in India. Sudwind GmbH Windkraftanlagen was subsequently taken over by Sudwind Energiesysteme GmbH ("Sudwind"). The parties entered into a new agreement dated 30 September 1996, under which Sudwind proposed to share technical knowhow relating to 0.27 MW, 0.30 MW, 0.35 MW, 0.60 MW and 0.75 MW WTGs in consideration for royalties to be paid on the basis of each WTG sold over the course of five years from the date of this agreement.

The Group initially manufactured and supplied WTGs for a 3.34 MW windfarm project in Gujarat using 0.27 MW and 0.35 MW WTGs. By 1998, it had integrated the technology for 0.35 MW WTG in accordance with its technical collaboration agreement with Sudwind Energiesysteme GmbH. The Group was also granted the right to manufacture and sell the 0.35 MW models in Asia under the terms of this technical collaboration agreement. The Group has also independently designed, developed and launched the MW and multi-MW series of WTGs, becoming one of the first Asian companies to manufacture MW and multi-MW WTGs.

As part of its international growth strategy the Group formed its international marketing headquarters in Denmark in 2004. It has also established a rotor blade facility in the United States and an integrated WTG and WTG component manufacturing facility in Tianjin, China in fiscal 2007.

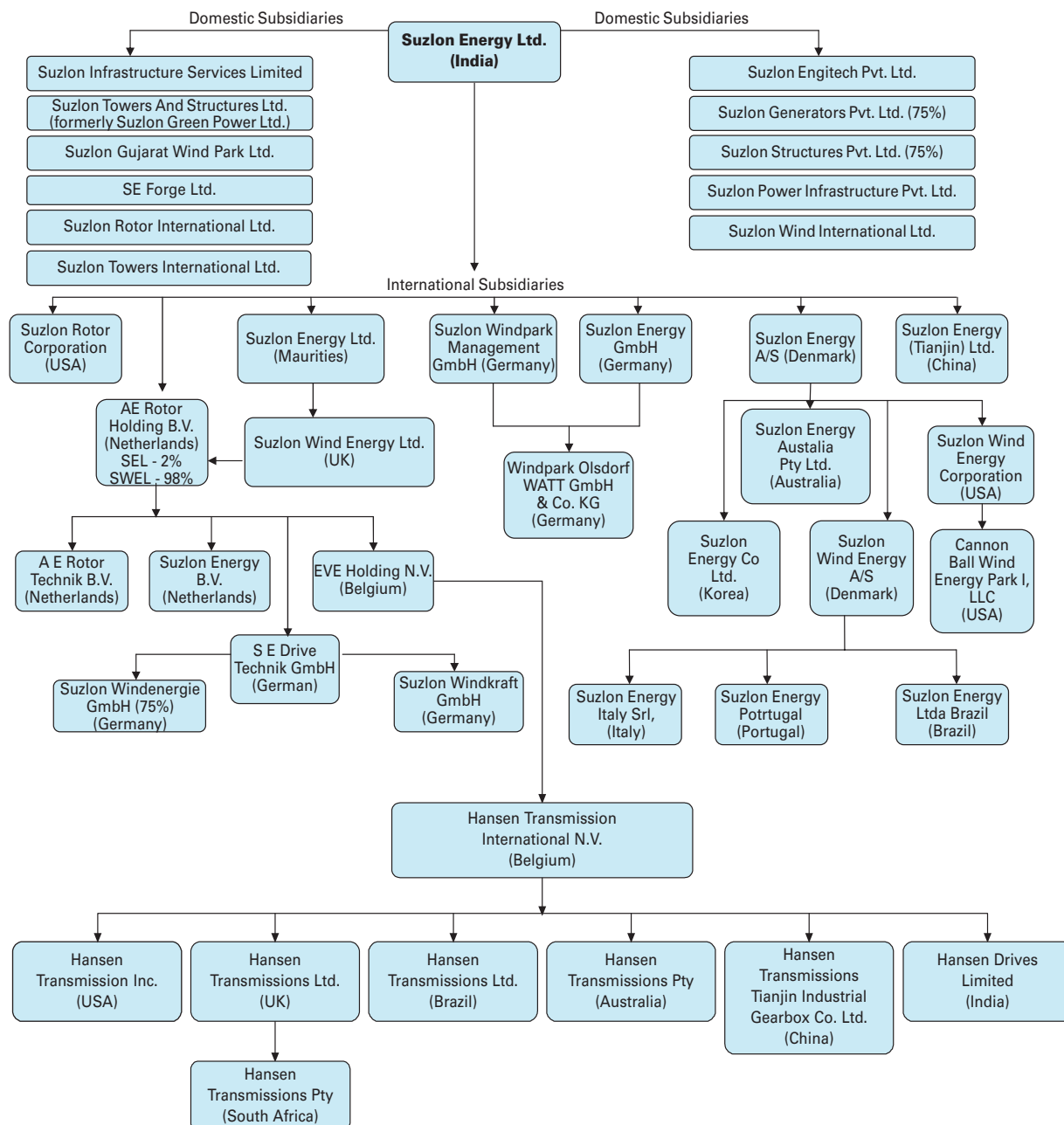
In October 2005, the shares of the Company were publicly listed on the NSE and the BSE. As at 5 June 2007, the Company has an issued share capital of Rs.2,877.65 million and an authorised share capital of Rs.4,450.00 million, and a market capitalisation of Rs.389,634.32 million (based on the BSE closing price on 5 June 2007).

In May 2006, the Company completed the acquisition of Hansen Transmissions, the World's second largest gearbox and drive train manufacturer for wind turbines. Also, the Group announced that it was successful in its bid for REpower on 25 May 2007.

## Structure of the Group

The Group is comprised of Suzlon Energy Limited, its domestic and international subsidiaries and its joint ventures. Although the Group works closely with its Associate Companies, the Group does not own any equity interest in them and does not control them.

The following chart sets out the principal legal entities within the Group. Entities are 100 per cent. owned unless otherwise indicated.



## Products

The Group's core competencies are designing, developing and manufacturing cost-efficient WTGs, including developing and manufacturing some of the key WTG components such as rotor blades for its MW and Multi-MW class of WTGs, control panels, nacelle cover, tubular towers, generators and gearboxes. The Group also manufactures gearboxes for third party WTG manufacturers and other industrial applications.

### **Wind Turbine Generators**

A WTG comprises a tower (or mast), a nacelle, which contains the essential mechanical and electrical parts and a rotor blade. However, the generation of electricity by WTG is a result of the specific interplay of various highly developed and synchronised components:

- *The rotor blades.* The rotor blades form the motor of the WTG, which uses the rotor blades to collect kinetic energy from the wind and to convert this energy into a rotation of the rotor. The area swept by the rotor blades, the aerodynamic profile of the rotor blades and the rotational speed of the rotor are the key factors determining the capacity of the WTG.
- *Energy conversion via the drive train and generator.* The unit comprising the rotor shaft, gear and generator is called the "drive train" of the WTG. The generator at the end of the drive train converts the revolutions of the rotor blades into electrical power. The WTG's gear serves to increase the rotational speed of the rotor to match the speed of the generator.
- *Power regulation and limitation (stall and pitch regulation).* Depending on the technique employed to regulate and limit their capacity, WTGs are generally classified as stall-regulated or pitch-regulated:
  - *Stall regulation.* In a WTG with stall regulation, power regulation is achieved by causing the air flow to stall by means of the aerodynamic profile of the blade when a certain wind speed is exceeded, preventing the WTG from capturing an increasing amount of energy.
  - *Pitch regulation.* In a WTG with pitch regulation, power regulation is achieved by mounting the rotor blades on the hub so that they can be rotated around their longitudinal axis, in order to control their aerodynamic properties and thus their capacity to capture energy according to the wind conditions.
- *The electronic controls in variable-speed wind turbines.* In variable-speed WTGs with pitch regulation, the electronic controls are the "brain" of the WTG and adjust the angle of incidence of the rotor blades with the generator to keep them working smoothly together. The electronic controls measure the generator's power output and, through the pitch regulation, adjust the angle of incidence of the rotor blades accordingly, ensuring that the wind turbine manufactures the maximum possible energy output from the wind in all wind conditions.
- *WTG towers.* Another component, the manufacture of which the Group are now developing expertise in through its 75 per cent.-owned subsidiary Suzlon Structures, is the tower of the WTG. Strong forces act on the mast over the entire life of the WTG. The tower has to be built to withstand these forces and to provide a secure foundation to the nacelle and the rotor.

### **Product Range**

The Group's product range covers a wide range of models, from 0.35 MW nominal output to 2.10 MW nominal output. The Group believes its range of WTG models allows it to supply different types of WTGs that can suit the varying needs of its customers, in terms of both cost and wind conditions at a proposed WTG site.

Apart from their nominal output and size, the various WTGs in the Group's product range vary primarily in the technology used for output regulation. The 0.35 MW turbine uses the less complex stall regulation technology and all other turbines are typically equipped with pitch regulation. The Group believes that the advantages offered by the higher energy yield of these pitch-regulated models will in certain circumstances compensate for the higher costs associated with pitch regulation. Almost all of the Group's WTGs feature an advanced control system that includes precisely calibrated sensors that monitor factors such as temperature, wind speeds and vibrations. The Group's rotor blades are manufactured using the advanced vacuum-assisted resin infusion moulding. The Group believes that this results in each rotor blade having a lower weight-to-swept area ratio that assists in reducing the cost per kWh of energy produced by WTGs manufactured.

The following table breaks down the Group's WTG sales for the periods indicated per WTG model:

Model	For the year ended 31 March					
	2005		2006		2007	
	No. of WTGs	MW	No. of WTGs	MW	No. of WTGs	MW
0.35 MW . . . . .	62	21.70	55	19.25	81	28.35
0.60 MW . . . . .	Nil	Nil	28	16.80	190	114.00
0.95 MW . . . . .	Nil	Nil	Nil	Nil	Nil	Nil
1.00 MW . . . . .	1	1.00	Nil	Nil	Nil	Nil
1.25 MW . . . . .	388	485.0	735	918.75	556	695.00
1.50 MW . . . . .	Nil	Nil	1	1.50	169	253.50
1.80 MW . . . . .	Nil	Nil	3	5.40	Nil	Nil
2.00 MW . . . . .	Nil	Nil	1	2.00	Nil	Nil
2.10 MW . . . . .	Nil	Nil	Nil	Nil	174	365.40
Total . . . . .	<u>451</u>	<u>507.70</u>	<u>823</u>	<u>963.70</u>	<u>1,170</u>	<u>1,456.25</u>

All the terms of WTG orders, including the technical specifications of the WTG or WTG components to be supplied, payment terms and delivery schedules, are set forth in the purchase order issued by the customer and accepted by the Group. Income from WTG sales is recognised at the time of transfer of significant risks and rewards to the respective customer which is dependent on the terms of the purchase order issued by the customers.

As at 14 May 2007 the Group had entered into agreements to supply 1,079 WTGs with 1,958.35 MW of capacity for wind power projects. The Group's order book comprises indicative orders it has received from customers but are pending execution. As such, there can be no assurance that the orders will not be cancelled or reduced.

The Group manufactures WTGs with capacity ranging between 0.35 MW and 2.10 MW. Particularly notable in its product range are the 2.10 MW and the smaller 1.25 MW models. The Group introduced a 0.60 MW in 2005 and a 1.50 MW model in 2006. These new models are primarily intended to replace the 0.35 MW and 1.25 MW models, respectively.

The 2.10 MW series WTG is the largest capacity WTG model that the Group manufactures. This model has a rotor diameter of approximately 88 metres, resulting into a swept area of approximately 6,080 square metres. It has a three-bladed rotor, each blade of approximately 43 metres in length. The 2.10 MW model has a cut-in wind speed of approximately 4 m/s and can stay in operation up to a cut-out wind speed of approximately 25 m/s, while reaching its rated output at approximately 14 m/s.

### Services – India

In India, the Group along with its Associate Companies, sells integrated wind energy solutions to its customers. In addition to the Group's manufacture of WTGs, these solutions cover the entire technical value chain, from the identification of suitable sites and the planning of wind farms to their technical implementation.



In implementing the “integrated solutions” approach for its customers, the Group and its Associate Companies have developed and implemented several large-scale wind farms located throughout India. The advantage of wind farms is primarily related to expected economies of scale. The larger the wind farm, the greater the number of WTGs that can be installed, leading to project costs being lower on a per WTG basis. Similarly, larger projects have lower operations and maintenance costs per kilowatt-hour due to efficiencies obtained in managing a larger wind farm.

The detailed study on wind energy resources in India for the installation of wind power projects began in 1986 by the MNRE and is currently conducted by CWET. The programme involves the identification of locations with strong winds that are close to electricity grids and have adequate land available nearby for prospective wind power projects. Once these have been identified, wind monitoring stations are established and data on wind speed and direction is collected and processed over time at various heights in a particular location. The Group uses the data collected by CWET to conduct its own wind resource mapping activities in areas, which it believes may be suitable for wind farms. Once the Group is satisfied with the suitability of an area, its Associate Companies, SRL, Shubh Realty (South) Private Limited and Shubh Realty (Gujarat) Private Limited, undertake land acquisition activities. The Group supplies customers with WTGs, including rotor blades and towers, which are installed and commissioned by SISL, a subsidiary of the Company. This activity was being carried out by an Associate Company, ALL, up to 31 March 2007. Operations and maintenance services for wind farms developed by the Group and its Associate Companies are provided by SISL.

The current wind farm projects the Group and its Associate Companies are developing and/or operating include:

<u>Name</u>	<u>MW as at 31 March 2007</u>
Vankusawade, Maharashtra . . . . .	205.35
Brahmanwel, Dhule, Maharashtra . . . . .	628.10
Dhalgaon, Sangli, Maharashtra . . . . .	222.60
Sankeneri, Tamil Nadu . . . . .	466.45
Devarkulam, Tamil Nadu . . . . .	198.75
Palladam, Tamil Nadu . . . . .	224.15

The Group has, over the years, built up extensive local expertise in wind resource mapping throughout India and in identifying suitable sites for wind farms. The services the Group provides include:

- **Planning of wind farms.** Planning wind farms includes identifying suitable sites based on wind resource data collected by the Group from both government sources and from its own independent studies, inspecting the sites, calculating capacity levels, analysing project feasibility and the availability of power transmission facilities.
- **Land acquisition.** The land used for setting up wind power projects may be private land, revenue land (Indian Government owned) or forest land. Private lands are purchased directly from the owners and in the event such land is agricultural land, such land is converted into non-agricultural land, if so required by the Indian Government. In case of land owned by the Indian Government, it is made available by the respective state governments on long-term lease or out right sale basis as per the prevailing policies of the relevant State Government. Certain State Governments like, Gujarat and Rajasthan, have special policies for allotment of revenue lands for wind power projects. The land so allotted can also be transferred to third parties, such as the Group’s customers, through either a lease or a sub-lease.

The Associate Companies acquire suitable sites from private owners that the Group has identified and undertake to provide such sites exclusively to its customers. This involves extensive negotiations with the landowners, particularly in the case of privately-owned land, and can involve litigation between the Associate Company and private landowners in which the Group may be named as parties.

The Company has entered into an agreement dated 11 June 2005 for services with SRL, whereby SRL has agreed to acquire or lease such land suitable for setting up windfarm projects as identified by the Company and exclusively offer such land to be transferred/leased to the Company or its customers as per the directions of the Company. In consideration for SRL acquiring windfarm land and exclusively offering such land for transfer at the option of the Company, SRL receives sales consideration which is the aggregate of all costs incurred by SRL for the acquisition of such windfarm land in a year and a commission amounting to 11.0 per cent. of such costs incurred by SRL.

- **Development and technical design of wind farms.** The Group's services include micro-siting, which involves the identification (through the use of sophisticated computer models) of the exact locations where a WTG shall be installed taking into consideration the requirements of distance between two WTGs. Micro-siting helps maximise land utilisation at each suitable site and assists in optimising power generation at each site.
- **Infrastructure development and installation of WTGs.** The construction and development of infrastructure for entire wind farms is undertaken by the Group. These activities include building of approach roads, evacuation facilities such as transmission lines to the nearest sub-stations (in some cases sub-stations as well) and levelling of land for WTG tower foundations as well as installation and commissioning of the WTGs. The Group also undertakes power evacuation activity. Some of these activities related to wind farm site development and installation and commissioning of WTGs was earlier being carried out by an Associate Company, AIL, up to 31 March 2007. However, with effect from 1 April 2007, these activities are being undertaken by SISL.
- **Operation and maintenance services.** The Group offers O&M services for its WTGs, which includes round-the-clock remote and on-site monitoring, maintenance and repair of the WTGs. The Group's service package includes preventive and planned maintenance of WTGs, transformers and related structures. The Group also provides free repair and maintenance services for periods generally ranging from one to three years after WTG commissioning.

Through SISL, the Group also provides O&M services to WTG customers in India, pursuant to agreements with terms ranging from as short as one year to as long as 17 years, with the typical term being from three to five years. These agreements are usually entered into once the free repair and maintenance period the Group offers has expired. As part of its O&M services, the Group provides a warranty on machine availability, which ranges from 95 per cent. to 97 per cent., depending on the agreement reached with the customer, as well as warranties relating to the maximum allowable percentages of reactive power and transmission losses. After the initial operations and maintenance agreement period expires, the Group encourages customers to renew their service agreements with it, with a view to servicing the WTGs throughout their entire 20-year life cycle. Customers are charged an annual maintenance fee per WTG that includes preventive maintenance and repair services, as well as the cost of spare parts up to a certain amount.

Prior to Fiscal 2005, SISL was wholly-owned by members of the Promoter Group and operations and maintenance services for the Group's WTGs were subcontracted by the Group to SISL. In April 2004, the Company acquired a 100 per cent. ownership interest in SISL from members of the Promoter Group for which the Company paid a total consideration of Rs.72.4 million. As such, beginning in April 2005, the Group's income from sales also includes fees for operation and maintenance services provided to its customers, which are provided after the expiration of the free operation and maintenance period which the Group provides to purchasers. Fees for operations and maintenance services are generally calculated as a fixed sum per WTG purchased by the customer and payable either on a monthly, quarterly, semi-annual or annual basis, depending on the terms of the operation and maintenance agreement separately entered into with the customer.

For the fiscal years ended 31 March 2005, 2006 and 2007, revenues from O&M services contributed 1.10 per cent., 0.65 per cent. and 0.62 per cent., respectively, to the Group's total revenues, or Rs.213.79 million, Rs.251.55 million and Rs.494.81 million.

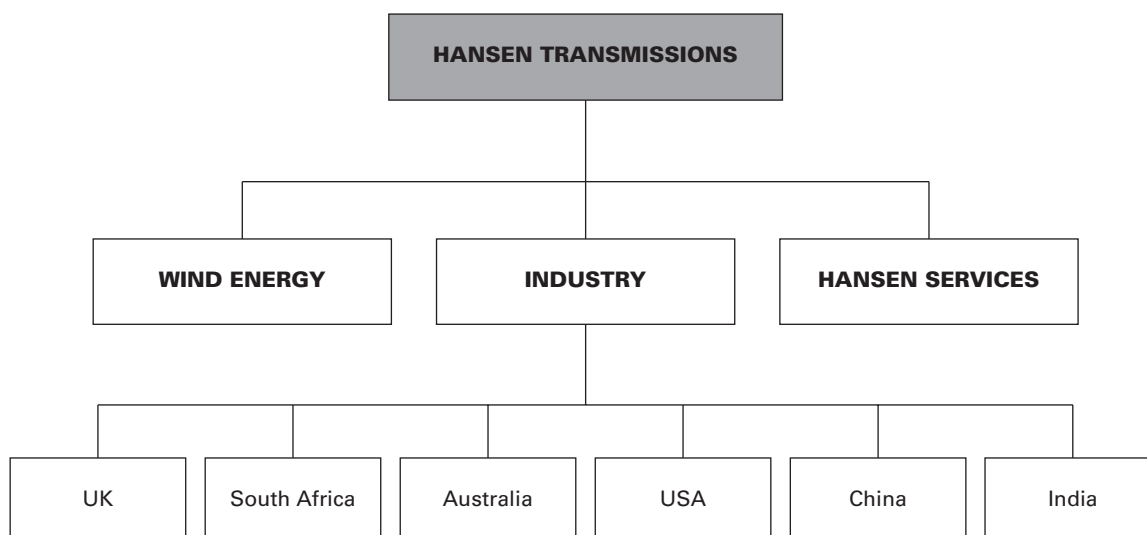
## Services – International

Internationally, the Group sells its products along with O&M training and project execution supervision. In addition, it has started to provide integrated services in certain international markets depending on prevailing market conditions. It also provides or plans to provide O&M services on a project specific basis in certain international markets.

## Hansen Transmissions

Hansen Transmissions and its subsidiaries were acquired by the Group in May 2006. Hansen Transmissions contributed to approximately 23.24 per cent. of the Group's total consolidated revenue and approximately 16.24 per cent. of the Group's total consolidated net profit for the year ended 31 March 2007. From the second quarter of Fiscal 2008, the Company will source part of its gearbox requirements from Hansen Transmissions.

Hansen Transmissions, headquartered in Belgium, is a leading gearbox and drive train manufacturer with strong R&D capabilities, modern manufacturing facilities and a world wide sales and distribution network. Hansen Transmissions is focused on the wind turbine generation sector and is also active in other industrial segments of the gearbox market. The Group operates Hansen Transmissions as an independent business unit and intends for Hansen Transmissions to continue operating in the industrial gearbox sector. The diagram below sets out the business structure of Hansen Transmissions:



## Manufacturing

Hansen Transmissions WTG gearbox manufacturing plants are located in Belgium. A substantial expansion of the production facilities in Belgium is currently underway. Hansen Transmissions also operates assembly and service plants in Huddersfield, UK, Johannesburg, South Africa, Melbourne, Australia, and Virginia, United States. It has recently established an industrial gearbox assembly and service centre in Tianjin, China and announced in January 2007 that construction of a WTG gearbox production plant will commence in the fourth quarter of 2007 in Coimbatore, India.

## Products

In the WTG sector, Hansen Transmissions produces the Hansen "W4" gearbox which has a MW output range from 1.5 MW to 3 MW. In the industrial sector, Hansen Transmissions' main product line is the Hansen "P4" gearbox. The P4 series is suitable for a range of horizontal and vertical units and offers numerous features and a variety of options. In 2004, Hansen Transmissions launched the Hansen "M4" industrial gearbox, a functional product that can meet a wide variety of application requirements. Hansen Transmissions has a significant number of patents in respect of its gearbox technology. See "Business – Intellectual Property Rights and Technical Know-How".

## Services

Hansen Transmissions provides an after sales support service for its Industrial and Wind Energy business. This service can take the form of an on site inspection but can also take the form of a repair on site or at Hansen premise or in some cases the delivery of components. Hansen Transmissions has affiliated repair and service centres in Belgium, the US, the UK, Australia, South-Africa and China for its industrial gearboxes. The rest of the world is serviced and/or coordinated out of Belgium.

## Customers

Hansen has two key customers that comprise significantly all of its WTG gearbox sales. See "Investment Considerations – Hansen Transmissions has a limited number of customers who are competitors of the Group". Hansen Transmissions has a wider customer base for its industrial gearboxes. However, the industrial gearbox sector makes up only a relatively small percentage of Hansen Transmissions' overall financial performance.

## Manufacturing Facilities

The following tables sets forth information regarding the Group's existing and proposed manufacturing facilities and the installed capacity of each of these facilities.

### Indian Manufacturing Locations:

Location	Product	Installed Capacity <sup>1</sup>	Commencement of operations (fiscal year)
<b>India:</b>			
Diu . . . . .	WTGs	100 <sup>2</sup>	1996-97
Daman . . . . .	WTGs	300 <sup>2</sup>	1999-00
Daman . . . . .	Rotor blade for WTGs	420 <sup>3</sup>	2001-02
Pondicherry . . . . .	WTGs	720 <sup>2</sup>	2003-04
	Rotor blade for WTGs	790 <sup>3</sup>	2003-04
Daman . . . . .	WTGs	120 <sup>2</sup>	2003-04
Maharashtra . . . . .	Rotor blade for WTGs	300 <sup>3</sup>	2005-06
	Generators	1,000 <sup>4</sup>	2005-06
	Tubular towers	40,000 <sup>5</sup>	2006-07
Gujarat . . . . .	Rotor blade for WTGs	200 <sup>3</sup>	2006-07
	Tubular towers	42,000 <sup>5</sup>	2004-05

### Overseas Manufacturing Locations:

United States . . . . .	Rotor blade for WTGs	288 <sup>3</sup>	2006-07
Tianjin, China . . . . .	WTGs	480 <sup>2</sup>	2006-07
Belgium . . . . .	Rotor blade for WTGs	480 <sup>3</sup>	2006-07
	Gearboxes	1,800 <sup>6</sup>	1939 <sup>7</sup>

#### Notes:

- 1 The installed capacities disclosed in the above table are variable and subject to changes in product mix and utilisation of manufacturing facilities, given the nature of the group's operations.
- 2 Number of WTGs
- 3 Number of sets of rotor blades
- 4 Mega-watt capacity
- 5 Metric tonnes
- 6 Number of gearboxes
- 7 The Group acquired the facility in May 2006

The Group also plans to establish/expand a number of facilities over the next few years, as set out in the table below:

Location	Product manufactured/activity	Commencement/ expected commencement of operations
<b>India:</b>		
Karnataka . . . . .	Rotor Blades Unit	Fourth quarter of Fiscal 2008
Kutch, Gujarat . . . . .	Tower Unit	Fourth quarter of Fiscal 2008
Vadodara, Gujarat . . . . .	Forging and machining	Fourth quarter of Fiscal 2008
Coimbatore . . . . .	Foundry and machining	Fourth quarter of Fiscal 2008
Coimbatore . . . . .	Gearboxes, WTGs, Generators, Control Panel	Fourth quarter of Fiscal 2009
Vadodara, Gujarat . . . . .	Testing centre for composites	Fourth quarter of Fiscal 2008
<b>International:</b>		
Belgium . . . . .	Expansion of existing gearbox facility	Fourth quarter Fiscal 2008

Manufacturing units in Daman and Pondicherry are currently eligible for various fiscal incentives.

Given the (a) size of the potential market for WTGs in China, (b) requirements that a certain percentage of a Chinese WTG project's components be sourced from Chinese-based manufacturers and (c) the cost of shipping WTG components from India, the Group has also constructed an integrated WTG manufacturing facility in Tianjin, China that manufactures WTGs and key components such as rotor blades, generators, towers and control panels. In Minnesota, United States, the Group has constructed a rotor blade manufacturing facility so as to reduce the costs associated with the outsourcing and/or shipping of this key WTG component and to ensure timely supply of WTGs to customers. The Group also has manufacturing facilities for gearboxes in Belgium, through its recently acquired subsidiary, Hansen Transmissions.

The Group's strategy is to backward integrate production for all of the key components of WTGs. Currently, the Group has the capacity to manufacture rotor blades, control panels, nacelle covers, tubular towers, generators and gearboxes. In March 2005, the Group began manufacturing a portion of its tubular tower requirements through its 75 per cent.-owned subsidiary, Suzlon Structures. The Group also manufactures a significant portion of its generator requirements through its 75 per cent.-owned subsidiary, Suzlon Generators. In May 2006, the Group completed the acquisition of Hansen Transmissions and expects to commence manufacture of part of its gearbox requirements in-house for its WTGs once Hansen Transmissions has available expanded capacity to meet such requirements in Fiscal 2008. See "Recent Developments and Prospects – Capacity Expansion and Integration of Operations". The remaining components and various small parts are sourced from outside manufacturers either on a purchase order basis or pursuant to negotiated supply agreements. The Group also sources raw materials for rotor blade manufacturing, such as glass fibres, foam and epoxy resin, from outside suppliers. The Group expects to continue to source a portion of its tubular tower, generator and gearboxes requirements from outside suppliers.

## Sales and Marketing

In India, the Group has an extensive sales and marketing division that reports to the Group's head office in Pune. Internationally the Group's WTGs are sold primarily through its international sales and marketing team based in Denmark, Suzlon Energy A/S. The WTGs are supplied by SEL to respective subsidiaries in various countries (excluding India and China which manufactures its own WTGs) and they are further sold to the ultimate customers by those subsidiaries. Suzlon Energy A/S is the international marketing headquarters of the Group.

## **India**

The Group has divided the Indian market according to the states where it has identified suitable sites for wind energy projects, specifically Maharashtra, Gujarat, Rajasthan, Tamil Nadu, Karnataka, Madhya Pradesh, Andhra Pradesh and Kerala. Marketing for each state is under the supervision of a senior management executive. The Group also has sales offices in key cities such as Pune, Bangalore, Chennai, Coimbatore, Hyderabad, Ahmedabad, Rajkot, Surat, Jaipur, Calcutta, Mumbai, Indore and New Delhi.

The marketing team focuses on four types of customers: (a) companies that have manufacturing units with high power consumption; (b) companies with high profitability and/or surplus liquidity that seek investment opportunities with stable returns and that offer tax benefits; (c) power utilities and state nodal agencies; and (d) foreign companies selling "Carbon Emission Receipts". These potential customers are contacted by the Group's marketing team, introducing them to the Group and the potential benefits of wind power. The Group's team conducts regular follow-up calls and visits and provide potential customers with detailed working and feasibility studies regarding wind power projects. From time to time, the Group also obtains customers through participation in tenders by utilities, state nodal agencies and public-sector entities. As part of its standard practices, the Group also conducts credit checks and review the balance sheet of each potential customer in order to ensure that it has the financial capacity to acquire and operate WTGs.

As at 14 May 2007 the Group has agreements to supply WTGs with 266.5 MW capacity to various customers in India. The Group's order book comprises indicative orders it has received from customers but are pending execution. However, there can be no assurance that the orders will not be cancelled or reduced.

## **International Markets**

The Group is currently expanding its presence internationally, with an emphasis on the United States, South America, Europe, Australia/New Zealand and China. The Group's target customers include: (a) companies interested in investing in renewable energy sources; (b) utilities; (c) wind energy project developers; and (d) in the United States, municipalities, schools and cooperatives interested in establishing captive power facilities.

The international markets are managed, supported and controlled by the international Marketing & Sales HQ, Suzlon Energy A/S ("SEAS"), in Denmark. As of 31 March 2007 SEAS employed 46 people in management, finance, technical support, procurement and project management.

### **United States**

In 2001, the Group incorporated Suzlon Wind Energy Corp. ("SWECO"), subsidiary of SEAS, in order to establish a presence in the United States, which is among the top three wind energy markets in the world in terms of cumulative installations. As of 31 March 2007, the Group employed 143 people in marketing, sales, projects and services for the United States.

The Group intends to focus on establishing ongoing business relationships with a core group of key customers, strategic investors and financial investors, with a view to gaining access to wind power projects that these entities propose to undertake, as well as securing exclusive WTG supply agreements with these entities. The Group focuses its direct sales efforts in three main geographic areas: the Midwest, the South (Texas and Oklahoma,) and the West (California), which will allow it to concentrate on utilities and independent service operators in areas that it believes have growth potential. The Group may also offer customers assistance in obtaining project finance and also provide technical services relating to the installation, O&M of WTGs.

As of 14 May 2007 the Group has agreements to supply 485 WTGs with 974.3 MW capacity for wind power projects to be located in the states of Texas, Missouri, Illinois, Iowa and Minnesota in the United States. The Group's order book is comprised of orders it has received from customers but are pending execution. As such, there can be no assurance that the orders will not be cancelled or reduced or result in revenues or that the Group will receive payment as per the term agreed for any such orders.

#### *Europe and South America*

The European and South American markets are managed by Suzlon Wind Energy A/S ("SWEAS"), a subsidiary of SEAS. The following markets are of particular strategic focus: Portugal, Spain, Italy, Greece and Brazil as they constitute growth markets within the world's largest market for wind power. The Group has established marketing and project offices as subsidiaries of SWEAS in the above-mentioned countries. The Group may also offer customers assistance in obtaining project finance and also provide technical services relating to the installation, EPC and O&M of WTGs. As of 14 May 2007, the Group has agreements to supply 192 WTGs with 403.2 MW capacity for wind power projects in Europe and Brazil. The Group's order book is comprised of orders it has received from customers but are pending execution. As such, there can be no assurance that the orders will not be cancelled or reduced or result in revenues or that the Group will receive payment as per the term agreed for any such orders.

#### *China*

The Group has opened a representative office in Beijing, which employed 41 people in sales, marketing and project management as of 31 March 2007. As of 31 December 2006, China was among the top ten nations in terms of installed wind power capacity according to the BTM 2007 Report. The Chinese government is encouraging development of renewable energy sources and has declared its intention to generate 10 per cent. of its electricity from renewable energy sources by 2020. The Group has also incorporated a local subsidiary, Suzlon Energy (Tianjin) Limited and constructed a fully-integrated WTG manufacturing facility in China with an annual capacity of 600 MW which commenced operating in July 2006. As the energy market in China is currently dominated by state-owned utilities, the Group expects that these state-owned utilities and their subsidiaries will be its primary customers. As of 14 May 2007 the Group has agreements to supply 107 WTGs with 133.75 MW capacity for wind power projects in China. The Group's order book is comprised of orders it has received from customers but are pending execution. As such, there can be no assurance that the orders will not be cancelled or reduced or result in revenues or that the Group will receive payment as per the term agreed for any such orders.

#### *Australia and New Zealand*

Marketing activities in Australia and New Zealand are conducted by Suzlon Energy Australia Pty. Ltd., a subsidiary of SEAS, which employed 21 people in marketing, sales, projects and services as of 31 March 2007. The Group believes that both Australia and New Zealand have substantial renewable energy resources, including wind. The Group may also offer customers assistance in obtaining project finance and provide technical services relating to the installation, EPC and O&M of WTGs. As of 14 May 2007 the Group has agreements to supply 86 WTGs with 180.6 MW capacity for wind power projects in Australia. The Group's order book is comprised of orders it has received from customers but are pending execution. As such, there can be no assurance that the orders will not be cancelled or reduced or result in revenues or that the Group will receive payment as per the term agreed for any such orders.

## Customers

The following overview illustrates the Group's WTG and gearbox sales (by MW and value) in its most important sales markets for the periods indicated:

Particulars	April to March					
	2005		2006		2007	
	Million (Rs)	MW	Million (Rs)	MW	Million (Rs)	MW
India . . . . .	19,361.38	507.70	35,304.68	882.55	41,693.25	954.60
Europe . . . . .	—	—	—	—	16,363.46	10.50
USA . . . . .	63.44	—	3,105.62	81.15	16,517.48	374.35
China . . . . .	—	—	—	—	3,142.93	100.00
Others . . . . .	—	—	—	—	2,140.18	16.80
Total . . . . .	<u>19,424.82</u>	<u>507.70</u>	<u>38,410.30</u>	<u>963.70</u>	<u>79,857.30</u>	<u>1,456.25</u>

The Group's customers in India are primarily: (a) companies that have manufacturing units with high power consumption; (b) companies with high profitability that seek investment opportunities with stable returns; (c) power utilities and state nodal agencies; and (d) foreign companies selling "Carbon Emission Receipts".

In international markets, the Group's first international order was to supply 24 WTGs with 22.80 MW of total installed capacity for DanMar and Associates Inc., which developed a wind farm project in the state of Minnesota in the United States. Recent significant sales orders for the Group include:

- A contract with PPM Energy (Portland, Oregon) for a total of 400MW. The contract calls for delivery of 300 MW in 2008 and 100 MW capacity in 2009. Suzlon is also contracted for operations, maintenance and service of the WTGs for two years with an option for an additional five; and
- A contract with Tierra Energy (Austin, Texas) to provide 42 units of the S88 2.1 MW wind turbine for projects in Wyoming and Texas.

As on 14 May 2007, the Group has international orders with customers in United States, China, Australia, Portugal, Italy and Brazil to supply 870 WTGs amounting to 1,691.85 MW to be supplied in the period of 2007-08 and 2008-09.

For Fiscal 2005, 2006 and 2007, the Group's single largest customer contributed 10.10 per cent., 6.13 per cent. and 13.00 per cent., respectively, to the Group's revenues, or Rs.1,962.4 million, Rs.2,353.20 million and Rs.10,383.10 million. During each of Fiscal 2005, Fiscal 2006 and Fiscal 2007, the Group generated 25.93 per cent., 21.11 per cent. and 35.83 per cent., respectively, of the Group's revenues, or Rs.5,037.41 million, Rs.8,109.39 million and Rs.28,615.24 million, from its ten largest customers (excluding its top customer).

## Quality Control and Product Certification

The Group's policy is that all design and manufacturing facilities and operations and maintenance services should be certified as ISO 9001:2000 by Det Norske Veritas. Therefore, all of the Group's operations are certified or in the process of obtaining such certification. The Group's WTG models are generally designed for a 20-year life cycle.

The Group's WTGs are also designed to meet the standards set by independent international agencies such as Germanischer Lloyd ("GL") or the International Electrotechnical Commission. Once the Group has completed a WTG design, the design is usually presented for type approval and certification in accordance with the Certification of Wind Energy Conversion Systems laid down by GL. The Group also endeavours to obtain WTG certification from CWET — an autonomous body attached to the Indian Ministry of New and Renewable Energy Sources — which was associated with the Risø National Laboratory,



another internationally-recognised WTG certification agency. Type tests are conducted on the Group's WTGs by internationally accredited, independent agencies such as Deutsches Wind Energie-Institut ("DWEI") GmbH, Germany Windtest, Germany or the Centre for Wind Energy Technology, India. The rotor blades also undergo extensive static and fatigue tests conducted by blade testing centers such as the Technical University of Delft. Typically, the type approval and certification process would take anywhere between nine to fifteen months. The Group is also in the process of establishing a rotor blade testing centre in Vaododora.

Details of the WTG certificates currently held or applied for are contained in the following table:

Capacity Rating	Hub	Agency	Certificate No.	Expiry	Status/Remarks
0.35	50m (60 & 70)	CWET		24 November 2005	In process
0.60	75m	GL/CWET			In process
1.00	65m	GL	TZ_009A-2003	1 September 2007	Available
1.25	56m	GL	TC-GL-003A-2007	31 December 2007	Available
1.25	65m	GL	TC-GL-003A-2007	31 December 2007	Available
1.25	65m	GL	TC-GL-003A-2007	31 December 2007	Available
1.25	75m	GL	TC-GL-003A-2007	31 December 2007	Available
1.25	75m	DNV	CPN-2153-1	N/A	Available
1.25	65m	GL	TZ-006B-2004	31 October 2007	Available
1.25	75m	GL	TZ-002B-2004	31 October 2007	Available
1.25	75m	GL	TC-GL-002A-2007	31 December 2007	Available
1.50	78.5	GL/CWET	TC-GL-009A-2007	31 March 2008	Available
2.10	80m	GL	TC-GL-001A-2007	6 February 2009	Available
2.10	80m	DNV	IEC DE 215401	N/A	Available

During the course of the type certification process, WTG design, prototype performance and systems are independently assessed and verified, which assists in providing assurance to customers regarding the design, performance and safety of the Group's WTGs. Further, banks and other financial institutions often require type certification for the WTGs that the Group's customers propose to acquire to provide financing to its customers for their purchases. In quite a few cases, however, the Group is allowed to sell few of its WTGs on a "self-certification" basis.

As of the date of this Offering Circular, the Group has obtained CWET type certification and Germanischer Lloyd certification for several of its WTG models, including for the 1.25 MW, 1.5 MW and 2.10 MW WTGs models.

### Logistics

The dimensions and weight of WTG assemblies are such that their delivery can be a considerable logistical challenge. These challenges, particularly in terms of transport vehicles and the condition of transport routes, can create considerable problems, particularly in regions of India with less well developed infrastructure. As the Group's operations expand logistical challenges will increase particularly in regard to the shipping of WTG and WTG components. As a result, the Group conducts site suitability studies not only in terms of available wind resources, but also in terms of accessibility and presence of basic infrastructure. The costs of transport can make the delivery of the Group's MW and Multi-MW WTG models substantially more expensive in certain regions. The Group is expanding its manufacturing facilities in India to include locations that are in proximity to potential wind farm sites in southern and western India. For international markets, the Group has established an integrated WTG manufacturing facility in China and rotor blade and facility in the United States.

## Suppliers

The Group's strategy is to backward integrate production of key components. However, the Group still needs to purchase components such as gearboxes, generators, towers, bearings and castings from several different manufacturers. The Group has a strategy of procuring these components from manufacturers who have established themselves as suppliers of components that are compatible with its WTGs and meet its technical and quality standards, either on a purchase order basis or through negotiated supply agreements. In order to minimise the risk regarding availability of key components and of competition, the Group has entered into exclusive supply agreements with some of its suppliers, pursuant to which such suppliers have undertaken to maintain a minimum level of inventory to meet the Group's demand. In turn, the Group provides these suppliers with advances on orders, which range from 5.0 per cent. and 25.0 per cent. of the value of orders placed, depending on the supplier and the components involved. For each of Fiscal 2005, Fiscal 2006 and Fiscal 2007, on a standalone basis, the cost of imported raw materials as a percentage of SEL's cost of raw materials was approximately 49.88 per cent., 54.53 per cent. and 58.41 per cent., respectively.

Raw materials for rotor blades, such as glass fibre, foam and epoxy resin are sourced from several suppliers, such as Saertex, Wagener GmbH & Co. KG, Owens Corning Enterprise (India) Pvt. Ltd., Kush Synthetics Pvt. Ltd. and Saint-Gobain Syncoglas N.V., on a purchase order basis. As these raw materials are in the nature of commodities, the Group is able to source them from other suppliers in the event its current suppliers cannot meet its manufacturing needs. The Group purchases rotor blades for its 0.35 MW WTG model solely from LM Glasfibre (India) Pvt. Ltd. The Group also sources castings from Wuxi FAW Foundry Co. Ltd and Shanghai Electric Co., which are both located in China.

The chief supplier of tubular towers for India is Barakath Engineering Industries (P) Ltd., with whom the Group has entered into a five-year supply agreement for tubular towers. Gearboxes are currently supplied by Winergy AG. However, the Group expects to meet part of its gearboxes requirements in-house once Hansen Transmissions has available expanded capacity to meet such requirements in Fiscal 2008. See "Recent Developments and Prospects – Capacity Expansion and Integration of Operations". The main suppliers of generators and generator components are Siemens Ltd. of India, Elin and Winergy AG, however, the Group also manufactures a significant portion of its generator requirements through its subsidiary Suzlon Generators. Suzlon Generators is a joint venture with Elin for the manufacture of slip ring generators required for WTGs. The Group provides management support and procurement services. ELIN is responsible for the initial start-up and commissioning of Suzlon Generator's manufacturing plant and providing the necessary technology and know-how required for the manufacture of slip ring generators. Elin is required to share technical information and raw material requirements to facilitate identification of the suppliers and vendors in India. The Group purchases gear rims and slewing rings from IMO Momentenlager GmbH, brake callipers from Svendborg Brakes A/S and yaw and pitch drives from Bonfiglioli Riduttori Spa. Castings for WTGs are purchased from several suppliers in India, including Patel Alloy Steel (P) Ltd., in each case on a purchase order basis. Castings are also sourced from China from Wuxi FAW Foundry Co. Ltd. and Shanghai Electric Co.

Suzlon Structures is a joint venture with the Kalthia Group for the design and manufacture of tubular towers, which are best suited for the higher and heavier WTG installations. The Group provides management support to Suzlon Structures while the Kalthia Group has operational responsibility for Suzlon Structures' manufacturing plant in Gandhidham, Kutch district in the State of Gujarat. Suzlon Structures commenced manufacturing of tubular towers in March 2005 and the Group procures a significant portion of its tubular tower requirements from Suzlon Structures.

The Group also recently acquired 100 per cent. of Hansen Transmissions which currently supplies turbine gearboxes to third parties and is also engaged in the business of industrial gearboxes. On 9 May 2006, AERH, a wholly-owned subsidiary of the Group, completed the purchase of 100 per cent. of the share capital of Eve Holding N.V., Belgium for a consideration of Euro 431.43 million after having received all requisite approvals for the acquisition. The Group has 100 per cent. ownership of Eve Holding N.V. and its wholly-owned subsidiary, Hansen Transmissions, which is engaged in the business of design, development, manufacturing and supply of industrial and WTG gearboxes. The acquisition was financed by debt. The Group entered into a €450 million facility with ICICI Bank Limited, State Bank of India, Deutsche Bank AG and Barclays Bank PLC for which the Company had provided its

corporate guarantee as security (the acquisition facility has since been refinanced). This acquisition of Hansen Transmissions will enable the Group to integrate gearbox technology into the total turbine solution enabling a more reliable, and competitive turbine in the market place.

As part of its strategy of increasing backward integration, the Group may from time to time evaluate the feasibility of entering into similar joint venture agreements with partners that have developed expertise in the manufacture of key WTG components.

## **Competition**

The WTG market is characterised by strong concentration among a small group of manufacturers. In calendar 2006, approximately 95.7 per cent. of the global market for WTGs, measured by installed capacity, was accounted for by only ten manufacturers, including the Group (*Source: BTM 2007 Report*). The Group's primary competitors are the Danish manufacturers, Vestas Wind Systems A/S and Bonus Energy (which was acquired by Siemens), the U.S. manufacturer G.E. Wind (which acquired the WTG manufacturer Enron Wind Corp.), Spanish manufacturer Gamesa Eólica, and the German companies Enercon GmbH, Nordex AG and REPower Systems AG (See "Recent Developments – Acquisition of REpower Systems AG"). Based on annual installed capacity during 2006, the Group's market share is 7.7 per cent. (*Source: BTM 2007 Report*)

In the Indian market, the Group's primary competitors include Indian subsidiaries of Vestas Wind Systems A/S, and Enercon GmbH, Southern Windfarms and Vestas R.R.B India Ltd. Based on capacity installed during the calendar year 2006, the Group's share of the Indian WTG market is 52.3 per cent. (*Source: BTM 2007 Report*)

## **Research and Development**

The Group places great emphasis on continued research and development and undertakes its research and development activities primarily through its wholly-owned subsidiaries, SEG, AERH and Suzlon Windkraft GmbH.

SEG designs and develops the Group's new WTG models and focuses on upgrading and increasing the cost-efficiency of its existing WTG models. The Group's SEG team developed the design for its MegaWatt and Multi MegaWatt WTGs. SEG is also involved in customising the various WTG components to suit different climates. As of 31 March 2007, SEG employed a total of 38 people.

AERH is a holding company for its wholly-owned subsidiaries, AERT and SEBV. AERT designs and develops rotor blades, a critical component of WTGs, and also designs the moulds and tooling used for rotor blade manufacturing. AERT has developed designs for rotor blades for 0.60 MW, 1.25 MW, 1.50 MW, 2.00 MW and 2.10 MW WTGs. Moulds and prototypes for rotor blades are designed by AERT, which are then built by the Group's engineering teams in India and used in its manufacturing facilities. AERT provides on-line support to the Group's mould, rotor blade and nacelle cover manufacturing units in India and conducts various training programmes in the Netherlands and in India for its employees. As of 31 March 2007, AERH employed a total of 47 people, including employees at AERT and SEBV.

Suzlon Windkraft GmbH and Suzlon Energy GmbH are both involved in the design and development of WTGs with the former focusing on the mechanical aspects and the latter focusing on the electrical aspects of design and development.

In addition, the Group's has incorporated a wholly-owned subsidiary in Germany, SE Drive Technik GmbH, as a research and development subsidiary for the design, development and manufacture of WTGs and WTG components.

During Fiscal 2005, 2006 and 2007, the total amounts paid for administrative and operating expenses of the Group's research and development subsidiaries in Germany and the Netherlands (including depreciation) were Rs.106.24 million, Rs.157.82 million and Rs.201.28 million, respectively.

In addition, Hansen Transmissions conducts research and development in the areas of wind and industrial gearboxes.

## **Intellectual Property Rights and Technical Know-How**

The Group's application to the Registry of Trademark, Ahmedabad, for the registration of the Suzlon circle logo and WTG illustration has been completed and the Group is awaiting for the certificate of registration.

In relation to its gearbox technology, Hansen Transmissions, which was acquired by the Group in May 2006, has, as at the date of this Offering Circular, been granted 77 patents and applications having been submitted for 135 others.

The Group is entitled to apply for registration of its product designs under the intellectual property laws of various countries. Other than in relation to Hansen Transmissions the Group has presently not made any applications for registration of any patents in any country. As a result, its employment contracts, particularly those with certain of its employees who have special technical knowledge about its WTGs or its business, contain a general confidentiality undertaking. For employees of the Group research and development subsidiaries, the confidentiality undertaking extends for a specified period following the termination of employment. In addition to the confidentiality provisions, these employment agreements often contain non-competition clauses.

Most employees of Hansen Transmissions have a contract in which a confidentiality clause is included. The confidentiality agreement is not limited in time. In a number of cases there is also a non-competition clause foreseen in the contract that prevents the employee to join a competitor. This clause is limited in time, in some cases one year, in some other cases two years and is callable by Hansen Transmissions at the time when the employee leaves the company.

The Group also requires suppliers of key components to enter into non-disclosure arrangements to limit access to and distribution of its proprietary and confidential information.

## **Insurance**

The Group maintains insurance coverage on all its office premises and its manufacturing units against fire, earthquake and certain other risks. In addition, the Group maintains transit insurance for the transport by rail or by road of all incoming raw materials and outgoing goods to and from locations in India and transit insurance for the transport by sea or by air for all incoming raw materials and outgoing goods from outside India to within India. This transit insurance includes damages that may be caused due to contingencies such as inland transit strikes, riots and civil commotion. The Group does not take insurance during the WTG erection process.

All of the Group's insurance relating to office premises and manufacturing units in India and relating to the transit of goods contain "Agreed Bank Clauses" which provide that any payments made under such policies are made to certain banks and financial institutions that have provided financing for the same.

The Group maintains insurance against any claim that may be made against each of its Directors and officers in their capacity as Directors while acting in that capacity.

The Group's insurance policies are generally for terms of one year.

Hansen Transmissions maintains a property damage and business interruption insurance policy, which covers various facilities operated by it, including those located outside of Belgium. The policy contains an indemnity in respect of losses incurred from business interruption.

## Human Resources

The Group believes that a combination of its position as a leading wind energy solutions provider, its working environment and competitive compensation programmes allow the Group to attract and retain talented people. The Group believes its relationship with its employees is generally good. However, the Group has experienced work stoppages as a result of labour issues including:

- (1) in June and July 2004, employees at its operations and maintenance centre at Vankusawade went on strike to demand revision in wages, allowance, overtime payments and changes in working conditions;
- (2) on 28 July 2006, there was a fatal accident at the Pondicherry factory. Management closed the factory for two days until completion of the funeral rights for the deceased;
- (3) from 5 March 2007 to 8 March 2007, work at the Pondicherry factory was suspended due to an employee strike. Employees made several demands, including for an increase in salaries. Work normalised at the factory on 9 March 2007.

Other than the employees at the Group's operations and maintenance centres at Vankusawade, Dhule, Kutch, Nagda & Sangli and those employed by Hansen Transmissions, none of its employees belong to a union.

The following table sets out the number of the Group's employees on a consolidated basis as of the end of the periods indicated:

<u>Total Number of Employees</u>	<u>As of 31 March</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Sales and Marketing, Business Development and Corporate Affairs . . . . .	70	131	469
Finance, Accounting, Audit and Legal . . . . .	121	281	448
Production and Engineering . . . . .	925	2,627	5,261
Purchasing and Imports . . . . .	88	191	245
Human Resources and Administration . . . . .	145	316	504
Projects and Operations & Maintenance . . . . .	513	1,161	2,769
Research and Development & Q.A. . . . .	97	466	802
Others . . . . .	112	883	383
<b>Total Number of Employees . . . . .</b>	<b><u>2,071</u></b>	<b><u>6,056</u></b>	<b><u>10,881</u></b>

The Group's compensation policy is performance based and the Group believes it is competitive with industry standards. The Group's compensation packages are adjusted annually based on industry salary correction, compensation surveys and individual performance. From time to time, employees who have met or exceeded performance standards are awarded bonuses. The Group also awards long-service bonuses to employees who have completed at least five years of service.

For employees forming part of the Group's operations and maintenance teams and who are based in remote wind farm sites, the Group provides residential, medical, recreational and communications facilities as part of the wind farm infrastructure.

During Fiscal 2005, 2006 and 2007, employees' remuneration and benefits (including salaries, wages, allowances, incentives, bonuses, contribution to provident and other funds and staff welfare expenses) totalled Rs.617.79 million, Rs.1,215.88 million and Rs.6,495.90 million, respectively, corresponding to 3.14 per cent., 3.11 per cent. and 8.04 per cent. of total income during each such fiscal year. Upward adjustments to employee wages are usually made during the first quarter of each fiscal year. The increase in fiscal year 2007 is mainly due to the acquisition of Hansen Transmissions.

The Company has instituted a stock option plan to reward and help retain its employees and to enable them to participate in the Group's future growth and financial success. The Plan includes provision for the grant of options to employees of SEL and the subsidiaries (except

the Company's subsidiaries in the United States of America). The Company has granted stock options to employees pursuant to the Plan. Pursuant to the Plan, the Company has granted 921,000 options to eligible employees. Under the terms of the Plan, 30 per cent. of the options will vest in the employees at the end of the first year, 30 per cent. at the end of the second year and the balance of 40 per cent. at the end of third year from the date of the grant. Hansen Transmissions has a separate plan under which certain members of the management team have subscribed to profit certificates.

The shareholders of the Company have approved a new employee stock option scheme allowing grants of up to 116,200 options to employees of the Company and 24,700 options to employees of its subsidiaries. As of the date of this Offering Circular, no options have been granted under this new scheme.

The Group's India-based employees' post-retirement benefits include a provident fund and a gratuity. Both the provident fund and the gratuity have been approved by the relevant statutory authorities. All India-based employees earning up to Rs.6,500 per month are entitled to provident fund benefits as laid down by Indian law. Each such employee makes monthly contributions to the plan equal to 12 per cent. of the employee's basic monthly salary and the Group contributes a matching amount. The Group has no further obligations under the plan beyond the monthly contributions.

The Group also provides a superannuation scheme for India-based employees who earn more than Rs.6,500 per month. The Group makes monthly contributions to the plan equal to 10 per cent. of the employee's basic monthly salary (27 per cent. for employees at general manager level and higher). The Group has no further obligations under the plan beyond the monthly contributions. For this purpose the Group has taken a group superannuation policy with the Life Insurance Corporation of India. The policy provides for the payment of an annuity on the retirement, resignation or death of the employee. The amount of the lump sum is based on the employee's individual contribution with the Life Insurance Corporation of India.

The Group provides all its employees with group personal accident and life insurance. The Group also provides medical insurance coverage for employees at manager level and above, including their direct dependents, which includes hospitalisation benefits. The Group has also taken "key man" insurance for two of its directors and for two directors of its subsidiary companies.

### **Real Estate and Real Property**

The Group's corporate headquarters is currently located at the Godrej Millennium, 5th Floor, 9, Koregaon Park Road, Pune 411 001. However, the Group is constructing a new Indian headquarters in Pune which will be completed during 2009 at an estimated total development cost (including land) of Rs.3,015.2 million. In addition, the Group's global management team has been based in Amsterdam since 1 April 2007. See "Recent Developments and Prospects". The Group's manufacturing facilities are located at Maharashtra, Gujarat, Diu, Daman and Pondicherry (India), and in Tianjin (China), Minnesota (United States) and Lommel (Belgium).

The Group has approximately 10 properties located across India that it uses for the purpose of its factories/units, out of which approximately 8 are owned by the Group and approximately 2 are leased. There are approximately 127 properties located across India that the Group uses as office premises/storage facilities, of which approximately 9 are owned by the Group and approximately 118 are leased. The Group owns the four properties located in China, United States and Belgium that it uses for the purpose of its factories/units. Further, the Group has approximately 45 leased international offices across the world. Additionally, the Group has leased approximately 23 properties across India for the purposes of wind farms and the Group has leased approximately 239 properties across India and one outside India for the purpose of guesthouses.

### **Safety, Health and Environmental Regulation**

The Group is subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations governing its manufacturing processes and facilities. Such laws and regulations address, among other things, air emissions (particularly volatile organic compounds), waste water discharges, the generation, handling, storage, transportation, treatment and disposal of chemicals, materials and waste, workplace conditions and employee exposure to hazardous substances. The Group has incurred, and

expects to continue to incur, operating costs to comply with such laws and regulations. In addition, the Group has made and expect to make capital expenditures on an ongoing basis to comply with safety, health and environmental laws and regulations. While the Group believes it is in compliance in all material respects with all applicable safety, health and environmental laws and regulations, the discharge of raw materials that are chemical in nature or of other hazardous substances or other pollutants into the air, soil or water may nevertheless give rise to liabilities to the Indian Government or the relevant State Governments and Union Territories of in China, United States or Belgium where the Group's manufacturing facilities are located. In addition, the Group may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

### **Regulations and Policies**

The Group has obtained all of the necessary licences and permits for its current operations, and has operated within the scope of its licences and permits. Policy guidelines have been issued by the Ministry for New and Renewable Energy ("MNRE") to all the states with a view to promote commercial development and private investment in this sector. Further, Electricity Regulatory Commissions ("ERCs") in each state issues regulations to promote usage of renewable energy. The regulations and guidelines pertain to areas such as provision of facilities for wheeling, banking, third party sale and buy-back of electricity. Nine states have introduced renewable energy policies following the MNRE's Guidelines.

### ***Manufacture of wind turbine generators and setting up of wind farms***

In India, a WTG manufacturer is required to be registered with MNRE as an approved manufacturer of WTGs. The MNRE Guidelines set out the conditions that are required to be met for establishing wind farms and manufacturing and supply of equipment for wind power projects. These conditions include type certification by independent testing and certification agencies (either C-WET or another International certification agency) to ensure the quality of WTGs. In addition, manufacturers and developers are also required to provide their technical capability and infrastructure. For testing and certification, C-WET has evolved a Type Approval Provisional Scheme 2000 (TAPS - 2000) for India, which is generally in line with International Certification Schemes for WTGs. In May 1999, MNRE removed the requirement of certification by a foreign agency and allowed the manufacturers to supply WTGs on self-certification basis. Under the self-certification scheme, the manufacturer is required to certify the quality and performance of WTGs supplied by it. However, the requirement for independent certification was re-introduced but also provided a facility to supply WTGs on a self-certification basis under stipulated conditions. The self-certification scheme has been extended from time to time and the current scheme is effective for turbines under testing/certification at C-WET and is valid until September 2007.

The localisation guidelines in China issued by the National Development and Reform Commission (NDRC), requires a WTG manufacturer to manufacture at least 70% of all components (including towers, excluding transformers) in China. At present, there are no mandatory certification standards for WTGs and a certification system is expected to be in place by 2010. In its absence, international standards, mainly from Europe, are being complied by the WTG manufacturers.

At present, there are no distinct registration requirements for WTG manufacturers or developers in the USA, though, there are certain environmental, aviation and other permits which are required to be obtained by WTG manufacturers and/or developers. In addition, most manufacturers of WTGs obtain third party product certification from DNV or Lloyds and certification for internal quality control in manufacturing.

### ***Direct Tax Incentives***

Specific concessions have been made available to the non-conventional energy sector, including wind energy in India:

- Accelerated 80 per cent. depreciation has been provided on specified renewable energy based devices and projects including WTGs.
- Section 80-IA of the Income Tax Act provides for deduction from the total income of an assessee, of profits from an undertaking set up in any part of India for the

generation or generation and distribution of power, which begins to generate power during the period 1 April 1993 to 31 March 2009 for 10 consecutive years out of 15 years, beginning from the initial assessment year. This deduction is subject to payment of minimum alternate tax.

## Product Warranties

The Group provides its customers in India which purchase its WTGs with a generation warranty that can consist of either (a) an absolute "unit" warranty, which is dependent on consistent wind speeds as it is calculated on the total number of units of electricity that will be generated by the WTG or (b) more frequently now, a power curve warranty, based on the number of units of electricity that will be generated by a WTG at different wind speeds. These generation warranties generally extend for periods ranging from one to three years from the date a WTG is commissioned. In the future, the Group will tend to provide power curve warranties instead of absolute "unit" warranties. In addition, the Group usually provides free O&M including the cost of parts for the first year of operations. This cover may be renewed in subsequent years for a fee.

In India, during the year from 1 April 2006 to 31 March 2007, the Company received a total of 855 customer complaints, of which the Company has addressed 245 by way of replacements or repairs of major components, 4 by way of replacement of entire WTG, 332 by way of replacement of minor components and 188 by way of other issues. The Company is in the process of evaluating the balance of 86 complaints.

The details of the generation claims from the Group's generation guarantee customers are as set out below:

Nature of claim	No of claims during the period ended		
	31 March		
	2005	2006	2007
Generation guarantees . . . . .	22	63	117

For the years ended 31 March 2005, 2006 and 2007, the Group paid customers Rs.57.36 million, Rs.230.43 million and Rs.632.31 million, respectively, arising from generation guarantee claims. In May 2007, two customers of the Group claimed Rs. 440.7 million with respect to a generation guarantee and the future shortfall in generation. See "Business – Legal Proceedings".

Hansen Transmissions provides warranties in relation to design, materials and manufacturing defects in its products. These warranties are usually for a duration of six months to a year after the delivery date.

Suzlon Energy A/S carries insurance coverage for claims arising from defects in construction, materials and manufacture, including warranty claims in respect thereof, for WTGs sold to customers outside of India.

## Legal Proceedings

Except as disclosed in the following paragraphs, the Group is not a party to, and none of its property is subject to, any pending legal proceedings which the Group considers to be potentially material to its business:

1. The Company sent demand notices dated 16 April 2007 to two of its customers, Vishal Exports Overseas Limited and Vishal Plastnomer Private Limited (Vishal Entities) for Rs. 60,801,574 and Rs. 10,079,172 payable by them in respect of WTGs sold to them. The Vishal Entities by way of their responses dated 8 May 2007 and 10 May 2007 have denied their liability to pay the said amounts on the grounds of short fall in generation by the WTGs supplied by the Company. They have claimed an amount of Rs. 59,731,235 under the generation guarantee given by the Company in respect of short fall in generation in the prior periods. They have also claimed an amount of Rs. 381,100,000 in respect of anticipated short fall in generation during the remainder of the lifecycle of the WTGs. The Company believes that it is a defensible case and is in the process of preparing a suitable response to the Vishal Entities. The Vishal Entities have called for arbitration proceedings for the



resolution of the dispute. In addition, the Vishal Entities have also obtained an interim injunction from the City Civil Court, Ahmedabad to prevent the Company from stopping the O&M services in respect of the WTGs supplied to the Vishal Entities. The Company is in the process of appealing against the said order.

2. The Company has received a notice dated February 2, 2007 from the Department of Sales Tax, Kutch, State of Gujarat, directing the Company to produce the exemption certificate in respect of the manufacturing unit located at Kutch or in the alternative pay an amount of Rs. 111.12 million rupees with respect to sales tax payable in respect of the said manufacturing unit for the period March 15, 2005 to December 12, 2006. The Company is in the process of obtaining the exemption certificate from the appropriate government authorities.
3. The Company was given a notice dated September 9, 2002 by the Collector, Satara, Maharashtra under the Maharashtra Land Revenue Code, 1966 for carrying on unauthorised mining activity and extracting morum from the land used by the Company for wind farm purposes located at Satara. The liability comprises a royalty payment of Rs. 2,338,168 and a penalty of Rs. 12,525,900. The Company has already paid an amount of Rs. 10,006,168 out of imposed penalty of Rs. 12,525,900 and of Rs. 2,338,168 towards the royalty imposed. In an appeal filed before the Divisional Commissioner of Pune the matter was decided in the favour of the Company and it was held that the excavation activities were not illegal and the matter was remanded back to the Collector for the limited purpose of calculating the exact amount of royalty & penalty payable.

A criminal complaint has also been filed in the court of the Chief Judicial Magistrate, Satara in relation to the above mentioned matter under the Mines and Minerals Act, 1957. The matter is pending.

The Company and AIL received a similar notice dated October 24, 2001 stating that the Company was carrying on mining activities in the wind farm situated in Shahjahanpur, District Ahmednagar, Maharashtra from the Tahasildar Parner, District Ahmednagar. An order dated November 6, 2001 was subsequently passed, imposing a liability of Rs. 28,632,044 comprising royalty payment of Rs. 534,044 and a penalty of Rs. 28,098,000. Separate amounts of Rs. 1,971,514, Rs. 2,000,000 and Rs. 8,590,000 have been deposited under protest towards the liability imposed by the order dated November 6, 2001. The Company has filed an appeal before the Aurangabad Bench of the High Court, Bombay praying for a stay against the recovery of the balance amount of Rs. 16,100,000. AIL is also a petitioner in this matter. The High Court, by way of its interim order, has directed the Company to deposit an amount of Rs. 7,500,000 and stayed the recovery of the balance amount pending final disposal of the appeal. This appeal is pending.

4. The Department of Income Tax, Indian Government conducted survey proceedings under section 133A of the Income Tax Act 1961 on certain premises of the Group in India and the Associate Companies and impounded certain records, registers and books of accounts. Thereafter, the Department of Income Tax through its various correspondences has called for various information in relation to the Group and its operations. The Group has furnished the information required by the Department of Income Tax. Based on the survey, Notice under section 148 of the Income Tax Act, 1961 was received directing reassessment of income for the Financial Year 2000-01. The Group has made submissions against the said Notice. The Notice may result in demands for additional taxes or levy of penalties or such other actions as may be taken under the Income Tax Act, 1961 against the Group. The Group is currently unable to estimate the financial or other impact of these proceedings, and therefore are unable to provide any indication or assurance as to whether these proceedings could have a material adverse effect on our business, financial condition, results of operations.
5. In January 2000 the Group received a letter from the administrator in bankruptcy of Sudwind Energiesysteme GmbH relating to royalty payments in connection with the Technical Collaboration Agreement dated 30 September 1996 which the Group entered into with Sudwind Energiesysteme GmbH. The administrator in bankruptcy claimed that the Group owed royalty payments from sales of its 0.35 MW WTG models, which were designed and developed pursuant to the terms of the Technical Collaboration Agreement. The Group responded to the claims by explaining that the

correct amount it owed was Deutsche Marks 234,000 (i.e., Euro 119,642 or Rs.6.92 million as of 31 March 2007) and that Sudwind Energiesysteme GmbH also had obligations under the agreement that had not been complied with. On 1 March 2000 the Group received a letter from the administrator in bankruptcy requesting a lump sum payment of Deutsche Marks 200,000 (i.e., Euro 102,258, or Rs.5.92 million as of 31 March 2007) as settlement of all the Group's outstanding obligations to agreeing to Sudwind Energiesysteme GmbH. The Group agreed to pay this amount, subject to compliance by Sudwind Energiesysteme GmbH with its outstanding obligations to it under the terms of the Technical Collaboration Agreement, including reimbursement of expenses the Group incurred to obtain the type certification for its 0.35 MW WTG models. As Sudwind Energiesysteme GmbH has not complied with these obligations, the Group has not yet paid the Deutsche Marks 200,000 (i.e., Euro 102,258 or Rs.5.92 million as of 31 March 2007) to its administrator in bankruptcy and the Group has not received any further correspondence relating to this issue. As of the date of this Offering Circular, Sudwind Energiesysteme GmbH is a subsidiary of Nordex AG, one of the Group's key competitors.

6. The Company was associated with Sarjan Securities Private Limited ("Sarjan Securities") who in the past were called upon by regulatory authorities including SEBI and the Deputy Commissioner of Police, Economic Offences Wing, to provide information relating to certain transactions in the shares of Tata Finance Limited. Sarjan Securities has since ceased to be a part of the Promoter Group of the Company with effect from March 30, 2002. The Company has not received any correspondence, nor have any proceedings or investigations been initiated against the Company, its Directors or its Promoter Group in relation to the above.

In addition, there are several actions being taken against Pradeep Khaitan, a director of the Company, in different forums, including the following : (i) a show cause notice was issued to Electrosteel Casting Limited and its directors (including Pradeep Khaitan) in October 2006 for alleged contravention of certain excise laws; and (ii) several criminal complaints against CESC Limited and its directors (including Pradeep Khaitan) for alleged offences under the Indian Penal Code 1860.

## **The Group's Subsidiaries and Associate Companies**

### ***Domestic Subsidiaries***

***Suzlon Infrastructure Services Limited (formerly known as Suzlon Windfarm Services Limited)***, a wholly owned subsidiary of the Company, was incorporated on 27 July 1998 in the state of Gujarat. Its registered office is located at Godrej Millennium, 5th Floor, 9, Koregaon Park Road, Pune – 411001. It is engaged in the business of providing O&M services for WTGs and also development, installation and commissioning of WTGs and manufacturing of transformers.

***Suzlon Towers And Structures Limited (formerly Suzlon Green Power Limited)***, a wholly owned subsidiary of the Company, was incorporated on 25 January 2000 in the state of Gujarat. Its registered office is located at "Suzlon", 5, Shrimali Society, Near Shri Krishna Complex, Navrangpura, Ahmedabad – 380009. It is engaged in the business of independent power projects and manufacturing and dealing in tubular towers for WTGs.

***Suzlon Engitech Private Limited (formerly Sarjan Engitech Private Limited)***, a wholly owned subsidiary of the Company, was incorporated on 3 May 2001 in the state of Maharashtra. Its registered office is located at 3rd Floor, Sai-Hira, Mundhwa Road, Pune – 411 036. It is engaged in the business of manufacturing of WTG components.

***Suzlon Generators Private Limited***, a subsidiary of the Company, was incorporated on 29 April 2004 in the state of Maharashtra. Suzlon Generators is a joint venture between the Company and Elin EBG Motoren GmbH, Austria, in which the Company owns 75 per cent. of the equity. Its registered office is located at Gat No.339/3/1 & Plot No.A-20/1, Chakan Industrial Area, Village Mahalunge, Taluka Khed, Pune – 410 501. It is engaged in the business of manufacturing generators for WTGs. Capacity expansion is in progress, and the Group expects that by the end of June 2007, installed capacity will have increased to 2,000 MW.

**Suzlon Structures Private Limited**, a subsidiary of the Company, was incorporated on 25 May 2004 in the state of Gujarat. Suzlon Structures is a joint venture between the Company and the Kalthia Group in which the Company owns 75 per cent. of the equity. Its registered office is located at "Suzlon", 5, Shrimali Society, Near Shri Krishna Complex, Navrangpura, Ahmedabad — 380009. It is engaged in the business of manufacturing tubular towers. Day-to-day operations are the responsibility of the Kalthia Group, but overall control rests with the Group.

**Suzlon Gujarat Wind Park Limited**, a wholly owned subsidiary of the Company, was incorporated on 5 July 2004 in the state of Gujarat. Presently its registered office is located at "Suzlon", 5, Shrimali Society, Near Shri Krishna Complex, Navrangpura, Ahmedabad — 380 009. It is engaged in the business of establishing of windfarms projects.

**Suzlon Wind International Limited**, a wholly owned subsidiary of the Company, was incorporated on 12 December 2006 in the state of Karnataka. Its registered office is located at 806, Prestige Towers, 100, Residency Road, Bangalore — 560 025. It has been incorporated to engage in the business of manufacturing WTGs.

**Suzlon Rotor International Limited**, a wholly owned subsidiary of the Company, was incorporated on 12 December 2006 in the state of Karnataka. Its registered office is located at 806, Prestige Towers, 100, Residency Road, Bangalore — 560 025. It has been incorporated to engage in the business of manufacturing rotor blades.

**Suzlon Towers International Limited**, a wholly owned subsidiary of the Company, was incorporated on 12 December 2006 in the state of Karnataka. Its registered office is located at 806, 8th Floor, Prestige Towers, 100, Field Marshal K.M. Kariappa Road (Residency Road), Bangalore — 560 025. It has been incorporated to engage in the business of manufacturing tubular towers.

**Suzlon Power Infrastructure Private Limited**, a wholly owned subsidiary of the Company, was incorporated on 10 June 2004 in the state of Tamilnadu. Its registered office is located at 108, 2nd Floor, Srivari Gokul Tower, Race Course Road, Coimbatore — 641018. It is engaged in the business of building infrastructure for extracting and transmitting of power from wind power projects.

**SE Forge Limited**, a wholly owned subsidiary of the Company, was incorporated on 26 June 2006 in the state of Gujarat. Presently its registered office is located at, 5, Shrimali Society, Navrangpura, Ahmedabad — 380 009. It is engaged in the business of forging and foundry.

#### **Research and Development Subsidiaries**

**Suzlon Energy GmbH ("SEG")**, is a wholly-owned subsidiary engaged in developing and launching new WTG models, as well as in upgrading and increasing the cost-efficiency of the Group's existing WTG models. SEG focuses on increasing energy generation at lower cost without sacrificing product quality. The Group has been able to develop and commercially manufacture its 0.60 MW, 1.25 MW, 1.50 MW and 2.10 MW WTG models through SEG. SEG is currently engaged in developing higher capacity, direct drive WTGs. SEG is also involved in customising the various WTG components to suit variations in climate.

**SE Drive Technik GmbH**, was incorporated on 16 July 2005 in Germany and is a wholly-owned subsidiary of AERH. This company will undertake the design, development and manufacture of WTG components for the Group's WTGs.

**Suzlon Windkraft GmbH**, was incorporated on 21 October 2005 and was acquired by SE Drive Technik GmbH on 18 January 2006 as a wholly-owned subsidiary. It designs and develops WTGs of various models and employed eighteen people on 31 December 2006.

## **Overseas Manufacturing companies**

**Suzlon Rotor Corporation**, was incorporated on 10 August 2005 as a wholly-owned subsidiary, in the United States of America in order to reduce the logistics costs of supply of the Group's products to these markets. The company has commenced commercial operations of its manufacturing facilities for rotor blades in January 2007.

**Suzlon Energy (Tianjin) Limited**, was incorporated on 4 January 2006 as a wholly-owned subsidiary, in China in order to comply with the local regulations and to cater to the China market. The company commenced commercial operations of its integrated manufacturing facilities for WTGs, rotor blades, nacelle covers, control panels and generators in the second quarter of Fiscal 2007.

**Hansen Transmissions International N.V. ("Hansen Transmissions")** was acquired by the Group as a wholly-owned subsidiary in May 2006. On May 9, 2006, AERH completed the purchase of 100 per cent. of the share capital of Eve Holding N.V. for a consideration of Euro 431.43 million after having received all requisite approvals for the acquisition. Currently, the Group has 100 per cent ownership of Eve Holding N.V. and its wholly-owned subsidiary Hansen Transmissions, which is engaged in the business of design, development, manufacturing and supply of industrial and wind gear boxes. The acquisition was financed by debt. The Group entered into a €450 million facility with ICICI Bank Limited, State Bank of India, Deutsche Bank AG and Barclays Bank PLC (which has since been refinanced by a new loan from ABN AMRO Bank N.V. and ICICI Bank Limited) for which the Company has provided its corporate guarantee as security.

## **Overseas Managing and Demo Companies**

**AE Rotor Holding B.V. ("AERH")**, is a holding company for AE Rotor Techniek B.V. ("AERT") and Suzlon Energy B.V. AERT is a wholly-owned subsidiary of AERH engaged in research and development activities relating to rotor blade technology, a critical component of WTGs, including the development of moulds and tooling used for rotor blade construction. AERT has developed designs for rotor blades for the Group's 0.60 MW, 1.25 MW, 1.5 MW and 2.10 MW WTGs and coordinates its activities with the Group's rotor blade manufacturing team in India. Moulds and prototypes for rotor blades are designed by AERT, which are then built by the Group's engineering teams in India and used in its manufacturing facilities. AERT provides on-line support to the Group's mould, rotor blade and nacelle cover manufacturing units in India and conducts various training programmes in the Netherlands and in India for the Group's employees. Suzlon Energy B.V. was incorporated as a wholly-owned subsidiary of AERH for the purpose of marketing the Group's WTGs in the Netherlands.

**Eve Holding N.V., Belgium** was acquired as a wholly-owned subsidiary on May 9, 2006 by AERH for a consideration of Euro 431.43 million and is the holding company of Hansen Transmissions.

**Windpark Olsdorf WATT GmbH & Co. KG ("WOG")** was acquired by the Group through SEG and Suzlon Windpark Management GmbH. WOG holds all the rights, claims, contracts and private and public permits to develop property in Germany and to use this property for the installation of a WTG with a power rating of up to 2.30 MW. The Group intends to use WOG as a vehicle to install and demonstrate the 2.10 MW series WTG in Germany. WOG was acquired with effect from 1 May 2005 from the sole limited partner of WOG pursuant to the terms of an agreement to acquire all of WOG's shares dated 4 April 2005. As a condition for the acquisition of WOG, SEG entered into an agreement dated 21 July 2005 to assume and become liable to pay the debts incurred by WOG in connection with contracts for the building WTG-related infrastructure, for the design of a WTG and for the lease of land on which the WTG was to be installed. The total amounts of these debts was EUR 267,500, which was paid on 26 July 2005 although SEG agreed to assume and become liable to pay all potential debt relating to these debts up to a maximum amount of EUR 380,000. In the letter no. SEL/SEC/ABAD/0109/05-06 dated 26 July 2005 addressed to the RBI, the Group had sought clarification on whether its 100 per cent. owned subsidiary would require permission from the RBI for the acquisition of 100 per cent. of the shares of another foreign company. The RBI had vide letter no. Ref.No.FE.CO.OID2226/19.19.455/2005-2006 dated 2 August 2005 clarified that no prior approval would be required for such an acquisition.

**Suzlon Windpark Management GmbH**, was incorporated as a wholly-owned subsidiary in Germany. This company has been incorporated to undertake the management of WOG.

**Suzlon Energy Limited, Mauritius** was incorporated on 17 March 2006 as a wholly-owned subsidiary, in Mauritius, to engage in the business of investment and holding as well providing turnkey solutions for the setting up of windfarm projects.

**Suzlon Wind Energy Limited** was incorporated in the United Kingdom, on 7 April 2006 as a wholly-owned subsidiary of Suzlon Energy Limited, Mauritius, to engage in the business of investment and holding.

**Suzlon Windenergie GmbH** was incorporated on 4 December 2006 and was acquired by the Group on 12 January 2007, and as at the date of this Offering Circular is 75 per cent. owned by SE Drive Technik GmbH. For more information, see "Recent Developments and Prospects – Acquisition of REpower Systems AG.

### **Marketing Subsidiaries and Branch Offices**

**Suzlon Energy A/S (Denmark) ("Suzlon Denmark")**, is a wholly-owned subsidiary that has been incorporated as the Group's global headquarters for international marketing worldwide. It is a management company to all the overseas marketing subsidiaries of the Group.

**Suzlon Wind Energy Corporation (USA) ("SWECO")**, is a wholly-owned subsidiary of Suzlon Energy A/S that markets and sells WTGs in the United States. It has a wholly-owned subsidiary, Cannon Ball Wind Energy Park-I, LLC, which is not operating as of the date of this Offering Circular.

**Suzlon Energy Australia Pty. Ltd. ("Suzlon Australia")**, is a wholly-owned subsidiary of Suzlon Energy A/S that was incorporated in January 2004 in order to give the Group a presence in the emerging Australian market for WTGs.

**Suzlon Wind Energy A/S, Denmark**, is a wholly-owned subsidiary of Suzlon Energy A/S, Denmark. It was incorporated in June 2006, in order to carry out marketing activities in Europe and Latin America. It also acts as a holding company to the Group's subsidiaries in the European and Latin American regions, engaged in marketing and selling WTGs in their respective countries. It has secured orders in Italy, Portugal and Brazil.

**Suzlon Energy Italy Srl ("Suzlon Italy")**, is a wholly-owned subsidiary of Suzlon Wind Energy A/S, Denmark. It was incorporated in November 2006, in order to undertake marketing and sales activities in Italy.

**Suzlon Energy Portugal Energia Eolica Unipressol Lda ("Suzlon Portugal")**, is a wholly-owned subsidiary of Suzlon Wind Energy A/S, Denmark. Incorporated in September 2006, its role is to undertake marketing and sales activities in Portugal.

**Suzlon Energia Eolica do Brasil Ltda ("Suzlon Brazil")**, is a wholly-owned subsidiary of Suzlon Wind Energy A/S, Denmark. Incorporated in September 2006, it undertakes marketing and sales in Brazil.

**Suzlon Energy Korea Co., Ltd ("Suzlon Korea")**, is a wholly-owned subsidiary of Suzlon Energy A/S, Denmark, which was September 2006 to undertake marketing and sales activities in Korea.

### **Associate Companies**

Together with its Associate Companies, the Group offers integrated wind power solutions to customers in India. The Group does not hold any equity and/or preference interest in any Associate Companies. The Group does not have any ownership or exercise any control over the business activities of any Associate Companies, each of which is controlled by the Promoter Group. The Group regularly provides financing to, and guarantee the obligations of, its Associate Companies pursuant to arms' length transactions as set forth in the terms of agreements for services the Group has entered into with such Associate Companies. All loans and guarantees to Associate Companies are unsecured. As such, they

are subordinated to the Group's secured third-party debt. As at 31 March 2007, outstanding loans and guarantees to the Associate Companies amounted to Rs.4,433.41 million and Rs.3.04 million, respectively. The Group also leases certain of its properties to its Associate Companies.

**Sarjan Realities Limited ("SRL")**, is primarily engaged in acquiring land for wind farm projects. After the Group has conducted wind resource assessments and land surveys of sites suitable for development of wind farms, SRL, at the Group's request, acquires land from owners either by way of purchase or lease. SRL then holds such land until a customer has executed a purchase order with the Group for supply of WTGs. Thereafter, SRL sells/leases/sub-leases portions of such land to such customers. Under the terms of an agreement for services between the Group and SRL, land acquired by SRL will be exclusively offered to the Group's customers.

**Aspen Infrastructures Limited ("AIL") (formerly known as Suzlon Infrastructure Limited)**, is primarily engaged in SEZ development. The activities relating to infrastructure development and installation of WTGs is now being conducted by a wholly-owned subsidiary of the Group, SISL, with effect from 1 April 2007, which were earlier being undertaken by AIL.

**Shubh Realty (South) Private Limited** is primarily engaged in acquiring land for wind farm projects in southern India.

**Shubh Realty (Gujarat) Private Limited** is primarily engaged in acquiring land for wind farm projects in the state of Gujarat.

Members of the Promoter Group have also incorporated **Samiran Jaipur Windfarms Private Limited, Samiran Jaisalmer Windfarms Private Limited, Samiran Jodhpur Windfarms Private Limited** and **Samiran Udaipur Windfarms Private Limited**, or collectively the "Samiran Associate Companies".

The Group has entered into capacity allocation agreements with SRL, AIL, the Samiran Associate Companies, Sunset Windfarms Private Limited and Samimeru Windfarms Private Limited (collectively, the "Windfarm Developers"). Under the terms of these agreements, the Windfarm Developers shall exclusively offer for sale or license, generating capacity and/or land allocated or obtained by the Windfarm Developers from state governments for the generation of electric power to the Group's customers or to the Group or to one or more of the Group's affiliates on such terms and conditions, including the consideration payable, as are negotiated on an arms' length basis. The Company has agreed to pay an annual exclusivity fee of Rs.10,000 per mega watt to the Windfarm Developers including all incidental expenses incurred by each of the Windfarm Developers in a year in relation to such transactions.

From time to time, the Group also enters into agreements to supply WTGs and WTG components to its Associate Companies and other members of the Promoter Group. It is the Group's policy to negotiate and enter into these agreements on an arm's-length basis.

### **Related Party Transactions**

The Group has engaged in the past, and is likely to in the future engage in, transactions with related parties. The Group believes that all transactions with related parties are on terms no less favourable to it than could have been obtained from unaffiliated third parties on an arm's length basis. For details of the Group's related party transactions, see note 13 and 14 to the financial statements for the year ended 31 March 2007 included elsewhere in this Offering Circular.

## RECENT DEVELOPMENTS AND PROSPECTS

### Financial Performance for the year ended 31 March 2007

The Group's audited consolidated income for the year ended 31 March 2007 was approximately Rs.80,822.30 million, representing an increase of 106.42 per cent. over the corresponding period in 2006, primarily as a result of increased sales and recognition of revenues from the Hansen Transmissions acquisition. Sales and Service Income increased by 107.91 per cent. over the corresponding period in 2006. Domestic sales in India contributed 52.21 per cent. and international sales contributed 47.79 per cent. of the total Sales and Service Income. The Group reported net profit of approximately Rs.8,640.32 million, an increase of 13.76 per cent. over the corresponding period in 2006.

Cost of Goods Sold for the year ended 31 March 2007 was approximately Rs.48,113.65 million, representing an increase of 106.68 per cent. over the corresponding period in 2006. Operating and other Expenses for the year ended 31 March 2007 was approximately Rs.12,031.55 million, representing an increase of 134.93 per cent. over the corresponding period in 2006. Although the Group completed its acquisition of Hansen Transmissions in May 2006, its contribution to net profit after offsetting the substantial interest cost on the principal amount of the debt which the Group incurred in order to finance the acquisition is Rs.392.88 million.

The Group's EBITDA margin for the year ended 31 March 2007 was lower than the trend exhibited by the Group in the past. Some of the major reasons for this include:

- in the overseas business, certain supplies could not be recognised as consolidated revenue due to delays in the supply of outsourced towers;
- there was a delay in receipt of some critical components resulting in production loss;
- the cost of outsourced towers increased during the period; and
- appreciation of the Indian Rupee against the U.S dollar.

### Capacity Expansion and Integration of Operations

The Group intends to establish a Rotor Blade Unit at Karnataka & Tower Unit at Kutch, Gujarat and WTG Unit, Generator Unit and Control Panel Unit at Coimbatore by the fourth quarter of fiscal 2008. It also plans to establish forging and machining facilities at Vadodara and foundry and machining facilities at Coimbatore with an annual capacity of 70,000 MT and 120,000 MT, respectively by the fourth quarter of Fiscal 2008. The total capital expenditure for these facilities is expected to be Rs. 15 billion.

The Group is also currently planning to establish a rotor blade testing facility in Vadodara, which will be the first of its kind in Asia. At present, such facilities only exist in Technical University of Delft in The Netherlands and the National Renewable Energy Laboratory in the United States. The Group plans to enter into a technical collaboration with Knowledge Center WMC, a unit of TU-Delft. The facility will be capable of conducting complete life cycle tests on rotor blades by performing "destructive" tests. The capital expenditure for this facility is expected to be approximately Rs.300 million.

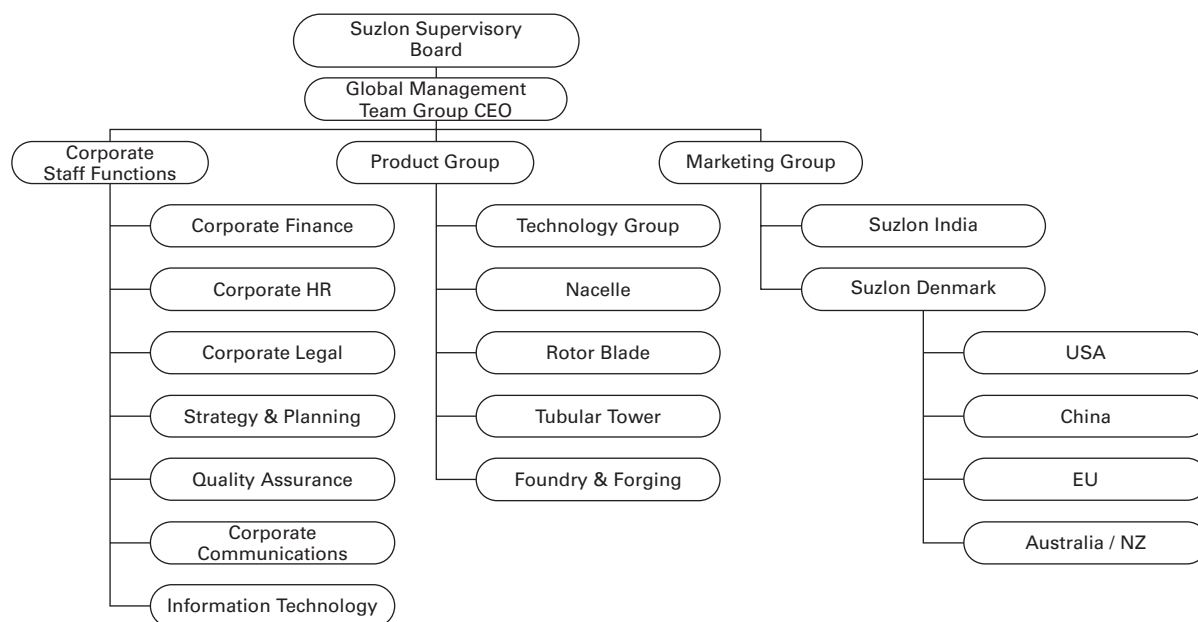
Hansen Transmissions has also announced plans to increase its annual capacity from 3,600 MW to 5,800 MW at an estimated cost of Rs. 8.00 billion, by the fourth quarter of Fiscal 2008. It also plans to establish a gearbox manufacturing plant in India at an estimated cost of Rs. 9.80 billion with approximate capacity of 3,500 MW, which will commence by the fourth quarter of Fiscal 2009. With the proposed capacity expansion, the Group is expected to source part of its gearbox requirements from Hansen transmissions by Fiscal 2008.

## Restructure of Associate Company operations in India

In India, the Group provides customers with integrated services for wind power projects. This involves certain services being provided to customers by the Group's Associate Companies. Until recently, ALL, an Associate Company, was engaged in development of wind farm sites, installation and commissioning of WTGs. However, with effect from 1 April 2007, these activities are being undertaken by a wholly-owned subsidiary of the Group, SISL.

## Establishment of Global Headquarters

With effect from 1 April 2007, the management functions for the Group have been restructured. Suzlon Energy B.V., a subsidiary of AERH based in Amsterdam, provides a new level of supervision and management for the Group. Group managers now report to Suzlon Energy B.V. who reports to the Suzlon supervisory board. The diagram below sets out the new management structure of the Group:



Appointments for key positions within Suzlon Energy B.V. have been sought externally. Mr. Andre Horbach has been appointed chief executive officer of Suzlon Energy B.V.. The Company expects that the new management structure will assist the Group's international expansion.

## Acquisition of REpower Systems AG

### Background to bid process

On 9 February 2007, Suzlon Windenergie GmbH ("SWG"), a joint venture between the Company and the Portuguese steel and metal building company Martifer SGPS, S.A. ("Martifer"), announced its intention to make an offer for the entire outstanding equity share capital of REpower, the German wind turbine producer and on 28 February 2007, submitted its formal offer (the "REpower Offer"). The Company indirectly holds 75 per cent. of the equity shares in SWG, with the remainder held by Martifer. SWG is a joint venture specifically set up as an acquisition vehicle for the REpower Offer.

The initial offer from SWG was an all cash offer of €126.00 for each ordinary equity share of REpower. This followed an offer announced by AREVA S.A. of France ("Areva") on 23 January 2007 (the "Areva Announcement") of €105.00 per share. On 15 March 2007, Areva announced that it had agreed to acquire additional REpower shares for a purchase price of €140.00 per REpower share. As a consequence of this purchase, the price offered by Areva in its public offer increased to €140.00 per share. On 10 April 2006, SWG announced that it had acquired additional REpower shares for a purchase price of €150.00 per REpower share. As a consequence of this purchase, the price offered by SWG in its public offer increased to €150.00 per share.



On 24 May 2007, Areva announced that it did not intend to continue bidding for REpower and that it had entered into a co-operation agreement (“Co-operation Agreement”) with the Company. See below for further details on the Co-operation Agreement. Following the conclusion of the REpower Offer, the Company (through its subsidiaries SWG and SE Drive Technik GmbH) holds 33.85 per cent. of REpower’s capital. The Group has paid approximately €450 million for the aggregate number of REpower shares purchased or subscribed to date. As a result of the entry into the Co-operation Agreement and the REpower Takeover Agreement, the Company now controls, through voting pool agreements with Martifer and Areva, a further 53.25 per cent. of the votes in REpower. Therefore in aggregate the Group now controls, either directly or through voting pool agreements, approximately 87 per cent. of the votes in REpower.

The final offer of SWG of €150.00 for each ordinary equity share values the equity share capital of REpower at approximately €1.35 billion, based on the outstanding equity share capital of REpower as at the date of this Offering Circular and such final offer price. The final offer of SWG represents a premium of 109.9 per cent. on the average volume weighted share price of REpower for the three months immediately preceding the AREVA Announcement. The acquisition of the REpower shares will be financed by certain tranches of the Acquisition Facility, as refinanced by the proceeds of the Bonds.

The financial advisors to the Group for the REpower Offer includes ABN AMRO Bank N.V., German Branch, Frankfurt am Main, Germany and Yes Bank Ltd, Mumbai, India.

### ***REpower Takeover Agreement***

Martifer holds directly and indirectly through its 100 per cent. owned subsidiary Martifer Energy Systems SGPS, S.A. (“Martifer Energy Systems”) approximately 23.08 per cent. of REpower’s shares. On 9 February 2007, SWG, SE Drive Technik GmbH, Bochum, Germany (“SEDT”), Martifer, Martifer Energy Systems and SEL entered into a takeover, shareholders’ and pooling agreement (“REpower Takeover Agreement”).

The main purposes of the REpower Takeover Agreement include: to agree on the major terms and conditions of the REpower Offer; for Martifer to hold a 25.00 per cent. interest in the share capital of SWG; to coordinate the exercise of voting rights attached to REpower Shares between SWG, SEDT, Martifer and Martifer Energy Systems following the fulfilment of the conditions of the Offer; and to grant Martifer the right to sell and transfer its REpower shares and the REpower shares currently held by Martifer Energy Systems to SEDT and to grant SEDT the right to purchase and acquire the REpower shares held by Martifer and Martifer Energy Systems.

The purchase price for such REpower shares held by Martifer and Martifer Energy Systems prior to the signing of the REpower Takeover Agreement is less than €150 per share and the purchase price for any REpower shares acquired by Martifer and Martifer Energy Systems thereafter shall conform to the respective acquisition price. This amount shall be reduced by the dividends before tax distributed and paid in respect of REpower shares to be sold by Martifer and Martifer Energy Systems prior to the date the transfer becomes effective in accordance with the REpower Takeover Agreement.

In turn, Martifer has the right to request from SEDT any time following the second anniversary of 25 May 2007 to purchase and acquire the REpower shares held by Martifer and Martifer Energy Systems in total or in two tranches. In the event of an exercise of such option by Martifer, the purchase price shall be calculated in the same way as under the option of SEDT described in the preceding paragraph. In order to hedge the call option of SEDT, Martifer and Martifer Energy Systems have pledged their shares in REpower to SEDT. In addition, SEDT has delivered a bank guarantee for the payment obligations of SEDT under the Martifer put option.

## ***Co-operation Agreement***

The Co-operation Agreement between the Company and AREVA governs the framework regarding the Company and AREVA's shareholding in REpower. AREVA currently holds 30.17 per cent of REpower's share capital and under the Co-operation Agreement has committed to vote in accordance with the Company's proposals subject to customary minority protection.

In addition, the Co-operation Agreement also provides after the expiration of a one year lock up that (a) AREVA may put its REpower shares to the Company and (b) the Company has a right of first refusal as regards any other sale of REpower shares contemplated by AREVA. The price to be paid to AREVA would in certain cases be determined on the basis of an independent valuation of REpower shares. The Company has provided AREVA with a guarantee with respect to its payment obligations under the Co-operation Agreement for the put option, which has been supported by cash drawn under the Acquisition Facility.

## ***Acquisition Facility***

On 9 February 2007, ABN AMRO Bank, N.V., Singapore Branch as original lender entered into a €1.575 billion credit agreement (as amended by the first and second supplemental agreements dated 15 February 2007 and 21 March 2007, respectively) with, inter alia, Suzlon Energy Limited, AERH, and SE Drive Technik GmbH (all guaranteed by SEL) (the "Acquisition Facility") in order to assist with the financing of the REpower Offer. The Acquisition Facility provides for several tranches of debt which can be utilised for certain purposes including (i) the repayment of indebtedness relating to the Hansen Transmissions acquisition; (ii) payment of the purchase price and acquisition costs in relation to the REpower Offer; and (iii) general corporate purposes of the Group. The current amount drawn or committed under the Acquisition Facility is €1,569.96 billion. The Company intends to use the proceeds of the Bonds to refinance part of the Acquisition Facility. See "Use of Proceeds". The aggregate purchase price for the 87 per cent. interest in REpower is not expected to exceed the principal amount of the relevant tranches of the Acquisition Facility that have been allocated for the acquisition.

## ***Group's intentions for REpower***

The Executive Board and Supervisory Board of REpower have stated that they see opportunities to establish a worldwide group for the development and production of wind turbines in conjunction with the Group, thereby taking advantage of additional business opportunities. The two companies have strengths in different geographical regions which are expected to make synergies possible. In addition, the Group intends to support REpower by supplying certain components. The Group has also stated that:

- The Group does not intend to relocate the seat or significant business divisions of REpower. Further, the Group intends to expand its existing technology activities in Germany where most of the Group's research and development activities are already located. For this purpose, the Group proposes to establish together with REpower a global technology centre for wind power in Hamburg for developing reliable and cost-efficient wind turbines.
- The Group intends to build up a strong partnership and cooperation between REpower and its subsidiaries ("REpower Group") and the Group. The Group sees considerable growth potential for REpower, and will support its expansion plans by providing its resources and expertise to REpower in order to further strengthen REpower's position in the global wind energy market. The Group does not have any plans to prompt the management of REpower to close or relocate any business operations of REpower or its affiliates or to sell significant assets of any company of the REpower Group.
- As part of a dual brand strategy, the Group intends to maintain the REpower brand and plans that REpower will continue to be managed by a professional team, supported by and profiting from the Group. There are no plans to divest any of REpower Group's businesses, nor are any measures planned that would lead to a significant increase in REpower's liabilities beyond the ordinary course of business.

- The Group considers REpower's management to be a key factor for the further development of the business of REpower. The Group expects that the current members of the management board will continue as members of the management board following the completion of the REpower Offer.
- The Group does not intend to take any measures which would have any effect on the employees of REpower or of its subsidiaries, or their employee representation or significant effects on their terms of employment. In particular, the Group has at present no plans of its own to cut jobs within the REpower Group or to take any significant restructuring measures. The Group rather intends to support the further business development of REpower by further strengthening its market, sales engineering and research and development team. The Group assumes that through the establishment of a global technology centre together with REpower in Hamburg a number of new jobs could be created in Hamburg until 2009.
- With settlement of the REpower Offer, SWG will acquire a participation in REpower. Hence, SWG will serve as a holding company. It does not have any employees. SWG's seat will be relocated from Cologne to Bochum. Beyond this, the Group, to the extent affected by the REpower Offer, currently intends no further changes to the business activities.

Further information in relation to the REpower Offer is available at [www.suzlonwindenergie.com](http://www.suzlonwindenergie.com).

### ***REpower's Business***

REpower is currently one of the leading turbine producers in the German wind energy sector, with a market share 8.7 per cent (Source: BTM 2007 Report). REpower focuses on the development, production and installation of multi-megawatt wind turbines. Its product range comprises several types of wind turbines, ranging from outputs of 1.50 MW to 5 MW. REpower also specialises in high output turbine technology suitable for offshore turbines. REpower was founded in 2001 following the merger of BWU-Brandenburgische Wind und Umwelttechnologien GmbH, Jacobs Energie GmbH and pro + pro Energiesysteme GmbH & Co. KG and is a stock corporation under German law with registered seat in Hamburg, registered with the commercial register at the local court of Hamburg under HRB 75543.

On 1 June 2007, the share capital (Grundkapital) of REpower as stated in the commercial register amounted to €8,928,176 and was divided into 8,928,176 non-par-value bearer common shares (Inhaber-Stammaktien) with a calculated value in the share capital (anteiliger rechnerischer Anteil am Grundkapital) of €1.00 per share. REpower raised contingent capital (bedingte Kapitalia) in the total amount of €2,761,700 for (i) the issuance and satisfaction of stock options to members of the management board (Vorstandsmitglieder), managing directors of subsidiaries and executives of companies of REpower Group and (ii) for the satisfaction of convertible bonds (Wandelschuldverschreibungen). 269,300 stock options have been presently issued by REpower. 69,300 of these stock options can be exercised in August 2007 and 200,000 in August 2008.

Pursuant to sec. 5 (6) of the articles of association of REpower, the management board of REpower is authorised to increase the share capital, with the consent of the supervisory board, on one or more occasions by up to €4,050,898 through issuance of up to 4,050,898 new shares against contribution in cash or in kind until 29 May 2011. The management board is authorised, with the approval of the supervisory board, to exclude shareholders' subscription rights on one or more occasions (i) insofar as this is necessary to exclude fractional amounts from subscription rights, (ii) the new shares are issued against contribution in kind or (iii) up to in total 10 per cent. of the registered share capital at the date on which the authorisation is exercised for the first time if the new shares are issued against contribution in cash, provided that the issue price of new shares is not substantially lower than the market price of the listed shares of the same category on the date on which the issue price is finally determined or (iv) insofar as necessary to grant subscription rights for new shares to holders of conversion or option rights issued by REpower. REpower Shares are traded in the regulated market (Geregelter Markt) in the sub-sector Prime Standard at the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) under securities identification code ISIN DE0006177033 and over-the-counter (Freiverkehr) at the stock exchanges in Munich, Berlin-Bremen, Düsseldorf, Hamburg and Stuttgart.

Members of the management board of REpower are Prof. Dr. Fritz Vahrenholt (CEO), Pieter Wasmuth (CFO) and Matthias Schubert (CTO). The supervisory board of REpower is subject to employee co-determination according to the One-Third Participation Act (Drittelbeteiligungsgesetz), according to which one third of the supervisory board members of REpower are elected by the employees, whereas the other two thirds are elected by the shareholders at the general meeting of REpower. Members of the supervisory board of REpower are Bertrand Durrande, Dr. Jorge Martins, Dr. Rolf Bierhoff, Dr. Hans-Joachim Reh, Oliver Heinecke and Alf Trefe.

As of January 2007, REpower became the third largest manufacturer of wind turbines in Germany (Source: REpower press release dated 16 January 2007). REpower has a presence in many of the major growth markets for wind energy in Europe (France, Portugal, Italy, Spain, the UK and Greece), in addition to Asia (including Japan, China and India) and Australia. In the period from 1 January 2006 to 31 December 2006, REpower installed and recognised income from 263 turbines with a total output of 492.0 MW. This represents a year-on-year increase in installed output of approximately 34 per cent. (previous year: 201 turbines and 366 MW).

Some recent developments relating to REpower include:

- the first-ever REpower turbine was successfully installed at sea at the end of August 2006 in the Moray Firth estuary, in the North Sea off the coast of Scotland. The 5 MW turbine for the demonstration wind farm "Beatrice" was set up in water measuring 44 metres in depth.
- in Baotou, China, a joint venture, REpower North (China) Ltd. was founded. The partners in this venture are the Chinese steel and mechanical engineering company North Heavy Industry Corporation and the British wind park project developer Honiton Energy Ltd. In addition, REpower signed a licencing agreement for the 1.50 MW technology with the Essar Group, one of India's leading industrial groups.
- in May 2007, the REpower board approved the foundation of a joint venture with rotor blade manufacturer Abeking & Rasmussen (A&R). The joint venture is to produce rotor blades developed by REpower. REpower and A&R have stakes of 51 per cent. and 49 per cent. respectively in the joint venture.
- during the period from January to March 2007, REpower installed and recognised in income from 32 turbines with a total output of 61 MW. This represents a year on year decline in installed output of 46.5 MW. The reason for this is a number of delayed deliveries from suppliers. These delays meant that a large number of wind energy turbines could either only be partly completed or could not be put into operation as per the balance sheet.

## REpower's Recent Reported Financial Performance

REpower Group's business year is from 1 January until 31 December (the "Business Year"). For the year ended 31 December 2005, REpower generated a consolidated turnover of €335.1 million. For the year ended 31 December 2006, REpower achieved a consolidated turnover of approximately €461.5 million with consolidated total assets as at 2006 of approximately €408.6 million. REpower reported a consolidated net profit of €7.1 million for the year ended 31 December 2006, compared to a consolidated net loss of €6.8 million for the year ended 31 December 2005.

In the first quarter of 2007, REpower announced gross revenues of €125.4 million compared with €88.8 million in the same period of the previous year. This corresponds to an increase of 41.3 percent. Sales for the quarter increased year-on-year from €95.0 million to €97.7 million. The operating result (EBIT) decreased slightly for the quarter from €1.6 million to €0.3 million. After taxes and interest, this results in positive net earnings of €0.015 million after €0.8 million in the previous year period.

Key information on REpower for the Business Years 2006, 2005 and 2004 is set out in the table below:

		Business Year 2006	Business Year 2005	Business Year 2004
Gross revenues	in tsd. EUR	461,540.5	335,069.6	301,365.2
Ebit	in tsd. EUR	12,185.1	(4,301.1)	(3,557.4)
Earnings before tax	in tsd. EUR	11,200.2	(8,571.3)	(7,057.5)
Net profit	in tsd. EUR	7,053.6	(6,752.2)	(9,574.1)
Total assets	in tsd. EUR	408,651.2	275,217.7	272,367.8
Shareholders' equity	in tsd. EUR	187,829.8	99,935.9	99,025.3
Shareholders' equity ratio	%	45.96	36.31	36.35
Shares outstanding *	1 EUR	7,507,801	5,693,698	5,401,198
Earnings per share *	EUR	0.94	(1.19)	(1.74)
Shares outstanding	1 EUR	8,101,797	5,941,198	5,401,198
Market capitalisation **	in tsd. EUR	633,965.6	187,741.9	72,322.0
Closing price **	EUR	78.25	31.60	13.39
Staff (REpower Systems AG) ...	number	738	583	558

\* Weighted average

\*\* Last trading day

Selected key ratios of REpower for the Business Year 2006 include:

- As of 31 December 2006, the equity ratio of REpower was 43.1 per cent. compared to 33.1 per cent as of 31 December 2005.
- The material expenses ratio was 85.4 per cent. in Business Year 2006 as compared with 85.3 per cent. in Business Year 2005. Cost increases against 2005 were almost entirely offset by enhanced efficiency.
- The personnel expenses ratio declined from 8.5 per cent. in Business Year 2005 to 6.6 per cent. in Business Year 2006. In the previous year, personnel expenses included severance packages in connection with management level reorganisation. Also, the number of personnel rose at a rate slower than the increase in sales and total operating performance.
- The EBIT margin on sales improved from minus 2.5 per cent. in Business Year 2005 to 0.7 per cent. in Business Year 2006. This was primarily the result of higher sales. Expenses did not move up as fast as sales which increased by 39.9 per cent. This was because fixed costs did not rise as quickly as business volume.

The selected audited consolidated balance sheet and audited consolidated income statement for the Business Years 2006 and 2005 are set out below:

### Consolidated Balance sheet

	<u>Business Year 2006</u>	<u>Business Year 2005</u>
	EUR	EUR
<b>Assets</b>		
<b>Current assets</b>		
Liquid assets . . . . .	120,066,967.17	67,426,864.52
Shares in project corporations . . . . .	40,000.00	63,100.00
Future accounts receivable from contract orders . . . . .	36,985,072.25	60,985,494.02
Trade accounts receivable . . . . .	95,105,017.40	53,672,359.10
Intragroup receivables . . . . .	417,565.59	229,643.76
Receivables from associated corporations . . . . .	1,565,348.20	0.00
Accounts receivable from project corporations . . . . .	1,000.00	536,622.32
Inventories . . . . .	78,145,078.74	34,663,183.87
Short-term prepaid expenses and deferred charges . . . . .	19,310,747.09	20,697,792.11
<b>Total current assets</b> . . . . .	<u>351,636,796.44</u>	<u>238,275,059.70</u>
<b>Non-current assets</b>		
Property, plant and equipment . . . . .	22,035,649.15	16,819,098.57
Intangible assets . . . . .	13,764,692.75	1,847,531.01
Goodwill . . . . .	1,329,667.39	1,257,945.94
Investments in associates . . . . .	2,999,372.10	55,308.93
Investments in other companies . . . . .	611,762.94	611,763.28
Borrowings . . . . .	6,581,639.08	6,533,153.77
Deferred taxesv . . . . .	7,352,093.58	6,587,609.00
Long-term prepaid expenses and deferred charges . . . . .	2,339,514.72	3,230,215.00
<b>Total non-current assets</b> . . . . .	<u>57,014,391.70</u>	<u>36,942,625.50</u>
<b>Total assets</b> . . . . .	<u>408,651,188.14</u>	<u>275,217,685.20</u>
<b>Liabilities</b>		
<b>Short-term liabilities</b>		
Short-term loans and short-term percentage of long-term loans . . . . .	108.81	41,773,083.00
Trade accounts payable . . . . .	68,923,568.68	63,225,840.06
Intragroup liabilities . . . . .	0.00	332,854.19
Advance payments received . . . . .	91,407,272.92	12,036,761.47
Provisions . . . . .	27,757,222.46	28,005,759.34
Deferred sales . . . . .	248,922.27	72,665.01
Income tax liabilities . . . . .	530,129.74	1,425,193.75
Other short-term liabilities . . . . .	12,269,742.55	11,520,380.46
<b>Total short-term liabilities</b> . . . . .	<u>201,136,967.43</u>	<u>158,392,537.28</u>
<b>Long-term liabilities</b>		
Long-term loans . . . . .	2,354,760.00	3,315,105.96
Capital from profit participation rights . . . . .	10,000,000.00	10,000,000.00
Deferred taxes . . . . .	7,329,671.24	3,574,114.29
<b>Total long-term liabilities</b> . . . . .	<u>19,684,431.24</u>	<u>16,889,220.25</u>
<b>Equity capital</b>		
Subscribed capital . . . . .	8,101,797.00	5,941,198.00
Share issue for capital increase . . . . .	16,200.00	0.00
Capital reserve . . . . .	165,346,005.62	86,670,542.61
Exchange differences . . . . .	(30,460.63)	(18,505.03)
Balance-sheet profit/balance-sheet loss . . . . .	14,374,915.09	7,312,199.95
Minority interests . . . . .	21,332.40	30,492.14
<b>Total equity capital</b> . . . . .	<u>187,829,789.47</u>	<u>99,935,927.67</u>
<b>Total liabilities</b> . . . . .	<u>408,651,188.14</u>	<u>275,217,685.20</u>

## Consolidated income statement

### Income statement

	<u>Business Year 2006</u>	<u>Business Year 2005</u>
	EUR	EUR
Sales.....	458,834,909	328,076,466
Changes in finished goods and work in progress .....	<u>2,705,553</u>	<u>6,993,150</u>
<b>Total performance</b> .....	<u><u>461,540,462</u></u>	<u><u>335,069,615</u></u>
Other operating income .....	4,340,252	13,781,969
Cost of materials/cost of purchased services.....	(386,506,723)	(282,832,277)
Personnel expenses.....	(28,504,173)	(27,314,573)
Depreciation on property, plant and equipment (and intangible assets).....	(4,318,263)	(6,578,825)
Other operating expenses.....	<u>(34,366,490)</u>	<u>(36,427,043)</u>
<b>Operating result</b> .....	<u>12,185,065</u>	<u>(4,301,133)</u>
Income/expenses from net interest .....	(1,234,680)	(4,281,960)
Income from investments .....	0	6,478
Income/expenses from associated companies.....	<u>249,798</u>	<u>5,309</u>
<b>Result before taxes</b> .....	<u>11,200,182</u>	<u>(8,571,306)</u>
Taxes on income .....	(3,988,859)	1,992,846
Other taxes .....	<u>(157,767)</u>	<u>(173,751)</u>
<b>Net income</b> .....	<u>7,053,555</u>	<u>(6,752,212)</u>
Net income assigned to Minority interests .....	<u>(9,160)</u>	<u>4,615</u>
Net income assigned to shareholders .....	<u>7,062,715</u>	<u>(6,756,828)</u>
Profit per share .....	0.94	(1.19)
Average number of shares in circulation.....	7,507,801	5,693,698

1 Based on prices in the electronic trading system (XETRA) of the Frankfurt Stock Exchange.

2 Based on the prices determined by BaFin and published in its database for the minimum prices pursuant to the German Securities Acquisition and Takeover Act.

## MANAGEMENT

The Company's Articles of Association provide that the minimum number of directors shall be three and the maximum number of directors shall be 12. Currently, the Company has six directors. The Company may, subject to the provisions of the Articles of Association and the Companies Act, alter the minimum or the maximum number of directors by approval of its shareholders.

Not less than two-thirds of the total number of directors shall be elected directors who retire by rotation. At the Company's annual general meeting, one-third or such of the directors for the time being who are liable to retire by rotation, shall retire from office. A retiring director is eligible for re-election. The Company's Articles of Association permit certain financial institutions which are its lenders to appoint executive or non-executive directors to the Board while any amount is outstanding to them from the Company. The Company does not currently have any such appointees on the Board. The quorum for meetings of the Board is the higher of one-third of the total number of directors, subject to a minimum of two directors.

The following table sets forth details regarding the Company's Board of Directors as at the date of this Offering Circular:

### Board of Directors

Name	Age	Position
<b>Directors</b>		
Tulsi R. Tanti <sup>(3)</sup> . . . . .	49	Chairman and Managing Director
Girish R. Tanti <sup>(3)</sup> . . . . .	37	Executive Director (International Business Development and HR)
Ajay Relan . . . . .	53	Non-executive and Independent Director
Ashish Dhawan <sup>(1)(2)</sup> . . . . .	38	Non-executive and Independent Director
Pradip Kumar Khaitan <sup>(1)(2)(3)</sup> . . . . .	66	Non-executive and Independent Director
V. Raghuraman <sup>(1)(2)</sup> . . . . .	64	Non-executive and Independent Director

*Notes:*

- (1) Audit Committee Member
- (2) Remuneration Committee Member
- (3) Investors' Grievance Committee Member

The business addresses of the directors are set out in the following table:

Name	Address
Mr. Tulsi R. Tanti . . . . .	Godrej Millennium, 5th Floor, 9, Koregaon Park Road, Pune — 411001
Mr. Girish R. Tanti . . . . .	Godrej Millennium, 5th Floor, 9, Koregaon Park Road, Pune — 411001
Mr. Ajay Relan . . . . .	Citibank N.A., Jeevan Vihar, Sansad Marg, New Delhi — 110001
Mr. Ashish Dhawan . . . . .	ChrysCapital Investment Advisors (I) Private Limited, Suite 101, The Oberoi, Dr. Zakir Hussain Marg, New Delhi — 110003
Mr. Pradip Kumar Khaitan . . . . .	Khaitan & Co., Emerald House, 1B, Old Post Office Street, Kolkata — 700001
Mr. V. Raghuraman . . . . .	Confederation of Indian Industry, 249F, Sector 18, Udyog Vihar, Gurgaon — 122 015

### Mr. Tulsi R. Tanti

Mr. Tanti is the founder of the Company and been the Chairman and Managing Director since its inception in 1995. Under Mr. Tanti's stewardship, the Company has ranked as the leading WTG manufacturer in India for the last eight consecutive years. Mr. Tanti is a commerce graduate and holds a Diploma in Mechanical Engineering. Mr. Tanti is responsible for the overall strategic direction of the Company, and has led the Company to rank among



the top five of global wind turbine producers in terms of MW installations. Mr. Tanti has received a number of awards in recognition for his leadership of the wind energy industry in India, his business achievements and stewardship of the renewable energy cause. These include:

- **“Ernst & Young Entrepreneur of the Year 2006”** award by Ernst & Young;
- **“India Business Leader Award 2006”** by the television channel CNBC TV18 in the category “The most promising entrant into the big league”;
- **“Terialumni Award”** for outstanding “Entrepreneurship in Energy – Environment Technologies 2006” by The Terialumni Trust;
- **“Pioneer Award”** by the Solar Energy Society of India for his contribution to the promotion of renewable energy in India in 2006;
- **“Best Renewable Man of the Decade”** which is a lifetime achievement award from the Foundation of Indian Industry and Economists in 2005;
- **“Champions of Composites Technologies”** award by Composite Center International for his outstanding contribution in application of composites materials and development of composite technology in 2004;
- **“World Wind Energy Award 2003”** for his achievements in the dissemination of the wind energy in India; and
- **“Business Leadership Award 2002”** by Solar Energy Society of India.

#### **Mr. Girish R. Tanti**

Mr. Girish R. Tanti is one of the Promoters and Board Members of Suzlon Energy Limited. He is a young entrepreneur with over 10 years of experience in business management. Mr. Tanti has played an active and crucial role at the strategic and operational level from the formation of Suzlon Energy Limited in 1995.

An engineer with a Master’s in Business Administration from the UK, Mr. Tanti played an active role in the growth of the business leading critical functions like identifying new business opportunities; fostering and managing international partnerships; global sourcing; sales and marketing; global human resource management; internationalization of Suzlon’s operations; developing and building Suzlon brand; and information technology initiatives like the SAP implementation.

Working towards the Company’s strategic decision to move from a promoter-driven organisation to one managed by non-promoter managers, Mr. Tanti has handed over his executive responsibilities to the newly established group management team in Amsterdam, and now works in a strategic, supervisory role as a mentor and member of the Board of Suzlon Energy Limited.

#### **Mr. Ajay Relan**

Mr. Ajay Relan is the Managing Director of Citigroup Venture Capital International in India and the former Chief Executive of Citicorp Securities & Investments Limited. He has had over twenty-five years of corporate and investment banking experience in India, Saudi Arabia, Tunisia and Switzerland. He has a MBA from the Indian Institute of Management, Ahmedabad and a B.A. Honours (Economics) from the St. Stephen’s College, Delhi. He was appointed on board of the Company as a nominee of Citicorp International Finance Corporation Inc. on 19 April 2004. He ceased as a nominee on 29 January 2007 and was appointed as an independent director on board of the Company with effect from 29 January 2007.

#### **Mr. Pradip Kumar Khaitan**

Mr. Pradip Kumar Khaitan is a B.Com, LL.B., Attorney-at-Law (Bell Chambers Gold Medallist). He is a well-known lawyer and partner of Khaitan & Company, Advocates. He is a member of the Bar Council of India and Indian Council of Arbitration, New Delhi. His areas of specialisation are commercial and corporate laws, tax laws, arbitration, joint ventures, mergers and acquisition, restructuring and de-mergers.

## **Mr. Vaidhyanathan Raghuraman**

Shri V. Raghuraman is currently the Principal Advisor and a Chief Co-ordinator – Energy, Environment and Natural Resources of the Confederation of Indian Industry (CII) Energy Program. He is an internationally recognized specialist in energy management, energy efficiency, energy policy, and related regulatory and technology issues. He is a Chemical Engineer by qualification and worked as a Deputy Director General of the National Productivity Council. Subsequently he served as a Secretary General of the Associated Chamber of Commerce and Industry (ASSOCHAM). He also served as the Chairman of South Asian Regional Energy Co-operation (SAREC).

## **Mr. Ashish Dhawan**

Mr. Ashish Dhawan is a MBA with distinction from Harvard University and holds a dual Bachelors Degree (B.S. / B.A.) in applied mathematics and economics from Yale University. He was appointed on board of the Company as a nominee of Chryscapital III, LLC on 10 August 2004. He ceased as nominee on 22 December 2005 and was appointed as an independent director on board of the Company with effect from 28 December 2005. He also chairs the Company's Audit Committee.

## **Corporate Governance**

The Company believes that it is in compliance with the requirements of applicable corporate governance regulations, including the listing agreement between the Company and the Indian Stock Exchanges (the "Listing Agreement") in respect of the constitution of the Board of Directors and Committees of the Board of Directors.

The Company believes that its Board of Directors is constituted in compliance with the Companies Act and the Listing Agreement. The Board of Directors functions either as a full Board or through various committees constituted to oversee specific operational areas. The Company's management provides the Board of Directors with detailed reports on its performance on a quarterly basis.

The Board of Directors is comprised of six Directors, two of which are executive directors and four of which are non-executive and independent directors. The Chairman of the Board of Directors is the Company's Managing Director.

## **Committees of the Board of Directors**

### ***Audit Committee***

The Audit Committee, which was re-constituted on 28 December 2005 and comprises three members: Mr. Ashish Dhawan (Chairman), Mr. Pradip Kumar Khaitan and Mr. Vaidhyanathan Raghuraman, all of whom are non-executive independent directors. The committee secretary is Mr. Hemal A. Kanuga, the Company Secretary.

The scope and functions of the Audit Committee are as set out by Section 292A of the Companies Act, and include:

- (1) oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
- (2) recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditors and the fixation of audit fees;
- (3) approval of payment to statutory auditors for any other services rendered by the statutory auditors;
- (4) reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
  - (a) matters required to be included in the directors' responsibility statement to be included in the Board's report in terms of clause 2AA of Section 217 of the Companies Act,

- (b) changes, if any, in accounting policies and practices and reasons for the same,
  - (c) major accounting entries involving estimates based on the exercise of judgement by management,
  - (d) significant adjustments made in the financial statements arising out of the audit findings,
  - (e) compliance with listing and other legal requirements relating to financial statements,
  - (f) disclosure of any related party transactions,
  - (g) qualifications in the draft audit report;
- (5) reviewing, with the management, the quarterly financial statements before submission to the Board for approval.
  - (6) reviewing, with the management, performance of statutory, internal auditors and also adequacy of the internal control systems;
  - (7) reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit;
  - (8) discussion with internal auditors regarding any significant findings and follow-up thereon;
  - (9) review the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board;
  - (10) discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
  - (11) to look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;
  - (12) to review the functioning of the "whistle blower" mechanism, if existing; and
  - (13) carrying out any other function as is mentioned in the terms of reference for the Audit Committee.

### ***Remuneration Committee***

The Remuneration Committee was formed on 20 December 2004 and was reconstituted on 30 January 2006. The Remuneration Committee comprises three members: Mr. Ashish Dhawan, Mr. Pradip Kumar Khaitan and Mr. Vaidhyanathan Raghuraman. The Chairman for the Remuneration Committee is decided by the Committee members from time to time.

The responsibilities of the Remuneration Committee include:

- to review the overall compensation structure and related policies with a view to attract, motivate and retain employees;
- the committee determines the Company's policies on remuneration packages payable to the Directors including pension rights, performance/achievement bonus and perquisites; and
- consider grant of stock options to employees and review compensation levels in relation to other companies and the industry in general.

## Investors' Grievance Committee

The Investors' Grievance Committee, which was formed on 28 March 2005 and comprises Mr. Pradip Kumar Khaitan (Chairman), Mr. Tulsi R. Tanti and Mr. Girish R. Tanti. The responsibilities of this committee includes, among other things:

- (i) redressal of shareholder and investors complaints including but not limiting to transfer of shares and issue of duplicate share certificates, non-receipt of balance sheet, non-receipt of declared dividends, etc.; and
- (ii) monitoring transfers, transmissions, dematerialisation, rematerialisation, splitting and consolidation of shares issued by the Company.

## Risk Management

The Company has devised a formal risk management framework for risk assessment and minimisation. The Company has engaged a professional consultancy firm for the up-gradation of their risk management framework. The scope of the Audit Committee includes review of the Company's financial and risk management policies.

## Shareholding of the Directors

The Company's Articles of Association do not require the Company's Directors to hold any qualification shares in the Company. As at 31 March 2007, the following Directors held Shares in the Company:

Name	Position	Beneficially Owned Number of Shares	Percentage of Shares Beneficially Owned
Mr. Tulsi R.Tanti . . . . .	Chairman & Managing Director	23,076,000 <sup>(1)</sup>	8.02
Mr. Girish R.Tanti . . . . .	Whole-time Director (Executive)	35,816,400 <sup>(2)</sup>	12.45
Mr. Pradip Kumar Khaitan . . . . .	Non-Executive Independent Director	Nil	Nil
Mr. Ajay R. Relan . . . . .	Non-Executive Independent Director	Nil	Nil
Mr. Ashish Dhawan . . . . .	Non-Executive Independent Director	Nil	Nil
Mr. Vaidhyanathan Raghuraman . . . . .	Non-Executive Independent Director	Nil	Nil

### Notes:

(1) Includes 3,837,600 Shares (1.33 per cent.) held by Mr. Tulsi R. Tanti as karta of Tulsi Ranchhodbhai HUF; 8,532,000 Shares (2.96 per cent.) held jointly by Tulsi R. Tanti, Vinod R. Tanti and Jitendra R. Tanti; 8,514,000 (2.96 per cent.) Tulsi R. Tanti as karta of Ranchhodbhai Ramjibhai HUF;

(2) Includes 12,600,000 Shares (4.38 per cent.) held by Mr. Girish R. Tanti as karta of Girish Ranchhodbhai HUF.

## Compensation of Directors and Executive Officers

The Company's non-executive Directors are each paid sitting fees as detailed in the following table for attending each Board and Audit Committee meeting for the year ended 31 March 2007

Name	Sitting fees (Rs.)
Mr. Ajay Relan . . . . .	Nil*
Mr. Ashish Dhawan . . . . .	140,000
Mr. Pradip Kumar Khaitan . . . . .	140,000
Mr. Vaidhyanathan Raghuraman . . . . .	140,000

\* Mr. Ajay Relan has expressed unwillingness to accept any sitting fees and hence is not paid any sitting fees.

Mr. Tulsi R. Tanti and Mr. Girish R. Tanti are paid annual remuneration of Rs.12,000,000 and Rs.4,201,896 respectively, in terms of separate agreements dated 1 April 2005 entered into respectively by them with the Company.

### **Borrowing Powers of the Company's Board of Directors**

Pursuant to a shareholders' resolution dated 28 June 2006, the Company's Board of Directors is authorised to borrow up to an aggregate amount not exceeding Rs.50,000 million over and above the aggregate of the paid up share capital and free reserves of the Company. The issue of the Bonds does not breach the borrowing powers of the Company's Board of Directors.

### **Key Managerial Personnel of the Group**

The following key managerial personnel are permanent employees of the Group:

#### ***Mr. T. Sphere – Head of WTG Design (Germany)***

Mr. Sphere has over twenty years of experience in the wind industry and has been associated with the industry from its early stages. He was one of the stakeholders of Sudwind which was later taken over by Nordex.

#### ***Mr. William Verheij – Head of Rotor Blade Design (Netherlands)***

Mr. Verheij has over thirty years of experience in various engineering industries in the areas of blade designing and as project and operations manager.

#### ***Mr. Andre Horbach – Global Chief Executive Officer of the Group***

Mr. Horbach has experience in the industrials and power business. In his last position at General Electric ("GE"), Mr. Horbach held the key responsibility of chief executive officer and president for GE consumer and industrial (Europe, Middle East and Africa), a business that consists of a lighting business, an electrical controls and switch gear business and an appliances business, with an international team of over 16,000.

#### ***Mr. Per Hornung Pedersen – Chief Executive Officer of Suzlon Energy A/S (Denmark)***

Mr. Pedersen has over twenty years of international experience, which includes 5 years of experience in the wind industry with NEG Micon. He is a specialist in corporate turnarounds, strategic work and building new organisations.

#### ***Mr. Erik Winther Pedersen – Chief Sales Officer – Suzlon Energy A/S (Denmark)***

Mr. Pedersen has twenty-five years of international experience in project sales and project execution of which the last eight years are in the wind industry. Mr. Pedersen is a mechanical engineer.

#### ***Mr. Jens Frederik Hansen – Chief Operating Officer – Suzlon Energy A/S (Denmark)***

Mr. Hansen has fifteen years of international experience in sales and project execution within the power industry and has a knowledge of multicultural organisations and markets. Mr. Hansen has a background in mechanical engineering.

#### ***Mr. Andris E. Cukurs – Chief Executive Officer of Suzlon Wind Energy Corporation (USA)***

Mr. Cukurs has over twenty-two years of experience in engineering, construction and project management, with the last six years in the wind energy industry as chief executive officer of NEG Micon's operations in the United States and Canada.

#### ***Mr. Paulo Fernando Soares – Chief Representative Officer – Suzlon Energy Limited, Beijing Representative Office***

Mr. Soares has experience in wind power sector and is responsible for developing the Group's business in China.

***Mr. Dan Kofoed Hansen – Vice President Sales & Marketing (Asia Pacific)***

Mr. Hansen has eighteen years of experience in the international general contracting industry which includes ten years in the wind industry. In his former position with NEG Micon in Australia and the United States, Mr. Hansen secured approximately 300 MW of wind energy projects and entered into preliminary agreements for a further 1,000 MW potential in Australia. Mr. Hansen joined the Company in June 2004 to establish the Group in Australia and New Zealand.

***Mr. Toine van Megen – Vice President – International Corporate Development***

Mr. van Megen has over twenty-five years of experience in business development, strategy and management, which includes seven years of senior management positions in the wind energy sector. He has managed a range of international projects and businesses including township infrastructure projects and electrical utility services.

***Mr. I. C. Mangal – Head – Marketing***

Mr. Mangal is an engineer and has been with the Group for eight years. He has developed the Group's presence in the Indian growth of markets of Gujarat, Rajasthan, Karnataka and Maharashtra.

***Mr. Kirti Vagadia – Head – Finance***

Mr. Vagadia is a chartered accountant with over twenty years of experience in the areas of finance, accounting, foreign exchange and taxation. He is a key member of the senior management team at the Group.

***Mr. Sai Baba – Business Development and Marketing***

Mr. Baba has an MBA from Denmark with over twenty-three years of experience. Mr. Baba has worked internationally with NEG Micon and has recently joined the Group in business development and marketing.

***Mr. R. Sridhar – Head, Supply Chain Management***

Mr. Sridhar has over twenty-three of experience and is responsible for management of projects, global purchases, supply chain management and quality assurance.

***Mr. T. Pradeep Kumar – Head – Technology***

Mr. Pradeep Kumar has over twenty-nine years of experience and has worked with various high profile organisations, his last assignment being the managing director of Bajaj Ventures Limited.

***Mr. Ivan Brems – Chief Executive Officer of Hansen Transmissions***

Mr. Ivan Brems has over thirty years of experience in engineering and marketing.

***Mr. Jan Piet van der Plank – Vice President – Corporate Human Resources***

Mr. Jan Piet has experience of fifteen to twenty years in international human resource management. He is responsible for the development and implementation of human related policies, systems and processes, recruitment and other related matters.

***Mr. Ranjitsinh Parmar – Director – Project Execution***

Mr. Parmar has over twenty years of experience in infrastructure development and project execution and has been responsible for the implementation of multiple projects at the same time.

***Patrick Walter Krähenbühl – Group Chief Finance Officer of the Group***

Mr. Krähenbühl has more than fifteen years comprehensive experience in Corporate Finance, Treasury & Controlling, and Acquisitions & Divestitures. He has completed his Masters in Economics & Computer Science. He was working with ABB Ltd. as a Chief Financial Officer of Power Technologies & Power Systems Divisions, North America for the last three years.

Other than as is disclosed in this Offering Circular (see “Related Party Transactions”), there have been no transactions during the current or previous audited fiscal year between the Group and any of the Directors and executive officers, which, because of their unusual nature or the circumstances in which they have been entered into, are or will be required to be disclosed in the Company’s accounts or approved by its shareholders and there are no such transactions during an earlier fiscal year which remain in any respect outstanding or unperformed.

## EMPLOYEE STOCK OPTION PLAN

The Company instituted an employee stock option plan for 2005 (the "2005 Plan") for all eligible employees in pursuance of a special resolution approved by the shareholders at the extra-ordinary general meeting held on 16 June 2005 (the "Grant Date"). The 2005 Plan covers grant of options to specified permanent employees of the Company as well as its subsidiaries.

Pursuant to the 2005 Plan, the Company has granted 921,000 options to eligible employees at an exercise price which is 50 per cent. of the issue price determined in the 2005 initial public offering of the Company in accordance with SEBI Guidelines (i.e. Rs.510 per Share). Under the terms of the 2005 Plan, 30 per cent. of the options will vest in the employees at the end of the first year, 30 per cent. at the end of the second year and the balance of 40 per cent. at the end of third year from the Grant Date:

Date of vesting	Proportion of vesting (percentage)
16 June 2006 .....	30
16 June 2007 .....	30
16 June 2008 .....	40

The employee stock options granted shall be capable of being exercised within a period of five years from the date of first vesting i.e. 16 June 2006. Once the options vest as set out in the table above, they are exercisable by the option holder and the shares arising on exercise of such options shall not be subject to any lock-in period. Further, in the case of termination of employment, all non-vested options will be cancelled. Options that have vested but have not been exercised can be exercised within the time prescribed as mentioned above, failing which they will be cancelled.

During the year ended 31 March 2007, employees exercised their first vesting as a result of which 233,400 shares were allotted. Further, 25,000 options were cancelled as certain employees resigned from the services of the Company. The movement in the stock options during the period is set out in the following table:

<b>Options outstanding at 1 April 2006</b> .....	<b>889,000</b>
Granted during the year .....	Nil
Forfeited/cancelled during the year .....	25,000
Exercised during the year .....	233,400
Expired during the year .....	Nil
<b>Options outstanding at 31 March 2007</b> .....	<b>630,600</b>
Exercisable at the end of period* .....	32,100

The Company has charged a sum of Rs.7.30 crore (Rs.255 per option) being the intrinsic value of option under the 2005 Plan for the year ended 31 March 2007.

The shareholders of the Company have approved a new employee stock option scheme allowing the grant of up to 116,200 options to employees of the Company and 24,700 options to employees of its subsidiaries. As of the date of this Offering Circular, no options have been granted under this new scheme.

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\* (included in options outstanding at March 31, 2007)



## PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the ownership of the Company's Shares as at 31 March 2007. Shareholding and control over voting rights is ascertained pursuant to the disclosures filed with the Company under SEBI (Substantial Acquisition of Shares and Takeovers) Regulation, 1997, as amended. As at 31 March 2007, the total number of Shares outstanding was 287,764,780.

Category	No. of Holders	Total Shares	Percentage of Shares
Promoter Group (including persons acting in concert) . . . . .	24	200,642,400	69.72
FII's . . . . .	164	61,267,379	21.29
Indian resident individuals . . . . .	116,094	19,678,191	6.84
Mutual funds, financial institutions, banks . . . .	83	1,947,019	0.68
Non-resident Indians . . . . .	1,326	1,891,453	0.66
Body corporates . . . . .	1,363	1,439,019	0.50
HUF, clearing members, trusts . . . . .	2,576	899,319	0.31
	<b><u>121,630</u></b>	<b><u>287,764,780</u></b>	<b><u>100.00</u></b>

## TERMS AND CONDITIONS OF THE BONDS

*The following other than the words in italics is the text of the Terms and Conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:*

The issue of U.S.\$300,000,000 Zero Coupon Convertible Bonds Due 2012 (the "Bonds", which term shall include, unless the context requires otherwise, any further Bonds issued in accordance with Condition 16 and consolidated and forming a single series with the Bonds) of Suzlon Energy Limited (the "Issuer"), was authorised by a resolution of the Board of Directors of the Issuer 15 May 2006 and by the shareholders of the Issuer on 28 June 2006. The Bonds are constituted by a trust deed (as amended or supplemented from time to time) (the "Trust Deed") dated 11 June 2007 and made between the Issuer and Deutsche Trustee Company Limited as trustee for the holders of the Bonds (the "Trustee", which term shall, where the context so permits, include all other persons for the time being acting as trustee or trustees under the Trust Deed). The Issuer has entered into a paying, conversion and transfer agency agreement (as amended or supplemented from time to time, the "Agency Agreement") dated 11 June 2007 with the Trustee, Deutsche Bank AG, London Branch as principal paying, conversion and transfer agent (the "Principal Agent"), Deutsche Bank Luxembourg S.A. as registrar (the "Registrar") and the other paying, conversion and transfer agents appointed under it (each a "Paying Agent", "Conversion Agent", "Transfer Agent" (references to which shall include the Registrar) and together with the Registrar and the Principal Agent, the "Agents" (which shall, where applicable, include the Singapore Agent (as defined in Condition 18))) relating to the Bonds. References to the "Principal Agent", "Registrar" and "Agents" below are references to the principal agent, registrar and agents for the time being for the Bonds. The statements in these terms and conditions (these "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed. Unless otherwise defined, terms used in these Conditions have the meaning specified in the Trust Deed. Copies of the Trust Deed and of the Agency Agreement are available for inspection at the registered office of the Trustee being at the date hereof at Winchester House, 1 Great Winchester Street, London EC2N 2DB, and at the specified offices of each of the Agents. The Bondholders are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

### 1 **Status**

The Bonds constitute direct, unsubordinated, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 4, at all times rank at least equally with all of its other present and future direct, unsubordinated, unconditional and unsecured obligations.

### 2 **Form, Denomination and Title**

#### 2.1 ***Form and Denomination***

The Bonds are issued in registered form in the denomination of U.S.\$1,000 each or in integral multiples thereof. A bond certificate (each a "Certificate") will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Issuer will procure to be kept by the Registrar.

*Upon issue, the Bonds will be represented by a Global Certificate deposited with a common depository for, and registered in the name of a common nominee of, Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme. The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.*

## 2.2 **Title**

Title to the Bonds passes only by transfer and registration in the register of Bondholders as described in Condition 3. The holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Terms and Conditions “Bondholder” and (in relation to a Bond) “holder” means the person in whose name a Bond is registered.

## 3 **Transfers of Bonds; Issue of Certificates**

### 3.1 **Register**

The Issuer will cause to be kept at the specified office of the Registrar and in accordance with the terms of the Agency Agreement a register on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers of the Bonds (the “Register”).

Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding.

### 3.2 **Transfers**

Subject to Conditions 3.5 and 3.6 and the terms of the Agency Agreement, a Bond may be transferred or exchanged by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of the Registrar or any of the Transfer Agents. No transfer of title to a Bond will be valid unless and until entered on the Register.

*Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.*

### 3.3 **Delivery of New Certificates**

3.3.1 Each new Certificate to be issued upon a transfer or exchange of Bonds will, within seven business days (at the place of the relevant specified office) of receipt by the Registrar or, as the case may be, any other relevant Transfer Agent of the original Certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such other relevant Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (but free of charge to the holder) to the address specified in the form of transfer. The form of transfer is available at the specified office of the Principal Agent.

Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.

3.3.2 Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred, exchanged, converted or redeemed, a new Certificate in respect of the Bonds not so transferred, exchanged, converted or redeemed will, within seven business days of delivery of the original Certificate to the Registrar or other relevant Agent, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, exchanged, converted or redeemed (but free of charge to the holder) to the address of such holder appearing on the Register.

3.3.3 For the purposes of these Conditions (except for Condition 7 and Condition 8.5.6), “business day” shall mean a day other than a Saturday or Sunday on which banks are open for business in the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer or conversion) or the Agent with whom a Certificate is deposited in connection with a transfer or conversion, is located.

### **3.4 Formalities Free of Charge**

Registration of a transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Issuer or any of the Agents, but upon (i) payment (or the giving of such indemnity as the Issuer or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer; and (ii) the Issuer or the relevant Transfer Agent being satisfied that the regulations concerning transfer of Bonds have been complied with.

### **3.5 Restricted Transfer Periods**

No Bondholder may require the transfer of a Bond to be registered (i) during the period of seven days ending on (and including) the due date for any principal on the Bonds; (ii) after a Conversion Notice (as defined in Condition 6.2) has been delivered with respect to a Bond; (iii) after a Relevant Event Put Exercise Notice (as defined in Condition 8.4) has been deposited in respect of such a Bond; or (iv) after a Delisting Put Notice (as defined in Condition 8.5) has been deposited in respect of such a Bond, each such period being a "Restricted Transfer Period".

### **3.6 Regulations**

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed by the Registrar to any Bondholder upon request.

## **4 Negative pledge**

So long as any Bond remains outstanding (as defined in the Trust Deed):

- 4.1 the Issuer will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("Security") upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any International Investment Securities (as defined below), or to secure any guarantee or indemnity in respect of any International Investment Securities;
- 4.2 the Issuer will procure that no Subsidiary (as defined below) or other person creates or permits to subsist any Security upon the whole or any part of the undertaking, assets or revenues present or future of that Subsidiary or other person to secure any of the Issuer's or any Subsidiary's International Investment Securities, or to secure any guarantee of or indemnity in respect of any of the Issuer's or any Subsidiary's International Investment Securities; and
- 4.3 the Issuer will procure that no other person gives any guarantee of, or indemnity in respect of, any of the Issuer's or any Subsidiary's International Investment Securities,

unless, at the same time or prior thereto, the Issuer's obligations under the Bonds and the Trust Deed (a) are secured equally and rateably therewith to the satisfaction of the Trustee, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

For the purposes of these Conditions:

"International Investment Securities" means any present or future indebtedness in the form of, or represented by, bonds, debentures, notes or other investment securities which (i) are denominated in a currency other than Rupees or are by their terms payable, or confer a right to receive payment, in any currency other than Rupees, or are denominated or payable in Rupees and more than 50 per cent. of the aggregate principal amount thereof is initially distributed outside India, and (ii) are for the time being, or are intended to be or capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or other securities market.

## 5 Interest

The Bonds do not bear any interest, provided that if the Issuer fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of 8.60 per cent. per annum from the due date. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year.

## 6 Conversion

### 6.1 Conversion Right

#### 6.1.1 Conversion Period:

- (i) Subject as hereinafter provided, Bondholders have the right to convert their Bonds into Shares at any time during the Conversion Period referred to below. The right of a Bondholder to convert any Bond into Shares is called the "Conversion Right".

Subject to and upon compliance with the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time (subject to Condition 6.1.1(ii)) on and after 22 July 2007 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on 5 June 2012 (but, except as provided in Conditions 6.1.4 and 10, in no event thereafter) or if such Bond shall have been called for redemption before 5 June 2012, then up to the close of business (at the place aforesaid) on a date no later than seven business days (at the place aforesaid) prior to the date fixed for redemption thereof (the "Conversion Period").

- (ii) Conversion Rights may not be exercised in relation to any Bond during the period (each, a "Closed Period") commencing on: (a) the date falling 21 days prior to the date of the Issuer's annual general shareholders' meeting and ending on the date of that meeting, (b) the date falling 30 days prior to an extraordinary shareholders' meeting and ending on the date of that meeting, (c) the date that the Issuer notifies Bombay Stock Exchange Limited (the "BSE") or The National Stock Exchange of India Limited ("NSE", and together with the BSE, the "Indian Exchanges") of the record date for determination of the shareholders entitled to receipt of dividends, subscription of shares due to capital increase or other benefits, and ending on the record date for the distribution or allocation of the relevant dividends, rights and benefits or (d) on such date and for such period as determined by Indian law applicable from time to time that the Issuer is required to close its stock transfer books. The Issuer will give notice of any such period to the Bondholders and the Conversion Agent at the beginning of each such period.

The Issuer shall provide to the Trustee, the Bondholders and the Conversion Agent notice of any meeting of the Issuer's board of directors which is convened to consider the declaration of any dividends, subscription of shares due to capital increase or other benefits, at the same time notice of such meeting is announced in India.

Conversion Rights may not be exercised (a) in respect of a Bond where the Bondholder shall have exercised its right to require the Issuer to redeem such Bond pursuant to Condition 8.4 or 8.5 or (b) except as provided in Condition 6.1.4 and Condition 10, in each case following the giving of notice by the Trustee pursuant to Condition 10.

The number of Shares to be issued on conversion of a Bond will be determined by dividing the principal amount of the Bond to be converted (translated into Rupees at the fixed rate of Rs.40.830 = U.S.\$1.00 (the "Fixed Exchange Rate")) by the Conversion Price in effect at the Conversion Date (both as hereinafter defined).

A Conversion Right may only be exercised in respect of one or more Bonds. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be issued upon such conversion will be calculated on the basis of the aggregate principal amount of the Bonds to be converted.

Upon exercise of Conversion Rights in relation to any Bond and the fulfilment by the Issuer of all its obligations in respect thereof, the relevant Bondholder shall have no further rights in respect of such Bond and the obligations of the Issuer in respect thereof shall be extinguished.

#### 6.1.2 *Fractions of Shares:*

Fractions of Shares will not be issued on conversion and no cash adjustments will be made in respect thereof. Notwithstanding the foregoing, in the event of a consolidation or reclassification of Shares by operation of law or otherwise occurring after 16 May 2007 which reduces the number of Shares outstanding, the Issuer will upon conversion of Bonds pay in cash (in U.S. dollars by means of a U.S. dollar cheque drawn on a bank in New York) a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Conversion Rights, aggregated as provided in Condition 6.1.1, as corresponds to any fraction of a Share not issued if such sum exceeds U.S.\$10.00 (which sum shall be translated into U.S. dollars at the Fixed Exchange Rate). Any such sum shall be paid not later than 14 business days in Mumbai after the relevant Conversion Date by transfer to a U.S. dollar account with a bank in New York City specified in the relevant Conversion Notice.

However, if upon Mandatory Conversion or if the Conversion Right in respect of more than one Bond is exercised at any one time such that shares to be issued on conversion are to be registered in the same name, the number of such shares to be issued in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being converted and rounded down to the nearest whole number of Shares.

#### 6.1.3 *Conversion Price and Conversion Ratio:*

The price at which Shares will be issued upon conversion, as adjusted from time to time (the "Conversion Price") will initially be Rs. 1,800.00 per Share but will be subject to adjustment in the manner provided in Condition 6.3.

The "Conversion Ratio" is equal to the principal amount of the Bonds divided by the then Conversion Price translated into U.S. dollars at the Fixed Exchange Rate.

#### 6.1.4 *Revival and/or survival after Default:*

Notwithstanding the provisions of Condition 6.1.1, if (a) the Issuer shall default in making payment in full in respect of any Bond which shall have been called for redemption on the date fixed for redemption thereof, (b) any Bond has become due and payable prior to the Maturity Date (as defined in Condition 8.1) by reason of the occurrence of any of the events referred to in Condition 10 or (c) any Bond is not redeemed on the Maturity Date in accordance with Condition 8.1, the Conversion Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Agent or the Trustee and notice of such receipt has been duly given to the Bondholders and, notwithstanding the provisions of Condition 6.1.1, any Bond in respect of which the Certificate and Conversion Notice are deposited for conversion prior to such date shall be converted on the relevant Conversion Date (as defined in Condition 6.2.1(iii)) notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Principal Agent or the Trustee before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.

#### 6.1.5 *Meaning of "Shares":*

As used in these Conditions, the expression "Shares" means (1) shares of the class of share capital of the Issuer which, at the date of the Trust Deed, are designated as equity shares of the Issuer with full voting rights, together with shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Issuer; and (2) fully-paid and non-assessable shares of any class or classes of the share capital of the Issuer

authorised after the date of the Trust Deed which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up of the Issuer; provided that, subject to the provisions of Condition 11, shares to be issued on conversion of the Bonds means only "Shares" as defined in sub-clause (1) above.

## **6.2 Conversion Procedure**

### **6.2.1 Conversion Notice:**

- (i) To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense during normal business hours at the specified office of any Conversion Agent a notice of conversion (a "Conversion Notice") in duplicate in the form (for the time being current) obtainable from the specified office of each Agent, together with (a) the relevant Certificate; (b) certification by the Bondholder, in the form obtainable from any Conversion Agent, as may be required under the laws of the Republic of India or the jurisdiction in which the specified office of such Conversion Agent shall be located; and (c) any amounts required to be paid by the Bondholder under Condition 6.2.2. A Conversion Notice deposited outside the normal business hours or on a day which is not a business day at the place of the specified office of the relevant Conversion Agent shall for all purposes be deemed to have been deposited with that Conversion Agent during the normal business hours on the next business day following such business day. Any Bondholder who deposits a Conversion Notice during a Closed Period will not be permitted to convert the Bonds into Shares (as specified in the Conversion Notice) until the next business day after the end of that Closed Period, which (if all other conditions to conversion have been fulfilled) will be the Conversion Date for such Bonds notwithstanding that such date may fall outside of the Conversion Period. A Bondholder exercising its Conversion Right for Shares will be required to open a depository account with a depository participant under the Depositories Act (Act 22), 1996 of India (the "1996 Depositories Act"), for the purposes of receiving the Shares.
- (ii) The holder of any Bond which is to be mandatorily converted pursuant to Condition 8.2 shall deliver a Conversion Notice relating to its holding of Bonds and deposit it, together with the relevant Certificate and any amount required to be paid by the Bondholder under this Condition 6.2.1 and in the manner aforesaid, no later than the business day before the end of the Mandatory Conversion Notice Period for the Bonds (as defined in Condition 8.2).
- (iii) The conversion date in respect of a Bond (the "Conversion Date") must fall at a time when the Conversion Right attaching to that Bond is expressed in these Conditions to be exercisable (subject to the provisions of Condition 6.1.4) and will be deemed to be the date of the surrender of the Certificate in respect of such Bond and delivery of such Conversion Notice and, if applicable, any payment to be made or indemnity given under these Conditions in connection with the exercise of such Conversion Right. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn unless the Issuer consents to such withdrawal.

Conversion Rights may only be exercised in respect of the whole of the principal amount of a Bond.

### **6.2.2 Stamp Duty etc.:**

A Bondholder delivering a Certificate in respect of a Bond for conversion must pay to the relevant Conversion Agent any taxes and capital, stamp, issue and registration duties arising on conversion (other than any taxes or capital or stamp duties payable in India and, if relevant, in the place of the Alternative Stock Exchange (as defined below), by the Issuer in respect of the allotment and issue of Shares and listing of the Shares on the Indian Exchanges (as defined below) on conversion) (the "Taxes") and such Bondholder must pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with such conversion. The Issuer will pay all other expenses arising on the issue of Shares on conversion of the Bonds and all charges of the Agents and the share transfer agent for the Shares ("Share Transfer Agent") in connection with conversion. The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued) must provide the Agent with details of the relevant tax authorities to which the Agent must pay

monies received in settlement of Taxes payable pursuant to this Condition 6.2.2. The Agent is under no obligation to determine whether a Bondholder is liable to pay any taxes including stamp, issue, registration or similar taxes and duties or the amounts payable (if any) in connection with this Condition 6.2.2.

### 6.2.3 *Delivery of Shares:*

- (i) Upon exercise by a Bondholder of its Conversion Right for Shares, the Issuer will, on or with effect from the relevant Conversion Date, enter the name of the relevant Bondholder or his/their nominee in the register of members of the Issuer in respect of such number of Shares to be issued upon conversion (notwithstanding any retroactive adjustment of the Conversion Price referred to below prior to the time it takes effect) and will, as soon as practicable, and in any event not later than 40 days after the Conversion Date, cause the relevant securities account of the Bondholder exercising his Conversion Right or of his/their nominee, to be credited with such number of relevant Shares to be issued upon conversion (notwithstanding any retroactive adjustment of the Conversion Price referred to below prior to the time it takes effect) and shall further cause the name of the concerned Bondholder or its nominee to be registered accordingly, in the record of the beneficial holders of shares, maintained by the depository registered under the 1996 Depositories Act with whom the Issuer has entered into a depository agreement and, subject to any applicable limitations then imposed by Indian laws and regulations, shall procure the Share Transfer Agent to, as soon as practicable, and in any event within 14 business days in Mumbai of the Conversion Date, despatch or cause to be despatched to the order of the person named for that purpose in the relevant Conversion Notice at the place and in the manner specified in the relevant Conversion Notice (uninsured and the risk of delivery at any such place being that of the converting Bondholder), a U.S. dollar cheque drawn on a branch of a bank in New York City in respect of any cash payable pursuant to Condition 6.1.2 required to be delivered on conversion and such assignments and other documents (if any) as required by law to effect the transfer thereof.

The crediting of the Shares to the relevant securities account of the converting Bondholder will be deemed to satisfy the Issuer's obligation to pay the principal and premium on the Bonds.

- (ii) In the case of Bonds mandatorily converted in accordance with Condition 8.2 in respect of which Conversion Notices have not been received by a Conversion Agent or the Principal Agent on the business day immediately following the Mandatory Conversion Notice Period (as defined in Condition 8.2), the Issuer will, as soon as reasonably practicable thereafter, register, or procure the registration of, an agent of the Issuer, located in Mumbai in accordance with Condition 8.2, as holder of the relevant number of Shares in the Issuer's share register and will make a certificate or certificates for the relevant Shares available for collection at the office of the Issuer's share registrar (as specified herein), together (in either case) with any other securities, property or cash required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the transfer thereof.
- (iii) If the Conversion Date in relation to any Bond shall be after the record date for any issue, distribution, grant, offer or other event as gives rise to the adjustment of the Conversion Price pursuant to Condition 6.3, but before the relevant adjustment becomes effective under the relevant Condition (a "Retroactive Adjustment"), upon the relevant adjustment becoming effective the Issuer shall procure the issue to the converting Bondholder (or in accordance with the instructions contained in the Conversion Notice (subject to applicable exchange control or other laws or other regulations)), such additional number of Shares ("Additional Shares") as, together with the Shares issued or to be issued on conversion of the relevant Bond, is equal to the number of Shares which would have been required to be issued on conversion of such Bond if the relevant adjustment to the Conversion Price had been made and become effective as at such Conversion Date immediately after the relevant record date and in such event and in respect of such Additional Shares references in Conditions 6.2.3(i) and (iii) to the Conversion Date shall be deemed to refer to the date upon which the Retroactive Adjustment becomes effective (notwithstanding that the date upon which it becomes effective falls after the end of the Conversion Period).



- (iv) The Shares issued upon conversion of the Bonds will in all respects rank pari passu with the Shares in issue on the relevant Conversion Date (except for any right excluded by mandatory provisions of applicable law) and such Shares shall be entitled to all rights the record date for which falls on or after such Conversion Date to the same extent as all other fully-paid and non-assessable Shares of the Issuer in issue as if such Shares had been in issue throughout the period to which such rights relate. A holder of Shares issued on conversion of Bonds shall not be entitled to any rights the record date for which precedes the relevant Conversion Date.

### 6.3 **Adjustments to Conversion Price**

The Conversion Price will be subject to adjustment in the following events:

#### 6.3.1 *Free distribution, bonus issue, division, consolidation and re-classification of Shares:*

Adjustment: If the Issuer shall (a) make a free distribution of Shares (other than by way of a dividend in Shares), (b) make a bonus issue of its Shares, (c) divide its outstanding Shares, (d) consolidate its outstanding Shares into a smaller number of Shares, or (e) re-classify any of its Shares into other securities of the Issuer, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Conversion Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 6.3.1, shall be entitled to receive the number of Shares and/or other securities of the Issuer which such holder would have held or have been entitled to receive after the happening of any of the events described above had such Bond been converted immediately prior to the happening of such event (or, if the Issuer has fixed a prior record date for the determination of shareholders entitled to receive any such free distribution or bonus issue of Shares or other securities issued upon any such division, consolidation or re-classification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the happening of such event (or such record date) or any time thereafter.

Effective date of adjustment: An adjustment made pursuant to this Condition 6.3.1 shall become effective immediately on the relevant event referred to above becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a free distribution or bonus issue of Shares which must, under applicable laws of India, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the Board of Directors of the Issuer before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such distribution or issue, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

#### 6.3.2 *Declaration of dividend in Shares:*

Adjustment: If the Issuer shall issue Shares as a dividend in Shares or make a distribution of Shares which is treated as a capitalisation issue for accounting purposes under Indian GAAP (including, but not limited to, capitalisation of capital reserves and employee stock bonus), then the Conversion Price in effect when such dividend and/or distribution is declared (or, if the Issuer has fixed a prior record date for the determination of shareholders entitled to receive such dividend and/or distribution, on such record date) shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \left[ \frac{N}{N+n} \right]$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

- N = the number of Shares outstanding, at the time of issuance of such dividend and/or distribution (or at the close of business in Mumbai on such record date as the case may be).
- n = the number of Shares to be distributed to the shareholders as a dividend and/or distribution.

*Effective date of adjustment:* An adjustment made pursuant to this Condition 6.3.2 shall become effective immediately on the relevant event referred to in this Condition 6.3.2 becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a dividend in Shares which must, under applicable laws of India, be submitted for approval to a general meeting of shareholders of the Issuer or be approved at a meeting of the Board of Directors of the Issuer before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such dividend, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

### 6.3.3 Concurrent adjustment events:

If the Issuer shall declare a dividend in, or make a free distribution or bonus issue of, Shares which dividend, issue or distribution is to be paid or made to shareholders as of a record date which is also:

- (a) the record date for the issue of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Conditions 6.3.5, 6.3.6 or 6.3.7;
- (b) the day immediately before the date of issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 6.3.9;
- (c) the day immediately before the date of grant, offer or issue of any Shares which requires an adjustment of the Conversion Price pursuant to Condition 6.3.10 or, if applicable, the record date for determination of stock dividend entitlement as referred to in Condition 6.3.10;
- (d) the day immediately before the date of issue of any rights, options or warrants which requires an adjustment of the Conversion Price pursuant to Condition 6.3.11; or
- (e) determined by the Issuer and notified to the Trustee in writing to be the relevant date for an event or circumstance which requires an adjustment to the Conversion Price pursuant to Condition 6.3.13.

then (except where such dividend, bonus issue or free distribution gives rise to a retroactive adjustment of the Conversion Price under Conditions 6.3.1 and 6.3.2) no adjustment of the Conversion Price in respect of such dividend, bonus issue or free distribution shall be made under Conditions 6.3.1 and 6.3.2, but in lieu thereof an adjustment shall be made under Conditions 6.3.5, 6.3.6, 6.3.7, 6.3.9, 6.3.10, 6.3.11 or 6.3.13 (as the case may require) by including in the denominator of the fraction described therein the aggregate number of Shares to be issued pursuant to such dividend, bonus issue or free distribution.

### 6.3.4 Capital Distribution:

#### *Adjustment:*

- (i) If the Issuer shall pay or make to its Shareholders any Capital Distribution (as defined below), then the Conversion Price shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \left[ \frac{CMP - fmv}{CMP} \right]$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 6.3.2.

CMP = the Current Market Price (as defined in Condition 6.3.15 below) per Share on the date on which the relevant Dividend is first publicly announced.

fmv = the portion of the Fair Market Value (as defined below), with such portion being determined by dividing the Fair Market Value of the aggregate Capital Distribution by the number of Shares entitled to receive the relevant Capital Distribution (or, in the case of a purchase of Shares or any receipts or certificates representing shares by or on behalf of the Issuer, by the number of Shares in issue immediately prior to such purchase), of the Capital Distribution attributable to one Share.

(ii) If the Issuer shall pay or make to its Shareholders any Extraordinary Cash Dividend then, in such case, the Conversion Price shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \left[ \frac{CMP - C}{CMP} \right]$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 6.3.2.

CMP = the Current Market Price (as defined in Condition 6.3.15 below) per Share on the date on which the relevant Dividend is first publicly announced; and.

C = the Extraordinary Cash Dividend attributable to one Share.

*Effective date of adjustment*

Any adjustment pursuant to this Condition 6.3.4 shall become effective immediately after the record date for the determination of Shareholders entitled to receive the relevant Dividend; provided that (a) in the case of such a Dividend which must, under applicable law of India, be submitted for approval to a general meeting of Shareholders or be approved by a meeting of the Board of Directors of the Issuer before such Dividend may legally be made and is so approved after the record date fixed for the determination of Shareholders entitled to receive such Dividend, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date and (b) in the case of Condition 6.3.4(i), if the Fair Market Value of the relevant Capital Distribution cannot be determined until the record date fixed for the determination of Shareholders entitled to receive the relevant Dividend, such adjustment shall, immediately upon such Fair Market Value being determined, become effective retroactively to immediately after such record date.

If such Dividend is not so paid, the Conversion Price shall again be adjusted to be the Conversion Price which would then be in effect if such Dividend had not been approved.

For the purposes of this Condition:

“Capital Distribution” means any Dividend other than a cash Dividend.

In making any calculation for the purposes of this Condition 6.3.4, such adjustments (if any) shall be made as an independent investment or commercial bank of international repute selected by the Issuer (at the expense of the Issuer) and approved in writing by the Trustee (an “Independent Financial Institution”) considers appropriate to reflect any consolidation or subdivision of any Share or the issue of Shares by way of capitalisation of profits or reserves, or any like or similar event or any adjustment to the Conversion Price.

For the purposes of this Condition 6.3.4, an Extraordinary Cash Dividend shall be any cash Dividend where the total amount of:

(a) such Dividend, (i) prior to the deduction of any withholding tax and (ii) any corporate tax and dividend distribution tax attributable to that Dividend (the “Relevant Dividend”); and

- (b) all other cash Dividends paid or made on the Shares, in the 365 consecutive day period prior to the date the Relevant Dividend is first publicly announced (other than any cash Dividends or portion thereof previously deemed to be an Extraordinary Cash Dividend) (the "previous dividends"), except that where the first date of public announcement for Dividends for two different fiscal years has occurred in such 365 day period, such Dividends relating to the earlier fiscal year will be disregarded for the purpose of determining the previous dividends ((a) and (b) together being the "total current dividend"),

exceeds on a per Share basis 0.35 per cent. of the Average Closing Price of the Shares during the Relevant Period (as defined below). For the avoidance of doubt, the Extraordinary Dividend shall be the amount, on a per Share basis, of the excess of the total current Dividend over the percentage referred to above (but shall not exceed the amount of the Relevant Dividend), and all amounts referred to in this Condition are on a per Share basis.

"Average Closing Price" means the arithmetic average of the Closing Price per Share for each Trading Day during the Relevant Period.

"Relevant Period" means the period beginning on the first Trading Day after the record date for the first cash Dividend aggregated in the total current Dividend, and ending on the Trading Day immediately preceding the date of first public announcement for the Relevant Dividend. However, if there were no cash Dividends publicly announced during the 365 consecutive day period prior to the date of first public announcement for the Relevant Dividend or if there is no other Dividend aggregated in the total current dividend, the Relevant Period will be the entire such period of 365 consecutive calendar days.

"Dividend" means any dividend or distribution of cash or other property or assets or evidences of the Issuer's indebtedness, whenever paid or made and however described provided that:

- (a) where a cash Dividend is announced which is to be, or may at the election of a shareholder or shareholders be, satisfied by the issue or delivery of Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a shareholder or shareholders be, satisfied by the payment of a Dividend, then for the purposes of this definition the Dividend in question shall be treated as a Dividend of (i) such cash Dividend or (ii) the Fair Market Value (on the date of announcement of such Dividend or date of capitalisation (as the case may be) or, if later, the date on which the number of Shares (or amount of property or assets, as the case may be) which may be issued or delivered is determined) of such Shares or other property or assets if such Fair Market Value is greater than the Fair Market Value of such cash Dividend;
- (b) any tender or exchange offer falling within Condition 6.3.12 and any issue or distribution of Shares falling within Condition 6.3.2 shall be disregarded; and
- (c) a purchase or redemption of ordinary share capital by or on behalf of the Issuer shall not constitute a Dividend unless, in the case of purchases of Shares by or on behalf of the Issuer, the Volume Weighted Average Price per Share (before expenses) on any one day in respect of such purchases exceeds the Current Market Price per Share by more than 5 per cent. either (1) on that day (or if such day is not a Trading Day, the immediately preceding Trading Day), or (2) where an announcement (excluding for the avoidance of doubt for these purposes, any general authority for such purchases or redemptions approved by a general meeting of shareholders of the Issuer or any notice convening such a meeting of shareholders) has been made of the intention to purchase Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement, in which case such purchase shall be deemed to constitute a Dividend (but not a cash Dividend) to the extent that the aggregate price paid (before expenses) in respect of such Shares purchased by or on behalf of the Issuer exceeds the product of (i) the Current Market Price per Share determined as aforesaid and (ii) the number of Shares so purchased.

"Fair Market Value" means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Institution provided, that (i) the Fair Market Value of a cash Dividend paid or to be paid shall be the amount of such cash Dividend; (ii) the Fair Market Value of any other cash amount shall be

equal to such cash amount; (iii) where shares, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by the Independent Investment Bank) the fair market value of such shares, options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day such shares, options, warrants or other rights are publicly traded; and in the case of (i) translated into Rupees (if declared or paid in a currency other than Rupees) at the rate of exchange used to determine the amount payable to shareholders who were paid or are to be paid or are entitled to be paid the cash Dividend in Rupees; and in any other case, converted into Rupees (if expressed in a currency other than Rupees) at such rate of exchange as may be determined in good faith by an Independent Financial Institution to be the spot rate ruling at the close of business on that date (or if no such rate is available on that date the equivalent rate on the immediately preceding date on which such a rate is available).

“Volume Weighted Average Price” means, in respect of a Share on any Trading Day, the order book volume-weighted average price of a Share appearing on or derived from Bloomberg (or any successor service) page SUEL IN or NSUEL IN or such other source as shall be determined to be appropriate by an Independent Financial Institution on such Trading Day, provided that on any such Trading Day where such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of a Share in respect of such Trading Day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding Trading Day on which the same can be so determined.

“cash Dividend” means (i) any Dividend which is to be paid in cash and (ii) any Dividend determined to be a cash Dividend pursuant to paragraph (a) of the definition “Dividend”, and for the avoidance of doubt, a Dividend falling within paragraph (c) of the definition “Dividend” shall be treated as not being a cash Dividend.

#### 6.3.5 *Rights Issues to Shareholders:*

Adjustment: If the Issuer shall grant, issue or offer to the holders of Shares rights entitling them to subscribe for or purchase Shares, which expression shall include those Shares that are required to be offered to employees and persons other than shareholders in connection with such grant, issue or offer:

- (a) at a consideration per Share receivable by the Issuer (determined as provided in Condition 6.3.16) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price per Share at such record date; or
- (b) at a consideration per Share receivable by the Issuer which is fixed after the record date mentioned below and is less than the Current Market Price per Share on the date the Issuer fixes the said consideration,

then the Conversion Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or (in a case within (b) above) on the date the Issuer fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \left[ \frac{N + v}{N + n} \right]$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 6.3.2.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in India (in a case within (a) above) on such record date or (in a case within (b) above) on the date the Issuer fixes the said consideration.

- n = the number of Shares initially to be issued upon exercise of such rights at the said consideration being (aa) the number of Shares which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Shares for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).
- v = the number of Shares which the aggregate consideration receivable by the Issuer (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share specified in (a) or, as the case may be, (b) above.

*Effective date of adjustment:* Subject as provided below, such adjustment shall become effective immediately after the latest date for the submission of applications for such Shares by shareholders entitled to the same pursuant to such rights or (if later) immediately after the Issuer fixes the said consideration but retroactively to immediately after the record date mentioned above.

*Rights not taken up by Shareholders:* If, in connection with a grant, issue or offer to the holders of Shares of rights entitling them to subscribe for or purchase Shares, any Shares which are not subscribed for or purchased by the persons entitled thereto are underwritten by other persons prior to the latest date for the submission of applications for such Shares, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after the Issuer fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of rights entitling them to subscribe for or purchase Shares, any such Shares which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights) who have submitted applications for such Shares as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

#### 6.3.6 Warrants issued to Shareholders:

*Adjustment:* If the Issuer shall grant, issue or offer to the holders of Shares warrants entitling them to subscribe for or purchase Shares:

- (a) at a consideration per Share receivable by the Issuer (determined as provided in Condition 6.3.16) which is fixed on or prior to the record date for the determination of shareholders entitled to receive such warrants and is less than the Current Market Price per Share at such record date; or
- (b) at a consideration per Share receivable by the Issuer which is fixed after the record date mentioned above and is less than the Current Market Price per Share on the date the Issuer fixes the said consideration,

then the Conversion Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such warrants or (in a case within (b) above) on the date the Issuer fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \left[ \frac{N + v}{N + n} \right]$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 6.3.2.

- N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in India (in a case within (a) above) on such record date or (in a case within (b) above) on the date the Issuer fixes the said consideration.
- n = the number of Shares to be issued upon exercise of such warrants at the said consideration which, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where

applications by shareholders entitled to such warrants are required, the number of such Shares shall be calculated based upon (aa) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

- v = the number of Shares which the aggregate consideration receivable by the Issuer (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share specified in (a) or, as the case may be, (b) above.

*Effective date of adjustment:* Subject as provided below, such adjustment shall become effective (i) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (ii) where applications by shareholders entitled to the same are required as aforesaid, immediately after the latest date for the submission of such applications or (if later) immediately after the Issuer fixes the said consideration but in all cases retroactively to immediately after the record date mentioned above.

**Warrants not subscribed for by Shareholders:** If, in connection with a grant, issue or offer to the holders of Shares of warrants entitling them to subscribe for or purchase Shares in the circumstances described in (a) and (b) of this Condition 6.3.6, any warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such warrants, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after the Issuer fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of warrants entitling them to subscribe for or purchase Shares, any warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred the right to purchase such warrants) who have submitted applications for such warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

### 6.3.7 *Issues of rights or warrants for equity-related securities to Shareholders:*

*Adjustment:* If the Issuer shall grant, issue or offer to the holders of Shares rights or warrants entitling them to subscribe for or purchase any securities convertible into or exchangeable for Shares:

- (a) at a consideration per Share receivable by the Issuer (determined as provided in Condition 6.3.16) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price per Share at such record date; or
- (b) at a consideration per Share receivable by the Issuer (determined as aforesaid) which is fixed after the record date mentioned below and is less than the Current Market Price per Share on the date the Issuer fixes the said consideration,

then the Conversion Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (b) above) on the date the Issuer fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \left[ \frac{N + v}{N + n} \right]$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 6.3.2.

- N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in India (in a case within (a) above) on such record date or (in a case within (b) above) on the date the Issuer fixes the said consideration.

- n = the number of Shares initially to be issued upon exercise of such rights or warrants and conversion or exchange of such convertible or exchangeable securities at the said consideration being, in the case of rights, (aa) the number of Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities which the underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa) and which, in the case of warrants, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Shares shall be calculated based upon (x) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (y) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (x).
- v = the number of Shares which the aggregate consideration receivable by the Issuer (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share specified in (a) or, as the case may be, (b) above.

*Effective date of adjustment:* Subject as provided below, such adjustment shall become effective (a) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (b) where applications by shareholders entitled to the warrants are required as aforesaid and in the case of convertible or exchangeable securities by shareholders entitled to the same pursuant to such rights, immediately after the latest date for the submission of such applications or (if later) immediately after the Issuer fixes the said consideration; but in all cases retroactively to immediately after the record date mentioned above.

*Rights or warrants not taken up by Shareholders:* If, in connection with a grant, issue or offer to the holders of Shares of rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Shares in the circumstances described in this Condition 6.3.7, any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such convertible or exchangeable securities or warrants, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after the Issuer fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares or rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Shares, any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights or the right to purchase such warrants) who have submitted applications for such convertible or exchangeable securities or warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

### 6.3.8 *Other distributions to Shareholders:*

*Adjustment:* If the Issuer shall distribute to the holders of Shares of capital stock of the Issuer (other than Shares), assets (excluding any Dividends), evidences of its indebtedness or rights or warrants to subscribe for or purchase Shares or securities (excluding those rights and warrants referred to in Conditions 6.3.5, 6.3.6 and 6.3.7), then the Conversion Price in effect on the record date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \left[ \frac{CMP - fmv}{CMP} \right]$$



where:

NCP and OCP have the meanings ascribed thereto in Condition 6.3.2.

CMP = the Current Market Price per Share on the record date for the determination of shareholders entitled to receive such distribution.

fmv = the fair market value (as determined by an Independent Financial Institution or, if pursuant to applicable law of India such determination is to be made by application to a court of competent jurisdiction, as determined by such court or by an appraiser appointed by such court) of the portion of the equity share capital shares of capital stock, assets, rights or warrants so distributed applicable to one Share less any consideration payable for the same by the relevant Shareholder.

*Effective date of adjustment:* Such adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive such distribution. Provided that (a) in the case of such a distribution which must, under applicable law of India, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the Board of Directors of the Issuer before such distribution may legally be made and is so approved after the record date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date and (b) if the fair market value of the shares of capital stock, assets, rights or warrants so distributed cannot be determined until after the record date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such record date.

#### 6.3.9 *Issue of convertible or exchangeable securities other than to Shareholders or on exercise of warrants:*

*Adjustment:* If the Issuer shall issue any securities convertible into or exchangeable for Shares (other than the Bonds, or in any of the circumstances described in Condition 6.3.7 and Condition 6.3.11) or grant such rights in respect of any existing securities and the consideration per Share receivable by the Issuer (determined as provided in Condition 6.3.16) shall be less than the Current Market Price per Share on the date in India on which the Issuer fixes the said consideration (or, if the issue of such securities is subject to approval by a general meeting of shareholders, on the date on which the Board of Directors of the Issuer fixes the consideration to be recommended at such meeting), then the Conversion Price in effect immediately prior to the date of issue of such convertible or exchangeable securities shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \left[ \frac{N + v}{N + n} \right]$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 6.3.2.

N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in India on the day immediately prior to the date of such issue.

n = the number of Shares to be issued upon conversion or exchange of such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by the Issuer would purchase at such Current Market Price per Share.

*Effective date of adjustment:* Such adjustment shall become effective as of the calendar day in India corresponding to the calendar day at the place of issue on which such convertible or exchangeable securities are issued.

### 6.3.10 *Other issues of Shares:*

*Adjustment:* If the Issuer shall issue any Shares (other than Shares issued upon conversion or exchange of any convertible or exchangeable securities (including the Bonds) issued by the Issuer or upon exercise of any rights or warrants granted, offered or issued by the Issuer or in any of the circumstances described in any preceding provision of this Condition 6.3), for a consideration per Share receivable by the Issuer (determined as provided in Condition 6.3.16) less than the Current Market Price per Share on the date in India on which the Issuer fixes the said consideration (or, if the issue of such Shares is subject to approval by a general meeting of shareholders, on the date on which the Board of Directors of the Issuer fixes the consideration to be recommended at such meeting), then the Conversion Price in effect immediately prior to the issue of such additional Shares shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \left[ \frac{\text{N} + \text{v}}{\text{N} + \text{n}} \right]$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 6.3.2.

- N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in India on the day immediately prior to the date of issue of such additional Shares.
- n = the number of additional Shares issued as aforesaid.
- v = the number of Shares which the aggregate consideration receivable by the Issuer (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share.

*Effective date of adjustment:* Such adjustment shall become effective as of the calendar day in India of the issue of such additional Shares.

### 6.3.11 *Issue of equity-related securities:*

*Adjustment:* If the Issuer shall grant, issue or offer options, warrants or rights (excluding those rights and warrants referred to in Conditions 6.3.5, 6.3.6, 6.3.7 and 6.3.8) to subscribe for or purchase Shares or securities convertible into or exchangeable for Shares and the consideration per Share receivable by the Issuer (determined as provided in Condition 6.3.16) shall be less than the Current Market Price per Share on the date in India on which the Issuer fixes the said consideration (or, if the offer, grant or issue of such rights, options or warrants is subject to approval by a general meeting of shareholders, on the date on which the Board of Directors of the Issuer fixes the consideration to be recommended at such meeting), then the Conversion Price in effect immediately prior to the date of the offer, grant or issue of such rights, options or warrants shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \left[ \frac{\text{N} + \text{v}}{\text{N} + \text{n}} \right]$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 6.3.2.

- N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in India on the day immediately prior to the date of such issue.
- n = the number of Shares to be issued on exercise of such rights or warrants and (if applicable) conversion or exchange of such convertible or exchangeable securities at the said consideration.
- v = the number of Shares which the aggregate consideration receivable by the Issuer (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share.

*Effective date of adjustment:* Such adjustment shall become effective as of the calendar day in India corresponding to the calendar day at the place of issue on which such rights or warrants are issued.

#### 6.3.12 *Tender or exchange offer:*

*Adjustment:* In case a tender or exchange offer made by the Issuer or any Subsidiary (as defined below) for all or any portion of the Shares shall expire and such tender or exchange offer shall involve the payment by the Issuer or such Subsidiary of consideration per Share having a Fair Market Value at the last time (the "Expiration Date") tenders or exchanges could have been made pursuant to such tender or exchange offer (as it shall have been amended) that exceeds the Current Market Price per Share, as of the Expiration Date, the Conversion Price shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \left[ \frac{N \times CMP}{fmv + [(N - n) \times CMP]} \right]$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 6.3.2.

N = the number of Shares outstanding (including any tendered or exchanged Shares) on the Expiration Date.

CMP = Current Market Price per Share as of the Expiration Date.

fmv = the Fair Market Value of the aggregate consideration payable to the holders of Shares based on the acceptance (up to a maximum specified in the terms of the tender or exchange offer) of all Shares validly tendered or exchanged and not withdrawn as of the Expiration Date (the Shares deemed so accepted up to any such maximum, being referred to as the "Purchased Shares").

n = the number of Purchased Shares.

*Effective date of adjustment:* Such adjustment shall become retroactively effective immediately prior to the opening of business on the day following the Expiration Date.

*Tender or exchange offer not completed:* If the Issuer is obligated to purchase Shares pursuant to any such tender or exchange offer, but the Issuer is permanently prevented by applicable law from effecting any such purchase or all such purchases are rescinded, the Conversion Price shall again be adjusted to be the Conversion Price which would then be in effect if such tender or exchange offer had not been made.

#### 6.3.13 *Analogous events and modifications*

If (a) the rights of conversion or exchange, purchase or subscription attaching to any options, rights or warrants to subscribe for or purchase Shares or any securities convertible into or exchangeable for, or which carry rights to subscribe for or purchase Shares are modified (other than pursuant to and as provided in the terms and conditions of such options, rights, warrants or securities as originally issued) or (b) the Issuer determines that any other event or circumstance has occurred which has or would have an effect on the position of the Bondholders as a class compared with the position of the holders of all the securities (and options and rights relating thereto) of the Issuer, taken as a class which is analogous to any of the events referred to in Conditions 6.3.1 to 6.3.12, then, in any such case, the Issuer shall promptly notify the Trustee in writing thereof and the Issuer shall consult with an Independent Financial Institution as to what adjustment, if any, should be made to the Conversion Price to preserve the value of the Conversion Right of Bondholders and will make any such adjustment. All costs, charges, liabilities and expenses incurred in connection with the appointment, retention, consultation and remuneration of any Independent Financial Institution appointed under the Conditions shall be borne by the Issuer.

#### 6.3.14 *Simultaneous issues of different classes of Shares:*

In the event of simultaneous issues of two or more classes of share capital comprising Shares or rights or warrants in respect of, or securities convertible into or exchangeable for, two or more classes of share capital comprising Shares, then, for the purposes of this Condition, the formula

$$\text{NCP} = \text{OCP} \times \left[ \frac{\text{N} + \text{v}}{\text{N} + \text{n}} \right]$$

shall be restated as

$$\text{NCP} = \text{OCP} \times \left[ \frac{\text{N} + \text{v1} + \text{v2} + \text{v3}}{\text{N} + \text{n1} + \text{n2} + \text{n3}} \right]$$

where v1 and n1 shall have the same meanings as “v” and “n” but by reference to one class of Shares, v2 and n2 shall have the same meanings as “v” and “n” but by reference to a second class of Shares, v3 and n3 shall have the same meanings as “v” and “n” but by reference to a third class of Shares and so on.

#### 6.3.15 *Certain Definitions:*

For the purposes of these Conditions:

the “Closing Price” of the Shares for each Trading Day shall be the last reported transaction price of the Shares on the BSE for such day or, if no transaction takes place on such day, the average of the closing bid and offered prices of Shares for such day as furnished by a leading independent securities firm licensed to trade on the BSE selected from time to time by the Issuer and approved by the Trustee in writing for the purpose.

“Current Market Price” per Share on any date means the average of the daily Closing Prices (as defined below) of the relevant Shares for the five consecutive Trading Days (as defined below) ending on and including the Trading Day immediately preceding such date. If the Issuer has more than one class of share capital comprising Shares, then the relevant Current Market Price for Shares shall be the price for that class of Shares the issue of which (or of rights or warrants in respect of, or securities convertible into or exchangeable for, that class of Shares) gives rise to the adjustment in question.

If during the said five Trading Days or any period thereafter up to but excluding the date as of which the adjustment of the Conversion Price in question shall be effected, any event (other than the event which requires the adjustment in question) shall occur which gives rise to a separate adjustment to the Conversion Price under the provisions of these Conditions, then the Current Market Price as determined above shall be adjusted in such manner and to such extent as an Independent Financial Institution shall in its absolute discretion deem appropriate and fair to compensate for the effect thereof.

“Trading Day” means a day when the BSE is open for business, but does not include a day when (a) no such last transaction price or closing bid and offered prices is/are reported and (b) (if the Shares are not listed or admitted to trading on such exchange) no such closing bid and offered prices are furnished as aforesaid.

If the Shares are no longer listed but are still listed on the NSE, references in the above definitions to the BSE shall be deemed to be the NSE, and if the Shares are no longer listed on the BSE or the NSE and have been listed on another stock exchange as required by Condition 6.4.1, references in the above definitions to the BSE will be taken as references to the Alternative Stock Exchange.

#### 6.3.16 *Consideration receivable by the Issuer:*

For the purposes of any calculation of the consideration receivable by the Issuer pursuant to Conditions 6.3.5, 6.3.6, 6.3.7, 6.3.9, 6.3.10 and 6.3.11 above, the following provisions shall be applicable:

- (a) in the case of the issue of Shares for cash, the consideration shall be the amount of such cash;

- (b) in the case of the issue of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by an Independent Financial Institution or, if pursuant to applicable law of India such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof;
- (c) in the case of the issue (whether initially or upon the exercise of rights or warrants) of securities convertible into or exchangeable for Shares, the aggregate consideration receivable by the Issuer shall be deemed to be the consideration received by the Issuer for such securities and (if applicable) rights or warrants plus the additional consideration (if any) to be received by the Issuer upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in this Condition 6.3.16) and the consideration per Share receivable by the Issuer shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price;
- (d) in the case of the issue of rights or warrants to subscribe for or purchase Shares, the aggregate consideration receivable by the Issuer shall be deemed to be the consideration received by the Issuer for any such rights or warrants plus the additional consideration to be received by the Issuer upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in this Condition 6.3.16) and the consideration per Share receivable by the Issuer shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price;
- (e) if any of the consideration referred to in any of the preceding paragraphs of this Condition 6.3.16 is receivable in a currency other than Rupees, such consideration shall (in any case where there is a fixed rate of exchange between the Rupees and the relevant currency for the purposes of the issue of the Shares, the conversion or exchange of such securities or the exercise of such rights or warrants) be translated into Rupees for the purposes of this Condition 6.3.16 at such fixed rate of exchange and shall (in all other cases) be translated into Rupees at the mean of the exchange rate quotations (being quotations for the cross rate through U.S. dollars if no direct rate is quoted) by a leading bank in India for buying and selling spot units of the relevant currency by telegraphic transfer against Rupees on the date as of which the said consideration is required to be calculated as aforesaid;
- (f) in the case of the issue of Shares (including, without limitation, to employees under any employee bonus or profit sharing arrangements) credited as fully paid out of retained earnings or capitalisation of reserves at their par value, the aggregate consideration receivable by the Issuer shall be deemed to be zero (and accordingly the number of Shares which such aggregate consideration receivable by the Issuer could purchase at the relevant Current Market Price per Share shall also be deemed to be zero); and
- (g) in making any such determination, no deduction shall be made for any commissions or any expenses paid or incurred by the Issuer.

#### 6.3.17 *Cumulative adjustments:*

If, at the time of computing an adjustment (the "later adjustment") of the Conversion Price pursuant to any of Conditions 6.3.2, 6.3.5, 6.3.6, 6.3.9, 6.3.10 and 6.3.11 above, the Conversion Price already incorporates an adjustment made (or taken or to be taken into account pursuant to the proviso to Condition 6.3.18) to reflect an issue of Shares or of securities convertible into or exchangeable for Shares or of rights or warrants to subscribe for or purchase Shares or securities, to the extent that the number of such Shares or

securities taken into account for the purposes of calculating such adjustment exceeds the number of such Shares in issue at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such excess Shares shall be deemed to be outstanding for the purposes of making such computation.

*6.3.18 Minor adjustments:*

No adjustment of the Conversion Price shall be required if the adjustment would be less than 1% of the then current Conversion Price; provided that any adjustment which by reason of this Condition 6.3.18 is not required to be made shall be carried forward and taken into account (as if such adjustment had been made at the time when it would have been made but for the provisions of this Condition 6.3.18) in any subsequent adjustment. All calculations under this Condition 6.3 shall be made to the nearest Rs.0.01 with Rs.0.005 being rounded up to the next Rs.0.01. Except as otherwise set out in Condition 6.3.19, the Issuer may reduce the Conversion Price (but is not obliged to do so) at any time in its absolute discretion, subject to compliance with all applicable Indian laws.

*6.3.19 Minimum Conversion Price:*

Notwithstanding the provisions of this Condition, the Issuer covenants that:

- (a) the Conversion Price shall not be reduced below the par value of the Shares (Rs.10 at the date hereof) as a result of any adjustment made hereunder unless under applicable law then in effect Bonds may be converted at such reduced Conversion Price into legally issued, fully-paid and non-assessable Shares; and
- (b) it will not take any corporate or other action which might result in the Conversion Price being reduced pursuant to Conditions 6.3.1 to 6.3.14 below the level permitted by (i) applicable Indian laws and regulations from time to time (if any) or (ii) applicable Indian regulatory authorities.

*6.3.20 Reference to "fixed":*

Any references herein to the date on which a consideration is "fixed" shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.

*6.3.21 Upward adjustment:*

No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation of the Shares, as referred to in Condition 6.3.1.

*6.3.22 Trustee not obliged to monitor:*

The Trustee shall not be under any duty to monitor whether any event or circumstances has happened or exists under this Condition 6.3 and will not be responsible to Bondholders for any loss arising from any failure by it to do so.

*6.3.23 Approval of Trustee:*

The Issuer shall send the Trustee a certificate setting out particulars relating to adjustment of the Conversion Price. The Issuer shall also cause a notice containing the same information to be sent to Bondholders, such notice to be approved by the Trustee in writing before it is given to Bondholders.

*6.3.24 Independent Financial Institution:*

If the Issuer fails to select an Independent Financial Institution when required in this Condition 6.3, the Trustee may (at its absolute discretion) select such an Independent Financial Institution at the expense of the Issuer.

### 6.3.25 *Depository Receipts*

If the Issuer shall have outstanding a depository receipt facility programme or facility in respect of its Shares (a "DR Facility") on the date of conversion of any Bonds, then, subject to the terms and conditions of the relevant facility or programme and to applicable laws and regulations and to such amendments to these Conditions as the Issuer and the Trustee shall consider to be appropriate, each Bondholder will have the right in respect of the exercise of Conversion Rights to elect (a "DR Election") that the Shares to be issued on conversion be represented by depository receipts ("DRs") and to receive DRs instead of such Shares. A DR Election shall be made in the relevant Conversion Notice in such form as the Issuer may require. The number of DRs to be issued on exercise of Conversion Rights in respect of which the relevant Bondholder shall have duly made a DR Election shall be determined by dividing the principal amount of the relevant Bond to be converted by the Conversion Price in effect on the relevant Conversion Date and dividing the resulting number by the number of Shares represented by each DR on such Conversion Date.

Fractions of a DR will not be issued and neither will a Share (where at the relevant time a DR represents more than one Share) or any fraction of a Share be issued and no cash payment or adjustment will be made in respect thereof. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that DRs are to be issued to the same person, the number of such DRs to be issued in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so converted and rounded down to the nearest whole number of DRs.

Where DRs are to be issued, the Issuer will, as soon as practicable, and in any event not later than 30 days after the relevant Conversion Date (i) cause the name of the depository in respect of the relevant DR Facility (the "DR Depository"), or its custodian, to be registered in the record of the depositors maintained by the depository registered under the 1996 Depositories Act with whom the Issuer has entered into a depository agreement and (ii) cause the relevant number of DRs to be issued by the DR Depository pursuant to the relevant DR Facility to the relevant Bondholder or his/their nominee.

DRs will be issued in book-entry form or in certificated form as provided in the relevant DR Facility, and may bear such legends and be subject to such restrictions on transfer as the Issuer shall determine to be necessary to comply with applicable laws and regulations.

A Bondholder exercising Conversion Rights and making a DR Election must deliver at its expense to the specified office of any Conversion Agent all and any certificates and other documents as may be required pursuant to the relevant DR Facility in respect of the deposit of the relevant Shares pursuant to such DR Facility.

The Issuer will pay all expenses, charges and fees of the custodian for the DR Depository and of the DR Depository in connection with the deposit of the relevant Shares and issue of the DRs on conversion.

If a Retroactive Adjustment shall occur in relation to the exercise of Conversion Rights in relation to any Bond in respect of which a DR Election shall have been duly made, the Issuer shall, conditional upon the relevant adjustment becoming effective procure that there shall be issued to the relevant Bondholder (or in accordance with instructions contained in the Conversion Notice) such additional number DRs (if any) (the "Additional DRs") as, together with the DRs issued or to be issued on conversion of the relevant Bond is equal to the number of DRs which would have been required to be issued on conversion of such Bond (together with any fraction of a DR not so issued) if the relevant adjustment to the Conversion Price had been made and become effective on and as of the relevant Conversion Date.

DRs issued upon conversion of the Bonds will in all respects rank *pari passu* with all other DRs under the relevant DR Facility then in issue on the relevant Conversion Date, except that the DRs or, as the case may be, the Additional DRs so issued will not rank for any right where the record date or other due date for the establishment of entitlement in respect of the Shares represented by such DRs or, as the case may be, Additional DRs falls prior to the relevant Conversion Date.

If the Issuer determines that it would be contrary to applicable laws or regulations or would be contrary to the terms of the relevant DR Facility (including any provisions thereof relating to the deposit of Shares) to issue Shares to be represented by DRs upon conversion of Bonds in respect of which a DR Election shall have been made, such DR Election shall be ineffective and there shall be issued to such Bondholder (or as specified in the relevant Conversion Notice) Shares as if such DR Election had not been made.

The Issuer is under no obligation to establish and/or maintain any depositary facility or programme in respect of the Shares or, if it does, to enable the Shares to be eligible for deposit pursuant thereto. The Issuer shall be entitled to impose such conditions and restrictions on the deposit of Shares pursuant to any such facility or programme as it may determine, and may agree with the Trustee such changes to these Conditions as may be appropriate in respect of or relating to the deposit of Shares pursuant to any such facility or programme.

#### 6.3.26 *Employee Share Option Scheme*

No adjustment will be made to the Conversion Price where Shares or options to subscribe or acquire Shares are issued, offered, allotted, appropriated, modified or granted to or for the benefit of employees or former employees (including directors) of the Issuer or its Subsidiaries or any associated company of the Issuer (as set out in the relevant employee stock option plan), or persons related to such employees or former employees (including directors) or former employees, directly or indirectly, pursuant to any employee stock option scheme or plan approved by Shareholders in general meeting and otherwise adopted in accordance with and complying with all applicable provisions of relevant Indian laws and regulations and official guidelines of any relevant governmental or official body except to the extent that such issues in any period of 12 months amount to, or entitle such persons to receive Shares in excess of 3 per cent. of the average number of Shares outstanding during such period of 12 months.

### 6.4 **Undertakings**

6.4.1 The Issuer has undertaken in the Trust Deed, inter alia, that so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders or with the written approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of Bondholders to give such approval:

- (i) it will use its best endeavours (a) to obtain and maintain a listing of the Bonds on the Singapore Exchange Securities Trading Limited (the "Singapore Stock Exchange"), (b) to maintain a listing for all the issued Shares on the Indian Exchanges, (c) to obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights attaching to the Bonds on the Indian Exchanges, and (d) if the Issuer is unable to obtain or maintain such listings, or maintenance of such listings is unduly onerous to obtain and maintain a listing for all the Bonds and the Shares issued on the exercise of the Conversion Rights, on an alternative stock exchange as the Issuer may from time to time (with the prior written consent of the Trustee) determine (the "Alternative Stock Exchange") and will forthwith give notice to the Bondholders in accordance with Condition 17 below of the listing or delisting of the Shares or the Bonds (as a class) by any of such stock exchanges;
- (ii) it will reserve, free from any other pre-emptive or other similar rights, out of its authorised but unissued ordinary share capital the full number of Shares liable to be issued on conversion of the Bonds without breaching any foreign ownership restrictions in India applicable to the Shares and will ensure that all such Shares will be duly and validly issued as fully-paid;
- (iii) it will pay the expenses of the issue or delivery of, and all expenses of obtaining listing for, Shares arising on conversion of the Bonds;
- (iv) it will not make any reduction of its ordinary share capital or any uncalled liability in respect thereof or of any share premium account or capital redemption reserve fund (except, in each case, as permitted by law);



- (v) it will not make any offer, issue or distribute or take any action the effect of which would be to reduce the Conversion Price below the par value of the Shares of the Issuer, provided always that the Issuer shall not be prohibited from purchasing its Shares to the extent permitted by law; and
- (vi) it will not take any corporate or other action pursuant to Conditions 6.3.1 to 6.3.14 that would cause the Conversion Price to be adjusted to a price which would render conversion of the Bonds into Shares at such adjusted Conversion Price to be in contravention of applicable law or subject to approval from the Reserve Bank of India, the Ministry of Finance, Government of India and/or any other governmental/regulatory authority in India. The Issuer also covenants that prior to taking any action which would cause an adjustment to the Conversion Price, the Issuer shall provide the Trustee with an opinion of a legal counsel in India of international repute, approved by the Trustee in writing, stating that the Conversion Price as proposed to be adjusted pursuant to such action, is in conformity with applicable law and that the conversion of the Bonds to the Shares at such adjusted Conversion Price would not require approval of the Reserve Bank of India, the Ministry of Finance, India and/or any other governmental/regulatory authority in India (the "Price Adjustment Opinion"). To the extent that an event triggering an adjustment to the Conversion Price occurs and the Issuer is unable to provide the Trustee with a Price Adjustment Opinion, the Issuer shall give notice to Bondholders of their Non-Permitted Conversion Price Adjustment Event Repurchase Right, as defined in and pursuant to Condition 8.6.

*6.4.2 The Issuer has also given certain other undertakings in the Trust Deed for the protection of the Conversion Rights.*

The Shares issued upon conversion of the Bonds are expected to be listed on the NSE and the BSE and will be tradable on such stock exchange once listed thereon, which is expected to occur within 40 days after the relevant Conversion Date. The Issuer will make due application in respect of such listing within five days following the relevant Conversion Date. If there is any delay in obtaining the approval of the NSE and the BSE to list such Shares, they shall not be tradeable on the BSE and the NSE until the listing occurs.

**6.5 Notice of Change in Conversion Price**

The Issuer shall give notice to the Bondholders in accordance with Condition 17 and, for so long as the Bonds are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, the Issuer shall also give notice to the Singapore Stock Exchange, of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

**6.6 Conversion upon Change of Control**

If a Change of Control (as defined below) shall have occurred during the Conversion Period, the Issuer shall give notice of that fact to the Bondholders (the "Change of Control Notice") in accordance with Condition 17 within seven days after it becomes aware of such Change of Control. Following the giving of a Change of Control Notice, upon any exercise of Conversion Rights such that the relevant Conversion Date falls within 30 days following a Change of Control, or, if later, 30 days following the date on which the Change of Control Notice is given to Bondholders (such period, the "Change of Control Conversion Period"), the Conversion Price shall be adjusted in accordance with the following formula:

$$NCP = \frac{OCP}{1 + (CP \times c/t)}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 6.3.2. For the avoidance of doubt, OCP for the purposes of this Condition 6.6 shall be the Conversion Price applicable on the relevant Conversion Date in respect of any conversion pursuant to this Condition 6.6.

Conversion Premium ("CP") = 59.59 per cent. expressed as a fraction.

c = the number of days from and including the first day of the Change of Control Conversion Period to but excluding 12 June 2012.

t = the number of days from and including 11 June 2007 to but excluding 12 June 2012,

provided that the Conversion Price shall not be reduced pursuant to this Condition 6.6 below the level permitted by applicable Indian laws and regulations from time to time (if any).

If the last day of a Change of Control Conversion Period shall fall during a Closed Period, the Change of Control Conversion Period shall be extended such that its last day will be the fifteenth day following the last day of a Closed Period.

For the purposes of this Condition 6.6,

"control" means (a) the acquisition or control of more than 50 per cent. of the Voting Rights of the issued share capital of the Issuer or (b) the right to appoint and/or remove all or the majority of the members of the Issuer's Board of Directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

a "Change of Control" occurs when:

(a) any person or persons (excluding the Promoter Group), acting together, acquires control, directly or indirectly, of the Issuer; or

(b) the Issuer consolidates with or merges into or sells or transfers all or substantially all of the Issuer's assets to any other person or persons, acting together;

a "person" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Issuer's Board of Directors or any other governing board and does not include the Issuer's wholly-owned direct or indirect subsidiaries;

the "Promoter Group" means Tulsi R. Tanti, Tanti Holdings Limited, Gita T. Tanti, Tulsi R. Tanti (as karta of Tulsi Ranchhodbhai HUF), Tulsi R. Tanti (as karta of Ranchhodbhai Ramjibhai HUF) and jointly by Tulsi R. Tanti, Vinod R. Tanti and Jitendra R. Tanti Vinod R. Tanti, Jitendra R. Tanti, Sangita V. Tanti, Lina J. Tanti, Girish R. Tanti, Rambhoben Ukabhai, Vinod R. Tanti (as karta of Vinod Ranchhodbhai HUF), Jitendra R. Tanti (as karta of Jitendra Ranchhodbhai HUF), Pranav T. Tanti, Nidhi T. Tanti, Rajan V. Tanti (through guardian Vinod R. Tanti), Brij J. Tanti (through guardian Jitendra R. Tanti), Trisha J. Tanti (through guardian Jitendra R. Tanti), Girish R. Tanti (as karta of Girish Ranchhodbhai HUF), Suruchi Holdings Private Limited, Sugati Holdings Private Limited, Sanman Holdings Private Limited and Samanvaya Holdings Private Limited; and

"Voting Rights" means the right generally to vote at a general meeting of Shareholders of the Issuer (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

## 6.7 Conversion Price Reset

If the average of the Volume Weighted Average Price (as defined in Condition 6.3.4) of a Share for the period of 21 consecutive Trading Days ending on the day immediately prior to 11 June 2008 (the "Reset Date") (the "Reference Price"), converted into U.S. dollars at the Prevailing Rate (as defined in Condition 8.2) is less than the Conversion Price on the Reset Date, converted into U.S. dollars at the Fixed Exchange Rate (as defined in Condition 6.1.1), the Conversion Price shall be adjusted on a one-time basis on the Reset Date in accordance with the following formula:

$$\text{Adjusted Conversion Price} = 140 \text{ per cent.} \times \text{Reference Price} \times \frac{\text{Fixed Exchange Rate}}{\text{Prevailing Rate}}$$

The Trustee and the Agents shall not be responsible to determine or be responsible to verify the accuracy of the Reference Price.

Such adjusted Conversion Price shall be rounded downwards, if necessary, to the nearest Rs.1.00, provided that:

- (i) any such adjustment to the Conversion Price shall be limited such that the adjusted Conversion Price in no event shall be less than the SEBI minimum floor price of Rs.1,102.99;
- (ii) the Conversion Price shall not be reduced below the par value of the Shares unless under applicable law then in effect the Bonds could be exchanged at such reduced Conversion Price into legally issued, fully-paid and non-assessable Shares; and
- (iii) for the avoidance of doubt, any such adjustment to the Conversion Price shall only be a downward adjustment.

Effective date of adjustment: The Issuer is responsible for determining the Conversion Price and notifying the Bondholders, the Trustee and the Agents on or as soon as reasonably possible after the Reset Date. The Trustee and the Agents shall not be responsible for determining or be responsible for verifying the accuracy of the Conversion Price or the calculation of the Reference Price. Any such adjustments shall become effective as of the Reset Date and shall be notified to the Bondholders as soon as practicable thereafter.

## 6.8 Financial Covenants

### 6.8.1 Definitions

In this Condition 6.8:

**“Acquisition Closing”** means the date on which the Acquisition is completed and the Company obtains control, whether directly or indirectly, over the Target Company, by registration of a domination agreement (Beherrschungsvertrag) in the commercial register of the Target Company.

**“Adjusted Consolidated EBITDA”** means Consolidated EBITDA for a Measurement Period plus Consolidated Interest Receivable less all Taxes payable by the Group in that Measurement Period.

**“Calculation Date”** means 31 March and 30 September in each financial year of the Group.

**“Consolidated EBITDA”** means the consolidated net pre-taxation profits of the Group for a Measurement Period:

- (a) including the net pre-Taxation profits of a member of the Group or business or assets acquired during that Measurement Period for the part of that Measurement Period when it was not a member of the Group and/or the business or assets were not owned by a member of the Group; but
- (b) excluding the net pre-Taxation profits attributable to any member of the Group or to any business or assets sold during that Measurement Period,

and all as adjusted by:

- (i) adding back Consolidated Interest Payable;
- (ii) taking no account of any extraordinary item (or any exceptional items which fall within paragraph 20 of FRS3); and
- (iii) adding back depreciation and amortisation,

in each case to the extent added, deducted or taken into account for the purposes of determining the net pre-Taxation profits of the Group.

**“Consolidated Eligible Cash and Cash Equivalents”** means, at any time:

- (a) cash in hand or on deposit with any acceptable bank;

- (b) certificates of deposit, maturing within one year after the relevant date of calculation, issued by an acceptable bank;
- (c) any investment in marketable obligations issued or guaranteed by the government of the United States of America, the U.K., Singapore or any member state of the European Economic Area or any Participating Member State or by an instrumentality or agency of any of them having an equivalent credit rating (or, in the case of Indian Rupee denominated investments, issued or guaranteed by the Government of India or any instrumentality or agency of the Government of India having an equivalent credit rating) which:
  - (i) matures within one year after the date of the relevant calculation; and
  - (ii) is not convertible to any other security;
- (d) open market commercial paper (not Indian Rupee denominated) not convertible to any other security:
  - (i) for which a recognised trading market exists;
  - (ii) which matures within one year after the relevant date of calculation; and
  - (iii) which has a credit rating of either A-1 by S&P or Fitch or P-1 by Moody's, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (e) bills of exchange accepted by an acceptable bank (or any dematerialised equivalent);
- (f) export earnings of foreign currency accounts with Indian banks;
- (g) investments accessible within 30 days in money market funds which:
  - (i) have a credit rating of either A-1 or higher by S&P or Fitch or P-1 or higher by Moody's; and
  - (ii) invest substantially all their assets in securities of the types described in paragraphs (b) to (e) above; or
- (h) investments of Indian Rupee denominated sums in Indian mutual bond or debt funds with a rating of at least A from Fitch (or a comparable rating from any of Credit Rating Information Services Limited ("**CRISIL**"), Credit Analysis and Research Limited ("**CARE**") or Investment Information and Credit Rating Agency of India Limited ("**ICLA**") (each an "**Alternate Indian Rating Agency**");
- (i) any other debt, security or investment approved by a resolution of the Bondholders

in each case, to which any member of the Group is entitled (whether or not subject to any Security or any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts or any other preferential arrangement having a similar effect) at that time and which is capable of being applied against Consolidated Total Borrowings (or any part thereof). For this purpose an "**acceptable bank**" is a commercial bank or trust company which has a rating of A or higher by S&P or Fitch or A2 or higher by Moody's or a comparable rating from a nationally recognised credit rating agency for its long-term unsecured and non-credit enhanced debt obligations or has been approved by a resolution of the Bondholders. In the case of Indian Rupee denominated deposits or other Investments, "**acceptable bank**" shall include any Indian incorporated bank or financial institution with a rating of at least A from Fitch (or a comparable rating from any Alternate Indian Rating Agency) in respect of its long-term unsecured and not credit enhanced Indian Rupee denominated debt obligations or has been approved by a resolution of the Bondholders.

"**Consolidated Interest Payable**" means all interest and other financing charges (whether, in each case, paid, payable or capitalised) incurred by the Group during a Measurement Period adjusted (but without double counting) by adding back the net amount payable (or deducting the net amount receivable) by members of the Group in respect of that

Measurement Period under any interest or (so far as they relate to interest) currency hedging arrangements, but excluding any amounts attributable to a member of the Group sold during the relevant Measurement Period and whose contribution to net pre-Taxation profits of the Group is excluded from the calculation of Consolidated EBITDA for that Measurement Period in accordance with paragraph (b) of the definition thereof.

**“Consolidated Interest Receivable”** means all interest and other financing charges received or receivable by the Group during a Measurement Period.

**“Consolidated Net Interest Payable”** means Consolidated Interest Payable less Consolidated Interest Receivable during the relevant Measurement Period (save to the extent taken into account in calculating Consolidated Interest Payable for that period).

**“Consolidated Tangible Net Worth”** means at any time the aggregate of:

- (a) the amount paid up or credited as paid up on the issued share capital of the Issuer; and
- (b) the net amount standing to the credit (or debit) of the consolidated reserves of the Group,

based on the latest published audited (where available) or unaudited consolidated balance sheet of the Issuer (the **“latest balance sheet”**) but adjusted by:

- (i) deducting any dividend or other distribution proposed, declared or made by the Issuer (except to the extent it has been taken into account in the latest balance sheet);
- (ii) deducting any amount attributable to goodwill (other than goodwill arising on the acquisition of the Target Company to the extent it has not been amortised) or any other intangible asset;
- (iii) deducting any amount attributable to an upward revaluation of assets or, in the case of assets of a company which becomes a member of the Group after that date, the date on which that company becomes a member of the Group;
- (iv) reflecting any variation in the amount of the issued share capital of the Issuer after the date of the latest balance sheet (and any change in the consolidated reserves of the Group resulting from that variation); and
- (v) reflecting any variation in the interest of the Issuer in any other member of the Group since the date of the latest balance sheet (to be calculated on the assumption that the variation had occurred immediately before the latest balance sheet date).

**“Consolidated Total Borrowings”** means, in respect of the Group, for any Measurement Period, the aggregate nominal, principal or other amount of the Financial Indebtedness of members of the Group (other than any indebtedness referred to in paragraph (h) of the definition of Financial Indebtedness and any guarantee or indemnity in respect of that indebtedness), determined on a consolidated basis.

**“Consolidated Total Net Borrowing”** means Consolidated Total Borrowings less Consolidated Eligible Cash and Cash Equivalents.

**“Debt Service”** means in respect of a Measurement Period the aggregate of Consolidated Interest Payable, and Consolidated Total Borrowings with a maturity of less than one year (excluding working capital bank finance), which was originally scheduled to mature or otherwise become due and payable in that Measurement Period.

**“Eve Group”** means Eve Holding, Hansen, Hansen’s Subsidiaries and/or any other Group member incorporated for the purposes of the Hansen Restructuring or any Subsidiary of any such company.

**“Financial Indebtedness”** means, without double counting, any indebtedness for or in respect of:

- (a) moneys borrowed;

- (b) any acceptance credit (including any dematerialised equivalent);
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any agreement treated as a finance or capital lease in accordance with generally accepted accounting principles in the jurisdiction of incorporation of the relevant member of the Group;
- (f) receivables sold or discounted (other than any receivables to the extent they are sold or discounted on a non-recourse basis);
- (g) the acquisition cost of any asset or service to the extent payable after its acquisition or possession by the party liable where the advance or deferred payment:
  - (i) is arranged primarily as a method of raising finance or financing the acquisition of that asset or the construction of that asset; or
  - (ii) involves a period of more than six months before or after the date of acquisition or supply;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in the above paragraphs, provided that indebtedness of a kind referred to in paragraphs (j) above shall only constitute Financial Indebtedness if both of the following paragraphs apply thereto:
  - (i) the counter indemnity obligation concerned does not arise solely in respect of an instrument of a kind referred to in that sub-paragraph issued solely for the purpose of assuring a payment or other obligation which is not itself Financial Indebtedness; and
  - (ii) no demand or other claim for payment has been made under the relevant instrument nor is any indebtedness of the issuer of that instrument otherwise due and payable thereunder.

**“Group”** means the Issuer and its subsidiaries, other than (i) a member of the Eve Group and (ii) unless the context otherwise requires, at any time, before the date of Acquisition Closing, the Target Company and each of its Subsidiaries.

**“Hansen”** means S.A. Hansen Transmissions - International N.V.

**“Hansen Restructuring”** means a restructuring of the Eve Group involving the transfer of all shares held by AE Rotor in Eve Holdings (or by Eve Holdings in Hansen) to another member of the Group so that such other Group member becomes the holding company of the Eve Group, and the eventual initial public offering of some or all of that holding company’s shares.

**“Measurement Period”** for the purposes of calculation of the financial covenants set out in this Condition 6.8 to be complied with on a Calculation Date, means each period of 12 months ending on such Calculation Date.

**“Original Financial Statements”** means the audited consolidated financial statements of the Company and its Subsidiaries for the year ended 31 March 2007.

**“Security”** means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

**“Target Company”** means REpower Systems AG, a stock corporation (Aktiengesellschaft) incorporated under the laws of the Federal Republic of Germany and registered with the commercial register (Handelsregister) of the local court (Amtsgericht) of Hamburg under registration number HRB 75 543.

**“Tax”** means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any service tax and any related penalty or interest) and **“Tax”** and **“Taxation”** shall be construed accordingly.

#### 6.8.2 Interpretation

- (a) Except as provided to the contrary in these Conditions, an accounting term used in this Condition 6.8 is to be construed in accordance with the principles applied in connection with the Original Financial Statements.
- (b) No item must be credited or deducted more than once in any calculation under this Condition 6.8.

#### 6.8.3 Gearing

The Issuer must ensure that Consolidated Total Net Borrowings do not:

- (a) for the period from 1 April 2007 to 31 March 2008 exceed 2.35 times Consolidated Tangible Net Worth; and
- (b) at any time thereafter, exceed 1.0 times Consolidated Tangible Net Worth.

In this Condition 6.8.3, for the purposes of calculating:

- (i) **“Consolidated Total Net Borrowings”**, the **“Group”** in the definitions of **“Consolidated Total Borrowings”** and **“Consolidated Eligible Cash and Cash Equivalents”** shall include each member of the Eve Group; and
- (ii) **“Consolidated Tangible Net Worth”**, the **“Group”** in the definition thereof shall include each member of the Eve Group.

#### 6.8.4 DSCR

The Issuer must ensure that the ratio of Adjusted Consolidated EBIDTA to Debt Service for any Measurement Period ending on any Calculation Date is not, less than 1.33 to 1.

#### 6.8.5 Consolidated Total Net Borrowing/EBITDA

The Issuer must ensure that Consolidated Total Net Borrowings do not:

- (a) for the Measurement Periods ending on or after 31 March 2007 but prior to 31 March 2008 exceed 5.25 times Consolidated EBITDA for that Measurement Period;
- (b) for Measurement Periods ending on or after 31 March 2008 but prior to 31 March 2009 exceed 4.0 times Consolidated EBITDA for that Measurement Period;
- (c) for Measurement Periods ending on or after 31 March 2009 but prior to 31 March 2010, exceed 3.0 times Consolidated EBITDA for that Measurement Period; and
- (d) for each Measurement Period ending on or after 31 March 2010 exceed 2.0 times Consolidated EBITDA for that Measurement Period.

#### 6.8.6 Calculations of Financial Covenants

Where a financial covenant is calculated on a Calculation Date, it shall be calculated (to the extent applicable) by reference to the Measurement Period ending on such Calculation Date.

## **7 Payments**

### **7.1 Principal and Premium**

Payment of principal, premium and default interest (if any) will be made by transfer to the registered account of the Bondholder or by U.S. dollar cheque drawn on a bank in New York mailed to the registered address of the Bondholder if it does not have a registered account, in each case, in accordance with provisions of the Agency Agreement. Such payment will only be made after surrender of the relevant Certificate at the specified office of any of the Agents. If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) paid.

### **7.2 Registered Accounts**

For the purposes of this Condition, a Bondholder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank in New York, details of which appear on the Register at the close of business on the second business day (as defined below) before the due date for payment, and a Bondholder's registered address means its address appearing on the Register at that time.

### **7.3 Applicable Laws**

All payments are subject in all cases to any applicable laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

### **7.4 Payment Initiation**

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a business day (as defined below), for value on the first following day which is a business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder) on the due date for payment (or, if it is not a business day, the immediately following business day) or, in the case of a payment of principal, if later, on the business day on which the relevant Certificate is surrendered at the specified office of an Agent.

### **7.5 Delay In Payment**

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

### **7.6 Business Day**

In this Condition, "business day" means a day other than a Saturday or Sunday on which commercial banks are open for business in New York City and London and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered. If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

## **8 Redemption, purchase and cancellation**

### **8.1 Maturity**

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem the Bonds at 145.23 per cent. of their principal amount on 12 June 2012 (the "Maturity Date"). The Issuer may not redeem the Bonds at its option prior to that date except as provided in Condition 8.2 or Condition 8.3 below (but without prejudice to Condition 10).

### **8.2 Mandatory Conversion at the Option of the Issuer**

8.2.1 On or at any time after 11 June 2009, the Issuer may, having given not less than 30 nor more than 60 days' (the "Mandatory Conversion Notice Period") notice to the Bondholders, the Trustee and the Principal Agent (which notice will be irrevocable),



mandatorily convert the Bonds in whole but not in part into Shares on the date fixed for mandatory conversion, provided that no such mandatory conversion may be made unless the Closing Price of the Shares (translated into U.S. dollars at the Prevailing Rate (as defined below)) for each of the 45 consecutive Trading Days prior to the date upon which notice of such mandatory conversion is given pursuant to Condition 17, was at least 120 per cent. of the applicable Early Redemption Amount divided by the Conversion Ratio. If there shall occur an event giving rise to a change in the Conversion Price during any such 45 consecutive Trading Day period or during the Mandatory Conversion Notice Period, appropriate adjustments for the relevant days approved by two investment banks (acting as experts) selected by the Issuer and approved in writing by the Trustee shall be made for the purpose of calculating the Closing Price for such days. The "Prevailing Rate" for the translation of the Closing Prices shall be the arithmetic average of the spot rates for the purchase of U.S. Dollars with Rupees quoted by the State Bank of India on each of the relevant Trading Days or if such rate is not available on such Trading Date, such rate prevailing on the immediately preceding day on which such rate is so available.

The Issuer's right to mandatorily convert under this Condition 8.2 does not affect a holder's right to exercise its Conversion Right hereunder (which shall remain in full force and effect during the Mandatory Conversion Notice Period) provided that in no event shall the Conversion Date fall after the date for mandatory conversion hereunder. Upon the expiry of the Mandatory Conversion Notice Period, the Issuer will be bound (subject to and in accordance with Condition 6) to convert the Bonds to which such notice relates into Shares and the date of expiry of such period shall be deemed to be the Conversion Date. The holders of the Bonds to be so converted shall be deemed to have exercised their Conversion Rights and the provisions of Condition 6 apply mutatis mutandis.

If on the business day immediately following the Mandatory Conversion Notice Period, Conversion Notices have not been received by the relevant Conversion Agent or the Principal Agent in respect of any Bonds outstanding ("Relevant Bonds"), the Relevant Bonds shall be converted into Shares in accordance with these Conditions at the applicable Conversion Price and such Shares shall be delivered to an agent of the Issuer located in Mumbai (the "Share Agent"). Certificates for such Shares will be issued by the Issuer in the name of an agent of the Issuer and deposited at the office of the Share Agent and the Issuer will be responsible for all fees and charges for the issue of such Certificate or Certificates. All of the Shares delivered, or to be delivered, on such conversion shall be sold by, or on behalf of, the Share Agent as soon as practicable, and (subject to any necessary consents being obtained, and to the deduction by the Share Agent of any amount which it determines to be payable in respect of its liability to taxation and the payment of any capital, stamp, transfer, issue or registration duties (if any) and any costs incurred by the Share Agent in connection with the transfer, delivery and sale thereof) the net proceeds of sale together with accrued interest (if any) payable under Condition 6, and any cash in lieu of fractions and any other amount payable by the Issuer in respect of the relevant exercise in respect of the Relevant Bonds (the "Net Proceeds") shall be held by the Share Agent for the benefit of the Bondholders so entitled and distributed rateably to the holders of such Relevant Bonds.

Immediately following the sale of Shares by the Share Agent, the Issuer shall forthwith notify Bondholders of such sale and provide details of the Net Proceeds available for distribution to Bondholders so entitled. The Issuer's obligation to pay the principal, interest and premium (if any) on the Bonds shall not be satisfied unless and until the relevant Shares or Net Proceeds (as applicable) attributable to the Bonds converted pursuant to Condition 8.2 shall have been delivered to the applicable Bondholder.

The Trustee and the Issuer shall have no responsibility to any person for the manner in which such sale is effected or if the aggregate sale proceeds fall short of the principal amount of the Relevant Bonds. The Trustee shall have no liability in respect of the exercise or non-exercise of its discretion pursuant to this Condition 8.2 or the timing of such exercise or in respect of any such sale of Shares whether for the timing of any such sale or the price at which any such Shares are sold, or the inability to sell any such Shares or otherwise.

- 8.2.2 If at any time the aggregate principal amount of the Bonds outstanding is less than 10 per cent. of the aggregate principal amount originally issued (including any Bonds issued pursuant to Condition 16), the Issuer shall have the option to redeem such outstanding Bonds in whole but not in part at their Early Redemption Amount on the date fixed for redemption. The Issuer will give at least 30 days' but not more than 60 days' prior notice to the holders for such redemption.

*RBI regulations at the time of redemption may require the Issuer to obtain the prior approval of the RBI before providing notice for or effecting such a redemption prior to the Maturity Date, such approval may or may not be forthcoming.*

### **8.3 Redemption for Taxation Reasons**

- 8.3.1 At any time the Issuer may, having given not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) redeem all, and not some only, of the Bonds at their Early Redemption Amount on the date fixed for redemption ("Tax Redemption Date"), if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that the Issuer has or will become obliged to pay additional amounts as referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of India or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 16 May 2007, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer (taking reasonable measures available to it) and (b) an opinion of independent legal or tax advisors of recognised international standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective) and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Bondholders.

- 8.3.2 Upon the expiry of any such notice, the Issuer will be bound to redeem the Bonds at their Early Redemption Amount on the Tax Redemption Date.

- 8.3.3 If the Issuer gives a notice of redemption pursuant to this Condition 8.3, each Bondholder will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment to be made in respect of such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 9 and payment of all amounts shall be made subject to the deduction or withholding of the taxation required to be withheld or deducted by the government of India or any authority thereof or therein having power to tax. For the avoidance of doubt, any additional amounts which had been payable in respect of the Bonds as a result of the laws or regulations of the government of India or any authority thereof or therein having power to tax prior to 16 May 2007 will continue to be payable to such Bondholders. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of election (the "Bondholder's Tax Election Notice"), in the form for the time being current, obtainable from the specified office of any Paying Agent together with the Certificate evidencing the Bonds on or before the day falling 10 days prior to the Tax Redemption Date.

*RBI regulations at the time of redemption may require the Issuer to obtain the prior approval of the RBI before providing notice for or effecting such a redemption prior to the Maturity Date, such approval may or may not be forthcoming.*

#### 8.4 **Redemption for Change of Control**

8.4.1 Following the occurrence of a Relevant Event (as defined below) and to the extent permitted by applicable law, the holder of each Bond will have the right at such holder's option to require the Issuer to redeem in whole but not in part such holder's Bonds on the Relevant Event Put Date at their Early Redemption Amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent ("Relevant Event Put Exercise Notice") together with the Certificate evidencing the Bonds to be redeemed by not later than 30 days following a Relevant Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 17. The "Relevant Event Put Date" shall be the fourteenth day after the expiry of such period of 30 days as referred to above.

8.4.2 A Relevant Event Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds which form the subject of the Relevant Event Put Exercise Notices delivered as aforesaid on the Relevant Event Put Date.

8.4.3 The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or any event which could lead to the occurrence of a Relevant Event has occurred.

8.4.4 No later than seven days after becoming aware of a Relevant Event, the Issuer shall procure that notice regarding the Relevant Event shall be delivered to Bondholders (in accordance with Condition 17) stating: (i) the Relevant Event Put Date; (ii) the date of such Relevant Event and, briefly, the events causing such Relevant Event; (iii) the date by which the Relevant Event Put Exercise Notice (as defined above) must be given; (iv) the redemption amount and the method by which such amount will be paid; (v) the names and addresses of all Paying Agents; (vi) briefly, the Conversion Right and the then current Conversion Price; (vii) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Relevant Event Put Right or Conversion Right; and (viii) that a Relevant Event Put Exercise Notice, once validly given, may not be withdrawn.

8.4.5 *For the purposes of this Condition 8:*

(i) a "person" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Issuer's Board of Directors or any other governing board and does not include the Issuer's wholly-owned direct or indirect subsidiaries;

(ii) "Relevant Event" occurs when there has been a Change of Control in the Issuer;

(iii) "Early Redemption Amount" of a Bond, for each U.S.\$1,000 principal amount of the Bonds, is determined so that it represents for the Bondholder a gross yield of 7.60 per cent. per annum calculated on a semi-annual basis. The applicable Early Redemption Amount for each U.S.\$1,000 principal amount of Bonds is calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards (provided that if the date fixed for redemption is the Semi-Annual Date (as set out below), such Early Redemption Amount shall be as set out in the table below in respect of such Semi-Annual Date):

$$\text{Early Redemption Amount} = \text{Previous Redemption Amount} \times (1 + r/2)^{d/p}$$

Previous Redemption Amount = the Early Redemption Amount for each U.S.\$1,000 principal amount on the Semi-Annual Date immediately preceding the date fixed for redemption as set out below (or if the Bonds are to be redeemed prior to 11 December 2007, U.S.\$1,000)

Semi-Annual Date	Early Redemption Amount
	(U.S.\$)
11 December 2007 .....	1,038
11 June 2008 .....	1,077.44
11 December 2008 .....	1,118.39
11 June 2009 .....	1,160.89
11 December 2009 .....	1,205.00
11 June 2010 .....	1,250.79
11 December 2010 .....	1,298.32
11 June 2011 .....	1,347.66
11 December 2011 .....	1,398.87

r = 7.60 per cent., expressed as a fraction.

d = number of days from and including the immediately preceding Semi-Annual Date (or if the Bonds are to be redeemed on or before 11 December 2007, from and including the Closing Date) to, but excluding, the date fixed for redemption, calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

p = 180

*RBI regulations at the time of redemption may require the Issuer to obtain the prior approval of the RBI before providing notice for or effecting such a redemption prior to the Maturity Date, such approval may or may not be forthcoming.*

## 8.5 **Delisting Put Right**

8.5.1 In the event the Shares cease to be listed or admitted to trading on the BSE and NSE (a "Delisting") each Bondholder shall have the right (the "Delisting Put Right"), at such Bondholder's option, to require the Issuer to redeem all (but not less than all) of such Bondholder's Bonds on the twentieth business day after notice has been given to Bondholders regarding the Delisting referred to under Condition 8.5.2 below or, if such notice is not given, the twentieth business day after the Delisting (the "Delisting Put Date") at their Early Redemption Amount (the "Delisting Put Price").

8.5.2 Promptly after becoming aware of a Delisting, the Issuer shall procure that notice regarding the Delisting Put Right shall be given to Bondholders (in accordance with Condition 17) stating:

- (i) the Delisting Put Date;
- (ii) the date of such Delisting and, briefly, the events causing such Delisting;
- (iii) the date by which the Delisting Put Notice (as defined below) must be given;
- (iv) the Delisting Put Price and the method by which such amount will be paid;
- (v) the names and addresses of all Paying Agents;
- (vi) the Conversion Right and the then current Conversion Price;
- (vii) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Delisting Put Right or Conversion Right; and

(viii) that a Delisting Put Notice, once validly given, may not be withdrawn.

- 8.5.3 To exercise its rights to require the Issuer to redeem its Bonds, the Bondholder must deliver a written irrevocable notice of the exercise of such right (a "Delisting Put Notice"), in the then current form obtainable from the specified office of any Agent, to any Paying Agent on any business day prior to the close of business at the location of such Paying Agent on such day and which day is not less than 10 business days prior to the Delisting Put Date.
- 8.5.4 A Delisting Put Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds which form the subject of the Delisting Notices delivered as aforesaid on the Delisting Put Date.
- 8.5.5 The Trustee shall not be required to take any steps to ascertain whether a Delisting or any event which could lead to the occurrence of a Delisting has occurred.
- 8.5.6 For the purposes of this Condition, "business day" shall mean a day on which commercial banks are open for business in London and Mumbai.

*RBI regulations at the time of redemption may require the Issuer to obtain the prior approval of the RBI before providing notice for or effecting such a redemption prior to the Maturity Date, such approval may or may not be forthcoming.*

#### **8.6 Redemption Following Exercise of a Put Option**

Upon the exercise of any put option specified in Condition 8.4 or 8.5, payment of the applicable redemption amount shall be conditional upon (i) the Issuer obtaining all approvals required by law and (ii) delivery of the Bondholder's Certificate (together with any necessary endorsements) to any Paying Agent on any business day together with the delivery of any other document(s) required by these Conditions, and will be made promptly following the later of the date set for redemption and the time of delivery of such Certificate. If the Paying Agent holds on the Put Date (as defined below) money sufficient to pay the applicable redemption monies of Bonds for which notices have been delivered in accordance with the provisions hereof upon exercise of such right, then, whether or not such Certificate is delivered to the Paying Agent, on and after such Put Date, (a) such Bond will cease to be outstanding; (b) such Bond will be deemed paid; and (c) all other rights of the Bondholder shall terminate (other than the right to receive the applicable redemption monies). "Put Date" shall mean the Relevant Event Put Date or the Delisting Put Date, as applicable.

#### **8.7 Non-Permitted Conversion Price Adjustment Event Repurchase Right**

To the extent permitted by applicable law, unless the Bonds have been previously redeemed, converted or purchased and cancelled, if the Issuer is unable to provide the Trustee with a Price Adjustment Opinion as set forth in Condition 6.4.1(vi) prior to the occurrence of an event triggering an adjustment to the Conversion Price (a "Non-Permitted Conversion Price Adjustment Event"), the Issuer shall, within 10 business days after the occurrence of the relevant event triggering such adjustment, notify the Bondholders and the Trustee of such Non-Permitted Conversion Price Adjustment Event, and each Bondholder shall have the right (the "Non-Permitted Conversion Price Adjustment Event Repurchase Right"), at such Bondholder's option, to require the Issuer to repurchase all (or any portion of the principal amount thereof which is US\$1,000 or any integral multiple thereof) of such Bondholder's Bonds at a price equal to their Early Redemption Amount (the "Non-Permitted Conversion Price Adjustment Event Repurchase Price"), on the date set by the Issuer for such repurchase (the "Non-Permitted Conversion Price Adjustment Date"), which shall be not less than 30 days nor more than 60 days following the date on which the Issuer notifies the Bondholders of the Non-Permitted Conversion Price Adjustment.

#### **8.8 Purchases**

The Issuer or any of its Subsidiaries may, if permitted under the laws of India, at any time and from time to time purchase Bonds at any price in the open market or otherwise. The Issuer or the relevant Subsidiary is required to submit to the Registrar for cancellation any Bonds so purchased. If purchases are made by tender, the tender must be available to all Bondholders alike.

## **8.9 Cancellation**

All Bonds which are redeemed or converted or purchased by the Issuer or any of its Subsidiaries will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.

## **8.10 Redemption Notices**

All notices to Bondholders given by or on behalf of the Issuer pursuant to this Condition will be given in accordance with Condition 17, and specify the Conversion Price as at the date of the relevant notice, the closing price of the Shares (as quoted on the BSE) as at the latest practicable date prior to the publication of the notice, the date for redemption, the manner in which redemption will be effected and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice.

No notice of redemption given under Condition 8.2 or Condition 8.3 shall be effective if it specifies a date for redemption which falls during a Closed Period or within 15 days following the last day of a Closed Period.

## **8.11 Multiple Notices**

If more than one notice of redemption (which shall include any notice given by the Issuer pursuant to Condition 8.2 and 8.3 and any Relevant Event Put Exercise Notice or Delisting Put Notice given by a Bondholder pursuant to Condition 8.4 or 8.5) is given pursuant to this Condition 8, the first of such notices to be given shall prevail.

## **9 Taxation**

9.1 All payments in respect of the Bonds by the Issuer will be made free from any restriction or condition and without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of India or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law.

9.2 Where such withholding or deduction is in respect of Indian withholding tax on premium or interest payments at the rate of up to 10.00 per cent. (plus applicable surcharge on such tax payable and education cess on the income tax and surcharge) the Issuer will increase the amount of premium or interest paid by it to the extent required so that the amount of premium or interest received by Bondholders (without prejudice to Condition 7.3) amounts to the relevant amount of the premium or interest payable pursuant to Condition 8, in the case of premium, and Condition 5, in the case of interest.

9.3 In the event that any such withholding or deduction in respect of principal or any such additional withholding or deduction in excess of 10.00 per cent. (plus applicable surcharge on such tax payable and education cess on the income tax and surcharge) in respect of premium or interest is required, the Issuer will pay such additional amounts by way of principal, premium or interest as will result in the receipt by the Bondholders of the amounts which would otherwise have been receivable in the absence of such withholding or deduction, except that no such additional amount shall be payable in respect of any Bond:

9.3.1 to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with India otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond; or

9.3.2 (in the case of a payment of principal or premium) if the Certificate in respect of such Bond is surrendered more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant Certificate for payment on the last day of such period of 30 days; or

9.3.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

9.3.4 presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent or Conversion Agent in a Member State of the European Union.

9.4 For the purposes hereof, "Relevant Date" means the date on which such payment first becomes due except that if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and cheques despatched or payment made.

9.5 References in these Conditions to principal, premium and interest shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

## 10 Events of Default

10.1 The Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (subject to being indemnified and/or secured by the Bondholders to its satisfaction), give notice to the Issuer that the Bonds are, and they shall accordingly thereby become, immediately due and repayable at their Early Redemption Amount (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Condition 6) if any of the following events (each an "Event of Default") has occurred:

10.1.1 a default is made in the payment of any sum due in respect of the Bonds;

10.1.2 failure by the Issuer to deliver the Shares as and when such Shares are required to be delivered following conversion of a Bond;

10.1.3 the Issuer does not perform or comply with one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 15 days after written notice of such default shall have been given to the Issuer by the Trustee.

10.1.4 the Issuer or any Subsidiary is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend, payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries;

10.1.5 (i) any other present or future indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10.1.5 have occurred equals or exceeds U.S.\$10 million or its equivalent (as reasonably determined on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank selected by the Trustee on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantee or indemnity);

- 10.1.6 a distress, attachment, execution or other legal process is levied, enforced or sued out on or against a material part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 45 days;
- 10.1.7 an order is made or an effective resolution passed for the winding-up or dissolution, judicial management or administration of the Issuer or any of its Subsidiaries, or the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries;
- 10.1.8 an encumbrancer takes possession or an administrative or other receiver or an administrator is appointed of the whole or a material part of the property, assets or revenues of the Issuer or any of its Subsidiaries (as the case may be) and is not discharged within 30 days;
- 10.1.9 it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed;
- 10.1.10 any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or any of its Subsidiaries; or
- 10.1.11 any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs, provided that in the case of Conditions 10.1.4, 10.1.5, 10.1.6, 10.1.7, 10.1.8 and 10.1.10, as they relate to Subsidiaries only, the Trustee shall have certified that in its opinion such Event of Default is materially prejudicial to the interests of the Bondholders.

“Subsidiary” or “subsidiary” means any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity or any company or other business entity which that person recognises in its consolidated financial statements as a subsidiary, jointly controlled entity or associated company under Indian law, regulations or generally accepted accounting principles from time to time, or which should have its accounts consolidated with those of that person.

- 10.2 Notwithstanding receipt of any payment after the acceleration of the Bonds, a Bondholder may exercise its Conversion Right by depositing a Conversion Notice with a Conversion Agent or Paying Agent during the period from and including the date of a default notice with respect to an event specified in Condition 10.1.2 (at which time the Issuer will notify the Bondholders of the number of Shares per Bond to be delivered upon conversion, assuming all the then outstanding Bonds are converted) to and including the 30th business day after such payment.

If any converting Bondholder deposits a Conversion Notice pursuant to this Condition 10 in the business day prior to, or during, a Closed Period, the Bondholder’s Conversion Right shall continue until the business day following the last day of the Closed Period, which shall be deemed the Conversion Date, for the purposes of such Bondholder’s exercise of its Conversion Right pursuant to this Condition 10.

If the Conversion Right attached to any Bond is exercised pursuant to this Condition 10, the Issuer will deliver Shares (which number will be disclosed to such Bondholder as soon as practicable after the Conversion Notice is given) in accordance with the Conditions, except that the Issuer shall have ten business days before it is required to register the converting Bondholder (or its designee) in its register of members as the owner of the number of Shares to be delivered pursuant to this Condition and an additional five business days from such registration date to make payment in accordance with the following paragraph.



If the Conversion Right attached to any Bond is exercised pursuant to this Condition 10, the Issuer shall, at the request of the converting Bondholder, pay to such Bondholder an amount in United States dollars (converted from Rupees at the Prevailing Rate) (the "Default Cure Amount"), equal to the product of (x) (i) the number of Shares that are required to be delivered by the Issuer to satisfy the Conversion Right in relation to such converting Bondholder minus (ii) the number of Shares that are actually delivered by the Issuer pursuant to such Bondholders' Conversion Notice and (y) the Closing Price of the Shares on the Conversion Date; provided that if such Bondholder has received any payment under the Bonds pursuant to this Condition 10, the amount of such payment shall be deducted from the Default Cure Amount.

The "Share Price" means the Closing Price of the Shares on the Conversion Date.

## **11 Consolidation, amalgamation or merger**

The Issuer will not consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to any corporation or convey or transfer its properties and assets substantially as an entirety to any person (the consummation of any such event, a "Merger"), unless:

- (i) the corporation formed by such Merger or the person that acquired such properties and assets shall expressly assume, by a supplemental trust deed, all obligations of the Issuer under the Trust Deed, the Agency Agreement and the Bonds and the performance of every covenant and agreement applicable to it contained therein and to ensure that the holder of each Bond then outstanding will have the right (during the period when such Bond shall be convertible) to convert such Bond into the class and amount of shares, cash and other securities and property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares which would have become liable to be issued upon conversion of such Bond immediately prior to such consolidation, amalgamation, merger, sale or transfer;
- (ii) immediately after giving effect to any such Merger, no Event of Default shall have occurred or be continuing or would result therefrom; and
- (iii) the corporation formed by such Merger, or the person that acquired such properties and assets, shall expressly agree, among other things, to indemnify each holder of a Bond against any tax, assessment or governmental charge payable by withholding or deduction thereafter imposed on such holder solely as a consequence of such Merger with respect to the payment of principal and premium on the Bonds.

## **12 Prescription**

Claims in respect of amounts due in respect of the Bonds will become prescribed unless made within 10 years (in the case of principal and premium) and five years (in the case of interest) from the relevant date for payment.

## **13 Enforcement**

At any time after the Bonds have become due and repayable, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce repayment of the Bonds and to enforce the provisions of the Trust Deed, but it will not be bound to take any such proceedings unless (i) it shall have been so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding or shall have been so directed by an Extraordinary Resolution of the Bondholders and (ii) it shall have been indemnified and/or secured to its satisfaction. No Bondholder will be entitled to proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing.

## **14 Meetings of Bondholders, modification, waiver and substitution**

### **14.1 Meetings**

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing in the aggregate over 50 per cent. in principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the due date for any payment in respect of the Bonds, (ii) to reduce or cancel the amount of principal or premium or default interest payable in respect of the Bonds (including the Early Redemption Amount or method of calculation thereof), (iii) to change the currency of payment of the Bonds, (iv) to modify or cancel the Conversion Rights or the put options specified in Condition 8, or (v) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting. The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

### **14.2 Modification and Waiver**

The Trustee may agree, without the consent of the Bondholders, to (i) any modification (except as mentioned in Condition 14.1 above) to, or the waiver or authorisation of any breach or proposed breach of, the Bonds, the Agency Agreement or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) any modification to the Bonds or the Trust Deed which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver or authorisation will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modifications will be notified by the Issuer to the Bondholders as soon as practicable thereafter.

### **14.3 Substitution**

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of any other company in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Bonds. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. In such event, the Issuer shall give notice to Bondholders in accordance with Condition 17.

### **14.4 Interests of Bondholders**

In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, authorisation, waiver or substitution) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders except to the extent provided for in Condition 9 and/or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

#### **14.5 Certificates/Reports**

Any certificate or report of any expert or other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of these Conditions or the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts therein (and shall, in absence of manifest error, in the Trustee's opinion, be conclusive and binding on all parties) notwithstanding that such certificate or report and/or engagement letter or other document entered into by the Trustee and/or the Issuer in connection therewith contains a monetary or other limit on the liability of the relevant expert or person in respect thereof.

#### **15 Replacement of Certificates**

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and such Agent may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

#### **16 Further issues**

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the written consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

#### **17 Notices**

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar or published in a leading newspaper having general circulation in Asia (which is expected to be the Asian Wall Street Journal). Such notices shall be deemed to have been given on the later of the date of such publications. Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed, as the case may be.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System (as defined in the form of the Global Certificate), notices to Bondholders shall be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

#### **18 Agents**

The names of the initial Agents and the Registrar and their specified offices are set out below. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or a replacement Registrar. The Issuer will at all times maintain (i) a Principal Agent, (ii) a Registrar outside the United Kingdom, (iii) an Agent having a specified office in Singapore where the Bonds may be presented or surrendered for payment or redemption, so long as the Bonds are listed on the Singapore Stock Exchange and the rules of that exchange so require (and such agent in Singapore shall be a Paying, Transfer and Conversion Agent and shall be referred to in these terms and conditions as the "Singapore Agent") and (iv) a Paying Agent and Conversion Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive (2003/48/EC) or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any such

termination or appointment, of any changes in the specified offices of any Agent or the Registrar and of any change in the identity of the Registrar or the Principal Agent will be given promptly by the Issuer to the Bondholders in accordance with Condition 17 and in any event not less than 45 days' notice will be given.

So long as the Bonds are listed on the Singapore Stock Exchange and the rules of that exchange so require, in the event that the Global Certificate is exchanged for definitive Certificates, the Issuer shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, announcement of such exchange shall be made through the Singapore Stock Exchange and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the Singapore agent.

## **19 Indemnification**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified and/or secured to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer without accounting for any profit.

## **20 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of this Bond under the Contracts (Rights of Third Parties) Act 1999.

## **21 Governing law**

The Bonds, the Trust Deed and the Agency Agreement are governed by, and shall be construed in accordance with, the laws of England. In relation to any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds the Issuer has in the Trust Deed irrevocably submitted to the courts of England and in relation thereto has appointed Law Debenture Corporate Services Limited, now at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, as its agent for service of process in England.

## GLOBAL CERTIFICATE

*The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the Terms and Conditions of the Bonds set out in this Offering Circular. Terms defined in the Terms and Conditions of the Bonds have the same meaning in the paragraphs below. The following is a summary of those provisions:*

### **Meetings**

The registered holder (as defined in the Conditions) of the Global Certificate shall be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each U.S.\$1,000 in principal amount of Bonds for which the Global Certificate is issued. The Trustee may allow any accountholder (or the representative of such person) of a clearing system entitled to Bonds in respect of which the Global Certificate has been issued to attend and speak (but not to vote) at a meeting of Bondholders on appropriate proof of his identity.

### **Conversion**

Subject to the requirements of the Clearing Systems or any other clearing system (an "Alternative Clearing System") as shall have been designated by the Company and approved by the Trustee on behalf of which the Bonds evidenced by the Global Certificate may be held, the Conversion Right attaching to Bonds in respect of which the Global Certificate is issued may be exercised by the presentation to, or to the order of, the Conversion Agent of one or more Conversion Notices duly completed by, or on behalf of, an accountholder in such system with an entitlement to such Bonds. Deposit of the Global Certificate with the Conversion Agent together with the relevant Conversion Notice shall not be required. The exercise of the Conversion Right shall be notified by the Conversion Agent to the Registrar and the holder of the Global Certificate.

### **Trustee's Powers**

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a Clearing System, the Trustee may, to the extent it considers appropriate to do so in the circumstances but without being obliged to do so, (a) have regard to any information provided to it by such Clearing System as to the identity (either individually or by category) of its accountholders with entitlements to Bonds and (b) may consider such interests as if such accountholders were the holders of the Bonds.

### **Enforcement**

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Bonds in respect of which the Global Certificate is issued shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Bonds set out in the certificate of the holder as if they were themselves the holders of Bonds in such principal amounts.

For the purposes other than with respect to the payment of principal and premium (if any) on the Bonds in respect of which the Global Certificate is issued, each person who is for the time being shown in the records of the Clearing Systems as the holder of a particular principal amount of such Bonds (in which regard any certificate or other document issued by the Clearing Systems as to the principal amount of Bonds represented by the Global Certificate standing to the account of any person shall be conclusive and binding for all purposes) shall be recognised as the holder of such principal amount of Bonds.

### **Cancellation**

Cancellation of any Bond required by the Conditions to be cancelled following its redemption, conversion or purchase by the Company will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

## **Repurchase of the Bonds at the Option of Bondholders**

The Bondholders' put options in Conditions 8.4, 8.5 and 8.7 may be exercised by the holder of the Global Certificate giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise within the time limits specified in such Conditions.

## **Mandatory Conversion at the Option of the Company**

The option of the Company provided for in Condition 8.2 shall be exercised by the Company giving notice to the Bondholders within the time limits set out in and containing the information required by that Condition and Condition 8.10.

## **Bondholder's Tax Option**

The option of Bondholders not to have the Bonds redeemed as provided in Condition 8.3.3 shall be exercised by the presentation to any Paying Agent, or to the order of such Paying Agent, of a duly completed Bondholder's Tax Election Notice within the time limits set out in and containing the information required by Condition 8.3.3.

## **Registration of Title**

Certificates in definitive form for individual holdings of Bonds will not be issued in exchange for interests in Bonds in respect of which the Global Certificate is issued, except if either (i) the common depository or any successor to the common depository notifies the Company in writing that it is at any time unwilling or unable to continue to act as a depository and a successor depository is not appointed by the Company within 90 days or (ii) Euroclear or Clearstream (or any Alternative Clearing System on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

## **Payments**

Payments of principal, interest (if any) and premium (if any) in respect of Bonds represented by the Global Certificate will be made against presentation or, if no further payment is to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

## **Transfers**

Transfers of interests in the Bonds with respect to which the Global Certificate is issued shall be effected through the records of the Clearing Systems and their respective participants in accordance with the rules and procedures of the Clearing Systems and their respective direct and indirect participants.

## **Notices**

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of the Clearing Systems or the Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to the Clearing System, or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

The Global Certificate shall not be valid for any purpose until authenticated by or on behalf of the Registrar.

## CLEARANCE AND SETTLEMENT OF THE BONDS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Company believes to be reliable, but none of the Company, the Lead Manager, the Trustee or any of the Agents takes any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Company nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

*Custodial and depositary links have been established with Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Bonds and transfers of the Bonds associated with secondary market trading.*

### **The Clearing Systems**

#### ***Euroclear and Clearstream, Luxembourg***

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry of changes in the accounts of their participants. Euroclear and Clearstream, Luxembourg provide their respective participants with, *inter alia*, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

#### ***Registration and form***

Book-entry interests in the Bonds held through Euroclear and Clearstream, Luxembourg will be evidenced by the Global Certificate, registered in the name of a nominee of the common depositary of Euroclear and Clearstream, Luxembourg. The Global Certificate will be held by a common depositary for Euroclear and Clearstream, Luxembourg. Beneficial ownership in the Bonds will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the Bonds in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Bonds, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interest in the Bonds. The Paying Agent will be responsible for ensuring that payments received by it from the Company for holders of interests in the Bonds holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be.

The Company will not impose any fees in respect of the Bonds. However, holders of book-entry interests in the Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream, Luxembourg.

## **Global Clearance and Settlement Procedures**

### ***Initial settlement***

Interests in the Bonds will be in uncertificated book-entry form. Purchasers electing to hold book-entry interests in the Bonds through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional eurobonds. Book-entry interests in the Bonds will be credited to Euroclear and Clearstream, Luxembourg participants' securities clearance accounts on the business day following the Issue Date against payment (for value on the Issue Date).

### ***Secondary market trading***

Secondary market sales of book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Bonds through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional participants.

### **General**

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Bonds among participants of Euroclear and Clearstream, Luxembourg, neither Euroclear nor Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

None of the Company, the Trustee, the Agents or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.



## DESCRIPTION OF THE SHARES

Set forth below is certain information relating to the Company's share capital, including brief summaries of certain provisions of the Memorandum and Articles of Association of the Company, the Companies Act, the Securities Contracts (Regulation) Act, 1956 and certain related legislation of India, all as currently in effect relating to the rights attached to the Shares.

### General

As at the date of this Offering Circular, the Company had an authorised equity share capital consisting of 4,300 million equity Shares of Rs.10 each. The Shares are listed on the BSE and the NSE. As at the date of this Offering Circular, 2,877.65 million Shares are in issue and outstanding.

### Dividends

Under the Companies Act, unless the board of directors recommends the payment of a dividend, the shareholders at a general meeting have no power to declare any dividend. Subject to certain conditions laid down by Section 205 of the Companies Act, no dividend can be declared or paid by a company for any financial year except out of the profits of the company calculated in accordance with the provisions of the Companies Act or out of the profits of the company for any previous financial year(s) arrived at as laid down by the Companies Act. Subject to certain conditions contained in the Companies Act, dividend may also be payable out of moneys provided by the Indian central or state government for payment of dividend in pursuance of a guarantee given by that government.

The Company's shareholders at a general meeting may declare a lower, but not higher, dividend than that recommended by the Board of Directors. Dividends are generally declared as a percentage of the par value. The dividend recommended by the Board of Directors and approved by the shareholders at a general meeting is distributed and paid to shareholders in proportion to the paid-up value of their Shares as on the record date for which such dividend is payable. In addition, as is permitted by the Articles of Association, the Board of Directors may declare and pay interim dividends. Under the Companies Act, dividends can only be paid in cash to shareholders listed on the register of shareholders on the date which is specified as the "book closure date" or "record date". No shareholder is entitled to a dividend while any lien in respect of unpaid calls on any of his/her shares is outstanding. The Shares to be issued upon the conversion of the Bonds will be fully paid up when delivered.

The Shares issued upon conversion of the Bonds will rank *pari passu*, subject to listing, with the existing Shares of the Company in all respects including entitlement to dividends declared, where the record date falls on or after the Conversion Date.

Any dividend declared must be deposited in a separate bank account within five days from the date of the declaration of such dividend. Dividends must be paid within 30 days from the date of the declaration and any dividend which remains unpaid or unclaimed after that period must be transferred within seven days to a special unpaid dividend account held at a scheduled bank. Any money which remains unpaid or unclaimed for seven years from the date of such transfer must be transferred by the Company to the Investor Education and Protection Fund established by the Indian Government pursuant to which no claim shall lie against the Company or said Fund. Directors may be held criminally liable for any default of the aforementioned provisions.

Under the Companies Act, the Company may only pay a dividend in excess of 10 per cent. of paid-up capital in respect of any financial year out of the profits of that year after it has transferred to the reserves of the Company a percentage of its profits for that year an amount ranging between 2.5 per cent. and 10 per cent. depending on the rate of dividend proposed to be declared in that year. The Companies Act further provides that, if the profit for a year is inadequate or absent, the dividend for that year may be declared out of the accumulated profits earned in previous years and transferred to reserves, subject to the following conditions: (i) the rate of dividend to be declared may not exceed the lesser of the average of the rates at which dividends were declared in the five years immediately preceding that year, or 10 per cent. of paid-up capital; (ii) the total amount to be drawn from accumulated profits from previous years and transferred to reserves may not exceed an

amount equivalent to 10 per cent. of paid-up capital and free reserves and the amount so drawn is first to be used to set off the losses incurred in the financial year before any dividend in respect of preference or equity shares is declared; and (iii) the balance of reserves after withdrawals must not be below 15 per cent. of paid-up share capital.

### **Capitalisation of Reserves and Issue of Bonus Shares**

The Company's Articles of Association permit a resolution of the shareholders in a general meeting to resolve, in certain circumstances, that certain amounts standing to the credit of any reserves or the profit and loss account or otherwise available for distribution can be capitalised and distributed by way of bonus shares. Bonus issues must be issued pro rata to the amount of capital paid up on existing shareholdings.

Any issue of bonus shares would be subject to the guidelines issued by SEBI in this regard. The relevant SEBI Guidelines prescribe that no company shall, pending conversion of convertible securities, issue any shares by way of bonus unless similar benefit is extended to the holders of such convertible securities, through reservation of shares in proportion to such convertible part of the convertible securities falling due for conversion. The bonus issue shares shall be made out of free reserves built out of the genuine profits or share premium collected in cash only. The bonus issue cannot be made unless the partly-paid shares, if any, are made fully paid up. Further, for the issuance of such bonus shares a company should not have defaulted in the payment of interest or principal in respect of fixed deposits, interest on existing debentures/bonds or principal on redemption of such debentures/bonds. The declaration of bonus shares in lieu of a dividend cannot be made. Further, a company should have sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of its employees, such as contributions to the provident fund, gratuities and/or bonuses. The issuance of bonus shares must be implemented within six months from the date of approval by the Board of Directors or the Shareholders, whichever is later.

### **Pre-emptive Rights and Alteration of Share Capital**

Subject to the provisions of the Companies Act and with the approval of shareholders in a general meeting, the Company may increase its share capital by issuing new Shares. Such new Shares shall be offered to existing shareholders listed on the members' register or the records of the Depository on the record date in proportion to the amount paid up on those Shares at that date. The offer shall be made by notice specifying the number of Shares offered and the date (being not less than 15 days from the date of the offer) after which the offer, if not accepted, will be deemed to have been declined. After such date, the Board of Directors may dispose of the Shares offered in respect of which no acceptance has been received in such manner as the Board of Directors may consider to be most beneficial to the Company. The offer is deemed to include a right exercisable by the person concerned to renounce the Shares offered to him/her in favour of any other person provided that the person.

Under the provisions of the Companies Act, new Shares may be offered to any persons, whether or not those persons include existing shareholders, if a special resolution to that effect is passed by the shareholders of the Company in a general meeting or, where only a simple majority of shareholders present and voting have passed the resolution, the Indian Government's permission has been obtained.

The issuance of the Shares upon conversion of the Bonds has been duly approved by a special resolution of the shareholders and such shareholders are deemed to have waived their pre-emptive rights with respect to such Shares.

The Company's issued share capital may be, *inter alia*, increased by the exercise of warrants attached to any securities of the Company, or individually issued, entitling the holder to subscribe for the Company's Shares, or upon the conversion of convertible debentures issued. The issue of any convertible debentures or the taking of any convertible loans, other than from the Indian Government and financial institutions, requires the approval of a special resolution of shareholders.

The Company can also alter its share capital by way of a reduction of capital or by undertaking a buyback of shares under the prescribed SEBI regulations.

The Articles provide that the Company may in general meeting, from time to time, increase its capital by the creation of new Shares, consolidate or subdivide its share capital, convert all or any of its fully paid-up Shares into stock and reconvert that stock into fully paid-up Shares and cancel Shares which have not been taken up by any person. The Company may also from time to time by special resolution reduce its capital.

The Articles also provide that if at any time its share capital is divided into different classes of shares, the rights attached to any one class (unless otherwise provided by the terms of issue of the shares of that class) may be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

### **Preference Shares**

Preference share capital is that part of the paid-up capital of a company which fulfils the following requirements:

- (i) that with respect to dividend, it carries or will carry a preferential right to be paid a fixed amount or an amount calculated at a fixed rate; and
- (ii) that with respect to capital, it carries or will carry on a winding-up of the company a preferential right to be repaid the amount of the capital paid up or deemed to have been paid up.

Preference shares do not confer any further rights to participate in a company's profits or assets. Holders of preference shares are not entitled to vote at a general meeting except where the dividend due on such capital has remained unpaid:

- (a) in the case of cumulative preference shares, in respect of an aggregate period of not less than two years preceding the date of commencement of the meeting; and
- (b) in the case of non-cumulative preference shares, either in respect of a period of not less than two years ending with the expiry of the financial year immediately preceding the commencement of the meeting or in respect of an aggregate period of not less than three years comprised in the six years ending with the expiry of the financial year immediately preceding the commencement of the meeting.

Under the Companies Act, the Company may issue redeemable preference shares, but (i) no such shares shall be redeemed except out of the profits of the Company which would otherwise be available for dividends or out of the proceeds of a fresh issue of shares made for the purposes of the redemption; (ii) no such shares shall be redeemed unless they are fully paid; (iii) the premium, if any, payable on redemption shall have been provided for out of profits of the Company or out of the Company's share premium account before the shares are redeemed; (iv) where any such shares are redeemed otherwise than out of the proceeds of a fresh issue, there shall, out of profits which would otherwise have been available for dividends, be transferred to a reserve fund, to be called the Company's capital redemption reserve account, a sum equal to the nominal amount of the shares redeemed; and (v) the provisions of the Companies Act relating to the reduction of the share capital of a company shall apply as if the capital redemption reserve account were paid-up share capital of the Company. Preference shares must be redeemable before the expiry of a period of 20 years from the date of their issue.

### **General Meetings of Shareholders**

There are two types of general meetings of shareholders:

- (i) annual general meetings; and
- (ii) extraordinary general meetings.

The Company must hold its annual general meeting each year within 15 months of the previous annual general meeting, and in any event not later than six months after the end of each accounting year unless extended by the Registrar of Companies (the "RoC"), at the Company's request for any special reason for a period not exceeding three months.

The Board of Directors may in accordance with the Articles of Association convene an extraordinary general meeting of shareholders when necessary or at the request of a shareholder or shareholders holding in the aggregate not less than 10 per cent. of the paid-up capital of the Company (carrying a right to vote in respect of the relevant matter on the date of the deposit of the requisition).

A general meeting of the Shareholders is generally convened by the Secretary of the Company in accordance with a resolution of the Board. Written notices convening a meeting setting out the date, place and agenda of the meeting must be given to members at least 21 clear days (excluding the days of mailing, and receipt, and such service shall be deemed to have been effected on the expiry of 48 hours after the same is posted) prior to the date of the proposed meeting. A general meeting may be called after giving shorter notice if consent is received from all shareholders in the case of an annual general meeting and from shareholders holding not less than 95 per cent. of the paid-up capital of the Company in the case of any other general meeting. Currently, the Company gives written notices to all members and, in addition, gives public notice of general meetings of shareholders in a daily newspaper of general circulation in the region of the registered office of the Company. General meetings are generally held at the Company's registered office. The quorum for a general meeting of the Company is five shareholders attending in person.

A company intending to pass a resolution relating to matters such as, but not limited to, the amendment of the objects clause of the Memorandum of Association, the issuing of shares with different voting or dividend rights, a variation of the rights attached to a class of shares or debentures or other securities, a buyback of shares under the Companies Act or the giving of loans or the extending of guarantees in excess of limits prescribed under the Companies Act and guidelines issued thereunder, is required to have the resolution passed by means of a postal ballot instead of transacting the business in the general meeting of the Company. A notice to all shareholders shall be sent along with a draft resolution explaining the reasons therefor and requesting each shareholder to send his/her assent or dissent in writing on a postal ballot within a period of 30 days from the date of posting the letter. Postal ballot includes voting by electronic mode.

### **Voting Rights**

At a general meeting upon a show of hands, every member holding Shares and entitled to vote and present in person has one vote. Upon a poll, the voting rights of each shareholder entitled to vote and present in person or by proxy are in the same proportion as the capital paid up on each Share held by such shareholder bears to the total paid-up capital of the Company. Voting is by a show of hands, unless a poll is ordered by the chairman of the meeting demanded by a shareholder or shareholders holding at least 10 per cent. of the voting rights in respect of the resolution or by those holding Shares on which an aggregate sum of not less than Rs.50,000 has been paid up. The chairman of the meeting has a casting vote.

Bondholders will have no voting rights or other direct rights of a shareholder with respect to the Shares underlying the Bonds.

Ordinary resolutions may be passed by simple majority of those present and voting. Special resolutions require that the votes cast in favour of the resolution by those present and voting must be at least three times the votes cast against the resolution. Under the Companies Act, matters that require special resolution include amendments to the articles of association, a member's voluntary winding-up, dissolution, merger or consolidation, and the issue of shares to persons other than existing shareholders. Furthermore, under the Companies Act, the approval of a scheme of compromise or arrangement requires the approval of a majority of at least 75 per cent. in value of the shareholders or creditors present and voting.

A shareholder may exercise his voting rights by proxy to be given in the form required by the Articles of Association. The instrument appointing a proxy is required to be lodged with the Company at least 48 hours before the time of the meeting. A shareholder may, by a single power of attorney, grant a general power of representation regarding several general meetings of shareholders. Any shareholder of the Company may appoint a proxy. A corporate shareholder is also entitled to nominate a representative to attend and vote on its behalf at

general meetings, subject to the necessary resolution having been passed by the corporate shareholder. A proxy may not vote except on a poll and does not have a right to speak at meetings. A shareholder which is a legal entity may appoint an authorised representative who can vote in all respects as if a member both by a show of hands and by a poll.

The Companies Act allows for a company to issue shares with differential rights as to dividends, voting or otherwise, subject to certain conditions prescribed under applicable law. In this regard, the laws require that, for a public company to issue shares with differential voting rights: (i) the company must have had distributable profits for the three immediately preceding financial years; (ii) the company must not have defaulted in filing annual accounts and annual returns for the three financial years immediately preceding the financial year in which the company proposes to issue such shares; (iii) the articles of association of the company must allow for the issuance of shares with differential voting rights; and (iv) the conditions as set forth in the Companies (Issue of Share Capital with Differential Voting Rights) Rules, 2001 must be complied with.

### **Postal Ballot**

Under the provisions of the Companies Act, the Indian Government has framed rules for listed companies for voting by postal ballot instead of transacting the business in general meeting of the company, in case of resolutions including resolutions for alteration of the objects clause in the company's memorandum of association, buyback of shares, issue of shares with differential voting rights, a sale of the whole or substantially the whole of an undertaking of a company, giving loans and extending guarantees in excess of prescribed limits, for change of the registered office of the Company in certain circumstances and for variation in the rights attached to a class of shares or debentures. The resolution passed by means of postal ballot shall be deemed to have been duly passed at a general meeting physically convened. A notice to all the shareholders has to be sent along with a draft resolution explaining the reasons thereof and requesting them to send their assent or dissent in writing on a postal ballot within a period of 30 days from the date of posting the notice. Postal voting includes voting in electronic form.

### **Convertible Securities and Warrants**

The Company, in accordance with the provisions of applicable law, may from time to time issue debt instruments that are partly and fully convertible into Shares and warrants to purchase Shares.

### **Register of Shareholders and Record Dates**

The Company is obliged to maintain a register of shareholders at its registered office or, with the approval of its shareholders by way of a special resolution and with prior intimation to the Registrar of Companies, at some other place in the same city. The register and index of beneficial owners maintained by a depository under the Depositories Act is deemed to be an index of members and register and index of debenture holders. The Company recognises as shareholders only those persons who appear on its register of shareholders and it cannot recognise any person holding any Share or part of it upon any trust, express, implied or constructive, except as permitted by law.

In the case of Shares held in physical form, the Company, through its share registrar and share transfer agent, registers transfers of Shares on the register of shareholders upon lodgement of the duly stamped share transfer form executed by or on behalf of the transferor and by or on behalf of the transferee and duly completed in all respects, accompanied by a share certificate or, if there is no certificate, the letter of allotment in respect of Shares transferred. In respect of the transfer of Shares in dematerialised form, the depository transfers Shares by entering the name of the purchaser in its books as the beneficial owner of the Shares. In turn, the Company enters the name of the depository in its records as the registered owner of the Shares. The beneficial owner is entitled to all the rights and benefits, as well as the liabilities, attached to the Shares that are held by the depository. Transfer of beneficial ownership through a depository is exempt from any stamp duty but each depository participant may be subject to certain charges. A transfer of shares by way of share transfer form attracts stamp duty at the rate of 0.25 per cent. of the transfer price.

For the purpose of determining the shareholders, the Company may, after giving not less than seven days' previous notice by advertisement in a newspaper circulating in the district where the registered office of the Company is situated, close the register for periods not

exceeding 45 days in any one year or 30 days at any one time. In order to determine the shareholders entitled to dividends the Company keeps the register of shareholders closed for approximately 10 to 20 days, generally before the annual general meeting. Under the listing regulations of the stock exchanges on which the Company's outstanding Shares are listed, the Company may, upon at least 15 days' advance notice (or 21 days' advance notice in the event the Company's shares are traded on the stock exchanges in physical form) to such stock exchanges, set a record date and/or close the register of shareholders in order to ascertain the identity of shareholders. The trading of Shares and the delivery of certificates in respect thereof may continue while the register of shareholders is closed.

Under the Companies Act, the Company is also required to maintain a register of debenture holders.

### **Annual Reports and Financial Results**

The Company's audited financial statements for the relevant financial year, the directors' report and the auditors' report (collectively the "Annual Report") must be laid before the annual general meeting. These also include certain other financial information of the Company, a corporate governance section and management's discussion and analysis and are made available for inspection at the Company's registered office during normal working hours for 21 days prior to the annual general meeting.

Under the Companies Act, the Company must file its Annual Report with the RoC within 30 days from the date of the relevant annual general meeting. Under the listing agreements, six copies are required to be simultaneously sent to the BSE and the NSE. The Company must file an Annual Return which includes a list of the Shareholders and other information within 60 days of the conclusion of its annual general meeting. The Company must also furnish quarterly and semi-annual unaudited results within 30 days after the end of each calendar quarter and quarterly and semi-annual review reports by the auditors within 60 days of the close of each quarter to the stock exchanges. The Company must also publish its financial results in at least one English language daily newspaper circulating in the whole or substantially the whole of India and also in a newspaper published in the language of the region where the Company's registered office is situated.

The Company files certain information online, including its annual report, interim financial statements, report on corporate governance, shareholding pattern statement, and such other statements, information or reports as may be specified by SEBI from time to time or in accordance with the requirements of its listing agreements.

### **Transfer of Shares**

Following the introduction of the Depositories Act and the repeal of erstwhile Section 22A of the Securities Contract Regulation Act, the equity shares of a public company became freely transferable, subject only to the provisions of Section 111A of the Companies Act. Since the Company is a public company, the provisions of Section 111A of the Companies Act will apply to it. In accordance with the provisions of Section 111A(2) of the Companies Act, the Board of Directors may refuse to register a transfer of Shares within two months from the date on which the instrument of transfer or intimation of transfer, as the case may be, is delivered to the Company, if it has sufficient cause to do so. If the Board of Directors refuses to register a transfer of Shares, the shareholder wishing to transfer his, her or its Shares may file an appeal with the Indian company law board (the "Company Law Board") and the Company Law Board can direct the Company to register such transfer.

Pursuant to Section 111A(3) of the Companies Act, if a transfer of shares contravenes any of the provisions of the SEBI Act or the regulations issued thereunder, the SICA or any other laws in India, the Company Law Board may, on an application made by the Company, a depository, a participant, an investor or SEBI, within two months from the date of transfer of any shares or debentures held by a depository or from the date on which the instrument of transfer or the intimation of the transmission was delivered to the Company, as the case may be, direct the rectification of the register of records after such inquiry as it thinks fit. The Company Law Board may, at its discretion, issue an interim order suspending the voting rights attached to the relevant shares before making or completing its investigation into the alleged contravention. Furthermore, the provisions of Section 111A of the Companies Act do not restrict the right of a holder of shares or debentures to transfer such shares or debentures and any person acquiring such shares or debentures shall be entitled to voting rights, unless the voting rights have been suspended by the Company Law Board. By the Companies

(Second Amendment) Act, 2002, the Company Law Board is proposed to be replaced by the National Company Law Tribunal which is expected to be set up shortly. Furthermore, the SICA is sought to be repealed by the Sick Industrial Companies (Special Provisions) Repeal Act, 2003, although this is not yet in force.

Shares held through depositaries are transferred in the form of book-entries or in electronic form in accordance with the regulations laid down by SEBI. These regulations provide the regime for the functioning of the depositaries and the participants, and set out the manner in which the records are to be kept and maintained, and the safeguards to be followed in this system. Transfers of beneficial ownership of shares held through a depositary are exempt from stamp duty. The Company has entered into an agreement for such depositary services with National Securities Depository Limited and Central Depository Services (India) Limited.

SEBI requires that, for trading and settlement purposes, the Company's Shares be in book-entry form for all investors, except for transactions that are not made on a stock exchange and transactions that are not required to be reported to the stock exchange (see "The Indian Securities Market – Depositaries"). The requirement to hold Shares in book-entry form will apply to Bondholders when they acquire Shares upon conversion. In order to trade in the Company's Shares in the Indian market, the converting Bondholder will be required to comply with the procedures above.

Pursuant to its listing agreements, in the event that the Company has not effected the transfer of Shares within one month, or where the Company has failed to communicate to the transferee any valid objection to the transfer within the stipulated time period of one month, it is required to compensate the aggrieved party for the loss of opportunity caused by the delay.

The Companies Act provides that the shares or debentures of a public listed company (such as the Company) shall be freely transferable. The Articles of Association provide for certain restrictions on the transfer of shares, including granting power to the Board in certain circumstances, to refuse to register or acknowledge transfer of shares or other securities issued by the Company.

#### **Acquisition by the Company of its Own Shares**

The Company is prohibited from acquiring its own Shares unless the consequent reduction of capital is effected by an approval of at least 75 per cent. of its shareholders voting on the matter in accordance with the Companies Act and is also sanctioned by the High Court of Judicature having jurisdiction over the city where the Company's registered office is situated. Moreover, subject to certain conditions, the Company is prohibited from giving, whether directly or indirectly and whether by means of a loan, guarantee, the provision of security or otherwise, any financial assistance for the purpose of or in connection with a purchase or subscription made or to be made by any person of or for any Shares in the Company or its holding company. Pursuant to the insertion of Section 77A in the Companies Act, a company has been empowered to purchase its own shares or other specified securities out of its free reserves, the securities premium account or the proceeds of any shares or other specified securities (other than the kind of shares or other specified securities proposed to be bought back), subject to certain conditions, including:

- (i) the buyback should be authorised by the articles of association of the company;
- (ii) a special resolution should have been passed in a general meeting of the company authorising the buyback;
- (iii) the buyback is for less than 25 per cent. of the total paid-up capital and free reserves, provided that the buyback of equity shares in any financial year shall not exceed 25 per cent. of the total paid-up equity share capital in that year;
- (iv) the ratio of the debt (including all amounts of unsecured and secured debt) owed by the company is not more than twice the capital and free reserves after such buyback;
- (v) all the shares or other specified securities for buyback are fully paid up; and
- (vi) the buyback is in accordance with the Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998.

The second condition mentioned above would not be applicable if the buyback is for less than 10 per cent. of the total paid-up equity capital and free reserves of the company and provided that such buyback has been authorised by the board of directors of the company. Further, a company, after buying back its securities, is not permitted to buy back any securities for a period of 365 days from the buyback or to issue new securities for six months from the buyback date except by way of bonus issue or the conversion of warrants, preference shares or debentures into equity shares. The aforesaid restriction relating to the 365 days period does not apply to a buyback authorised by a special resolution of the shareholders in general meeting. Each buyback has to be completed within a period of 12 months from the date of the passing of the special resolution or the resolution of the board of directors, as the case may be.

A company buying back its securities is required to extinguish and physically destroy the securities bought back within seven days of the last date of completion of the buyback. Further, a company buying back its securities is not permitted to buyback any securities for a period of one year from the buyback and to issue securities for six months except by way of bonus issue or in discharge of subsisting obligations such as conversion of warrants, stock option schemes, sweat equity or conversion of preference shares or debentures into equity shares. The aforesaid restriction relating to the one year period does not apply to a buyback authorised by a special resolution of the Shareholders in general meeting.

A company is also prohibited from purchasing its own shares or specified securities through any subsidiary company, including its own subsidiary companies, or through any investment company (other than a purchase of shares in accordance with a scheme for the purchase of shares by trustees of, or for shares to be held by or for the benefit of employees of, the company) or if the company is defaulting on the repayment of deposit or interest, redemption of debentures or preference shares or payment of dividend to a shareholder or repayment of any term loan or interest payable thereon to any financial institution or bank, if the company is listed and wishes to buy back its shares or specified securities for the purpose of delisting its shares or specified securities or in the event of non-compliance with certain other provisions of the Companies Act.

The buyback of securities can be from existing security holders on a proportionate basis or from the open market or from odd lots or by purchasing securities issued to the employees of the company pursuant to a scheme of stock option or sweat equity.

### **Disclosure of Ownership Interest**

The provisions of the Companies Act generally require beneficial owners of equity shares of Indian companies that are not holders on record to declare to the company details of the holder of record and the holder on record to declare to the details of the beneficial owner. Any person who fails to make the required declaration within 30 days from the date beneficial interest in the shares is acquired may be liable for a fine of up to Rs.1,000 for each day the declaration is not made. Any charge, promissory note or other collateral agreement created, executed or entered into with respect to any share by the registered owner thereof, or any hypothecation by the registered owner of any share pursuant to which a declaration is required to be made under Section 187C of the Companies Act, shall not be enforceable by the beneficial owner or any person claiming through the beneficial owner if such declaration has not been made. Failure to comply with Section 187C of the Companies Act will, *inter alia*, not affect the obligation of the Company to register a transfer of equity shares or to pay any dividends to the registered holder of any equity shares in respect of which this declaration has not been made.

### **Liquidation Rights**

Subject to the provisions of the Companies Act (including the rights of employees, the requirement to pay statutory dues and the rights of creditors as contained in Sections 529A and 530 thereof) and the rights of the holders of any other shares entitled by their terms of issue to preferential repayment over the Shares, in the event of the Company's winding-up, the holders of the Shares are entitled to be repaid the amounts of capital paid up or credited as paid up on such Shares or, in case of a shortfall, proportionately. All surplus assets after payments due to workmen, statutory creditors, and secured and unsecured creditors belong to the holders of the equity shares in proportion to the amount paid up or credited as paid up on such shares respectively at the commencement of the winding-up.



## INDIAN GOVERNMENT AND OTHER APPROVALS

This offering is being made entirely outside India. This Offering Circular may not be distributed directly or indirectly in India or to residents of India and the Bonds are not being offered or sold and may not be offered or sold directly or indirectly in India or to, or for the account or benefit of, any resident of India. Each purchaser of Bonds will be deemed to represent that it is neither located in India nor a resident of India and that it is not purchasing for, or for the account or benefit of, any such person, and understands that the Bonds will bear a legend to the effect that the securities evidenced thereby may not be offered, sold, pledged or otherwise transferred to any person located in India, to any resident of India or to, or for the account of, such persons, unless the Company may determine otherwise in compliance with applicable law.

### Automatic Route

Pursuant to a press release issued by the Ministry of Finance, ("MOF"), the RBI issued a revised policy for FCCBs on 31 January 2004 and has allowed Indian corporates to issue FCCBs up to U.S.\$500 million under the "automatic route" (without the prior approval of the RBI) subject to certain conditions specified therein, including the minimum maturity period, use of proceeds and "all in" cost ceiling. The RBI revised the 31 January 2004 policy with circulars dated 23 February 2004, 1 April 2004, a Master Circular dated 1 July 2004, Master Circular dated 1 July 2005 and A.P. (DIR Series) Circular No. 5 dated 1 August, 2005, Master Circular No. 02/2006-07 dated 1 July 2006 and circular dated 21 May 2007 and the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993, promulgated by the Indian Government, as amended from time to time. The revised policy provides that FCCBs in principal amount greater than U.S.\$20 million and up to U.S.\$500 million or equivalent with a minimum average maturity of five years will not require the RBI/ Indian Government approval, provided the conditions relating to use of proceeds and the "all in cost" ceiling are adhered to. The Company is required to make certain post-issue filings with the RBI. However, as stated elsewhere in this Offering Circular, in all cases of earlier redemption or repayment, under current regulations of the RBI applicable to convertible bonds, prior approval of the RBI for such earlier redemption or repayment will be necessary.

In terms of the extant policy on foreign investment in India (see "Foreign Investment and Exchange Controls – Foreign Direct Investment"), foreign direct investment in the Company is permitted under the automatic route and non-resident investors are permitted to hold up to 100 per cent. of the equity capital of the Company. The Shares issued on conversion of the Bonds are to be listed on the principal Indian stock exchanges on which the Shares of the Company are now listed. This Offering Circular will be filed with each Indian stock exchange on which the Company's Shares are listed for information purposes only.

### Regulatory Filings

The Company is required to make the following filings in connection with issuance of the Bonds and at the time of the conversion of Bonds into Shares:

- (i) filing with the RBI (through an authorised dealer in foreign exchange) Form No. 83;
- (ii) filing of return of allotment with the Registrar of Companies at its office in Ahmedabad, India at the time of the conversion of Bonds into Shares;
- (iii) monthly filing with the RBI (through an authorised dealer in foreign exchange) in the prescribed Form No. ECB-2; and
- (iv) filing of this Offering Circular with the Indian Stock Exchanges, SEBI and the RBI and the Registrar of Companies, Ahmedabad for their information.

**Eligibility**

As required by the Ministry of Finance Notification dated 31 August 2005, the Company is eligible to raise funds from the Indian capital markets and has not been restrained from accessing the securities market by SEBI.

**Corporate Approval**

The members of the Company and the Board of Directors have approved the offering of the Bonds and no other approval is required under the Companies Act nor are any of the provisions under the Companies Act relating to the issue of a prospectus applicable to the offering of the Bonds.

## TAXATION

### Taxation of income from the Bonds

*The following is a summary of the principal Indian tax consequences for non-resident investors of the Bonds who acquire the Bonds pursuant to this Offering Circular. The summary details the tax consequences for the non-resident investors only in relation to the Bonds and the Shares issuable upon conversion of the Bonds. The summary only addresses the tax consequences for non-resident investors who hold the Bonds or the Shares issued on conversion of Bonds as capital assets and does not address the tax consequences which may be relevant to other classes of non-resident investors, including dealers. The summary proceeds on the basis that the investor continues to remain a non-resident when the income by way of dividends and capital gains is earned. The summary is based on the Indian tax laws in force as at the date of this Offering Circular and is subject to change. This summary is not intended to constitute a complete analysis of all the tax consequences for a non-resident investor under Indian law in relation to the acquisition, ownership and disposal of the Bonds or Shares issuable upon conversion of the Bonds. Potential investors should therefore consult their own tax advisers on the tax consequences of such acquisition, ownership and disposal of the Bonds or the Shares under Indian law including, specifically, the tax treaty between India and their country of residence and the law of the jurisdiction of their residence.*

The following discussion describes the material Indian income tax and stamp duty consequences of the purchase, ownership and disposal of the Bonds and the Shares issuable upon conversion of the Bonds. The Income Tax Act is the law relating to taxation of income in India. The Income Tax Act provides for the taxation of persons resident in India on their global income and persons not resident in India on income received, accruing or arising in India or deemed to have been received, accrued or arisen in India. Sections 4, 5, 6 and 9 of the Income Tax Act set forth the circumstances under which persons not resident in India are subject to income tax in India.

This summary is based on the provisions of Section 115AC and other significant applicable provisions of the Income Tax Act (the "Section 115AC Regime") and the Issue Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993 promulgated by the Indian Government (the "Depository Receipt Scheme") (referred to as the "Tax Regime") without reference to any double taxation avoidance agreements.

The offering is in accordance with Section 115AC Regime, and non-resident Investors of the Bonds will therefore have the benefit of tax concessions available under the Section 115AC Regime subject to the fulfilment of conditions of that section. Such tax concessions include taxation at a reduced income tax rate of 10 per cent. which is then subject to the applicable rate of surcharge on income tax (surcharge is calculated on income tax and the rate is 10 per cent. for individuals or associations of persons whose total income exceeds Rs.1 million and 2.5 per cent. for a company including a body corporate for the current financial year and could vary from year to year and further an education cess on income tax and surcharge at the rate of 3 per cent., in each case on income tax including surcharge) on interest on the Bonds.

The Tax Regime provides that payment of interest on the Bonds paid to the non-resident Bondholders will be subject to withholding tax at the rate of 10 per cent. plus surcharge at the applicable rate and education cess. The Income Tax Act requires that such tax be withheld at source. Under the Depository Receipt Scheme, the transfer of Bonds outside India by a non-resident holder to another non-resident shall not give rise to any capital gains tax in India.

It is unclear whether capital gains derived from the sale by a non-resident investor of rights in respect of Bonds will be subject to tax liability in India. This will depend on the view taken by Indian tax authorities on the position with respect to the situs of the rights being offered in respect of the Bonds.

### Taxation of Shares Issued upon Conversion of Bonds

The conversion of Bonds into Shares will not give rise to any capital gains liable to income tax in India. However, the issue of Shares by the Company upon conversion of Bonds will be chargeable to stamp duty as described below under "Stamp Duty".

## **Taxation of Dividends**

Under the current Indian tax laws, dividends are not taxable in the hands of the recipient and hence upon conversion of the Bonds into Shares, dividends paid to such a non-resident holder will not be liable to tax. However, the Company is liable to pay a “dividend distribution tax” currently at the rate of 15 per cent. (plus surcharge at 10 per cent. and education cess on dividend distribution tax and surcharge at the rate of 2 per cent. on the total amount distributed as dividend. The Company is also liable to pay a further “higher and secondary education cess” at the rate of 1 per cent. on distribution dividend tax and surcharge. The effective rate of dividend distribution tax is approximately 16.995 per cent.

Distribution to non-residents of additional shares or rights to subscribe for Shares (for the purposes of this section, “Rights”) made with respect to shares are not subject to Indian tax.

## **Taxation of Capital Gains**

Capital gains arising to the non-resident investor on the transfer of the Shares (whether in India or outside India to a non-resident investor) will be liable for income tax under the provisions of the Indian Income Tax Act.

Any gain realised on the sale of the Shares held for more than 12 months to an Indian resident, or to a non-resident investor, will not be subject to Indian capital gains tax if the Securities Transaction Tax (“STT”) has been paid on the transaction. Such transactions are subject to STT of 0.125 per cent. No surcharge or education cess is payable on STT and STT is collected by the relevant stock exchange and is paid to the Indian Government.

Any gain realised on the sale of Shares to an Indian resident, whether in India or outside India, or to a non-resident investor, on which no STT has been paid, will be subject to Indian capital gains tax at the rate of 10 per cent. plus applicable surcharge on income tax and education cess at the rate of 2 per cent. A further “higher and secondary education cess” at the rate of 1 per cent. on income tax and surcharge shall also be payable. For the purpose of computing capital gains tax on the sale of the Shares under the Section 115AC Regime, the cost of acquisition of the Shares will be determined on the basis of the prevailing price of the Shares on the BSE or the NSE as on the date of conversion of the Shares.

Capital gain realised in respect of Shares held (calculated in the manner set forth in the prior paragraph) for 12 months or less (short-term gain) on which STT is paid in the manner and at the rates set out above is subject to tax at the rate of 10 per cent. plus applicable surcharge on income tax and an education cess at the rate of 2 per cent. A further “higher and secondary education cess” at the rate of 1 per cent. on income tax and surcharge shall also be payable.

Subject to any relief provided pursuant to an applicable tax treaty, any taxable gain realised by a non-resident investor on the sale of Shares to an Indian resident or inside India generally will be subject to capital gains tax which is to be withheld at source by the buyer at the rates prevailing at that time.

Neither the Section 115AC Regime nor the Depository Receipt Scheme deals with capital losses arising on a transfer of Shares in India. In general terms, losses arising from a transfer of a capital asset in India can only be set off against capital gains. A long-term capital loss can be set off only against a long-term capital gain. Short term capital loss can be set off against any capital gain (whether short or long term). To the extent that the losses are not absorbed in the year of transfer, they may be carried forward for a period of eight assessment years immediately succeeding the assessment year for which the loss was first determined by the assessing authority and may be set off against the capital gains assessable for such subsequent assessment years. In order to set off capital losses as above, the non-resident investor would be required to file appropriate and timely tax returns in India and undergo the usual assessment procedures. If the investors are covered by STT regime, the loss arising from transfer of such long-term capital asset may not be available for set-off against any capital gains.

## **Tax Treaties**

The provisions of the Agreement for Avoidance of Double Taxation entered into by the Indian Government with the country of residence of such non-resident investor will be applicable to the extent they are more beneficial to the non-resident investor.

## **Stamp Duty**

Under the laws of India, the transfer of shares in physical form would be subject to stamp duty at the rate of 0.25 per cent. of the market value of the shares, and such stamp duty customarily is borne by the transferee, that is, the purchaser. In order to register a transfer of Shares in physical form, it is necessary to present a stamped deed of transfer. However, since the Company's Shares are compulsorily deliverable in dematerialised form (except for trades of up to 500 Shares, which may be delivered in physical form) there would be no stamp duty payable in India on transfer of the Shares in dematerialised form. There is no stamp duty liability on the sale or transfer of Bonds.

## **Wealth Tax, Gift Tax and Inheritance Tax**

At present there are no taxes on wealth, gifts and inheritances which apply to the Bonds, or the Shares issuable upon conversion of the Bonds.

## **Service Tax**

Brokerage or commissions paid to stockbrokers in connection with the sale or purchase of shares listed on a recognised stock exchange in India are subject to service tax of 12 per cent. (plus education cess at the rate of 2 per cent.) *ad valorem*. A stockbroker is responsible for collecting the service tax and paying it to the relevant authority. A further "higher and secondary education cess" at the rate of 1 per cent. on service tax shall also be payable.

## **Tax Credit**

A non-resident investor would be entitled to tax credit with respect to any withholding tax paid by the Company or any other person for its account in accordance with the laws of the applicable jurisdiction.

## **Education Cess**

In all the above cases, the amount of income tax and surcharge and service tax as stated would be increased by an education cess of 2 per cent. A further "higher and secondary education cess" at the rate of 1 per cent. on income tax and surcharge shall also be payable.

## **Taxation on buyback of Shares**

If Shares held by a non-resident investor are purchased by the Company, the non-resident investor will be liable to pay income tax in respect of the capital gains arising on such buyback under the provisions of Indian tax laws and capital gains tax arising therefrom shall be withheld at source before repatriation of sale proceeds from India. The provisions of any double taxation treaty entered into by the Indian Government with the country of residence of the non-resident investor will be applicable to the extent they are more beneficial to the non-resident investor.

## SUBSCRIPTION AND SALE

The Lead Manager has, pursuant to the Subscription Agreement, agreed with the Company, subject to the satisfaction of certain conditions, to subscribe, or procure subscribers for, the principal amount of the Bonds at 100 per cent. of their principal amount, less a management fee and an underwriting commission.

The Subscription Agreement entitles the Lead Manager to terminate it in certain circumstances prior to payment being made to the Company.

The Company has agreed in the Subscription Agreement that neither it nor any person acting on its behalf will issue, offer, sell, contract to sell, grant, pledge or otherwise transfer or dispose of (or publicly announce any such issuance, offer, sale or disposal or otherwise make public an intention to do so), directly or indirectly, any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants, options or other rights to purchase Shares or any security, contract or financial product whose value is determined, directly or indirectly, by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares, whether or not such contract is to be settled by delivery of Shares or such other securities, in cash or otherwise, except for the Bonds, the Shares issued pursuant to the conversion of the Bonds, the Shares to be issued upon exercise of the options granted to the employees under the Employee Stock Option Plans as set out in this Offering Circular or pursuant to an obligation in existence at the date of this Agreement, which has been disclosed to the Lead Manager, in any such case without the prior written consent of the Lead Manager (such consent not to be unreasonably withheld or delayed) for a period of 60 days from the date of the Subscription Agreement.

Each member of the Promoter Group has also entered into a lock-up agreement on the terms set out above, provided that the Promoter Group shall be permitted to enter into pledges with respect to Shares held by the Promoter Group of an aggregate of up to 20 per cent. of the outstanding issued share capital of the Issuer as at 16 May 2007.

The Lead Manager and certain of its subsidiaries or affiliates have performed certain investment banking and advisory services for the Company from time to time for which they have received customary fees and expenses. The Lead Manager may, from time to time, engage in transactions with and perform services for the Company in the ordinary course of its business. Deutsche Bank will be a significant investor in the Bonds. U.S.\$200 million in principal amount of the Bonds have been placed with Deutsche Bank entities.

In connection with this offering, the Lead Manager (or its affiliates) may, for its own accounts, enter into asset swaps, credit derivatives or other derivative transactions relating to the Bonds or the Shares at the same time as the offer and sale of the Bonds or in secondary market transactions. As a result of such transactions, the Lead Manager may hold long or short positions in such Bonds or derivatives or in the underlying Shares. In addition, the Lead Manager or its affiliates may have purchased Bonds and have allocated Bonds for asset management and/or proprietary purposes and not with a view to distribution. No disclosure will be made of such positions, purchases or allocations.

### General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

The Lead Manager has represented, warranted and agreed that it understands that no action has been or will be taken in any jurisdiction by the Company or the Lead Manager that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Bonds or the Shares to be issued on conversion of the Bonds, or possession or distribution of this Offering Circular, any amendment or supplement thereto issued in connection with the proposed re-sale of the Bonds or any other offering or publicity material relating to the Bonds or the Shares to be issued on conversion of the Bonds, in any country or jurisdiction where action for that purpose is required. Accordingly, the Lead Manager has represented, warranted and agreed that neither the Bonds nor any of the Shares issuable on conversion of the Bonds may be offered or sold, directly or indirectly, and neither

this Offering Circular nor any other offering material or advertisements in connection with the Bonds or the Shares issuable on conversion of the Bonds may be distributed or published, by the Company or the Lead Manager, in or from any country or jurisdiction, except in compliance with all applicable rules and regulations of any such country or jurisdiction.

### **United Kingdom**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), the Lead Manager represents and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Bonds to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Bonds to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Lead Manager; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Bonds to the public” in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The Lead Manager further represents, warrants and agrees that:

- (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and
- (2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

### **United States**

The Bonds and the Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Lead Manager represents that it has not offered or sold, and agrees that it will not offer or sell, any Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither the Lead Manager, its affiliates nor any persons acting on their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds or the Shares. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

## **India**

The Lead Manager represents, warrants and agrees that this Offering Circular will not be registered as a prospectus with the Registrar of Companies and that the Bonds will not be offered or sold in India, nor has it circulated or distributed nor will it circulate or distribute this Offering Circular or any other offering document or material relating to the Bonds, directly or indirectly, to the public or any members of the public in India. In addition, the Lead Manager represents, warrants and agrees that it has not offered or sold and will not offer or sell any Bonds to entities it reasonably believes are Overseas Corporate Bodies who are not eligible to invest in India through the portfolio route or entities prohibited to buy, sell or deal in securities by Securities and Exchange Board of India.

## **Hong Kong**

The Lead Manager represents, warrants and agrees that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong and (ii) it has not issued and will not issue any advertisement, invitation or document relating to the Bonds, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

## **Japan**

The Bonds have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"). Accordingly, the Lead Manager represents, warrants and agrees that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

## **Singapore**

The Lead Manager acknowledges that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Lead Manager represents, warrants and agrees that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to section 275(1), or to any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

### *Note:*

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or



- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law.

## SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN INDIAN GAAP AND IAS/IFRS

The following is a general summary of significant differences between Indian GAAP and IAS/IFRS as applicable to the Company.

The Company's financial position and results of operations have been prepared in accordance with Indian GAAP, which differs in certain aspects from IAS/IFRS. Certain significant differences between Indian GAAP and IAS/IFRS relevant to the Company's financial position and results of operations are summarised below. There can be no assurance that the Company's financial position and results of operations reported in accordance with Indian GAAP would not be adversely impacted if determined in accordance with IAS/IFRS. Such summary should not be construed to be exhaustive.

No numerical reconciliation of the financial position and results of operations under Indian GAAP and IAS/IFRS is included in this Offering Circular. In addition, no attempt has been made to identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in either the Company's financial position or results of operations or notes thereto. Furthermore, no attempt has been made to identify future differences between Indian GAAP and IAS/IFRS as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate Indian GAAP and IAS/IFRS have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify all future differences between Indian GAAP and IAS/IFRS that may affect either the Company's financial position or results of operations as a result of transactions or events that may occur in the future.

Subject	Indian GAAP	IFRS
Contents of Financial Statements	<p>As per the requirements of Schedule VI to the Indian Companies Act, 1956 ("Companies Act") and Accounting Standards issued by the Institute of Chartered Accountants of India, financial statements comprise of</p> <p>(a) Balance sheet;</p> <p>(b) Profit &amp; Loss Account;</p> <p>(c) Cash flow statement (if applicable)</p> <p>(d) Notes to Financial Statements, including summary of accounting policies and necessary explanatory notes thereon.</p>	<p>As per IAS 1, financial statements comprise of</p> <p>(a) Balance sheet ;</p> <p>(b) Income statement;</p> <p>(c) Cash flow statement;</p> <p>(d) Statement of changes in equity;</p> <p>(e) Notes including summary of accounting policies and explanatory notes.</p>
Balance Sheet	<p>Accounting standards do not prescribe any particular format of balance sheet. However, the Companies Act and some other relevant statutes prescribe the form and content of balance sheet. For companies, schedule VI lays down a specific format of balance sheet specifying the order in which various items are presented on its face as well as in schedules. The format of balance sheet given in Schedule VI is neither based on current and non-current classification nor in order of liquidity.</p>	<p>Balance sheet — No format prescribed. Certain minimum items must be presented on the face of the balance sheet and certain items should be presented either on face or in schedules.</p> <p>An entity should present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet. However, a liquidity presentation of assets and liabilities is used, instead of a current non-current classification, only when liquidity presentation provides more relevant and reliable information.</p>

<b>Subject</b>	<b>Indian GAAP</b>	<b>IFRS</b>
Income Statement	<p>Accounting standards do not prescribe a standard format; however, Schedule VI to the Companies Act prescribes various requirements for presentation of an Income Statement (known as "Profit and Loss Account"). As per these requirements, an entity presents an analysis of expense by their nature in P&amp;L A/c.</p> <p>Profit or loss attributable to minority interests is disclosed as deduction from the profit or loss for the period as an item of expense or income.</p>	<p>An analysis of expenses is presented using a classification based on either the nature of expenses or their function. Certain minimum items must be presented on the face of the income statement. Other items may be presented either on the face or in the notes.</p> <p>Profit or loss attributable to minority interests and equity holders of the parent are disclosed on the face of the income statement as allocations of profit or loss for the period.</p>
Extraordinary items	<p>Extraordinary items are defined as events or transactions clearly distinct from the ordinary activities of the entity and are not expected to recur frequently and regularly.</p> <p>Extraordinary items are disclosed separately in the profit and loss account and are included in determination of net profit or loss. The nature and amount of each extra ordinary item is separately disclosed so that its impact on current profit or loss is clearly perceived.</p>	<p>Presentation of items of income or expense as extraordinary is specifically prohibited.</p>
Disclosure of Judgements, etc.	<p>At present, there is no such disclosure.</p>	<p>IAS 1 requires disclosure of the judgements, apart from those involving estimations, that management has made in the process of applying the accounting policies of the entity that have the most significant effect on the amounts recognised in the financial statements, in the summary of significant accounting policies.</p>
Changes in accounting policies	<p>AS 5 does not specifically provide whether a change in an accounting policy should be retrospective or prospective. It also does not specify the manner of adjustment of the effect of a change in an accounting policy. It merely requires separate disclosure of the impact of, and the adjustments resulting from, the change in accounting policy, where ascertainable.</p>	<p>A change in an accounting policy should be applied retrospectively by restating comparatives and prior year opening retained earnings.</p> <p>Disclosures are required of the reasons for and the effect of the change, etc..</p>
Changes in Accounting Estimates and Errors	<p>Material prior year items are included in determination of profit or loss in the period in which the error is discovered and are reported as a prior period adjustment in current year's profit and loss account.</p>	<p>Material prior year errors are corrected retrospectively by restating the comparative amounts for prior periods presented in which the error occurred or if the error occurred before the earliest period presented, by restating the opening balances of assets, liabilities, and equity for the earliest period presented.</p>

<b>Subject</b>	<b>Indian GAAP</b>	<b>IFRS</b>
Cash Flow Statement Definition of cash and cash equivalents	Similar to IFRS except that there is no specific guidance on treatment of Bank overdrafts. As per the practice followed, these are generally considered to be part of financing activities.	Cash comprises of not only cash on hand but also demand deposits. Cash equivalents are short term highly liquid investments that are readily convertible into cash without any significant risk of change in value. Bank overdrafts that are repayable on demand and that form an integral part of an entity's cash management are included in cash equivalents.
Interest and dividend	Interest and dividends paid are required to be classified as financing activities. Interest and dividends received are required to be classified as investing activities.	The Standard provides an option to classify interest and dividend paid as financing activities in a manner consistent from period to period.
Accounting For Fixed Assets and Depreciation	<p>Indian GAAP recommends but does not force component depreciation.</p> <p>Costs incurred for replacement of parts is capitalised only if it increases the future benefits from the asset beyond its previously assessed standard performance.</p> <p>Fixed assets are depreciated over their estimated useful lives and rates of depreciation prescribed in Schedule XIV to the Companies Act are treated as minimum rates of depreciation.</p> <p>Change in depreciation method is treated as change in accounting policy.</p> <p>Under AS 6 (1994), such a review is not obligatory as it simply provides that useful life of an asset may be reviewed periodically.</p>	<p>IAS-16 mandates component accounting.</p> <p>Costs incurred for replacement of a part of an item of Fixed Asset are capitalised if recognition criteria are met with consequent derecognition of carrying amount of the replaced part.</p> <p>Fixed assets are depreciated over their estimated useful lives and there are no minimum rates of depreciation. Each major part of an item of fixed with a cost that is significant in relation to the total cost of the item is depreciated separately</p> <p>Change in depreciation method is treated as change in accounting estimate.</p> <p>IAS 16 requires that the residual value and useful life of an asset be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate.</p>
Revaluation of fixed assets	<p>Fixed assets are stated at historical cost.</p> <p>Revaluation is permitted. On revaluation, an entire class of assets is revalued, or selection of assets is made on a systematic basis.</p> <p>Depreciation on revaluation portion can be recouped out of revaluation reserve.</p>	<p>Revaluation of fixed assets is more systematic since IAS 16 requires an entity to choose either the cost model or the revaluation model as its accounting policy and to apply that policy to an entire class of assets. It also requires that revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.</p> <p>Depreciation on revaluation portion cannot be recouped out of revaluation reserve and will have to be charged to the P&amp;L account.</p>

<b>Subject</b>	<b>Indian GAAP</b>	<b>IFRS</b>
Impairment of assets	Similar to IFRS, except reversal of impairment losses for goodwill also is required in certain circumstances.	<p>Impairment is assessed on discounted cash flows for assets other than held-for-sale. If impairment is indicated, assets are written down to higher of fair value less cost to sell and value in use based on discounted cash flows.</p> <p>Reversal of impairment losses is required, other than for goodwill, in certain circumstances.</p>
Investments	<p>Investments are classified as long-term or current, based on management's intention at the time of purchase.</p> <p>Long term investments are carried at cost less provision for other than temporary diminution in value.</p> <p>Current investments are carried at the lower of cost or fair value.</p>	<p>Investments are classified into held-for-trading, held to maturity or available for sale categories.</p> <p>Investments acquired principally for the purpose of generating profits from short term price fluctuations or dealers' margin are classified as being for Trading. They are measured at fair value and consequent gain or loss is recognised in profit and loss account.</p> <p>Held to Maturity Investments are investments with fixed or determinable payments and fixed maturity, together with entity's intent and ability to hold until maturity. They are recognised at amortised cost using the effective interest rate method.</p> <p>Available for sale investments are those that do not qualify as or are not classified as either held-for-trading or Held to Maturity investments. They are measured at fair value, with movements in fair value reflected in equity.</p>
Employee benefits: defined benefit plans	<p>With the adoption of AS 15 (revised), the treatment would be similar to IFRS, although there are some differences in detail, for example, actuarial gains and losses are recognised immediately in the income statement.</p> <p>Prior to AS 15 (revised), no method was prescribed for actuarial valuation and limited guidance was available on other specific issues. As per the transitional provisions of AS 15 (revised), the net difference between the liability in respect of employee benefits existing on the date of adoption and the liability that would have been recognised at the same date under previous accounting policy is adjusted against the opening balance of reserves.</p> <p>With the adoption of AS 15 (revised), similar to IFRS.</p> <p>Prior to AS 15 (revised), practices varied for accrual of compensated absences other than for leave encashable on retirement, which was recognised based on an actuarial valuation.</p>	<p>Projected unit credit method is used to determine benefit obligation and record plan assets at fair value.</p> <p>Actuarial gains and losses can be recognised immediately either in income statement or in equity or these can be deferred by following corridor approach.</p> <p>Accumulated leave qualifies as short-term or other long-term employee benefits. The expected cost of accumulating short-term compensated absences is recognised on an accrual basis. Liability for long-term compensated absences is measured using projected credit unit method.</p>

<b>Subject</b>	<b>Indian GAAP</b>	<b>IFRS</b>
Employee share-based payment	<p>In absence of an accounting standard, SEBI has provided certain guidelines for accounting in case of public listed companies. As per guidelines, compensation expense for stock options to employees is recorded either based on intrinsic value or fair value using the option pricing model.</p> <p>ICAI has issued a guidance note which requires measurement of cost based on fair value where the guidance is similar to IFRS although it also allows use of the intrinsic value method, with fair value disclosures.</p>	<p>Expense for services purchased is recognised. Corresponding amount recorded either as a liability or an increase in equity, depending on whether transaction is determined to be cash-settled or equity-settled.</p> <p>Amount to be recorded is measured at fair value of shares or share options granted.</p>
Segment Reporting	<p>Similar to IFRS.</p> <p>Under AS 17, in case a vertically integrated segment meets the quantitative norms for being a reportable segment, the relevant disclosures are required to be made.</p> <p>These disclosures are not specifically covered in AS 17.</p> <p>AS 17 is still to be revised in line with IFRS 8.</p>	<p>All Public Enterprises are required to report Business Segment and Geographical Segment based on nature of risks and returns of the enterprise.</p> <p>IAS 14 encourages, but does not require, the reporting of vertically integrated activities as separate segments.</p> <p>IAS 14 prescribes certain additional disclosure requirements regarding enterprise's share of profit or loss of associates and joint ventures and regarding restatement of prior year information, etc.</p> <p>The IASB has recently issued new IFRS 8 on 'Operating Segments' which would supersede IAS 14.</p>
Consolidated Financial Statements	<p>Indian GAAP does not specify entities that are required to present consolidated financial statements. The accounting standard is required to be followed if consolidated financial statements are presented. SEBI requires entities listed and to be listed to present consolidated financial statements.</p> <p>Control exists when (a) parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power or (b) it controls composition of an entity's board of directors so as to obtain economic benefits from its activities.</p> <p>The existence of currently exercisable potential voting rights is not taken into consideration.</p>	<p>Consolidated Financial Statements are required for all entities unless specific exemptions in IAS 27 apply.</p> <p>Control is based on power to govern the financial and operating policies. Control is presumed to exist when parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power.</p> <p>Control also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto control (rare circumstances). The existence of currently exercisable potential voting rights is also taken into consideration.</p>
Special Purpose Entities (SPE)	<p>No guidance on Special purpose entities (SPEs).</p>	<p>Special purpose entities (SPEs ) controlled by an entity are also consolidated</p>

<b>Subject</b>	<b>Indian GAAP</b>	<b>IFRS</b>
Method of consolidation	Goodwill/capital reserve is calculated based on carrying amounts of assets and liabilities.	Goodwill/capital reserve is calculated based on fair values of assets and liabilities.
	Similar to IFRS except if it is impracticable to use uniform accounting policies, this fact and the line items and amount to which different policies have been applied are disclosed.	Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.
	Minority interests are presented in consolidated balance sheet separately from liabilities and equity of parent shareholders. Minority interests in income of the group are separately disclosed.	Minority interests are presented in consolidated balance sheet within equity, separately from parent shareholders equity. Minority interests in profit & loss is separately disclosed.
	No deferred tax adjustment is required.	Deferred tax adjustment for unrealised profit is required.
Accounting of investments in subsidiaries in separate financial statements	Investments in subsidiaries are accounted at cost less provision for other than temporary diminution in value of Investment.	Investments in subsidiaries are accounted either at cost less impairment loss or as available for sale investments.
Exclusion of subsidiaries from consolidation	Subsidiaries are excluded from consolidation if it was acquired with an intent to dispose of within twelve months or if it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.	Subsidiaries are excluded from consolidation if on acquisition it meets the criteria to be classified as held for sale in accordance with IFRS 5.
Reporting dates	The difference between the reporting date of the subsidiary and that of the parent shall be no more than six months.	The difference between the reporting date of the subsidiary and that of the parent shall be no more than three months.
Definition of joint venture	Similar to IFRS. There are exclusions if it meets the definition of a subsidiary or exemptions similar to non-consolidation of subsidiaries.	Contractual arrangements whereby two or more parties undertake an economic activity, which is subject to a joint control. Exclusion if investment is held-for-sale.
Presentation of Jointly controlled entities (joint ventures)	In consolidated financials, proportionate consolidation is used.	In consolidated financials either proportional consolidation or equity method can be used.
	In standalone financials: at cost less provision for other than temporary diminution in value of Investment.	In standalone financials: at cost less impairment loss or as available for sale investments under IAS 39.
Provision	Similar to IFRS, except that discounting is not permitted.	Provisions relating to present obligations from past events recorded if outflow of resources is probable and can be reliably estimated.
		Provisions are discounted to their present value where the effect of time value of money is material.
Contingencies	Similar to IFRS, except that contingent gains are neither recognised nor disclosed.	Disclosed unrecognised possible losses and probable gains.

<b>Subject</b>	<b>Indian GAAP</b>	<b>IFRS</b>
Deferred income taxes – general approach	<p>AS 22, Accounting for taxes on Income, is based on income statement approach or the timing difference approach.</p> <p>Deferred taxes are not determined on temporary differences.</p> <p>In the case of unabsorbed losses, deferred tax asset is recognised if there is virtual certainty supported by convincing evidence of future reversals.</p>	<p>IAS 12 is based on Balance Sheet Approach or the temporary difference approach.</p> <p>Deferred taxes are determined on temporary differences such as</p> <ol style="list-style-type: none"> <li>a) Revaluation of fixed assets</li> <li>b) Business combinations</li> <li>c) Consolidation adjustments</li> <li>d) Undistributed profits</li> <li>e) Foreign currency translation adjustment</li> </ol> <p>In the case of unabsorbed losses, deferred tax asset is recognised if there is convincing evidence of future reversals.</p>
Fringe benefits tax	Disclosed as separate item after “profit before tax” on the face of income statement.	Included as part of expenses in determination of profit before tax.
Proposed Dividends	Proposed dividends are recognised as liability in the period to which they relate.	Proposed dividends are not recognised as liability. These are recognised in the period in which declared.
Effects of Changes in Foreign currency translation	AS 11 is based on the integral and non-integral foreign operations approach, i.e., the approach which was followed in the earlier IAS 21 (revised 1993).	The current IAS 21 is based on ‘Functional Currency’ approach as against the integral and non-integral approach. On an overall basis, both approaches give similar results except in some cases where functional currency and presentation currency are different.
Related party disclosures	<p>AS 18 does not include post employment benefit plans.</p> <p>AS 18 read with ASI-18 excludes non-executive directors from the definition of key management persons. AS 18 does not specifically cover indirect authority and responsibility.</p> <p>AS 18 covers relatives of KMPs.</p> <p>AS 18 read with ASI 23 requires disclosure of remuneration paid to key management persons but does not mandate category-wise disclosures.</p>	<p>The definition of related party under IAS 24 includes post employment benefit plans (e.g. gratuity fund, pension fund) of the enterprise or of any other entity, which is a related party of the enterprise.</p> <p>The definition of Key management persons (KMPs) under IAS 24 includes any director whether executive or otherwise i.e. Non-executive directors are also related party. Further, under IAS 24, if any person has indirect authority and responsibility for planning, directing and controlling the activities of the enterprise, he will be treated as a key management person (KMP).</p>



Subject	Indian GAAP	IFRS
	<p>AS 18 contains no stipulations regarding arms length basis.</p> <p>AS 18 provides exemption from disclosure in cases where disclosure of information would conflict with the duties of confidentiality in terms of statute or regulating authority.</p> <p>Under AS 18, the definition of control is wider than IFRS as it refers to power to govern the financial and/or operating policies of the management.</p> <p>AS 18 includes control over composition of Board of Directors in the definition of "control".</p> <p>AS 18 does not require disclosure of terms and conditions of outstanding items pertaining to related parties</p> <p>AS 18 prescribe a rebuttable presumption of significant influence if 20% or more of the voting power held by any party.</p> <p>Transactions between state controlled enterprises are not required to be disclosed under AS-18.</p>	<p>The definition of related party under IAS 24 includes close members of the families of KMPs as related party as well as of persons who exercise control or significant influence.</p> <p>IAS 24 requires compensation to KMPs to be disclosed category-wise including share-based payments.</p> <p>IAS 24 mandates that no disclosure should be made to the effect that related party transactions were made on arms length basis unless terms of the related party transaction can be substantiated.</p> <p>No concession is provided under IAS 24 where disclosure of information would conflict with the duties of confidentiality in terms of statute or regulating authority.</p> <p>Under IAS 24, the definition of "control" is restrictive as it requires power to govern the financial and operating policies of the management of the enterprise.</p> <p>The definition of "control" under IAS 24 is restrictive on the count that it does not include control over composition of Board of Directors.</p> <p>IAS 24 requires disclosure of terms and conditions of outstanding items pertaining to related parties.</p> <p>IAS 24 does not prescribe a rebuttable presumption of significant influence.</p> <p>No exemption.</p>
Financial instruments	No accounting standard equivalent to IAS-32 and IAS-39 prevalent in India. AS-13, Accounting for Investments, deals with investements in a limited manner. Foreign exchange hedging is covered by AS-11(revised)	IAS-32 and IAS-39 deal with financial instruments and entity's own equity in detail including matters relating to hedging.

## THE SECURITIES MARKET OF INDIA

*The information in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the Securities and Exchange Board of India, the BSE and the NSE, and has not been prepared or independently verified by the Company or any Manager or any of its affiliates or advisers.*

### **The Indian Securities Market**

India has a long history of organised securities trading. In 1875, the first stock exchange was established in Mumbai.

### **Stock Exchange Regulations**

Indian Stock Exchanges are regulated primarily by SEBI, as well as by the Indian Government acting through the Ministry of Finance, Stock Exchange Division, under the Securities Contracts (Regulation) Act 1956 (the "SCRA") and the Securities Contracts (Regulation) Rules 1957 (the "SCRR"). The SCRR, along with the rules, by-laws and regulations of the respective stock exchanges, regulates the recognition of stock exchanges, the qualifications for membership thereof and the manner in which contracts are entered into and enforced between members.

The SEBI Act granted powers to SEBI, *inter alia*, to regulate the Indian securities market, including stock exchanges and other financial intermediaries in the capital markets, to promote and monitor self-regulatory organisations, to prohibit fraudulent and unfair trade practices and insider trading, to regulate substantial acquisitions of shares and takeovers of companies, to call for information, to undertake inspections and conduct inquiries and audits of stock exchanges, self-regulatory organisations, intermediaries and other persons associated with the securities market. SEBI also issues guidelines and regulations concerning minimum disclosure requirements by public companies, rules and regulations concerning investor protection, insider trading, substantial acquisition of shares and takeovers of companies, buyback of securities, delisting of securities, employees' stock option schemes, stockbrokers, merchant bankers, underwriters, mutual funds, foreign institutional investors ("FIIs"), credit rating agencies and other capital market participants.

### **Listing**

The listing of securities on a recognised Indian stock exchange is regulated by the Companies Act, the SCRA, the SCRR, the SEBI Act and various guidelines issued by SEBI and the listing agreements of the respective stock exchanges (the "Listing Agreements"), under which the governing body of each stock exchange is empowered to suspend trading of or dealing in a listed security for breach of the Company's obligations under such agreement, subject to the Company receiving prior notice of the intent from the relevant exchange, and upon granting of a hearing in the matter.

In the event that a suspension of a company's securities continues for a period in excess of three months, the company may appeal to SEBI to set aside the suspension. SEBI has the power to veto stock exchange decisions in this regard. SEBI also has the power to amend the Listing Agreements and the bylaws of the stock exchanges in India.

All listed companies are required to ensure minimum level of public shareholding at 25 per cent. of the total number of issued shares of a class or kind for the purpose of continuous listing. The exceptions to this rule are for companies which (i) are offering or have offered shares to the extent of at least 10 per cent. of the issue size in terms of Rule 19(2)(b) of the Securities Contracts (Regulations) Rules, 1957; (ii) have two crore or more outstanding shares; (iii) have a market capitalisation of Rs.10 billion or more and the minimum public shareholding to be maintained by such companies is 10 per cent. Consequently, a listed company may be delisted from the stock exchanges for not complying with the aforementioned requirement.

A listed company can be delisted under the provisions of SEBI (Delisting of Securities) Guidelines, 2003 (the "Delisting Guidelines") which govern voluntary and compulsory delisting of shares of Indian companies from the stock exchanges. A company may be delisted through a voluntary delisting sought by the promoters of the said company or a compulsory delisting by a stock exchange due to any acquisition of shares of the said company or scheme of arrangement, or consolidation of holdings by the person in control

pursuant to which the public shareholding in the company falls below the minimum limit specified. A company may voluntarily delist from the stock exchange where its securities are listed provided that an exit opportunity has been given to the investors at an exit price determined in accordance with a specified formula. The procedure for compulsory delisting also requires the company to make an exit offer to the shareholders in accordance with the above-mentioned guidelines.

The Delisting Guidelines provide that if for any reason the securities of a company become liable to be delisted from the relevant stock exchange, the company may, if it desires to maintain listing, follow the procedure laid down in the Delisting Guidelines. Pursuant to the Delisting Guidelines, the company may, within six months, issue new shares to the public or the promoters of the company may sell a portion of their shares to the public, such that the minimum level of public shareholding is re-established.

The Delisting Guidelines also provide that if a company fails to issue new shares or the promoters fail to sell a portion of their shares to the public, so as to bring the public shareholding back to the minimum required level, SEBI may delist that Company (after giving notice and as per the procedure laid down in the Delisting Guidelines). The procedure essentially requires the promoter to make an offer to buy the securities from the public at a fair value (the "fair value" being determined in accordance with SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 1997 (the "SEBI Takeover Code")).

In order to restrict abnormal price volatility in any particular stock, SEBI has instructed stock exchanges to apply daily circuit-breakers for most stocks, which do not allow transactions beyond-certain price volatility. The index-based market-wide (equity and equity derivatives) circuit-breaker system has been implemented and applies at three stages of the index movement – at 10 per cent., 15 per cent. and 20 per cent.. These circuit breakers, when triggered, bring about a co-ordinated trading halt in all equity and equity derivative markets nationwide. The market-wide circuit breakers are triggered by movement of either the "SENSEX" of the BSE or "NIFTY" of the NSE, whichever is breached earlier. Additionally, there are currently in place varying individual scrip-wise bands. Circuit-breakers are not applicable to certain stocks listed in the "A" category of the BSE, on which stocks, futures and options are traded. The Indian stock exchanges can also exercise the power to suspend trading during periods of market volatility. Margin requirements are imposed by stock exchanges that are required to be paid by stockbrokers. At the discretion of stock exchanges and under instructions from SEBI, stock exchanges can also impose ad hoc margins for specific stocks in the event of extreme volatility in price movements.

### **Listing Agreement**

The Company has entered into Listing Agreements with each of the Indian stock exchanges on which its equity shares are listed. A listed company is subject to continuing disclosure requirements pursuant to the terms of its listing agreement with the relevant stock exchange, including the requirement to publish unaudited financial statements on a quarterly basis and to inform stock exchanges immediately of all events which will have a bearing on the performance/operations of the company as well as any stock price-sensitive information. The listing agreements also provide that whenever a take-over offer is made or there is any change in the control of the management of the company, the person who secures the control of the management of the company and the company whose shares have been acquired shall comply with the relevant provisions of the SEBI Takeover Code.

### **Disclosures under the Companies Act and Securities Regulations**

Under the Companies Act, a public offering of securities in India must be made by means of a prospectus, which must contain information specified in the Companies Act, 1956 and the SEBI Guidelines, and be filed with the Registrar of Companies having jurisdiction over the place where a company's registered office is situated which, in the case of the Company, is currently the Registrar of Companies located at Ahmedabad. A company's directors and promoters may be subject to civil and criminal liability for misrepresentation in a prospectus. The Companies Act, along with guidelines promulgated by SEBI also sets forth procedures for the acceptance of subscriptions and the allotment of securities among subscribers and establishes maximum commission rates for the sale of securities. SEBI has issued detailed guidelines concerning disclosure by public companies and investor protection. Prior to the repeal of certain rules in mid-1992, the Controller of Capital Issues of the Indian Government regulated the prices at which companies could issue securities. The SEBI Guidelines now permit companies to freely price their issues of securities.

Public limited companies are required under the Companies Act and SEBI Guidelines and Listing Agreements to prepare, file with the Registrar of Companies and circulate to their shareholders, audited annual accounts which comply with the Companies Act's disclosure requirements and regulations governing their manner of presentation and which include sections pertaining to corporate governance, related-party transactions and the management's discussion and analysis as required under the listing agreement. In addition, a listed company is subject to continuing disclosure requirements pursuant to the terms of its listing agreement with the relevant stock exchange. Accordingly, the companies are also required to publish unaudited financial statements, although subject to a limited review by the company's auditors, on a quarterly basis and are required to inform stock exchanges immediately regarding any stock price-sensitive information.

The Companies Act further requires mandatory compliance with accounting standards issued by the Institute of Chartered Accountants of India (the "ICAI").

### **Indian Stock Exchanges**

There are now 23 stock exchanges in India. Most of the stock exchanges use their own governing board for self-regulation. A number of these exchanges have been directed by SEBI to file schemes for demutualisation as part of a move towards greater investor protection. The NSE and the BSE together hold a dominant position among the stock exchanges in terms of number of listed companies, market capitalisation and trading activity.

#### ***BSE***

The BSE, the oldest stock exchange in India, was established in 1875. It has evolved over the years into its present status as the premier stock exchange of India. The BSE switched over to online trading from May 1995. Recently, pursuant to SEBI's "BSE (Corporatization and Demutualization) Scheme, 2005", with effect from 20 August 2005 the BSE has been corporatised and demutualised and is now a company under the Companies Act. Only a member of the BSE has the right to trade in the stocks listed on the BSE.

As at 31 March 2007, there were 4,821 listed companies trading on the BSE and the estimated market capitalisation of stocks trading on the BSE was Rs.35,450,410 million.

Derivatives trading commenced on the BSE in 2000. The BSE has also wholesale and retail debt trading categories. Retail trading in government securities commenced in January 2003.

#### ***NSE***

The NSE serves as a national exchange, providing nationwide online satellite-linked screen-based trading facilities with market makers and electronic clearing and settlement for securities, including government securities, debentures, public sector bonds and units. The principal aim of the NSE is to enable investors to buy or sell securities from anywhere in India, serving as a national market for securities. Deliveries for trades executed "on-market" are exchanged through the National Securities Clearing Corporation Limited. The NSE does not categorise shares into groups as in the case of the BSE, except in respect of the trade to trade category. The NSE commenced operations in the wholesale debt market in June 1994, in capital markets in November 1994 and derivatives in June 2000. The NSE launched the NSE 50 Index, now known as S&P CNX NIFTY, on 22 April 1996 and the Mid-cap Index on 1 January 1996. The securities in the NSE 50 Index are highly liquid. As at 31 March 2007, there were 1,228 companies listed on the NSE and the estimated market capitalisation of stocks trading on the NSE was Rs.33,673,500 million.

#### ***Settlement***

With effect from 31 December 2001, trading in all securities listed in the equity segment of the BSE takes place in one market segment, known as the Compulsory Rolling Settlement Segment.

With effect from 1 April 2003, in accordance with SEBI directives, all transactions in all groups of securities in the equity segment of the BSE and all fixed income securities listed on the BSE are required to be settled on a T+2 basis. The settlement calendar, which indicates the dates for various settlement-related activities, is drafted by the BSE in advance and is circulated among market participants. T+2 settlement requires that a transaction is settled on the second business day following the relevant trade date. The Shares are listed in the B-1 segment on the BSE and trades in the Shares are settled on a T+2 basis.

### ***Stock market indices***

The following two indices are generally used in tracking the aggregate price movements on the BSE:

- the BSE Sensitive Index (the “Sensex”) consists of listed shares of 30 large market capitalisation companies. The companies are selected on the basis of market capitalisation, liquidity and industry representation. The Sensex was first compiled in 1986 with the fiscal year ended 31 March 1979 as its base year. This is the most commonly used index in India; and
- the BSE 100 Index (formerly the BSE National Index) consists of listed shares of 100 companies including the 30 comprising the Sensex. The BSE 100 Index was introduced in January 1989 with the fiscal year ended 31 March 1984 as its base year.

### ***Internet-based Securities Trading and Services***

SEBI approved Internet trading in January 2000. Internet trading takes place through order routing systems, which route client orders to exchange trading systems for execution. Stockbrokers interested in providing this service are required to apply for permission to the relevant stock exchange and also have to comply with certain minimum conditions stipulated by SEBI. The NSE became the first exchange to grant approval to its members for providing Internet-based trading services. Internet trading is possible on both the “equities” as well as the “derivatives” segments of the NSE.

### ***SEBI Takeover Code***

Disclosure and mandatory bid obligations for listed Indian companies under Indian law are governed by the SEBI Takeover Code which prescribes certain thresholds or trigger points that give rise to these obligations, as applicable. The SEBI Takeover Code is under constant review by SEBI and was last amended in October 2006. Since the Company is an Indian listed company, the provisions of the SEBI Takeover Code will apply to acquisition of its shares.

The principal features of the SEBI Takeover Code are as follows:

- The term “Shares” is defined to mean equity shares or any other security, which entitles a person to acquire shares with voting rights.
- Any acquirer (defined as a person who, directly or indirectly, acquires or agrees to acquire shares or voting rights in a company or acquires or agrees to acquire control over a company, either by himself or with any person acting in concert) who acquires shares or voting rights that would entitle the acquirer to more than 5 per cent., 10 per cent., 14 per cent., 54 per cent. and 74 per cent. of the shares or voting rights, as the case may be, in a company is required to disclose the aggregate of his shareholding or voting rights in that company to the company and to each of the stock exchanges on which the company’s shares are listed within two days of (i) the receipt of allotment information or (ii) the acquisition of shares or voting rights, as the case may be. The Company in turn is also required to disclose the same to the stock exchanges on which the Company’s shares are listed. A person who holds more than 15 per cent. of the shares or voting rights in any company is required to make annual disclosure of his holdings to that company within 21 days of the financial year (commencing on 1 April and ending on 31 March). The company is required to disclose the same to each of the stock exchanges on which the company’s shares are listed.

- Further, a person who holds 15 per cent. or more but less than 55 per cent. of the shares or voting rights in any company is required to disclose any purchase or sale of shares exceeding (in aggregate) 2 per cent. of the share capital of the company to the company which in turn is also required to disclose the same to each of the stock exchanges on which the Company's shares are listed and to each of the stock exchanges where the shares of the company are listed within two days of (i) the receipt of allotment information or (ii) the acquisition of shares or voting rights. Promoters or persons in control of a company are also required to make periodic disclosure of shares or voting rights held by them along with persons acting in concert, in the same manner as above, annually within 21 days of the end of the financial year as well as from the record date for entitlement to a dividend. The Company is also required to disclose the holdings of its promoters or persons in control as on 31 March of the respective year and on the record date fixed for the declaration of dividends to each of the stock exchanges on which its equity shares are listed. An acquirer who, along with persons acting in concert, acquires 15 per cent. (taken together with existing equity shares on voting rights, if any, held by it or persons acting in concert with it) or more of the shares or voting rights of a company would be required to make a public announcement to acquire a further minimum 20 per cent. of the shares of the company at a price not lower than the price determined in accordance with the SEBI Takeover Code. Such offer has to be made to all public shareholders of the company (defined as holders of shareholdings held by persons other than the promoter (as defined under the SEBI Takeover Code)). An acquirer who, together with persons acting in concert with him, holds 15 per cent. or more but less than 55 per cent. of the shares or voting rights in a company cannot acquire additional shares or voting rights that would entitle him to exercise more than 5 per cent. of the voting rights in any financial year ending on 31 March unless such acquirer makes a public announcement offering to acquire a further minimum 20 per cent. of the shares or voting rights at a price not lower than the price determined in accordance with the SEBI Takeover Code. Any acquisition of shares or voting rights by an acquirer who, together with persons acting in concert, holds 55 per cent. or more but less than 75 per cent. of the shares or voting rights in a company (or, where the company concerned had obtained the initial listing of its shares by making an offer of at least 10 per cent. of the issue size to the public pursuant to Rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957 (the "SCRR"), less than 90 per cent. of the shares or voting rights in the company) would require such an acquirer to make an open offer to acquire a minimum of 20 per cent. of the shares or voting rights which it does not already own in the company. However, if an acquisition made pursuant to an open offer results in the public shareholding in the target company being reduced below the minimum level required under the listing agreement with the stock exchanges, the acquirer would be required to take steps to facilitate compliance by the target company with the relevant provisions of the listing agreement with the stock exchanges, within the time period prescribed therein.
- In addition, regardless of whether there has been any acquisition of shares or voting rights in a company, an acquirer cannot directly or indirectly acquire control over a company (for example, by way of acquiring the right to appoint a majority of the directors or to control the management or the policy decisions of the company) unless such acquirer makes a public announcement offering to acquire a minimum of 20 per cent. of the shares or voting rights which it does not already own in the company.
- Where an acquirer who (together with persons acting in concert) holds 55 per cent. or more, but less than 75 per cent. of the shares or voting rights in a target company (or, where the concerned company had obtained the initial listing of its shares by making an offer of at least 10 per cent. of the issue size to the public pursuant to Rule 19(2)(b) of the SCRR, less than 90 per cent. of the shares or voting rights in the company), intends to consolidate its holdings while ensuring that the public shareholding in the target company does not fall below the minimum level permitted by the listing agreement with the stock exchanges, the acquirer may do so only by making an open offer in accordance with the SEBI Takeover Code. Such open offer would be required to be made for the lesser of (i) 20 per cent. of the voting capital of the company, or (ii) such other lesser percentage of the voting capital of the company as would, assuming full subscription to the open offer,

enable the acquirer (together with persons acting in concert), to increase the holding to the maximum level possible, which is consistent with the target company meeting the requirements of minimum public shareholding laid down in the listing agreement with the stock exchanges.

- The open offer for the acquisition of a further minimum of 20 per cent. of shares of the company or such other percentage as prescribed under the SEBI Takeover Code has to be made by way of a public announcement which must be made within four working days of entering into an agreement for the acquisition of, or decision to acquire directly, shares or voting rights exceeding the relevant percentages of shareholding in the company and/or control over the company.
- Unless otherwise provided in the SEBI Takeover Code, an acquirer who seeks to acquire any shares or voting rights whereby the public shareholding in the company would be reduced to a level below the limit specified in the listing agreement with the stock exchange for the purpose of continuous listing may acquire such shares or voting rights only in accordance with the regulations prescribed for delisting of securities by SEBI.

The SEBI Takeover Code permits conditional offers and provides specific guidelines for the gradual acquisition of shares or voting rights. Specific obligations of the acquirer and the board of directors of the target company in the offer process have also been set out. Acquirers making a public offer are also required to deposit into an escrow account a prescribed percentage of the total consideration, which amount will be forfeited in the event that the acquirer does not fulfil its obligations. In addition, the SEBI Takeover Code introduces the “chain principle” by which indirect acquisition by virtue of an acquisition of companies, whether listed or unlisted, whether in India or abroad, of a company listed in India will oblige the acquirer to make a public offer to the shareholders of each such Indian company that is indirectly acquired.

The public open offer provisions of the SEBI Takeover Code, subject to certain conditions, do not apply, among other things, to certain specified acquisitions, including the acquisition of shares: (i) by allotment in a public and rights issue subject to the fulfillment of certain conditions; (ii) pursuant to an underwriting agreement; (iii) by registered stockbrokers in the ordinary course of business on behalf of clients; (iv) in unlisted companies (unless such acquisition results in an indirect acquisition of shares in excess of 15 per cent. in a listed company); (v) pursuant to a scheme of reconstruction or amalgamation approved by a court in India or abroad; (vi) pursuant to an inter se transfer between promoters or group companies, subject to certain conditions; (vii) pursuant to a scheme under the SICA; (viii) resulting from transfers between companies belonging to the same group of companies or between promoters of a publicly listed company and their relatives, provided the relevant conditions are complied with, (ix) through inheritance on succession, (x) resulting from transfers by Indian venture capital funds or foreign venture capital investors registered with SEBI, to their respective promoters or to other venture capital undertakings or (xi) by companies controlled by the Indian Government unless such acquisition is made pursuant to a disinvestment process undertaken by the Indian Government or a State Government (xii) change in control by takeover/restoration of the management of the borrower company by the secured creditor in terms of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, (xiii) acquisition of shares by a person in exchange of equity shares received under a public offer made under the SEBI Takeover Code and (xiv) in terms of guidelines and regulations relating to delisting of securities as specified by SEBI. The SEBI Takeover Code does not apply to acquisitions in the ordinary course of business by public financial institutions either on their own account or as pledgee. An application may also be filed with SEBI seeking exemption from the requirements of the SEBI Takeover Code. The general requirements to make such a public announcement do not, however, apply entirely to bailout takeovers of a financially weak company but not a “sick industrial company” pursuant to a rehabilitation scheme approved by a public financial institution or a scheduled bank. A “financially weak company” is a company which has at the end of the previous financial year accumulated losses which have resulted in the erosion of more than 50 per cent. but less than 100 per cent. of the total sum of its paid up capital and free reserves as at the beginning of the previous financial year. A “sick industrial company” is a company registered for not less than five years which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth. The obligation to make an open offer also does not arise in case of acquisition of global depository receipts so long as they are not converted into shares carrying voting rights.

The SEBI Takeover Code does not apply to the requisition of shares in companies whose shares are not listed on any stock exchange.

### **Minimum Level of Public Shareholding**

In order to ensure availability of floating stock of listed companies, SEBI has recently notified amendments to the Listing Agreement. All listed companies are required to ensure that their minimum level of public shareholding remains at or above 25 per cent. This requirement does not apply to those companies who at the time of their initial listing had offered at least 10 per cent. of the issue size to the public pursuant to Rule 19(2)(6) of the SCRR, and which fulfil the following conditions (i) a minimum of 2,000,000 securities were offered to the public, (ii) the size of the issue was at least Rs.1,000 million and (iii) the issue was made only through book building method with allocation of 60 per cent. of the issue size to qualified institutional buyers as specified by SEBI. However, such listed companies are required to maintain the minimum level of public shareholding at 10 per cent. of the total number of issued ordinary shares of a class or kind for the purposes of listing. Failure to comply with this clause in the Listing Agreement requires the listed company to delist its shares pursuant to the terms of the SEBI Delisting Guidelines and may result in penal action being taken against the listed company pursuant to the Securities and Exchange Board of India Act, 1992.

### **Insider Trading Regulations**

SEBI (Prohibition of Insider Trading) Regulations 1992 (the "Insider Trading Regulations") have been notified by SEBI to prevent insider trading in India by prohibiting and penalising insider trading in India. The Insider Trading Regulations prohibit an "insider" from dealing, either on his own behalf or on behalf of any other person, in the securities of a company listed on any stock exchange when in possession of unpublished price-sensitive information. The terms "insider" and "unpublished price-sensitive information" is defined in the Insider Trading Regulations. The insider is also prohibited from communicating, counselling or procuring, directly or indirectly, any unpublished price-sensitive information to any other person who while in possession of such unpublished price-sensitive information is prohibited from dealing in securities. The prohibition under the Insider Trading Regulations also extends to all persons, including a company dealing in the securities of a company listed on any stock exchange, while in the possession of unpublished price-sensitive information. Recently, SEBI has amended the Insider Trading Regulations in 2002 to provide certain defences to the prohibition on companies in possession of unpublished price-sensitive information dealing in securities.

The Insider Trading Regulations make it compulsory for listed companies and certain other entities associated with the securities market to establish an internal code of conduct to prevent insider trading deals and also to regulate disclosure of unpublished price-sensitive information within such entities so as to minimise misuse of such information. To this end, the Insider Trading Regulations provide a model code of conduct. Further, the Insider Trading Regulations specify a model code of corporate disclosure practices to prevent insider trading, which must be implemented by all listed companies.

The Insider Trading Regulations require any person who holds more than 5 per cent. of the shares or voting rights in any listed company to disclose to the company the number of shares or voting rights held by such person, on becoming such holder, within four working days of either:

- (i) the receipt of intimation of allotment of shares; or
- (ii) the acquisition of shares or voting rights, as the case may be.

On a continuing basis, any person who holds more than 5 per cent. of the shares or voting rights in any listed company is required to disclose to the company the number of shares or voting rights held by him and change in shareholding or voting rights, even if such change results in the shareholding falling below 5 per cent., if there has been a change in



such holdings from the last disclosure made, provided such change exceeds 2 per cent. of the total shareholding or voting rights in the company. Such disclosure is required to be made within four working days of either:

- (i) the receipt of intimation of allotment of shares; or
- (ii) the acquisition or sale of shares or voting rights, as the case may be.

### **Derivatives (Futures and Options)**

Trading in derivatives in India is governed by the SCRA, the SCRA Rules and the SEBI Act. The SCRA was amended in February 2000 and derivative contracts were included within the term "securities", as defined in the SCRA. Trading in derivatives in India takes place either on separate and independent derivatives exchanges or on separate segments of an existing stock exchange. The derivative exchange or derivative segment of a stock exchange functions as a self-regulatory organisation under the supervision of SEBI. Derivatives products were introduced in four phases in India, starting with futures contracts in June 2000 and index options, stock options and stock futures in June 2000, July 2001 and November 2001, respectively.

### **Depositories**

In August 1996, the Indian Parliament enacted the Depositories Act which provides a legal framework for the establishment of depositories to record ownership details and effect transfers in book-entry form. SEBI framed the Securities and Exchange Board of India (Depositories and Participants) Regulations 1996 which provide for, *inter alia*, the registration of depositories and participants, the rights and obligations of the depositories, participants, issuer companies and beneficial owners, creation of pledge of securities held in dematerialised form, and the procedure for dematerialisation of shares held in physical form. The depository system has significantly improved the operations of the Indian securities markets. Under the Depositories Act, a company is required to give the option to subscribers/shareholders to receive the security certificates or hold securities in dematerialised form with a depository.

Trading of securities in book-entry form commenced towards the end of 1996. In January 1998, SEBI notified scrips of various companies for compulsory dematerialised trading by certain categories of investors such as FII and other institutional investors. SEBI has subsequently significantly increased the number of scrips in which dematerialised trading is compulsory for all investors. The Companies Act provides that Indian companies making any initial public offerings of securities for or in excess of Rs.100 million (U.S.\$2.3 million) should issue the securities in dematerialised form. However, even in the case of scrips notified for compulsory dematerialised trading, investors, other than institutional investors are permitted to trade in physical shares on transactions outside the stock exchange where there are no requirements of reporting such transactions to the stock exchange and on transactions on the stock exchange involving lots of less than 500 securities.

Transfers of shares in book-entry form require both the seller and the purchaser of the equity shares to establish accounts with depository participants registered with the depositories established under the Depositories Act. Charges for opening an account with a depository participant, transaction charges for each trade and custodian charges for securities held in each account vary depending upon the practice of each depository participant and have to be borne by the account holder. Upon delivery, the shares shall be registered in the name of the relevant depository on the issuer's books and this depository shall enter the name of the investor in its records as the beneficial owner. The transfer of beneficial ownership shall be effected through the records of the depository. The beneficial owner shall be entitled to all rights and benefits and subject to all liabilities in respect of his securities held by a depository.

## FOREIGN INVESTMENT AND EXCHANGE CONTROLS

### General

Prior to 1 June 2000, foreign investment in Indian securities, including the acquisition, sale and transfer of securities of Indian companies, was regulated by the Foreign Exchange Regulation Act, 1973 ("FERA") and the notifications issued by the RBI thereunder.

With effect from 1 June 2000, FERA was replaced by the Foreign Exchange Management Act, 1999 ("FEMA") and thereafter foreign investment in Indian securities is regulated by FEMA and the rules, regulations and notifications issued by the RBI under FEMA. A person resident outside India can transfer any security of an Indian company or any other security to an Indian resident only in accordance with the terms and conditions specified in FEMA and the rules and regulations made thereunder or as permitted by the RBI or the Indian Government through the Foreign Investment Promotion Board ("FIPB").

The Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 (the "FEM Securities Regulations") regulate the issue of Indian securities to persons resident outside India and the transfer of Indian securities by or to persons resident outside India.

The FEM Securities Regulations provide that an Indian entity may issue securities to a person resident outside India or record in its books any transfer of security from or to such person only in the manner set forth in FEMA and the rules and regulations made thereunder or as permitted by the RBI.

### Foreign direct investment

In 1991, the Indian Government formulated the Industrial Policy, which, as amended from time to time, contains the policies relating to foreign direct investment in Indian companies engaged in business in various sectors of Indian industry. The Indian Government, pursuant to its liberalisation policy, set up FIPB to regulate together with the RBI all foreign direct investment into India.

Foreign direct investment means investment by way of subscription and/or purchase of securities of an Indian company by persons resident outside India ("Foreign Direct Investment" or "FDI").

The following investments would require the prior permission of the FIPB:

- investments in certain specified industries where the proposed investment is in excess of a maximum specified sectoral limit or industries in which FDI is not permitted under the "automatic route" under the existing Indian Foreign Investment Policy;
- investments by any foreign investor who has or had an existing or previous venture in India, or a technology transfer/trade mark agreement in the same field to that Indian company in which the FDI is proposed. However, prior FIPB approval will not be required in case of investment made by a venture capital fund registered with SEBI, or where the investment in the existing joint venture is less than 3 per cent or where the existing joint venture is defunct. In the case of joint ventures entered into after 12 January 2005, the joint venture agreement may embody a "conflict of interest" clause to safeguard the interests of the joint venture partners in the event of one of the partners desiring to set up another joint venture or a wholly-owned subsidiary in the same field of economic activity;
- investment being more than 24 per cent. in the equity capital of units manufacturing items reserved for small scale industries; and
- all investments by an unincorporated entity.

The RBI consolidated its various circulars on foreign investments in India into a Master Circular No. 02/2006-07 dated 1 July 2006 summarising the current regulatory provisions as amended from time to time. Broadly, FDI is prohibited in the following sectors:

- retail trading;
- atomic energy;
- lottery business;
- gambling and betting; and
- agriculture (excluding floriculture, horticulture, development of seeds, animal husbandry, pisciculture and cultivation of vegetables, mushrooms etc. under controlled conditions and services related to agro and allied sectors) and plantations (other than tea plantations).

In other cases, investments can be made either with the specific prior approval of the Indian Government (i.e. the Secretariat for Industrial Assistance/FIPB) or under the "automatic route".

Subject to certain exceptions, FDI and investment by Non-Resident Indians (as defined below) in Indian companies do not require the prior approval of the FIPB or the RBI. However, a declaration in a prescribed form, detailing the foreign investment, must be filed with the RBI within a specified period of the foreign investment being made in the Indian company. The foregoing description applies only to an issuance of shares by, and not to a transfer of shares of, Indian companies. The Indian Government has indicated that in all cases where Foreign Direct Investment is allowed on an automatic basis without FIPB approval, the RBI would continue to be the primary agency for the purposes of monitoring and regulating foreign investment. In cases where FIPB approval is obtained, no further approval of the RBI is required, although a declaration in the prescribed form, detailing the foreign investment, must be filed with the RBI within a specified period of the foreign investment being made in the Indian company. In both the above cases the prescribed applicable norms with respect to determining the price at which shares may be issued by an Indian company to a non-resident investor would need to be complied with and a declaration in the prescribed form, detailing the foreign investment, is required to be filed with the RBI once the foreign investment is made in the Indian company.

The Indian Government has set up the Foreign Investment Implementation Authority ("FIIA") in the Department of Industrial Policy and Promotion. The FIIA has been mandated to (i) translate foreign direct investment approvals into implementation, (ii) provide a proactive one-stop aftercare service to foreign investors by helping them obtain necessary approvals, (iii) sort out operational problems and (iv) meet with various Indian Government agencies to find solutions to foreign investment problems and maximise opportunities through a partnership approach.

## **Pricing**

The price of shares of a listed Indian company issued to non-residents under the Foreign Direct Investment scheme on an automatic basis cannot be less than the price worked out in accordance with the applicable guidelines issued by SEBI. Where an Indian company is not listed on any recognised stock exchange in India, the minimum issue price of the shares would in accordance with the requirements of the RBI be based on a fair valuation of shares done by a chartered accountant as per the guidelines issued by the erstwhile Controller of Capital Issues. The SEBI Guidelines are applicable to all public issues by listed and unlisted companies, all offers for sale, bonus issues and rights issues by listed companies whose equity share capital is listed, except in the case of rights issues where the aggregate value of securities offered does not exceed Rs.5 million. The FEM Securities Regulations require an issuer of depositary receipts to price such securities in accordance with Clause 5A of Schedule I (in the case of a public issue) and Regulation 5 (in all other cases) thereof.

Clause 5A states that an Indian company may, where the issue is on a public offer basis, price the securities in consultation with the lead manager to the issue and in all other cases as provided in Regulation 5.

Clause 5 of Schedule I states that the price of shares issued to persons resident outside India shall (i) if the issuer is listed on any recognised stock exchange in India, not be less than the price calculated in accordance with SEBI Guidelines; and (ii) in all other cases, not be less than the fair valuation of the shares produced by a chartered accountant pursuant to guidelines issued by the former Controller of Capital Issues.

Every Indian company issuing shares in accordance with the FEM Securities Regulations is required to submit a report to the RBI within 30 days of receipt of the consideration and another report within 30 days from the date of issue of the shares to the non-resident purchaser.

The above description applies only to a fresh issue of shares by an Indian company.

### **Investment by Foreign Institutional Investors**

The FEM Security Regulations enable foreign institutional investors registered with SEBI, including institutions such as pension funds, investment trusts, asset management companies, nominee companies and incorporated/institutional portfolio managers ("Foreign Institutional Investors" or "FIIs"), to make portfolio investments in all securities of listed companies in India. Investments by registered Foreign Institutional Investors or individuals of Indian nationality or origin residing outside India ("Non-Resident Indians") made through a stock exchange are known as portfolio investments. FIIs wishing to invest and trade in Indian securities in India under the FEM Securities Regulations are required under SEBI (Foreign Institutional Investor) Regulations 1995 ("FII Regulations") to register with SEBI and obtain a general permission from the RBI. However, since SEBI provides a single window clearance, a single application must be made to SEBI.

Foreign investors are not necessarily required to register with SEBI under the FII Regulations as FIIs and may invest in securities of Indian companies pursuant to the Foreign Direct Investment route discussed above.

FIIs that are registered with SEBI are required to comply with the provisions of the FII Regulations. A registered FII may buy, subject to the ownership restrictions discussed below, and sell freely, securities issued by any Indian company, realise capital gains on investments made through the initial amount invested in India, subscribe to or renounce rights offerings for shares, appoint a domestic custodian for custody of investments made and repatriate the capital, capital gains, dividends, income received by way of interest and any compensation received towards sale or renunciation of rights offerings of shares. An FII shall not hold more than 10 per cent. of the total paid-up equity capital of an Indian company in its own name; a corporate/individual sub-account of the FII shall not hold more than 5 per cent. of the total paid-up equity capital of a company, and a broad-based sub-account shall not hold more than 10 per cent. of the total paid-up equity capital of a company. The total holding of all Foreign Institutional Investors in a company is subject to a cap of 24 per cent. of the total issued capital of a company which can be increased up to the percentage of the sectoral cap on FDI in respect of the said company with the passing of a special resolution by the shareholders of the company in a general meeting.

Under the RBI Notification Number FEMA 20/2000-RB dated 3 May 2000 (as amended from time to time), a registered FII is permitted to purchase shares/convertible debentures of an Indian company through public offer/private placement, subject to the FII limits stipulated therein and subject to the prior approval of the RBI under FEMA. Such placements shall be made at the average of the weekly highs and lows of the closing price over the preceding six months or preceding two weeks whichever is higher. An Indian company is permitted to issue such shares or convertible debentures provided that:

- in the case of a public offer, the price of the shares to be issued is not less than the price at which shares are issued to residents; and
- in the case of an issue by private placement, the price is not less than the price derived under the SEBI Guidelines or guidelines issued by the Controller of Capital Issues, as applicable.

SEBI has, according to press releases dated 23 January 2004 and 26 January 2004, provided that, with effect from 3 February 2004, an FII or sub-account may issue, deal in or hold, offshore derivative instruments such as participatory notes, equity-linked notes or any other similar instruments against underlying securities, listed or proposed to be listed on any stock exchange in India, only in favour of those entities which are regulated by any relevant regulatory authority in the countries of their incorporation or establishment, subject to compliance with the "know your client" requirements. An FII or sub-account is also to ensure that no further issue or transfer of any offshore derivative instrument is made to any person other than a regulated entity.

Registered FIIs are generally subject to tax under Section 115AD of the Income Tax Act. There is uncertainty under Indian law as to the tax regime applicable to FIIs that hold and trade in Shares. See "Taxation".

Foreign investors are not necessarily required to register with SEBI as Foreign Institutional Investors and may invest in securities of Indian companies pursuant to the Foreign Direct Investment route discussed above, in the case of joint ventures or collaborations or wholly-owned subsidiaries that such foreign investors may wish to establish in India.

### **Portfolio Investment by Non-Resident Indians**

A variety of methods for investing in shares of Indian companies is available to Non-Resident Indians. These methods allow Non-Resident Indians to make Portfolio Investments in shares and other securities of Indian companies on a basis not generally available to other foreign investors. In addition to Portfolio Investments in Indian companies, the Non-Resident Indians may also make investments in Indian companies pursuant to the Foreign Direct Investment route discussed above. The Overseas Corporate Bodies, at least 60 per cent of which are owned by the Non-Resident Indians ("Overseas Corporate Bodies"), were allowed to invest by way of Portfolio Investment until 2001 when the RBI prohibited such investments. Further, pursuant to circulars dated 16 September 2003 and 18 December 2003, the RBI no longer recognises Overseas Corporate Bodies as a separate category of investor.

### **Transfer of shares and convertible debentures of an Indian company**

Subject to what is stated below, a person resident outside India may transfer the shares or convertible debentures held by him in Indian companies in accordance with the FEM Securities Regulations. A person resident outside India, not being a Non-Resident Indian or an overseas corporate body, may transfer by way of sale the shares or convertible debentures held by him to any other person resident outside India without the prior approval of the RBI. A Non-Resident Indian may transfer by way of sale the shares or convertible debentures held by him to another Non-Resident Indian without the prior approval of the RBI. However, the person to whom the shares or convertible debentures are being transferred will have to obtain the prior permission of FIPB in case he has an existing joint venture or tie-up in India through investment in shares or debentures or a technical transfer/trade mark agreement or investment by whatever name called in the same field in which the company whose shares are being transferred is engaged. Further, a non-resident may transfer any security held by him to a person resident in India by way of gift, or may sell the same on a stock exchange in India through a registered broker.

Pursuant to a recent liberalisation, non-residents (other than erstwhile Overseas Corporate Bodies, foreign nationals, Non-Resident Indians, and FIIs) are permitted to purchase shares or convertible debentures of an Indian company (subject to applicable sectoral caps), other than an Indian company engaged in the financial services sector, from a resident of India without the prior approval of the RBI, subject to compliance with prescribed conditions, pricing guidelines, submission of required documents and reports and obtaining a certificate from the applicable authorised dealer. Similarly, a non-resident (i.e. incorporated non-resident entity, erstwhile Overseas Corporate Bodies, foreign nationals, Non-Resident Indians, FIIs) may sell shares or convertible debentures of an Indian company (subject to applicable sectoral caps), to a resident of India without the prior approval of the RBI, subject to compliance with prescribed pricing guidelines, submission of required documents and reports and obtaining a certificate from the applicable authorised dealer.

The Indian Government pursuant to its press note dated 10 February 2006 allowed, under the automatic route, transfer of shares from residents to non-residents in financial services, and where the SEBI Takeover Code is applicable, in cases where approvals are required from the RBI/SEBI/ Insurance Regulatory & Development Authority. With this, the transfer of shares from residents to non-residents, including the acquisition of shares in an existing company, would be on the automatic route subject to the sectoral policy on FDI.

Transfers by way of sale not covered under the automatic route, by a person resident outside India of the shares/convertible debentures held by him to a person resident in India, require prior permission of the RBI. Where the shares of the Indian company concerned are traded on a stock exchange, while considering the grant of permission, the RBI may make stipulations as to the price of the shares or convertible debentures while granting its permission and would take into account whether the sale is at the prevailing market price of the shares on the stock exchange and is effected through a merchant banker registered with SEBI or through a stock broker registered with the stock exchange.

Further, a non-resident may transfer any security held by him to a person resident in India by way of gift. Further, general permission is not available if the purchase of shares or convertible debentures by a non-resident attracts the provisions of the SEBI Takeover Code or if the price at which the purchase takes place is not in accordance with applicable pricing guidelines or the activities of the investee company are not under automatic route under the applicable FDI policy.

### **Issue of Foreign Currency Convertible Bonds (“FCCBs”)**

The Ministry of Finance, through the Depositary Receipt Mechanism Scheme, allowed Indian corporates to issue FCCBs. This Scheme has been amended from time to time by the Ministry of Finance (“MOF”) and certain relaxations in the guidelines have also been notified by the RBI. The relevant regulations provide that an Indian company may issue FCCBs to persons resident outside India subject to the approval of the RBI in certain cases. Any Indian company issuing such bonds is required to comply with certain reporting requirements prescribed by the RBI. The relevant regulations read with the Master Circular of 1 July 2006 and the Circular dated 1 August 2005 issued by the RBI in relation to the External Commercial Borrowings are also applicable to FCCBs.

The relevant regulations provide that an Indian corporation may raise funds up to U.S. \$500 million or equivalent in any one financial year under the automatic approval route and with the approval of the RBI, for amounts up to U.S.\$500 million or equivalent. These limits are also applicable to FCCBs under the ECB Guidelines and Indian companies may issue FCCBs subject to, *inter alia*, the following conditions:

- (i) FCCBs up to U.S.\$20 million or equivalent are required to have a minimum average maturity period of three years and FCCBs above U.S.\$20 million and up to U.S.\$500 million or equivalent are required to have a minimum average maturity of five years. Under current RBI regulations, prior RBI approval is required for a redemption of FCCBs prior to their stated maturity date;
- (ii) the issue of FCCBs shall be subject to the foreign direct investment sectoral caps prescribed by the MOF;
- (iii) public issues of FCCBs are to be made through reputable lead managers;
- (iv) FCCBs cannot be issued with attached warrants;
- (v) prepayment of FCCBs up to U.S.\$400 million is permitted without prior approval of the RBI, subject to compliance with the minimum average maturity period;
- (vi) the “all in cost” interest rate ceiling for the issue of FCCBs, having a minimum average maturity period of three years up to five years, should not exceed six-month LIBOR plus 1.5 per cent. and, in the case of FCCBs having a minimum average maturity period of more than five years, should not exceed six-month LIBOR plus 2.5 per cent.;

- (vii) FCCB proceeds are to be used for investment purposes such as the import of capital goods, new projects and modernisation/expansion of existing production units and the infrastructure sector in India and may also be used in the first stage acquisition of shares in a disinvestment process or in the mandatory second stage offer to the public under the Indian Government disinvestment programme for shares of a public sector undertaking, overseas direct investment in joint ventures, wholly-owned subsidiaries or the expansion of existing joint ventures or wholly-owned subsidiaries. FCCB proceeds are not permitted to be used for working capital purposes, general corporate purposes or for repayment of existing Rupee loans;
- (viii) FCCB proceeds may not be used for on-lending and investment in stock markets and real estate or acquiring a company (or part thereof) in India by a corporate;
- (ix) proceeds from the issue of the FCCBs after deduction of the amounts equal to the commissions, fees and expenses of the arranger (provided that such amounts do not exceed the ceiling as may be approved by the MOF) are to be parked overseas until actually required in India;
- (x) the private placement of FCCBs with unrecognised sources is prohibited;
- (xi) issue-related expenses shall not exceed 4.0 per cent. of issue size for public issues and 2.0 per cent. for private placements; and
- (xii) FCCBs issued under the automatic approval route for meeting Rupee expenditure are required to be hedged unless there is a natural hedge in the form of uncovered foreign exchange receivables.

#### **MOF notification dated 31 August 2005**

The MOF issued a notification dated 31 August 2005 amending the FCCB scheme. The following are aspects which are pertinent to the offering:

1. The issuer must be eligible to raise funds from Indian capital markets and should not have been restrained from accessing the securities market by SEBI;
2. Overseas Corporate Bodies who are not eligible to invest in India through the portfolio route and entities that are prohibited from buying, selling or dealing in securities by SEBI are not eligible to subscribe to the FCCBs.
3. The pricing of the FCCB issue should be made at a price not less than the higher of the following two averages:
  - (i) the average of the weekly high and low of the closing prices of the shares quoted on the stock exchange during the six months preceding the relevant date; or
  - (ii) the average of the weekly high and low of the closing prices of the shares quoted on the stock exchange during the two weeks preceding the relevant date.

The "relevant date" in this regard has been defined to mean the date 30 days prior to the date on which the meeting of the general body of the shareholders is held, in terms of Section 81 (1A) of the Companies Act to consider the proposed issue of FCCBs.

The aforesaid amendments were in turn notified by the RBI pursuant to its Circular dated 11 September 2005.

## GENERAL INFORMATION

1. The Company is incorporated in India under registration number CIN-L40100GJ1995PLC025447. The Company's registered office is "Suzlon", 5, Shrimali Society, Near Shri Krishna Complex, Navrangpura, Ahmedabad - 380 009, India and its Corporate office is 5th Floor, Godrej Millenium, 9, Koregaon Park Road, Pune - 411 001.
2. The issue of the Bonds and the Shares issuable on conversion of the Bonds was authorised by shareholders of the Company on 28 June 2006. The terms of the offering and the issue of the Bonds were approved by resolution of the Board of Directors passed on 15 May 2006.
3. Approval in-principle has been received from the NSE and the BSE for the listing of the shares issuable upon conversion of the Bond; and approval in-principle for the listing of the Bonds on the SGX-ST has been received. So long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Company shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that a Global Certificate is exchanged for Certificates in definitive form. In addition, in the event that a Global Certificate is exchanged for Certificates in definitive form, announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the Certificates in definitive form, including details of the paying agent in Singapore.
4. Copies of the Memorandum and Articles of Association of the Company and copies of the Trust Deed and the Agency Agreement will be available for inspection during usual business hours on any weekday (except Saturdays and public holidays) at the Company's registered office and at the specified office of the Trustee.
5. Copies in English of the Company's audited annual financial statements as at and for the years ended 31 March 2005, 2006 and 2007, prepared in accordance with Indian GAAP, may be obtained during usual business hours at the office of the Principal Agent subject to provision of such financial statements by the Company to the Principal Agent.
6. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 030206924. The International Securities Identification Number for the Bonds is XS0302069249.
7. The Company has obtained all consents, approvals and authorisations in India required in connection with the issue of the Bonds.
8. There has been no significant change in the financial or trading position of the Company since 31 March 2007 and no material adverse change in the financial position or prospects of the Company since 31 March 2007.
9. Other than already disclosed in this Offering Circular, the Company is not involved in any litigation or arbitration proceedings or any regulatory investigations relating to claims or amounts which are material in the context of the issue of the Bonds or to the Company's results of operations.
10. The consolidated financial statements of the Company as at and for the years ended 31 March 2005, 2006 and 2007 have been audited jointly by SNK & Co., Chartered Accountants and SR Batlibol & Co., Chartered Accountants as stated in their report appearing herein and therein.
11. Subject to the relevant provisions of the Civil Code, submission by the Company to the jurisdiction of the English courts, and the appointment of an agent for service of process, are valid and binding under Indian law. The choice of English law as the governing law, under the laws of India, is a valid choice of law and should be honoured by the courts of India, subject to proof thereof and considerations of public policy.



12. The Trustee is entitled under the Trust Deed to rely without liability to the Bondholders on any certificate prepared by the directors or Authorised Officers (as defined in the Trust Deed) of the Company and accompanied by a certificate or report prepared by the auditors of the Company or an internationally recognised firm of accountants, whether or not addressed to the Trustee, and whether or not the same are subject to any limitation on the liability of that internationally recognised firm of accountants and whether by reference to a monetary cap or otherwise limited or excluded and shall be obliged to do so whether the certificate or report is delivered pursuant to the obligation of the Issuer to procure such delivery under the Conditions; any such certificate or report shall be conclusive and binding on the Issuer, the Trustee and the Bondholders.
13. Further information on the REpower Offer, including the formal offer document, can be obtained on the website of SWG, [www.suzlonwindenergie.com](http://www.suzlonwindenergie.com). Any information contained on the websites, [www.suzlon.com](http://www.suzlon.com) or [www.suzlonwindenergie.com](http://www.suzlonwindenergie.com), is not, and should not be, construed as part of this Offering Circular.

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SNK & Co.  
Chartered Accountants  
111, Nalanda Enclave  
Pritam Nagar Ellisbridge,  
Ahmedabad 380 006

S. R. BATLIBOI & Co.  
Chartered Accountants  
The Metropole  
F-1, 1st Floor  
Bund Garden Road  
Pune 411 001

### Auditors' Report

To  
The Board of Directors of Suzlon Energy Limited

1. We SNK & Co. Chartered Accountants ('SNK') and S.R. Batliboi & Co, Chartered Accountants, ('SRB') have audited the attached consolidated balance sheet of Suzlon Energy Limited ('SEL') and its subsidiaries (together referred to as 'the Group', as described in Schedule O, Note 5) as at March 31, 2005 and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These consolidated financial statements are the responsibility of SEL's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not jointly audit the financial statements of the following companies, whose total revenues and assets to the extent they are included in the consolidated financial statements of the Group are as given below:

Name of the Company	Extent of share in consolidated revenues (%)	Extent of share in consolidated assets (%)
Suzlon Windfarm Services Limited .....	1.14	4.35
Suzlon Green Power Limited .....	0.45	1.10
Suzlon Generators Private Limited.....	0.00	0.70
Suzlon Structures Private Limited .....	0.00	3.49

These financial statements have been audited solely by SNK and have been accepted without verification by SRB and hence our joint audit opinion insofar as it relates to the amounts included in respect of these subsidiaries, is based solely on the report of SNK.

4. We did not audit the financial statements of the following companies, whose total revenues and assets to the extent they are included in the consolidated financial statements of the Group are as given below:

Name of the Company	Extent of share in consolidated revenues (%)	Extent of share in consolidated assets (%)
Suzlon Wind Energy Corporation, USA ('SWECO') (See Note 1 below) .....	0.21	0.00
Suzlon Energy A/S, Denmark (See Note 1 below) ['Suzlon Denmark'] .....	0.01	3.82
Suzlon Energy Australia, Pty Limited (See Note 1 below).....	0.00	0.00
AE Rotor Holdings BV, Netherlands ( See Note 2 below) ['AERH'] .....	0.00	1.03
Suzlon Energy GmbH ['Suzlon GmbH'] .....	0.00	0.62

SNK & Co.  
Chartered Accountants  
111, Nalanda Enclave  
Pritam Nagar Ellisbridge,  
Ahmedabad 380 006

S. R. BATLIBOI & Co.  
Chartered Accountants  
The Metropole  
F-1, 1st Floor  
Bund Garden Road  
Pune 411 001

*Notes:*

1. Upto February 28, 2005, SWECO and Suzlon Energy Australia Pty Limited were direct subsidiaries of SEL. With effect from March 1, 2005, SWECO and Suzlon Energy Australia Pty Limited are direct subsidiaries of Suzlon Denmark. The financial statements of Suzlon Denmark included in the consolidated financial statements of SEL, are the consolidated financial statements and include the financial statements of SWECO (consolidated) and Suzlon Energy Australia Pty Limited with effect from March 1, 2005.
2. The financial statements of AERH include the standalone financial statements of AERH and its subsidiaries AE Rotor Techniek BV and Suzlon Energy BV.

These financial statements have been prepared under the relevant applicable Generally Accepted Accounting Principles ('GAAP') of the Country where the subsidiary is registered. Adjustments have been made to realign the accounting policies of these subsidiaries to those of SEL, which have been reviewed by us jointly for the year ended March 31, 2005.

Further, where the reporting dates of the respective subsidiary is not the same as that of SEL, adjustments have been made for the effect of significant transactions or other events that have occurred between the reporting date of the subsidiary and the date of SEL's financial statements. These significant transactions have been examined and reported upon by the respective auditors and have been relied upon by us.

5. We report that the consolidated financial statements have been prepared by SEL's management in accordance with the requirements of Accounting Standard-21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate financial statements of SEL and its subsidiaries.
6. In our opinion and to the best of our information and according to the explanations given to us, the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India;
  - a) in the case of the Consolidated Balance Sheet, of the state of affairs of the Group as at March 31, 2005;
  - b) in the case of the Consolidated Profit and Loss Account of the profit of the Group for the year ended on that date;
  - c) in the case of the Consolidated Cash Flow Statement of the cash flows of the Group for the year then ended on that date.

**SNK & Co.**  
**Chartered Accountants**

per Jasmin B. Shah  
Partner  
Membership No:46238  
Pune  
June 24, 2005

**S. R. BATLIBOI & Co.**  
**Chartered Accountants**

per Arvind Sethi  
Partner  
Membership No:89802  
Pune  
June 24, 2005

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2005**

All amounts in millions of Rupees unless otherwise stated

Particulars	Schedule	As at 31 March 2004	As at 31 March 2005
<b>I. SOURCES OF FUNDS</b>			
1. <b>Shareholders' Funds</b>			
(a) Share Capital . . . . .	A	393.48	2,019.23
(b) Share Application Money of Subsidiary Company Pending Allotment . . . . .		—	0.50
(c) Reserves and Surplus . . . . .	B	3,490.32	7,023.59
		<u>3,883.80</u>	<u>9,043.32</u>
<b>Preference Shares issued by Subsidiary Company (See Schedule O, Note 6 (c))</b>		30.00	2.97
<b>Minority Interest</b> . . . . .		—	64.48
2. <b>Loan Funds</b>			
(a) Secured Loans . . . . .	C	1,878.55	3,567.18
(b) Unsecured Loans . . . . .	D	505.08	390.93
		<u>2,383.63</u>	<u>3,958.11</u>
<b>Total</b> . . . . .		<u>6,297.43</u>	<u>13,068.88</u>
<b>II. APPLICATION OF FUNDS</b>			
1. <b>Fixed Assets</b> . . . . .	E		
(a) Gross Block . . . . .		1,912.22	3,596.88
(b) Less - Depreciation . . . . .		315.03	807.68
(c) Net Block . . . . .		1,597.19	2,789.20
Capital work in progress . . . . .		124.27	289.40
		<u>1,721.46</u>	<u>3,078.60</u>
2. <b>Investments</b> . . . . .	F	142.74	77.62
3. <b>Deferred Tax Asset (Net)</b> <b>(See Schedule O Note 7)</b> . . . . .		105.29	241.06
4. <b>Current Assets, Loans and Advances</b> . . . . .	G		
(a) Inventories . . . . .		2,211.17	5,755.68
(b) Sundry Debtors . . . . .		3,442.80	6,928.89
(c) Cash and Bank Balances . . . . .		680.64	1,544.64
(d) Loans and Advances . . . . .		1,784.56	3,247.31
		<u>8,119.17</u>	<u>17,476.52</u>
<b>Less: Current Liabilities and Provisions</b> . . . . .	H		
(a) Current Liabilities . . . . .		2,989.76	5,979.97
(b) Provisions . . . . .		803.57	1,829.03
		<u>3,793.33</u>	<u>7,809.00</u>
<b>Net Current Assets</b> . . . . .		4,325.83	9,667.52
5. <b>Miscellaneous Expenditure</b> <b>(to the extent not written off or adjusted)</b> . . . . .	I	2.10	4.09
<b>Total</b> . . . . .		<u>6,297.43</u>	<u>13,068.88</u>
<b>Significant Accounting Policies and Notes to the Consolidated Financial Statements</b> . . . . .	O		

As per our report of even date

For and on behalf of the Board of Directors

**For SNK & Co.**  
Chartered Accountants

**For S. R. BATLIBOI & Co.**  
Chartered Accountants

**Tulsi R. Tanti**  
Chairman & Managing Director

Jasmin B. Shah  
Partner  
M.No. 46238

Arvind Sethi  
Partner  
M.No. 89802

Hemal A. Kanuga Company  
Secretary

Girish R. Tanti  
Director

Place: Pune  
Date: June 24, 2005

Place: Pune  
Date: June 24, 2005

Place: Mumbai  
Date: June 24, 2005

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2005**

All amounts in millions of Rupees unless otherwise stated

Particulars	Schedule	As at 31 March 2004	As at 31 March 2005
<b>INCOME</b>			
Sales and Service Income . . . . .		8,574.99	19,424.82
Other Income . . . . .	J	173.63	234.38
<b>TOTAL</b> . . . . .		<u>8,748.62</u>	<u>19,659.20</u>
<b>EXPENDITURE</b>			
Cost of Goods Sold . . . . .	K	5,541.37	11,376.78
Operating and other Expenses . . . . .	L	1,313.04	2,737.77
Employees' Remuneration and Benefits . . . . .	M	269.37	617.79
Financial Charges . . . . .	N	275.63	458.25
Depreciation . . . . .		136.12	493.25
Preliminary Expenditure Written Off . . . . .		0.87	1.81
		<u>7,536.40</u>	<u>15,685.65</u>
<b>Profit before Tax, Minority Interest and Exceptional Items</b> . . . . .		1,212.22	3,973.55
<b>Add: Exceptional items (See Schedule O, Note 6 (g))</b> . . . . .		266.93	—
<b>Profit before Tax and Minority Interest</b> . . . . .		1,479.15	3,973.55
Current Tax . . . . .		131.74	489.09
Earlier Years' Tax . . . . .		(7.78)	0.63
Deferred Tax . . . . .		(94.05)	(167.41)
		<u>29.91</u>	<u>322.31</u>
<b>Profit before Minority Interest</b> . . . . .		1,449.24	3,651.24
<b>Add: Share of loss of minority</b> . . . . .		-	2.11
<b>Profit after Minority Interest</b> . . . . .		1,449.24	3,653.35
<b>Add: Transferred to Goodwill</b> . . . . .		4.00	—
<b>Profit for the year</b> . . . . .		1,453.24	3,653.35
Balance brought forward . . . . .		2,109.37	2,781.83
<b>Amount Available for Appropriation</b> . . . . .		3,562.61	6,435.18
Interim Dividend on Equity Shares . . . . .		73.04	231.84
Proposed Dividend on Equity Shares . . . . .		170.44	115.92
Dividend on Preference Shares . . . . .		4.80	19.62
Tax on Dividends . . . . .		32.50	51.22
Transfer to General Reserve . . . . .		500.00	1,000.00
		<u>780.78</u>	<u>1,418.60</u>
<b>Balance Carried to Balance Sheet</b> . . . . .		<u>2,781.83</u>	<u>5,016.58</u>
<b>Basic and Diluted Earnings Per Share (Before Exceptional Items)</b> . . . . .		5.38	14.34
<b>Basic and Diluted Earnings Per Share (After Exceptional Items) (Face Value of Rs.10/- each, See Schedule O, Note 10)</b> . . . . .		6.60	14.34

**Significant Accounting Policies and Notes to the Consolidated Financial Statements** . . . . .

O

As per our report of even date

For and on behalf of the Board of Directors

**For SNK & Co.**  
Chartered Accountants

**For S. R. BATLIBOI & Co.**  
Chartered Accountants

**Tulsi R. Tanti**  
Chairman & Managing Director

Jasmin B. Shah  
Partner  
M.No. 46238

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Partner  
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Secretary

Girish R. Tanti  
Director

Place: Pune  
Date: June 24, 2005

Place: Pune  
Date: June 24, 2005

Place: Mumbai  
Date: June 24, 2005

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2005**

All amounts in millions of Rupees unless otherwise stated

Particulars	1 April 2003 to 31 March 2004	1 April 2004 to 31 March 2005
<b>A. Cash flow from operating activities</b>		
<b>Profit before taxation and exceptional items</b> . . . . .	1,212.22	3,973.55
<b>Exceptional Items</b> . . . . .	266.93	—
Adjustments for:		
Depreciation. . . . .	136.12	493.25
Loss on sale of fixed assets. . . . .	6.56	4.78
(Profit)/Loss on sale of investments. . . . .	(5.36)	0.08
Interest Income. . . . .	(138.55)	(181.01)
Dividend Income . . . . .	(3.38)	(3.42)
Interest Expense . . . . .	215.53	352.49
Provision for bad and doubtful debts and advances . . . . .	44.10	93.30
Bad debts written off . . . . .	3.93	—
Adjustments on consolidation . . . . .	—	68.11
Preliminary expenses incurred . . . . .	(0.65)	—
Preliminary expenses written off . . . . .	0.87	1.81
Provision for guarantees and warranties . . . . .	407.85	1,029.14
Wealth Tax. . . . .	0.15	0.14
<b>Operating profit before working capital changes.</b> . . . . .	<b>2,146.32</b>	<b>5,832.22</b>
<b>Movements in working capital:</b>		
Decrease/(Increase) in sundry debtors . . . . .	(1,623.61)	(3,540.87)
Decrease/(Increase) in loans and advances . . . . .	(419.08)	(127.39)
Decrease/(Increase) in inventories. . . . .	(863.61)	(3,414.15)
(Decrease)/Increase in current liabilities and provisions. . . . .	997.74	2,847.13
<b>Cash generated from operations</b> . . . . .	<b>237.77</b>	<b>1,596.94</b>
Direct taxes paid (net of refunds). . . . .	(119.46)	(415.52)
<b>Net cash from operating activities</b> . . . . .	<b>118.31</b>	<b>1,181.42</b>
<b>B. Cash flow from investing activities</b>		
Purchase of fixed assets. . . . .	(914.35)	(1,520.76)
Proceeds from sale of fixed assets . . . . .	2.45	99.07
Preoperative expenses incurred . . . . .	—	(4.77)
Purchase of investments . . . . .	(113.25)	(49.87)
Purchase consideration paid for acquisition of a subsidiary . . . . .	—	(98.10)
Deposits with other companies . . . . .	(181.38)	(1,356.17)
Sale of investments . . . . .	12.45	15.96
Interest received. . . . .	104.99	209.44
Dividends received . . . . .	3.38	3.42
<b>Net cash used in investing activities</b> . . . . .	<b>(1,085.71)</b>	<b>(2,701.78)</b>

Particulars	1 April 2003 to 31 March 2004	1 April 2004 to 31 March 2005
<b>C. Cash flow from financing activities</b>		
Proceeds from issuance of share capital . . . . .	150.00	2,000.00
Share Issue expenses . . . . .	—	(75.73)
Share application money . . . . .	—	0.50
Redemption of preference share capital. . . . .	(10.25)	—
Proceeds from long term borrowings . . . . .	1,528.65	3,416.33
Repayment of long term borrowings. . . . .	(212.35)	(2,144.08)
Interest Paid . . . . .	(212.83)	(347.59)
Dividends Paid . . . . .	(154.91)	(465.06)
<b>Net cash from financing activities . . . . .</b>	<b>1,088.31</b>	<b>2,384.37</b>
<b>Net Increase in cash and cash equivalents (A+B+C) . . . . .</b>	<b>120.91</b>	<b>864.00</b>
<b>Cash and cash equivalents at the beginning of the year . . . . .</b>	<b>559.73</b>	<b>680.64</b>
<b>Cash and cash equivalents at the end of the year . . . . .</b>	<b>680.64</b>	<b>1,544.64</b>
<b>Components of cash and cash equivalents as at Cash and cheques on hand. . .</b>	<b>1.60</b>	<b>6.39</b>
<b>With scheduled banks</b>		
- on current account . . . . .	181.32	195.53
- on deposit account . . . . .	439.88	804.44
<b>With non-scheduled banks . . . . .</b>	<b>57.84</b>	<b>538.28</b>

*Notes:*

- 1) Purchase of fixed assets include payments for items in capital work in progress and advances for purchase of fixed assets.
- 2) Previous years figures have been regrouped/reclassified wherever necessary to confirm to current years presentation.

As per our report of even date

For and on behalf of the Board of Directors

**For SNK & Co.**  
**Chartered Accountants**

**For S. R. BATLIBOI & Co.**  
**Chartered Accountants**

**Tulsi R. Tanti**  
**Chairman & Managing Director**

Jasmin B. Shah  
Partner  
M.No. 46238

Arvind Sethi  
Partner  
M.No. 89802

Hemal A. Kanuga Company  
Secretary

Girish R. Tanti  
Director

Place: Pune  
Date: June 24, 2005

Place: Pune  
Date: June 24, 2005

Place: Mumbai  
Date: June 24, 2005



**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules Annexed to and Forming Part of the Consolidated Balance Sheet**

	<u>As at</u> <u>31 March 2004</u>	<u>As at</u> <u>31 March 2005</u>
<b>SCHEDULE - A: SHARE CAPITAL</b>		
<b>Authorised</b>		
101,000,000 (30,000,000) Equity Shares of Rs.10 each . . . . .	300.00	1,010.00
11,500,000 (2,000,000) Preference Shares of Rs.100 each. . . . .	200.00	1,150.00
	<u>500.00</u>	<u>2,160.00</u>
<b>Issued, Subscribed</b>		
<b>Equity</b>		
86,922,900 (24,347,800) Equity Shares of Rs.10 each fully paid up (of the above Equity Shares 78,009,500 (20,060,900) shares were allotted as fully paid Bonus Shares by utilisation of Rs.190.36 (190.36) millions from General Reserve, Rs.10.25 millions (10.25 millions) from Capital Redemption Reserve and Rs.579.49 (Nil) millions from Securities Premium Account). . . . .	243.48	869.23
<b>Preference</b>		
1,500,000 (1,500,000) 10% Cumulative Redeemable Preference Shares of Rs.100 each fully paid up [See Schedule O, Note 6 (b)(i)] . . . . .	150.00	150.00
10,000,000 (Nil) 0.01% Cumulative Redeemable Preference Shares of Rs.100 each fully paid up [See Schedule O, Note 6 (b)(ii)] . . . . .	—	1,000.00
	<u>393.48</u>	<u>2,019.23</u>
<b>SCHEDULE - B: RESERVES AND SURPLUS</b>		
<b>Capital Redemption Reserve</b>		
Transfer from General Reserve as on 1 April 2003. . . . .	10.25	—
<b>Less:</b> Capitalisation by way of Issue of Bonus Shares . . . . .	<u>10.25</u>	<u>—</u>
	—	—
<b>Securities Premium Account</b>		
As per last Balance Sheet . . . . .	—	—
<b>Add:</b> Addition during the year . . . . .	—	953.74
<b>Less:</b> Capitalisation by way of Issue of Bonus Shares . . . . .	—	579.49
<b>Less:</b> Share Issue Expenses . . . . .	—	75.73
	<u>—</u>	<u>298.52</u>
	—	298.52
<b>General Reserve</b>		
As per last Balance Sheet . . . . .	330.23	708.49
<b>Add :</b> Transfer from consolidated Profit and Loss Account . . . . .	500.00	1,000.00
	<u>830.23</u>	<u>1,708.49</u>
	830.23	1,708.49
<b>Less:</b> Transfer to Capital Redemption Reserve . . . . .	10.25	—
<b>Less:</b> Capitalisation by way of Issue of Bonus Shares . . . . .	111.49	—
	<u>708.49</u>	<u>1,708.49</u>
	708.49	1,708.49
<b>Profit and Loss Account</b> . . . . .	2,781.83	5,016.58
	<u>3,490.32</u>	<u>7,023.59</u>
	3,490.32	7,023.59

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules Annexed to and Forming Part of the Consolidated Balance Sheet**

	<u>As at</u> <u>31 March 2004</u>	<u>As at</u> <u>31 March 2005</u>
<b>SCHEDULE - C: SECURED LOANS</b>		
<b>Term Loans</b>		
From Banks and Financial Institutions [See Schedule O Note 6 (d)(i)] . . . . .	759.97	811.43
From Others [See Schedule O Note 6 (d)(ii)]. . . . .	<u>250.00</u>	<u>531.23</u>
	1,009.97	1,342.66
<b>Working Capital Facilities from Banks and Financial Institutions</b>		
Rupee Loans [See Schedule O Note 6 (d)(iii)] . . . . .	863.05	2,080.28
Foreign Currency Loans [See Schedule O Note 6 (d)(iii)] . . . . .	<u>0.77</u>	<u>133.04</u>
	863.82	2,213.32
<b>Vehicle Loans</b> (Secured against hypothecation of vehicles) . . . . .	<u>4.76</u>	<u>11.20</u>
	<u>1,878.55</u>	<u>3,567.18</u>
<b>SCHEDULE - D: UNSECURED LOANS</b>		
<b>Long Term</b>		
From other than banks. . . . .	215.72	390.93
Due within one year Rs.83.70 millions (Rs.43.56 millions)		
<b>Short Term</b>		
From Banks . . . . .	75.00	—
From Others . . . . .	<u>214.36</u>	<u>—</u>
	<u>505.08</u>	<u>390.93</u>

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules Annexed to and Forming Part of the Consolidated Balance Sheet**

**SCHEDULE - E: Fixed Assets**

Assets	Gross Block				Depreciation			Net Block		
	As at 1 April 2004	Additions	Deductions/ Adjustments	As at 31 March 2005	As at 1 April 2004	For the Year	Deductions/ Adjustments	As at 31 March 2005	As at 31 March 2005	As at 31 March 2004
Rupees in Millions										
Goodwill on										
Consolidation . . . .	10.95	1.77	—	12.72	1.10	1.27	—	2.37	10.35	9.85
Freehold Land . . . . .	47.44	80.36	—	127.80	—	—	—	—	127.80	47.44
Leasehold Land . . . . .	10.93	0.86	—	11.79	0.12	0.67	(0.04)	0.83	10.96	10.81
Building - Factory and Office . . . . .	680.24	310.41	13.36	977.29	53.83	64.33	(11.88)	130.04	847.25	626.41
Plant and Machinery . . . . .	821.44	1,008.07	40.41	1,789.10	151.03	300.91	12.61	439.33	1,349.77	670.41
Wind Research and Measuring Equipment . . . . .	62.66	25.40	8.32	79.74	12.52	44.10	7.88	48.74	31.00	50.14
Computer and Office Equipments . . . . .	106.00	163.33	0.24	269.09	42.47	41.61	(5.84)	89.92	179.17	63.53
Furniture and Fixtures . . . . .	67.12	48.55	0.06	115.61	24.20	17.91	(2.76)	44.87	70.74	42.92
Vehicles - Motor Cars and Trucks . . . . .	50.70	25.10	17.80	58.00	19.95	10.99	4.34	26.60	31.40	30.75
Intangible Assets . . . . .				—				—		—
- Design and Drawings . . . . .	54.74	57.93	22.57	90.10	9.81	6.28	4.24	11.85	78.25	44.93
- Software . . . . .	—	65.64	—	65.64	—	13.13	—	13.13	52.51	—
<b>Total . . . . .</b>	<b>1,912.22</b>	<b>1,787.42</b>	<b>102.76</b>	<b>3,596.88</b>	<b>315.03</b>	<b>501.20</b>	<b>8.55</b>	<b>807.68</b>	<b>2,789.20</b>	<b>1,597.19</b>
Capital Work-in- Progress . . . . .									289.40	124.27
<b>Total . . . . .</b>	<b>1,912.22</b>	<b>1,787.42</b>	<b>102.76</b>	<b>3,596.88</b>	<b>315.03</b>	<b>501.20</b>	<b>8.55</b>	<b>807.68</b>	<b>3,078.60</b>	<b>1,721.46</b>
Previous Year . . . . .	1,108.36	817.52	13.66	1,912.22	183.57	136.12	4.66	315.03	1,597.19	924.78

**Notes:**

1. Out of the depreciation charge for the year amounting to Rs.501.20 (Rs.136.12) millions, approximately Rs.7.95 (Rs.Nil) millions has been capitalised as part of self manufactured assets. The depreciation charge in the profit and loss account amounting to Rs.493.25 (Rs.136.12 ) millions is the net off amount capitalised.
2. Balances of buildings include Rs.10.79 (Rs.Nil) millions for which the transfer of property in the name of the Company is pending.
3. An amount of Rs.2.21 millions (Rs.1.18 millions) towards change in rupee liability consequent to the realignment of rupee value in terms of foreign currency values has been adjusted to the cost of fixed assets/capital work-in-progress, as required by Schedule VI to the Companies Act, 1956.
4. Depreciation cost amounting to Rs.0.66 Millions (Rs.Nil) being preoperative in nature has been added to preoperative expenses and capitalised to the operational assets.

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules Annexed to and Forming Part of the Consolidated Balance Sheet**

	<u>As at</u> <u>31 March 2004</u>	<u>As at</u> <u>31 March 2005</u>
<b>SCHEDULE - F : INVESTMENTS</b>		
<b>Long Term Investments (At cost)</b>		
<b>Unquoted</b>		
<b>(i) Government and Other Securities (Non-Trade)</b>		
Security deposited with Government Departments. . . . .	0.11	0.31
<b>(ii) Trade Investments</b>		
Nil (93,000) 13% Cumulative Redeemable Preference Shares of Rs.100 each of Suzlon Windfarm Services Ltd. . . . .	9.30	—
Nil (9,00,000) 10% Cumulative Redeemable Preference Shares of Rs.100 each of Suzlon Windfarm Services Ltd. . . . .	90.00	—
65,000 (65,000) 13% Cumulative Redeemable Preference Shares of Rs.100 each of Suzlon Developers Ltd. . . . .	6.50	6.50
99,999 (99,999) 13% Cumulative Redeemable Preference Shares of Rs.100 each of Sarjan Realities Ltd. . . . .	10.00	10.00
500,000 (Nil) 10% Cumulative Redeemable Preference Shares of Rs.100 each of Suzlon Developers Limited . . . . .	—	50.00
	<u>115.80</u>	<u>66.50</u>
<b>(iii) Other than Trade Investments</b>		
202,900 (202,900) Equity Shares of Rs.10 each of Suzlon Hotels Ltd. . . . .	2.03	2.03
87,000 (87,000) 13% Cumulative Redeemable Preference Shares of Rs.100 each of Suzlon Hotels Ltd. . . . .	8.70	8.70
Nil (484) 11.70% Secured Redeemable Non-Convertible Regular Return Bonds of Rs.5,000 each of Krishna Bhagya Jala Nigam Ltd. . . . .	2.42	—
Nil (100) 11% Bonds of series 2003A of Rs.100,000 each of Maharashtra Krishna Valley Development Corporation . . . . .	10.00	—
7,550 (5,050) Equity Shares of Saraswat Co-op. Bank Ltd. of Rs.10 each fully paid . . . . .	0.05	0.08
	<u>23.20</u>	<u>10.81</u>
<b>Total - Unquoted</b> . . . . .	<u>139.11</u>	<u>77.62</u>
<b>Quoted</b>		
<b>Fully Paid Equity Shares</b>		
Nil (1,755,600) Shares of Rs.10 each of SNS Textiles Limited . . . . .	26.35	—
Nil (20,000) Shares of Rs.10 each of IDBI Bank Ltd. . . . .	0.40	—
Nil (2,500) Shares of Rs.10 each of Elbee Sevcies Ltd. . . . .	0.67	—
Nil (300) Shares of Rs.10 each of GTL Ltd. . . . .	0.43	—
Nil (3,500) Shares of Rs.10 each of Vkrangi Software Ltd. . . . .	1.49	—
Nil (5000) Shares of Rs.10 each of Integrated Hitech Ltd. . . . .	0.22	—
	<u>29.56</u>	—
<b>Partly Paid Equity Shares</b>		
Nil (1,300) Equity Shares of Rs.10, Rs.5 paid up each of SNS Textiles Limited . .	0.01	—
<b>Total-Quoted</b> . . . . .	<u>29.57</u>	—
<b>Total Investments</b> . . . . .	<u>168.68</u>	<u>77.62</u>
Less: Provision for Diminution in Investments . . . . .	25.94	—
	<u>142.74</u>	<u>77.62</u>
<b>Aggregate cost of unquoted investments</b> . . . . .		
	139.11	77.62
<b>Aggregate cost of quoted investments</b> . . . . .		
	3.63	—
	<u>142.74</u>	<u>77.62</u>
<b>Aggregate market value of quoted investments</b> . . . . .		
	<u>3.67</u>	—

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules Annexed to and Forming Part of the Consolidated Balance Sheet**

	<u>As at</u> <u>31 March 2004</u>	<u>As at</u> <u>31 March 2005</u>
<b>SCHEDULE - G: CURRENT ASSETS, LOANS AND ADVANCES</b>		
<b>Current Assets</b>		
<b>Inventories</b>		
Raw Materials [Including Goods-in-transit Rs.1,075.52 millions (Rs.528.40 millions)] . . . . .	1,703.66	4,591.32
Semi Finished Goods and Work-in-Progress . . . . .	303.68	1,028.67
Finished Goods . . . . .	192.96	31.00
Land and Land Lease Rights . . . . .	10.87	104.69
	<u>2,211.17</u>	<u>5,755.68</u>
<b>Sundry Debtors (Unsecured)</b>		
Outstanding for a period exceeding six months		
- Considered Good (See Schedule O, Note 6 (h)) . . . . .	1,595.80	1,086.15
- Considered Doubtful . . . . .	4.10	103.88
	<u>1,599.90</u>	<u>1,190.03</u>
Others, Considered Good . . . . .	1,847.00	5,842.74
	<u>3,446.90</u>	<u>7,032.77</u>
Less: Provision for doubtful debts . . . . .	4.10	103.88
	<u>3,442.80</u>	<u>6,928.89</u>
<b>Cash and Bank Balances</b>		
Cash on hand . . . . .	1.60	6.39
Balances with Scheduled Banks		
- in Current Accounts . . . . .	181.32	195.53
- in Term Deposit Accounts . . . . .	439.88	804.44
	<u>621.20</u>	<u>999.97</u>
Balances with Non Scheduled Banks in Current Accounts . . . . .	57.84	538.28
	<u>680.64</u>	<u>1,544.64</u>
<b>Loans and Advances (Unsecured and considered good, except otherwise stated)</b>		
<b>Deposits</b>		
- With Customers as Security Deposit . . . . .	488.55	325.77
- Others . . . . .	33.48	78.98
Advance Income Tax . . . . .	14.02	7.41
Advances recoverable in cash or in kind or for value to be received*		
- Considered Good . . . . .	1,248.51	2,835.15
- Considered Doubtful . . . . .	40.00	33.51
	<u>1,824.56</u>	<u>3,280.82</u>
Less: Provision for doubtful loans and advances . . . . .	40.00	33.51
	<u>1,784.56</u>	<u>3,247.31</u>
* Advances include (a) Rs.4.25 millions (Rs.3.61 millions) towards Share Application Money pending allotment and (b) Inter Corporate Deposits of Rs.1,886.35 millions (Rs.530.17 millions)	<u>8,119.17</u>	<u>17,476.52</u>

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules Annexed to and Forming Part of the Consolidated Balance Sheet**

	<u>As at</u> <u>31 March 2004</u>	<u>As at</u> <u>31 March 2005</u>
<b>SCHEDULE - H: CURRENT LIABILITIES AND PROVISIONS</b>		
<b>Current Liabilities</b>		
Sundry Creditors . . . . .	2,505.82	4,591.25
Acceptances . . . . .	106.86	614.55
Other Current Liabilities . . . . .	176.85	379.66
Interest accrued but not due . . . . .	2.70	7.60
Advances from Customers . . . . .	<u>197.53</u>	<u>386.91</u>
	2,989.76	5,979.97
<b>Provisions</b>		
For Wealth Tax . . . . .	0.15	0.14
For Income tax (net) . . . . .	3.05	70.78
Gratuity, Superannuation and Leave Encashment . . . . .	1.93	10.04
Generation Guarantee, LD and O & M Warranty . . . . .	600.07	1,596.16
For Dividend . . . . .	175.24	131.00
For Tax on Dividend . . . . .	<u>23.13</u>	<u>20.91</u>
	803.57	1,829.03
	<u>3,793.33</u>	<u>7,809.00</u>

**SCHEDULE - I MISCELLANEOUS EXPENDITURE** (To the extent not adjusted or written off)

<b>Preliminary Expenses</b>		
Opening Balance . . . . .	2.32	2.11
Addition during the year . . . . .	0.65	3.79
<b>Less:</b> Written off during the year . . . . .	<u>0.87</u>	<u>1.81</u>
	<u>2.10</u>	<u>4.09</u>

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules annexed to and forming part of the Consolidated Profit and Loss Account**

	2003-04	2004-05
<b>SCHEDULE - J: OTHER INCOME</b>		
Interest Received		
From Banks . . . . .	18.39	35.41
From Others . . . . .	120.16	145.60
Dividends . . . . .	3.38	3.42
Profit on sale of Investments, net . . . . .	5.36	—
Excess Provisions written back . . . . .	—	3.00
Sales of Sales Tax Entitlement . . . . .	22.13	29.91
Infrastructure Development Income . . . . .	—	1.02
Miscellaneous Income . . . . .	4.21	16.02
	<u>173.63</u>	<u>234.38</u>
 <b>SCHEDULE - K: COST OF GOODS SOLD</b>		
<b>Consumption of Raw Materials:</b>		
Opening Stock . . . . .	770.22	1,703.66
<b>Add: Purchases</b> . . . . .	<b>5,764.33</b>	<b>14,760.63</b>
	6,534.55	16,464.29
Less: Closing Stock . . . . .	1,703.66	4,591.32
	4,830.89	11,872.97
<b>Trading Purchases</b> . . . . .	<b>640.65</b>	<b>160.66</b>
	<u>5,471.54</u>	<u>12,033.63</u>
 <b>(Increase)/Decrease in Stocks</b>		
<b>Stock in Trade (Opening Balance)</b>		
Semi Finished Goods and Work-in-Progress . . . . .	82.16	303.68
Finished Goods . . . . .	492.53	192.96
Land and Land Lease Rights . . . . .	2.65	10.87
	577.34	507.51
<b>Stock in Trade (Closing Balance)</b>		
Semi Finished Goods and Work-in-Progress . . . . .	303.68	1,028.67
Finished Goods . . . . .	192.96	31.00
Land and Land Lease Rights . . . . .	10.87	104.69
	507.51	1,164.36
(Increase)/Decrease in Stocks . . . . .	69.83	(656.85)
	<u>5,541.37</u>	<u>11,376.78</u>

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules annexed to and forming part of the Consolidated Profit and Loss Account**

	<b>2003-04</b>	<b>2004-05</b>
<b>SCHEDULE - L : OPERATING AND OTHER EXPENSES</b>		
Stores and Spares . . . . .	34.91	70.13
Power and Fuel . . . . .	6.44	12.53
Factory Expenses . . . . .	18.05	25.76
Repairs and Maintenance		
Plant and Machinery . . . . .	5.20	4.54
Building . . . . .	3.08	14.70
Others . . . . .	1.15	17.21
WTG O & M and Modification Charges . . . . .	51.48	103.07
Other Manufacturing and Operating Expenses . . . . .	0.97	3.88
Operating Lease Charges . . . . .	0.95	—
Quality Assurance Expenses . . . . .	15.59	86.02
R & D, Certification and Product Development . . . . .	54.22	33.99
Rent . . . . .	15.45	49.81
Rates and Taxes . . . . .	2.56	6.57
Provision for Maintenance Warranty and Guarantee Expenses . . . . .	407.85	1,029.14
Insurance . . . . .	15.69	31.10
Advertisement and Sales Promotion . . . . .	56.10	60.95
Infrastructure Development Expenses . . . . .	17.37	146.32
Freight Outward and Packing Expenses . . . . .	148.46	245.93
Sales Commission . . . . .	92.88	97.78
Travelling, Conveyance and Vehicle Expenses . . . . .	87.97	160.21
Communication Expenses . . . . .	17.14	26.57
Auditors' Remuneration . . . . .	1.28	12.59
Consultancy Charges . . . . .	50.54	78.65
Charity and Donations . . . . .	15.91	51.73
Other Selling and Administrative Expenses . . . . .	143.28	233.94
Exchange Differences, net . . . . .	(6.07)	36.49
Bad debts written off . . . . .	3.93	—
Provision for doubtful debts and advances . . . . .	44.10	93.30
Loss on sale of Investment . . . . .	—	0.08
Loss on Assets Sold/Discarded, net . . . . .	6.56	4.78
	<u>1,313.04</u>	<u>2,737.77</u>
 <b>SCHEDULE - M: EMPLOYEES' REMUNERATION AND BENEFITS</b>		
Salaries, Wages, Allowances and Bonus . . . . .	248.55	550.79
Contribution to Provident and Other Funds . . . . .	10.53	22.35
Staff Welfare Expenses . . . . .	10.29	44.65
	<u>269.37</u>	<u>617.79</u>
 <b>SCHEDULE - N: FINANCIAL CHARGES</b>		
Interest . . . . .		
Fixed Loans . . . . .	95.46	120.17
Others . . . . .	120.07	232.32
Bank Charges . . . . .	60.10	105.76
	<u>275.63</u>	<u>458.25</u>



## SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES

### SCHEDULE O: SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF SUZLON FOR THE FINANCIAL YEAR ENDED 31 MARCH 2005 (All amounts in Millions of Rupees unless otherwise stated)

#### 1. Basis Of Preparation Of Consolidated Financial Statements

The accompanying consolidated financial statements are prepared under the historical cost convention, on an accrual basis of accounting in conformity with accounting principles generally accepted in India, to reflect the financial position of the Company and its subsidiaries.

#### 2. Principles Of Consolidation

The consolidated financial statements relate to Suzlon Energy Limited ('the Company') and its subsidiaries (together referred to as 'Suzlon'). The consolidated financial statements have been prepared on the following basis:

- a) The financial statements of the Company and its subsidiaries have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra group balances and intra group transactions. The unrealised profits or losses resulting from the intra group transactions have been eliminated as per Accounting Standard 21 – Consolidated Financial Statements issued by the Institute of Chartered Accountants of India ('ICAI').
- b) The excess of the cost to the Company of its investment in the subsidiaries over the Company's portion of equity on the acquisition date is recognised in the financial statements as Goodwill. The Company's portion of the equity in the subsidiaries at the date of acquisition is determined after realigning the material accounting policies of the subsidiaries to that of the parent and adjusting the charge/(reversal) on account of realignment to the accumulated reserves and surplus of the subsidiaries at the date of acquisition.
- c) The Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and necessary adjustments required for deviations, if any, are made in the consolidated financial statements and are presented in the same manner as the Company's standalone financial statements.

#### 3. Significant Accounting Policies

##### a) *Use of Estimates*

The presentation of Financial Statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that may affect the reported amount of assets and liabilities and disclosures relating to contingent liabilities as at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

##### b) *Revenue Recognition*

###### Sale of goods

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of the goods are transferred to the customer, as per the terms of the respective sales order.

###### Power Generation Income

Power Generation Income is recognised on the basis of electrical units generated, net of wheeling and transmission loss, as applicable, as shown in the Power Generation Reports issued by the concerned authorities.

###### Sales Tax Entitlement

Revenues on account of sale of Sales Tax Entitlement Certificates are recognised as per the terms of agreement/arrangement with the concerned parties.

###### Service and Maintenance Income

Revenue from annual service and maintenance contracts is recognised on the proportionate basis for the period for which the service is provided net of taxes.

###### Lease Rental Income

Lease rental income is recognised on accrual basis taking into consideration the data and facts available upon which the computation of lease rent depends.

###### Interest

Interest income is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable. In case of interest charged to customers, interest is accounted for on availability of documentary evidence that the customer has accepted the liability.

## Dividend

Dividend income from investments is recognised when the right to receive payment is established.

### c) *Fixed Assets*

Fixed assets are stated at cost, less accumulated depreciation and impairment losses. Cost includes all expenditure necessary to bring the asset to its working condition for its intended use. Own manufactured assets are capitalised inclusive of all direct costs and attributable overheads. Capital Work in Progress comprises of advances paid to acquire fixed assets and the cost of fixed assets that are not yet ready for their intended use as at the balance sheet date. In the case of new undertaking, pre-operative expenses are capitalised upon the commencement of commercial production.

The carrying amount of the assets belonging to each cash generating unit ('CGU') are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying amounts exceed the recoverable amount of the assets' CGU, assets are written down to their recoverable amount. Further, assets held for disposal are stated at the lower of the net book value or the estimated net realisable value.

### d) *Intangible Assets*

#### Research and Development Costs

Development cost incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Any expenditure carried forward is amortised over the period of expected future sales from the related project, not exceeding five years.

The carrying value of development costs is reviewed for impairment annually when the asset is not in use, and otherwise when events and changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets are recorded at the consideration paid for their acquisition. Cost of an internally generated asset comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and making the asset ready for its intended use.

### e) *Depreciation/Amortisation*

Depreciation/Amortisation is provided on the written down value method ('WDV') unless otherwise mentioned, pro-rata to the period of use of assets and is based on management's estimate, of useful lives of the fixed assets or at rates specified in Schedule XIV to the Companies Act 1956 ('the Act'), whichever is higher:

<b>Type of asset</b>	<b>Rate</b>
Goodwill . . . . .	Amortised on a straight line basis over a period of ten years
Leasehold land . . . . .	Amortised over the period of lease
Office building . . . . .	5%
Factory building. . . . .	10%
Plant and machinery	
- Single Shift . . . . .	13.91%
- Double Shift . . . . .	20.87%
- Triple Shift . . . . .	27.82%
Wind Mills . . . . .	15.33%
Moulds . . . . .	13.91% or Useful life based on usage
Patterns . . . . .	30% or Useful life based on usage
Wind research and measuring . . . . .	50%
Equipment	
Computers and software . . . . .	40%
Office equipment . . . . .	13.91%
Furniture and fixture. . . . .	18.10%
Motor car and Others . . . . .	25.89%
Trailers . . . . .	30%
Intangible Assets . . . . .	Amortised on a straight line basis over a period of five years

### f) *Inventories*

Inventories of raw materials, semi-finished goods, work in progress and finished goods are valued at the lower of cost and estimated net realisable value. Cost is determined on a first-in-first-out basis.

The cost of work-in-progress, semi-finished goods and finished goods includes the cost of material, labour and manufacturing overheads.

Inventories of traded goods are stated at the lower of the cost and net realisable value.

Stock of land and land lease rights is valued at lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is determined by management using technical estimates.

g) *Investments*

Long Term Investments are carried at cost. However, provision is made to recognise a decline, other than temporary, in the value of long term investments.

Current investments are carried at lower of cost and fair value, determined on an individual basis.

h) *Foreign currency transactions*

Transactions in foreign currencies are normally recorded at the average exchange rate prevailing in the month during which the transaction occurred. Outstanding balances of foreign currency monetary items are reported using the closing rate.

Non-monetary items carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rate that existed when the values were determined.

Exchange differences arising as a result of the above are recognised as income or expense in the Profit and Loss Account, except in case of liabilities incurred for acquiring imported fixed assets, where the differences are adjusted to the carrying amount of such fixed assets in compliance with the Schedule VI of the Act.

In case of forward contracts, the difference between the forward rate and the exchange rate, being the premium or discount, at the inception of a forward exchange contract is recognised as income or expense over the life of the contract. Exchange differences on such contracts are recognised in the profit and loss account in the reporting period in which the rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the period.

The financial statements of integral foreign operations are translated as if the transactions of the foreign operations have been those of the Company itself. In case of the Foreign Subsidiaries, revenue items are consolidated at the average rate prevailing during the year. All the monetary assets and liabilities are converted at the rates prevailing at the end of the year. Non- monetary items like Fixed Assets and Inventories, are converted at the average rate prevailing in the month during which the transaction occurred.

i) *Borrowing Costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of such assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to revenue.

j) *Retirement and other employee benefits*

Defined Contributions to provident fund and family pension fund are charged to the Profit and Loss Account on accrual basis and paid to the relevant authorities.

Liabilities with regard to gratuity, where applicable, are determined under Group Gratuity Scheme with Life Insurance Corporation of India (LIC) and the provision required is determined as per actuarial valuation carried out by LIC, as at the balance sheet date.

Contributions to Superannuation fund with LIC through its employees' trust are charged to the profit and loss account on an accrual basis.

The provision in the books for leave lying to the credit of employees, subject to the maximum period of leave, are made on the basis of actuarial valuation as at the balance sheet date.

k) *Provisions, Contingent Liabilities and Contingent Assets*

A provision is recognised when there is a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to their present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Contingent Liabilities are disclosed by way of notes to the accounts. Contingent assets are not recognised.

l) *Income Tax*

Tax expense for a year comprises of current tax and deferred tax. Current tax is measured after taking into consideration deductions and exemptions admissible under the provisions of applicable laws.

Deferred tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates

and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets arising on account of unabsorbed depreciation or losses under tax laws are recognised only when there is a virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Deferred tax resulting from timing differences which originate during the tax holiday period but reverse after tax holiday period is recognised in the year in which the timing differences originate using the tax rates and laws enacted or substantively enacted by the balance sheet date.

m) *Lease Assets*

Operating Leases

Assets acquired as leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Lease rentals are charged off to the Profit and Loss Account as incurred.

Initial direct costs in respect of assets given on lease are expensed off in the year in which such costs are incurred.

n) *Earnings Per Share*

Basic earnings per share are calculated by dividing the net profit for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period are adjusted for any bonus shares issued during the year and also after the balance sheet date but before the date the financial statements are approved by the Board of Directors.

For the purpose of calculating diluted earnings per share, the net profit for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

The number of equity shares and potentially dilutive equity shares are adjusted for bonus shares as appropriate.

**4. Changes In Accounting Policies/Estimates**

(i) During the current year, the Company has changed its basis for providing for the power generation guarantee from the erstwhile fixed amount per WTG per year to an amount considering various technical factors like wind velocity, grid availability, plant load factor, load shedding, historical data etc. Due to this change in the basis of making the estimate, the Provision for Generation Guarantee expenses for the year is higher by Rs.147.44 Millions and the profit before tax for the year is lower by the same amount.

(ii) During the current period, the Company has reassessed the estimated useful lives of certain fixed assets like moulds and patterns as well as the obsolescence rate of certain fixed assets due to rapid changes in technology. This reassessment has been factored in changes in the depreciation rates, done through a process of re-estimating the economic useful life of these assets. Due to this change the depreciation for the year is higher by Rs.114.10 Millions and the profit for the year before tax is lower by the same amount.

5. The list of Subsidiary Companies which are included in the consolidation and the Company's effective holdings therein are as under:

Name of the Subsidiary	Country of Incorporation	Effective Ownership in Subsidiaries	
		2003-04	2004-05
AE Rotor Holding BV . . . . .	Netherlands	100%	100%
AE Rotor Techniek BV . . . . .	Netherlands	100%	100%
Suzlon Energy BV . . . . .	Netherlands	100%	100%
Suzlon Energy A/S . . . . .	Denmark	Nil	100%
Suzlon Wind Energy Corporation . . . . .	USA	100%	100%
Cannon Ball Wind Energy Park . . . . .	USA	100%	100%
Suzlon Energy Australia Pty. Ltd.. . . . .	Australia	100%	100%
Suzlon Energy GmbH . . . . .	Germany	100%	100%
Suzlon Windfarm Services Ltd . . . . .	India	Nil	100%
Suzlon Green Power Limited . . . . .	India	100%	100%
Suzlon Generators Pvt. Ltd. . . . .	India	Nil	74.91%
Suzlon Structures Pvt. Ltd.. . . . .	India	Nil	75%

## 6. Other Notes

- a) Share issue expenses include expenditure on issue of equity and preference shares amounting to Rs.75.73 (Rs.Nil) Millions.
- b) Terms of redemption/conversion of preference shares of the Company.
- (i) 1,500,000, 10% Cumulative Redeemable Preference shares of Rs.100/- each fully paid are redeemable at par after one year from 10 March 2004, which is the date of allotment, at the option of the company or the preference shareholders as the case may be.
- (ii) 10,000,000 Cumulative Redeemable Preference Shares of Rs.100/- each fully paid up carry dividend @ 0.01% p.a. till March, 2007 and 4% p.a. thereafter till the date of redemption i.e. 1 January 2012. These shares will be either compulsorily redeemed at par if an Initial Public Offering of the Company occurs before December 31, 2005 or shall be converted into equity shares of the Company at the option of the preference shareholders after December 31, 2005 but before December 31, 2006 at Rs.525/- per equity share or after December 31, 2006 but before 1 January 2012, at Rs.260/- per equity share.
- c) 29,700 8% Cumulative Redeemable Preference Shares of Rs.100/-each fully paid of Suzlon Structures Private Limited ("SSPL") are redeemable at par after one year from 29 March 2005, which is the date of allotment, at the option of the company or of the preference shareholders as the case may be. This portion represents the holding by the external shareholders of SSPL only, other than the Holding Company.
- d) The details of security for the Secured Loans in Consolidated Financial Statements are as follows: -
- (i) Term Loans from Banks and Financial Institutions
- Rs.153.76 Millions (Rs.607.29 Millions) secured by a first charge on certain immovable and/or movable fixed assets, second charge on current assets and/or personal guarantees of directors in certain cases,
  - Rs.174.14 Millions (Rs.Nil) secured by way of charge on certain WTG's and land appurtenant thereto and personnel guarantee of director
  - Rs.82.62 Millions (Rs.152.67 Millions) secured by way of Hypothecation of certain Windfarm Projects and Mortgage of Land.
  - Rs.14.86 Millions (Rs.Nil) secured by charge on certain WTG's and Land and Personal Guarantee of Director.
  - Rs.67.17 Millions (Rs.Nil) secured by way of hypothecation of stock and debtors and on specific receivables
  - Rs.281.34 Millions (Rs.Nil) secured by way of First Charge on certain immovable and moveable Fixed Assets, second charge on current assets and personal guarantee of directors.
  - Rs.37.54 Millions (Rs.Nil) Secured by way of hypothecation of certain windfarm projects and mortgage of land.
- (ii) Term Loans from Others:
- Secured by a first charge on certain immovable and movable fixed assets, specific security deposits, book-debts, second charge on current assets and personal guarantees of directors in certain cases.
- (iii) Working Capital Facilities from Banks and Financial Institutions
- Rupee Loans
- Rs.2028.50 Millions (Rs.863.05 Millions) Secured by hypothecation of inventories, book-debts and other current assets of the Company, both present and future, first charge on certain immovable fixed assets, second charge on all other immovable fixed assets and personal guarantees of directors in certain cases
  - Rs.51.78 Millions (Rs.Nil) Secured by way of hypothecation of inventories, book debts and other current assets of the Company, both present and future, second charge on all other immovable fixed assets and personal guarantee of Director.
- Foreign Currency Loans
- Rs.130.93 Millions (Rs.Nil) Secured by hypothecation of inventories, book-debts and other current assets of the Company, both present and future, first charge on certain immovable fixed assets, second charge on all other immovable fixed assets and personal guarantees of directors in certain cases
  - Rs.0.29 Millions (Rs.0.77 Millions) is secured by way of pledge of Certificate of deposits.
  - Rs.1.82 Millions (Rs.Nil) is secured by way of mortgage of office building at Pipestone, USA.

Further out of the above, term Loans from banks and financial institutions amounting to Rs.624.10 Millions (Rs.607.29 Millions) and working capital facilities from banks and financial institutions amounting to Rs.2211.21 Millions (Rs.863.05 Millions) are secured by personal guarantee of directors.

- e) During the year the company has retired and disposed off certain fixed assets at various locations. In compliance with Accounting Standard – 10 “Accounting for Fixed Assets”, issued by the ICAI, these assets have been eliminated from the consolidated financial statements. Consequently there is a reduction in the gross block as at 31 March 2005 by Rs.48.73 Millions and the corresponding accumulated depreciation as at the same date by Rs.48.19 Millions pertaining to these assets.
- f) The Company had granted loans aggregating Rs.1,364.14 Millions to Suzlon Developers Private Limited and aggregating Rs.1,101.20 Millions to Sarjan Realities Private Limited for which the Company had not obtained prior approval of the Central Government as required by section 295(1) of the Act. However, these loans have been repaid in full as on 31 March 2005.
- g) Exceptional Items in the previous year ended 31 March 2004 aggregating to Rs.266.93 Millions pertain to Rs.122.52 Millions representing write back of unclaimed creditors and Rs.144.41 Millions representing write back of provision for plant load factor no longer required.
- h) Balances of Sundry Debtors include Rs.224.83 Millions (Rs.405.46 Millions), which are contractually payable beyond a period of six months from the date of sale.
- i) *Operating Leases*

Premises

The Company has taken certain premises under cancellable operating leases. The total rental expense under cancellable operating leases during the period was Rs.17.26 Millions (Rs.7.95 Millions).

The Company has also taken furnished/non-furnished offices and certain other premises under non-cancellable operating lease agreement ranging for a period of one to five years. The lease rental charge during the year is Rs.17.67 Millions (Rs.Nil) and maximum obligation on long – term non-cancellable operating lease payable as per the rentals stated in respective agreement are as follows:

<b>Obligation on non-cancellable operating leases</b>	<b>Amount (Rs. Millions)</b>
Not later than one year . . . . .	31.78
Later than one year and not later than five years . . . . .	30.21
Later than five years . . . . .	Nil

- j) *Provisions for Warranties and Guarantees*

In pursuance of Accounting Standard-29 ('AS-29') “Provisions, Contingent Liabilities and Contingent Assets” issued by the ICAI, the provisions required have been incorporated in the books of accounts in the following manner:

<b>Particulars</b>	<b>Generation Guarantee</b>	<b>Warranty for Operation &amp; Maintenance</b>	<b>Guarantee for Plant Load Factor</b>	<b>Provision for Liquidated Damages</b>
Opening Balance . . . . .	179.42	410.65	10.00	0.00
Additions net of utilisation . . . . .	400.37	566.04	(7.00)	39.68
Reversal. . . . .	0.00	0.00	3.00	0.00
Closing Balance . . . . .	579.79	976.69	0.00	39.68

The provision for Warranty for Operation and Maintenance ('O&M') represents the expected liability on account of field failure of parts of WTG and expected expenditure of servicing the WTG's over the period of free O&M, which varies according to the terms of each sales order.

The provision for Generation Guarantee ('GG') represents the expected claims for generation shortfall expected in future over the life of the guarantee assured. The period of GG varies for each customer according to the terms of the contract. The key assumptions in arriving at the GG provision are wind velocity, plant load factor, grid availability, load shedding, historical data etc.

The Company does not have any obligation on account of Plant Load Factor liabilities and hence the balance amount outstanding has been reversed during the year.

Provision for Liquidated Damages ('LD') represents the expected claims which the Company may need to pay for non fulfilment of certain commitments as per the terms of the sales order. These are determined on a case to case basis considering the dynamics of each individual sales order and the factors relevant to that sale.

7. Break up of the Deferred Tax Assets is given below

Particulars	Rs. in Millions	
	Deferred Tax Asset /(Liability) as at 31 March 2004	Deferred Tax Asset /(Liability) as at 31 March 2005
<b>A. Deferred Tax Assets:</b>		
Provision for generation guarantee, LD and O&M warranty . . . . .	147.82	285.19
Provision for Doubtful Debts . . . . .	1.03	21.84
Unabsorbed Losses . . . . .	—	41.53
Unabsorbed Depreciation. . . . .	—	34.96
Others . . . . .	0.76	2.97
<b>(A)</b> . . . . .	149.61	386.49
<b>B. Deferred Tax Liabilities:</b>		
Depreciation . . . . .	44.32	145.43
<b>(B)</b> . . . . .	44.32	145.43
<b>Deferred Tax Assets (Net) (A – B)</b> . . . . .	105.29	241.06

*Note:*

During the year the company acquired the entire share capital of Suzlon Windfarm Services Limited, whose balances since 1 April 2004, have been consolidated in the books of SEL. The deferred tax liability of Suzlon Windfarm Services Limited as at 31 March 2004 was Rs.31.65 Millions.

8. Estimated amount of contracts remaining to be executed on capital accounts and not provided for net of advances Rs.323.69 Millions (Rs.74.31 Millions).

9. Managerial remuneration to Directors

Particulars	Rs. in Millions	
	2003-04	2004-05
Salaries . . . . .	8.04	8.56
Perquisites . . . . .	1.23	5.97
Contribution to Superannuation Fund. . . . .	1.25	1.78
Total . . . . .	10.52	16.31

The directors are covered under the Company's scheme for gratuity along with the other employees of the Company. Proportionate amount of gratuity is not included in the aforementioned disclosure.

10. Earnings per Share (EPS)

<u>PARTICULARS</u>	<u>1 April 2003 to 31 March 2004</u>	<u>1 April 2004 to 31 March 2005</u>
	Rs. In Millions	
<b>Basic Earnings per share (After Exceptional Items)</b>		
<u>Numerator for Basic EPS</u>		
Net Profit after Tax and before exceptional items and Minority Interest. . . . .	1,182.31	3,651.23
Add:		
Exceptional Items . . . . .	266.93	—
Minority Interest. . . . .	—	2.11
Transferred to Goodwill . . . . .	4.00	—
Less:		
Preference Dividend and Dividend Tax . . . . .	5.43	<u>22.37</u>
	(a)	1,447.81
		3,629.06
<u>Denominator for Basic EPS</u>		
Weighted average number of equity shares (See Note a below) . . . . .	(b)	219,130,200
		253,005,661
<b>Basic and Diluted Earning per share of face value of Rs.10/- each (After exceptional items) (See Note b below) (a/b *1,000,000) . . . . .</b>		
		6.60
		14.34
<b>Basic Earnings per share (Before Exceptional Items)</b>		
<u>Numerator for Basic EPS</u>		
Numerator as per (a) above . . . . .	1,447.81	3,629.06
Less:		
Exceptional Items . . . . .	266.93	—
	(c)	1,180.88
		<u>3,629.06</u>
<u>Denominator for Basic EPS</u>		
Weighted average number of equity shares as per (b) above (See Note a below). . . . .	(d)	219,130,200
		253,005,661
<b>Basic and Diluted Earning per share of face value of Rs.10/- each (Before exceptional items) (See Note b below) (c/d *1,000,000) . . . . .</b>		
		5.38
		14.34

Notes:

- a) Of the total equity capital of 86,922,900 equity shares, 57,948,600 equity shares are issued as bonus shares in the ratio of 2 equity shares for every 1 equity share held during the financial year 2004-05. After the balance sheet date, on 16 June 2005, a further issue of 173,845,800 shares was made as bonus shares in the ratio of 2 equity shares for every 1 held. These, as per the requirements of Accounting Standard-20 'Earnings per share ('AS-20') issued by the ICAI, have been considered in the computation of weighted average number of shares for computation of EPS.
- b) As per the requirement of Accounting Standard-20 'Earnings per share', issued by the ICAI, the corresponding figures relating to previous reporting period have been restated to give the effect of Bonus shares.  
In respect of bonus shares on those equity shares which were issued during the year, the weight of the bonus shares has been considered as outstanding from the date the consideration for the shares on which bonus shares issued was received. Since, these equity shares were not existing during the previous year no effect of restatement has been given for the bonus shares on these equity shares in the corresponding number of shares of the previous year. The position taken by the Company has also been supported by an independent opinion of an expert.
- c) As per the terms of agreement with the preference shareholders holding 10,000,000 redeemable preference shares of Rs.100 each (referred to in Schedule O, Note 3b), these preference shares, are to be compulsorily redeemed if an IPO occurs before December 31, 2005. Since, the Company is in the process of filing its Offer Document with the Securities and Exchange Board of India ('SEBI'), management considers it reasonably certain that the IPO will occur before December 31, 2005 and hence the redeemable preference shares will be redeemed in full. Accordingly, no dilutive effect of these preference shares has been considered.  
In the event that the IPO does not occur before December 31, 2005, the preference shareholders will be entitled to convert the preference shares at certain specified prices in the future. If the most favourable conversion price to the preference shareholders is considered, the diluted EPS for the current year would be Rs.14.17 per share.



11. **Contingent Liabilities.**

<b>Particulars</b>	<b>2003-04</b>	<b>2004-05</b>
	<b>Rs. in Millions</b>	
Guarantees given on behalf of other companies in respect of loans granted to them by banks. . . . .	210.27	13.95
Counter guarantees given to the banks against guarantees issued by banks on Company's behalf. . . . .	—	19.32
Claims against the Company not acknowledged as debts . . . . .	14.86	17.46
Bills discounted with banks . . . . .	90.25	33.25
Uncalled liability on partly paid up shares. . . . .	0.01	—
Disputed labour cost Liabilities . . . . .	0.17	0.17
Disputed service tax Liabilities . . . . .	—	8.76
Bonds/undertakings given by the Company under duty exemption scheme to customs authorities. . . . .	—	51.77

12. **Related Party Disclosures**

(A) **Related Parties with whom transactions have taken place during the year**

a) *Associates:*

Suzlon Developers Limited, Sarjan Realities Limited

b) *Entities where Key Management Personnel ('KMP')/Relatives of Key Management Personnel ('RKMP') has significant influence*

Suzlon Gujarat Windpark Limited, Sarjan Infrastructure Finance Limited, Suzlon Capital Limited, Sarjan Engitech Private Limited, SNS Textiles Limited, Suzlon Hotels Limited, Suzlon Power Infrastructure Private Limited

c) *Key Management Personnel*

Tulsi R. Tanti, Vinod R. Tanti, Girish R. Tanti, Balrajsinh A. Parmar

d) *Relatives of Key Management Personnel*

Gita T. Tanti, Pranav T. Tanti, Nidhi Tanti, Sangita V. Tanti, Rajan V. Tanti, Jitendra R. Tanti, Rambhaben Ukabhai, Isha Tanti, Sheela B. Parmar, Ranjitsinh A. Parmar, Amarsinh A. Parmar, Kiritsinh A. Parmar.

e) *Employee Funds:*

Suzlon Energy Limited - Superannuation Fund.

Suzlon Energy Limited - Employees Group Gratuity Scheme.

Suzlon Windfarm Services Limited - Superannuation Fund.

Suzlon Windfarm Services Limited - Employees Group Gratuity Scheme.

Suzlon Green Power Limited - Superannuation Fund.

(B) *Transactions between the Company and Related Parties and the status of outstanding balances as at 31 March 2005*

Sr. No.	Particulars	Associate	Entities where KMP/RKMP has significant influence	KMP	RKMP	Employee Funds
<b>All figures in Rs. Millions</b>						
<b>Transactions</b>						
1	Purchase of fixed assets . . .	0.38 (5.00)	—	—	—	—
2	Sale of fixed assets . . . . .	0.24	—	1.62	1.04	—
3	Subscription to/purchase of preference shares . . . . .	50.00	1.30 (90.00)	24.53	27.94	—
4	Subscription to/purchase of equity shares . . . . .	—	—	15.44 (2.09)	39.66 (7.60)	—
5	Sale of investments . . . . .	—	12.42	—	—	—
6	Loans/Deposit Given . . . . .	4,445.74 (1,828.03)	0.30 (141.50)	—	—	—
7	Sale of goods . . . . .	361.17 (0.10)	—	—	—	—
8	Purchase of goods and services . . . . .	154.77 (111.39)	37.41 (112.20)	—	1.75	—
9	Services rendered, Compensation and reimbursement . . . . .	13.45	0.24	—	—	—
10	Interest received . . . . .	110.95 (40.05)	0.53 (0.59)	—	—	—
11	Interest paid . . . . .	—	(1.09)	—	—	—
12	Dividend received/accrued .	2.14 (2.14)	—	—	—	—
13	Dividend Paid . . . . .	—	0.16	—	—	—
14	Rent received . . . . .	0.52 (1.53)	—	—	—	—
15	Rent/Hotel charges paid . .	—	4.09 (2.39)	0.06 (0.06)	—	—
16	Managerial Remuneration .	—	—	16.31 (10.52)	—	—
17	Contribution to various funds . . . . .	—	—	—	—	15.87 (7.90)

Sr. No.	Particulars	Associate	Entities where KMP/RKMP has significant influence	KMP	RKMP	Employee Funds
<b>All figures in Rs. Millions</b>						
<b>Outstanding Balances</b>						
1	Investments . . . . .	66.50 (16.50)	8.70 (108.00)	— —	— —	— —
2	Sundry Debtors . . . . .	112.48 —	— —	— —	0.10 —	— —
3	Loans/Deposits outstanding . . . . .	1,861.35 (474.67)	39.15 (147.00)	— —	— —	— —
4	Advances/Deposits to Supplier . . . . .	— —	17.29 —	— —	— —	— —
5	Sundry Creditors . . . . .	1.98 (5.98)	1.78 (0.24)	— —	— —	4.49 —
6	Corporate Guarantees . . . .	13.95 (18.58)	— (191.69)	— —	— —	— —
7	Contribution payable to various Funds . . . . .	— —	— —	— —	— —	0.16 —

(C) **Disclosure of significant transactions with Related Parties**

Type of the Transaction	Type of relationship	Name of the entity/person	31 March 2004	31 March 2005
<b>All figures in Rs. Millions</b>				
Purchase of Fixed Assets . . . .	Associate	Sarjan Realities Limited.	—	0.38
Sale of Fixed Assets . . . . .	KMP	Girish R Tanti	—	1.62
	RKMP	R.A.Parmar	—	0.60
	RKMP	A.A. Parmar	—	0.44
Subscription to/purchase of preference shares . . . . .	Associate	Suzlon Developers Limited	—	50.00
	Entities where KMP/RKMP has significant influence	Suzlon Windfarm Services Private Limited	90.00	—
Sale of investments . . . . .	Entities where KMP/RKMP has significant influence	Sarjan Infrastructure Finance Limited	—	12.42
	KMP	Vinod Tanti	2.60	—
	KMP	Tulsi Tanti	3.44	—
	RKMP	Jitendra Tanti	2.70	—
Loan/Deposits given . . . . .	Associate	Suzlon Developers Limited	897.10	2,064.14
	Associate	Sarjan Realities Limited	930.93	2,237.70
Sale of goods . . . . .	Entities where KMP/RKMP has significant influence	Suzlon Windfarm Services Private Limited	300.80	—
	Associate	Suzlon Developers Limited	—	361.17
Services Rendered, Compensation and reimbursement . . . . .	Associate	Suzlon Developers Limited	—	13.11
Purchase of goods and services . . . . .	Entities where KMP/RKMP has significant influence	Suzlon Windfarm Services Private Limited	111.55	—
	Associate	Suzlon Developers Limited	111.39	154.38

Type of the Transaction	Type of relationship	Name of the entity/person	31 March 2004	31 March 2005
<b>All figures in Rs. Millions</b>				
Interest Received . . . . .	Associate	Sarjan Realities Limited	31.66	78.07
	Associate	Suzlon Developers Limited	8.39	31.54
Interest Paid . . . . .	Entities where KMP/RKMP has significant influence	Sarjan Infrastructure Finance Limited	1.09	—
Dividend Received/Accrued . . . . .	Entities where KMP/RKMP has significant influence	Suzlon Windfarm Services Private Limited	1.21	—
	Associate	Suzlon Developers Limited	0.84	0.84
	Associate	Sarjan Realities Limited	1.30	1.30
Dividend Paid . . . . .	Entities where KMP/RKMP has significant influence	Suzlon Capital Limited	—	0.16
Rent Received . . . . .	Associate	Suzlon Developers Limited	1.53	0.52
Rent/Hotel Charges paid . . . . .	Entities where KMP/RKMP has significant influence	Suzlon Hotels Limited	2.39	1.69
	Entities where KMP/RKMP has significant influence	Sarjan Engitech Private Limited	—	2.40
Contribution to various funds . . . . .	Employee Funds	Suzlon Energy Limited - Superannuation Fund	6.14	8.95
	Employee Funds	Suzlon Energy Limited-Employees Group Gratuity Scheme	1.38	4.49
	Employee Funds	Suzlon Wind Farm Services Limited - Superannuation Fund	—	1.12
	Employee Funds	Suzlon Wind Farm Services Limited-Employees Group Gratuity Scheme	—	0.85
	Employee Funds	Suzlon Green Power Limited - Superannuation Fund	0.38	0.46
Managerial Remuneration . . . . .	KMP	Girish Tanti	2.42	3.91
	KMP	Tulsi Tanti	1.99	4.43
	KMP	Vinod Tanti	2.53	3.85
	KMP	Balrajsinh Parmar	3.58	4.12

### 13. Segment Reporting

Suzlon's operations primarily relate to manufacture and sale of WTG's and its parts. Others primarily consist of operation and maintenance revenue from the sale of WTG and power generation revenue from own installed WTG's.

#### A) PRIMARY BUSINESS SEGMENT:

Particulars	2003-04				2004-05			
	Sale of WTG	Others	Eliminations	Total	Sale of WTG	Others	Eliminations	Total
<b>All figures in Rs. Million</b>								
Total External Sales . . . . .	8,517.85	57.14	—	8,574.99	19,165.21	259.61	—	19,424.82
Add: Inter Segment Sales . . . . .	—	—	—	—	23.49	249.87	(273.36)	—
Segment Revenue . . . . .	8,517.85	57.14	—	8,574.99	19,188.70	509.48	(273.36)	19,424.82
Segment Results . . . . .	1,305.25	9.83	—	1,315.08	4,135.45	63.78	—	4,199.23
Add/(Less) items to reconcile with profit as per Profit and Loss Account								
Add:								
Other Income . . . . .				173.64				234.39
Less:								
Financial Charges . . . . .				(275.64)				(458.25)
Preliminary Exp W/Off. . . . .				(0.87)				(1.81)
Profit before tax and minority interest . . . . .				1,212.22				3,973.55
Provision For								
Income Tax . . . . .				123.97				489.72
Deferred Tax . . . . .				(94.05)				(167.41)
Profit before Minority Interest . . . . .				1,449.23				3,651.24
Add: Share of Loss of Minority in subsidiary . . . . .				—				2.11
Profit after Minority Interest . . . . .				1,449.23				3,653.35
Add: Pre-acquisition profit of subsidiary on additional investment . . . . .				4.00				—
Profit for the year . . . . .				1453.24				3,653.35
Segment Assets . . . . .	8,503.21	347.75		8,850.96	16,676.76	1,180.18		17,856.94
Common Assets . . . . .				1,239.77				3,020.94
Enterprise Assets. . . . .				10,090.73				20,877.88
Segment Liabilities . . . . .	3,777.45	12.83		3,790.28	7,553.46	184.78	—	7,738.24
Common Liabilities . . . . .				2,416.67				4,096.33
Enterprise Liabilities. . . . .				6,206.95				11,834.57
Capital Expenditure								
During The Year. . . . .	917.84	—		917.84	1,434.65	513.15	—	1,947.80
Segment Depreciation. . . . .	106.19	29.93		136.12	395.01	98.24		493.25
Non Cash Expenses Other Than Depreciation . . . . .	0.74	0.13		0.87	1.45	0.36	—	1.81

#### B) GEOGRAPHICAL SEGMENT

Particulars	2003-04				2004-05			
	India	USA	Others	Total	India	USA	Others	Total
Segment Revenue . . . . .	7,581.40	993.59	—	8,574.99	19,361.38	63.44	—	19,424.82
Segment Assets . . . . .	7,640.28	993.17	217.51	8,850.96	16,753.76	504.20	598.98	17,856.94
Capital Expenditure incurred . . . . .	901.75	7.07	9.02	917.84	1,893.50	9.28	45.02	1,947.80

14. All figures have been reported in Rupees Millions and have been rounded off to the nearest ten thousand rupees. Prior year amounts were audited by SNK & Co. Chartered Accountants only and have been reclassified wherever necessary to conform with current year's presentation. Figures in the brackets are in respect of the previous year.

Signature to Schedule 'A' to 'O'

As per our attached Report of even date.

As per our report of even date

For and on behalf of the Board of Directors

**For SNK & Co.  
Chartered Accountants**

**For S. R. BATLIBOI & Co.  
Chartered Accountants**

**Tulsi R. Tanti  
Chairman & Managing Director**

Jasmin B. Shah  
Partner  
M.No. 46238

Arvind Sethi  
Partner  
M.No. 89802

Hemal A. Kanuga Company  
Secretary

Girish R. Tanti  
Director

Place: Pune  
Date: June 24, 2005

Place: Pune  
Date: June 24, 2005

Place: Mumbai  
Date: June 24, 2005

SNK & Co.  
Chartered Accountants  
111, Nalanda Enclave  
Pritam Nagar  
Ellisbridge,  
Ahmedabad 380 006

S. R. BATLIBOI & Co.  
Chartered Accountants  
The Metropole  
F-1, 1st Floor  
Bund Garden Road  
Pune 411 001

## Auditors' Report

**To**  
**The Board of Directors of Suzlon Energy Limited**

1. We SNK & Co. and S.R. Batliboi & Co, have audited the attached consolidated balance sheet\* of Suzlon Energy Limited ('SEL') and its subsidiaries (together referred to as 'the Group', as described in Schedule P, Note 5) as at March 31, 2006 and also the consolidated profit and loss account\* and the consolidated cash flow statement\* for the year ended on that date annexed thereto. These consolidated financial statements are the responsibility of SEL's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not jointly audit the financial statements of the following companies, whose total revenues and assets to the extent they are included in the consolidated financial statements of the Group are as given below:

Name of the Company	Extent of share in consolidated revenues (%)	Extent of share in consolidated assets (%)
Suzlon Windfarm Services Limited .....	0.71	3.06
Suzlon Towers And Structures Limited (formerly Suzlon Green Power Limited) .....	0.14	0.53
Suzlon Generators Private Limited .....	—	1.44
Suzlon Structures Private Limited .....	0.06	2.65
Suzlon Power Infrastructure Private Limited .....	0.02	0.86
Suzlon Gujarat Wind Park Limited .....	0.06	0.30
Suzlon Engitech Private Limited .....	—	0.17

These financial statements have been audited solely by SNK & Co., Chartered Accountants and have been accepted without verification by S.R. Batliboi & Co, Chartered Accountants and hence our joint audit opinion insofar as it relates to the amounts included in respect of these subsidiaries, is based solely on the report of SNK & Co., Chartered Accountants.

\* The financials originally attached with this audit report were expressed in rupees crores. However, the financials currently attached to this report are expressed in rupees millions.

SNK & Co.  
Chartered Accountants  
111, Nalanda Enclave  
Pritam Nagar  
Ellisbridge,  
Ahmedabad 380 006

S. R. BATLIBOI & Co.  
Chartered Accountants  
The Metropole  
F-1, 1st Floor  
Bund Garden Road  
Pune 411 001

4. We did not audit the financial statements of the following companies, whose total revenues and assets to the extent they are included in the consolidated financial statements of the Group are as given below:

Name of the Company	Extent of share in consolidated revenues (%)	Extent of share in consolidated assets (%)
Suzlon Energy A/S, Denmark (See Note 1 below) ['Suzlon Denmark']	8.22	8.26
Suzlon Rotor Corporation	—	0.84
AE-Rotor Holdings B.V., Netherlands (See Note 2 below) ['AERH']	—	0.95
Suzlon Energy GmbH	—	0.47
Windpark Olsdorf WATT GmbH & Co KG	—	0.21
Suzlon Wind Park Management GmbH	—	—
SE Drive Techniek GmbH	—	0.04
Suzlon Windkraft GmbH	—	—
Suzlon Energy Tianjin Limited	—	0.51

*Notes:*

1. The financial statements of Suzlon Energy A/S, Denmark, include the financial statements of Suzlon Australia Pty Limited and the consolidated financial statements of Suzlon Wind Energy Corporation.
2. The financial statements of AERH include the standalone financial statements of AERH and its subsidiaries AE-Rotor Techniek B.V. and Suzlon Energy B.V.

These financial statements have been prepared under the relevant applicable Generally Accepted Accounting Principles ('GAAP') of the Country where the subsidiary is registered. Adjustments have been made to realign the accounting policies of these subsidiaries to those of SEL, which have been reviewed by us jointly for the year ended March 31, 2006.

5. We report that the consolidated financial statements have been prepared by SEL's management in accordance with the requirements of Accounting Standard-21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate financial statements of SEL and its subsidiaries.



SNK & Co.  
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6. In our opinion and to the best of our information and according to the explanations given to us, the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India;
- a) in the case of the Consolidated Balance Sheet, of the state of affairs of the Group as at March 31, 2006;
  - b) in the case of the Consolidated Profit and Loss Account of the profit of the Group for the year ended on that date;
  - c) in the case of the Consolidated Cash Flow Statement of the cash flows of the Group for the year then ended on that date.

**SNK & Co.**  
**Chartered Accountants**

per Jasmin B. Shah  
Partner  
Membership No: 46238  
Pune  
May 15, 2006

**S.R. BATLIBOI & Co.**  
**Chartered Accountants**

per Arvind Sethi  
Partner  
Membership No: 89802  
Pune  
May 15, 2006

**SUZLON ENERGY LIMITED**  
**Consolidated Balance Sheet as at March 31, 2006**  
All amounts in rupees million unless otherwise stated

Particulars	Schedule	As at March 31,		
		2005	2006	2006
		Rs. Million	Rs. Million	\$ Million
<b>Sources of Funds</b>				
<b>Share Holders' Funds</b>				
Share Capital . . . . .	A	2,019.23	3,025.31	68.02
Share Application Money of Subsidiary Company				
Pending Allotment . . . . .		0.50	1.87	0.04
Employee Stock Options . . . . .	B	—	103.64	2.33
Reserves and Surplus . . . . .	C	7,023.59	24,217.12	544.45
		<u>9,043.32</u>	<u>27,347.94</u>	<u>614.84</u>
<b>Preference Shares Issued by Subsidiary Company</b>				
[See Schedule P, Note(6)(b)] . . . . .		2.97	25.00	0.56
Minority Interest . . . . .		64.48	74.69	1.68
<b>Loan Funds</b>				
Secured Loans . . . . .	D	3,567.18	3,899.05	87.66
Unsecured Loans . . . . .	E	390.93	608.10	13.67
		<u>3,958.11</u>	<u>4,507.15</u>	<u>101.33</u>
		<u>13,068.88</u>	<u>31,954.78</u>	<u>718.41</u>
<b>Application of Funds</b>				
<b>Fixed Assets</b>				
Gross Block . . . . .	F	3,596.88	6,292.71	141.47
Less - Depreciation . . . . .		807.68	1,535.65	34.52
Net Block . . . . .		2,789.20	4,757.06	106.95
Capital work in progress . . . . .		289.40	1,651.60	37.13
		<u>3,078.59</u>	<u>6,408.66</u>	<u>144.08</u>
Preoperative Expenses, pending allocation . . . . .		—	16.66	0.38
Investments . . . . .	G	77.62	76.10	1.71
Deferred Tax Asset (Net)				
[See Schedule P, Note 7] . . . . .		241.06	817.59	18.38
Current Assets, Loans and Advances	H			
Inventories . . . . .		5,755.68	13,310.27	299.24
Sundry Debtors . . . . .		6,928.89	16,473.10	370.35
Cash and Bank Balances . . . . .		1,544.64	5,514.82	123.98
Loans and Advances . . . . .		3,247.31	6,407.20	144.05
		<u>17,476.52</u>	<u>41,705.39</u>	<u>937.62</u>
Less: Current Liabilities and Provisions	I			
Current Liabilities . . . . .		5,979.97	12,977.04	291.75
Provisions . . . . .		1,829.03	4,101.07	92.20
		<u>7,809.00</u>	<u>17,078.11</u>	<u>383.95</u>
Net Current Assets . . . . .		9,667.52	24,627.28	553.67
Miscellaneous Expenditure . . . . .	J	4.09	8.49	0.19
(To the extent not written off or adjusted)				
		<u>13,068.88</u>	<u>31,954.78</u>	<u>718.41</u>
Significant accounting policies and notes to the consolidated financial statements	P			

For presentation purposes, the financial statements have been converted to United States dollars by dividing the financial statements elements, where relevant, by 43.10 for the year ended 31 March 2007 and by 44.48 for the year ended 31 March 2006.

The schedules referred to above and the notes to accounts form an integral part of the consolidated balance sheet

As per our report of even date

For and on behalf of the Board of Directors

**For SNK & Co.**  
Chartered Accountants

**For S. R. BATLIBOI & Co.**  
Chartered Accountants

**Tulsi R. Tanti**  
Chairman & Managing Director

Jasmin B. Shah  
Partner  
M.No. 46238

Arvind Sethi  
Partner  
M.No. 89802

Hemal A. Kanuga Company  
Secretary

Girish R. Tanti  
Director

Place: Pune  
Date: May 15, 2006

Place: Pune  
Date: May 15, 2006

Place: New Delhi  
Date: May 15, 2006

**SUZLON ENERGY LIMITED**  
**Consolidated Profit and Loss Account for the year ended March 31, 2006**  
All amounts in rupees million unless otherwise stated

Particulars	Schedule	Year Ended 31 March		
		2005	2006	2006
		Rs. Million	Rs. Million	\$ Million
<b>INCOME</b>				
Sales and service income . . . . .		19,424.82	38,410.30	863.54
Other income . . . . .	K	234.38	556.48	12.51
		<u>19,659.20</u>	<u>38,966.78</u>	<u>876.05</u>
<b>EXPENDITURE</b>				
Cost of goods sold . . . . .	L	11,376.78	23,090.74	519.13
Operating and other expenses . . . . .	M	2,737.77	5,121.39	115.14
Employees' remuneration and benefits . . . . .	N	617.79	1,215.88	27.34
Financial charges . . . . .	O	458.25	647.78	14.56
Depreciation . . . . .	F	493.25	715.90	16.09
Preliminary expenditure written off . . . . .	J	1.81	1.80	0.04
		<u>15,685.65</u>	<u>30,793.49</u>	<u>692.30</u>
<b>PROFIT BEFORE TAX AND MINORITY INTEREST . . . .</b>				
Current tax . . . . .		3,973.55	8,173.29	183.75
Earlier years' tax . . . . .		489.09	1,103.00	24.80
Fringe benefit tax . . . . .		0.63	1.70	0.03
Deferred tax . . . . .		—	31.60	0.71
		<u>(167.41)</u>	<u>(568.20)</u>	<u>(12.77)</u>
		<u>322.31</u>	<u>568.10</u>	<u>12.77</u>
<b>PROFIT BEFORE MINORITY INTEREST . . . . .</b>				
Add/(Less): Share of loss/(profit) of Minority . . . . .		3,651.24	7,605.19	170.98
		2.11	(10.20)	(0.23)
<b>NET PROFIT . . . . .</b>				
Balance brought forward . . . . .		3,653.35	7,594.99	170.75
		<u>2,781.83</u>	<u>5,016.58</u>	<u>112.78</u>
<b>PROFIT AVAILABLE FOR APPROPRIATIONS . . . . .</b>				
Interim dividend on equity shares . . . . .		6,435.18	12,611.57	283.53
Proposed dividend on equity shares . . . . .		231.84	718.80	16.16
Dividend on preference shares . . . . .		115.92	720.30	16.19
Tax on dividends . . . . .		19.62	16.60	0.37
Transfer to general reserve . . . . .		51.22	207.80	4.67
		<u>1,000.00</u>	<u>3,000.00</u>	<u>67.45</u>
		<u>1,418.60</u>	<u>4,663.50</u>	<u>104.84</u>
Balance carried to the Balance Sheet . . . . .		<u>5,016.58</u>	<u>7,948.07</u>	<u>178.69</u>
Earnings per share (in Rs.)				
Basic (Nominal Value of shares Rs.10 (Previous Year Rs.10)) [See Schedule P, Note 10]. . .		14.34	27.73	0.62
Diluted (Nominal Value of shares Rs.10 (Previous Year Rs.10)) [See Schedule P, Note 10]. . .		14.34	27.68	0.62
Significant accounting policies and notes to the consolidated financial statements	P			

For presentation purposes, the financial statements have been converted to United States dollars by dividing the financial statements elements, where relevant, by 43.10 for the year ended 31 March 2007 and by 44.48 for the year ended 31 March 2006.

The schedules referred to above and the notes to accounts form an integral part of the consolidated balance sheet

As per our report of even date

For and on behalf of the Board of Directors

**For SNK & Co.**  
Chartered Accountants

**For S. R. BATLIBOI & Co.**  
Chartered Accountants

**Tulsi R. Tanti**  
Chairman & Managing Director

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Hemal A. Kanuga Company  
Secretary

Girish R. Tanti  
Director

Place: Pune  
Date: May 15, 2006

Place: Pune  
Date: May 15, 2006

Place: New Delhi  
Date: May 15, 2006

**SUZLON ENERGY LIMITED**  
**Consolidated Cash Flow statement for the year ended March 31, 2006**  
All amounts in rupees million unless otherwise stated

Particulars	Year ended 31 March		
	2005	2006	2006
	Rs. Million	Rs. Million	\$ Million
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation and minority interest . . . . .	3,973.55	8,173.29	183.75
<b>Adjustments for:</b>			
Depreciation . . . . .	493.25	715.90	16.09
Loss on sale of investments . . . . .	0.08	—	—
Loss on Sale/disposal of Assets . . . . .	4.78	5.30	0.12
Preliminary expenses incurred . . . . .	—	(6.20)	(0.14)
Preliminary expenses Written Off . . . . .	1.81	1.80	0.04
Interest expenses . . . . .	352.49	507.62	11.41
Interest income . . . . .	(181.01)	(311.75)	(7.01)
Dividend income . . . . .	(3.42)	(4.18)	(0.09)
Adjustments on consolidation . . . . .	68.11	36.00	0.82
Provision (reversal) for doubtful debts/loans . . . . .	93.30	(48.20)	(1.08)
Employee stock option scheme . . . . .	—	103.64	2.33
Provision for Operation Maintenance and Warranty . . . . .	578.40	857.70	19.28
Provision for power generation guarantee . . . . .	450.74	1,065.14	23.95
Wealth tax . . . . .	0.14	0.18	0.00
<b>Operating Profit before Working Capital Changes . . . . .</b>	<b>5,832.22</b>	<b>11,096.24</b>	<b>249.47</b>
<b>Movements in Working Capital:</b>			
(Increase)/Decrease in loans and advances . . . . .	(127.39)	(2,960.94)	(66.57)
(Increase)/Decrease in sundry debtors . . . . .	(3,540.87)	(9,502.14)	(213.63)
(Increase)/Decrease in inventories . . . . .	(3,414.15)	(7,543.50)	(169.59)
Increase/(Decrease) in current liabilities . . . . .	2,847.13	6,677.70	150.13
<b>Cash (used in)/generated from operations . . . . .</b>	<b>1,596.94</b>	<b>(2,232.64)</b>	<b>(50.19)</b>
Direct Taxes Paid (net of refunds) . . . . .	(415.52)	(1,307.60)	(29.40)
<b>Net cash (used in)/generated from operating activities . . . . .</b>	<b>1,181.42</b>	<b>(3,540.24)</b>	<b>(79.59)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets . . . . .	(1,520.76)	(4,059.72)	(91.27)
Proceeds from sale of fixed assets . . . . .	99.07	21.56	0.48
Purchase of Investments . . . . .	(49.87)	(4.94)	(0.11)
Preoperative expenses incurred . . . . .	(4.77)	(16.66)	(0.37)
Paid for Acquisition of Subsidiaries . . . . .	(98.10)	(33.90)	(0.76)
Sale/Redemption of Investments . . . . .	15.96	6.50	0.15
Inter-corporate deposits repaid/(granted) . . . . .	(1,356.17)	31.80	0.71
Loans granted to/Repayments to Subsidiaries . . . . .	—	—	—
Interest received . . . . .	209.44	246.54	5.54
Dividends received . . . . .	3.42	4.18	0.09
<b>Net cash used in investing activities . . . . .</b>	<b>(2,701.78)</b>	<b>(3,804.64)</b>	<b>(85.54)</b>

Particulars	Year ended 31 March		
	2005	2006	2006
	Rs. Million	Rs. Million	\$ Million
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Redemption of Preference share capital . . . . .	—	(1,000.00)	(22.48)
Proceeds from issuance of share capital including premium . . . . .	2,000.00	13,648.94	306.86
Share Application Money received. . . . .	0.50	1.37	0.03
Share issue expenses . . . . .	(75.73)	(406.70)	(9.14)
Proceeds from borrowings . . . . .	3,416.33	5,783.85	130.03
Repayment of borrowings . . . . .	(2,144.08)	(5,238.84)	(117.78)
Interest paid . . . . .	(347.59)	(501.64)	(11.28)
Dividends paid . . . . .	(411.67)	(849.86)	(19.11)
Tax on dividends paid . . . . .	(53.40)	(122.06)	(2.74)
<b>Net cash from financing activities . . . . .</b>	<b>2,384.36</b>	<b>11,315.06</b>	<b>254.39</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS . . . . .</b>	<b>864.00</b>	<b>3,970.18</b>	<b>89.26</b>
Cash and cash equivalents at the beginning of the year . . . . .	680.64	1,544.64	34.72
	<u>1,544.64</u>	<u>5,514.82</u>	<u>123.98</u>
<b>Components of cash and cash equivalents</b>			
Cash and cheques on hand . . . . .	6.39	13.35	0.30
<b>With banks</b>			
in current account. . . . .	195.53	327.04	7.35
in Term deposit accounts . . . . .	804.44	3,895.27	87.57
<b>With non-scheduled banks</b>			
in current account. . . . .	538.28	1,279.16	28.76
	<u>1,544.64</u>	<u>5,514.82</u>	<u>123.98</u>

*Notes:*

- Purchase of fixed assets includes payments for items in capital work in progress and advance for purchase of fixed assets
- Previous year's figures have been regrouped/reclassified, wherever necessary.

For presentation purposes, the financial statements have been converted to United States dollars by dividing the financial statements elements, where relevant, by 43.10 for the year ended 31 March 2007 and by 44.48 for the year ended 31 March 2006.

As per our report of even date

For and on behalf of the Board of Directors

**For SNK & Co.**  
**Chartered Accountants**

**For S. R. BATLIBOI & Co.**  
**Chartered Accountants**

**Tulsi R. Tanti**  
**Chairman & Managing Director**

Jasmin B. Shah  
Partner  
M.No. 46238

Arvind Sethi  
Partner  
M.No. 89802

Hemal A. Kanuga Company  
Secretary

Girish R. Tanti  
Director

Place: Pune  
Date: May 15, 2006

Place: Pune  
Date: May 15, 2006

Place: New Delhi  
Date: May 15, 2006

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**  
**for the year ended March 31, 2006**

Particulars	As at 31 March		
	2005	2006	2006
	Rs. Million	Rs. Million	\$ Million
<b>SCHEDULE - A: SHARE CAPITAL</b>			
<b>Authorised</b>			
330,000,000 (101,000,000) equity shares of Rs 10/- each . . . . .	1,010.00	3,300.00	74.19
11,500,000 (11,500,000) preference shares of Rs 100/- each . . . . .	1,150.00	1,150.00	25.85
	<u>2,160.00</u>	<u>4,450.00</u>	<u>100.04</u>
<b>Issued, subscribed</b>			
<b>Equity</b>			
287,531,380 (86,922,900) equity shares of Rs 10/- each fully paid up . . . . .	869.23	2,875.31	64.64
(Of the above equity shares, 251,855,300 (78,009,500) shares were allotted as fully paid bonus shares by utilisation of Rs. 1740.40 million (Rs.190.40 million) from general reserve, Rs. 10.25 million (10.25 million) from capital redemption reserve and Rs. 768.00 million (Rs.579.50 million) from securities premium account.) . . . . .			
<b>Preference</b>			
1,500,000 (1,500,000) 10% cumulative redeemable preference shares of Rs. 100/- each fully paid up [See Schedule P, Note 6(a)(i)] . . . . .	150.00	150.00	3.38
Nil (10,000,000) 0.01% redeemable cumulative preference shares of Rs. 100/- each fully paid up [See Schedule P, Note 6(a)(ii)] . . . . .	1,000.00	—	—
	<u>2,019.23</u>	<u>3,025.31</u>	<u>68.02</u>
<b>SCHEDULE - B: EMPLOYEE STOCK OPTIONS</b>			
Employee stock options outstanding . . . . .	—	224.44	5.05
Less: Deferred employee compensation expense outstanding . . . . .	—	120.80	2.72
	<u>—</u>	<u>103.64</u>	<u>2.33</u>

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**  
**for the year ended March 31, 2006**

Particulars	As at 31 March		
	2005	2006	2006
	Rs. Million	Rs. Million	\$ Million
<b>SCHEDULE - C: RESERVES AND SURPLUS</b>			
<b>Capital Reserve on Consolidation</b> . . . . .	—	0.30	0.01
<b>Securities Premium Account</b>			
As per last balance sheet. . . . .	—	298.51	6.71
<b>Add:</b> Addition during the year . . . . .	953.74	13,381.34	300.84
<b>Less:</b> Capitalisation by way of issue of bonus shares. . . . .	579.49	188.45	4.24
<b>Less:</b> Share issue expenses [Net of tax benefit Rs. 25.60 million (Rs.Nil)] . . . . .	75.73	381.14	8.57
	<u>298.52</u>	<u>13,110.26</u>	<u>294.74</u>
<b>General Reserve</b>			
As per last Balance Sheet . . . . .	708.49	1,708.49	38.41
<b>Add:</b> Transfer from consolidated profit and loss account . . . . .	1,000.00	3,000.00	67.45
	<u>1,708.49</u>	<u>4,708.49</u>	<u>105.86</u>
<b>Less:</b> capitalisation by way of issue of bonus shares . . . . .	—	1,550.00	34.85
	<u>1,708.49</u>	<u>3,158.49</u>	<u>71.01</u>
<b>Profit and Loss Account</b> . . . . .	5,016.58	7,948.07	178.69
	<u>7,023.59</u>	<u>24,217.12</u>	<u>544.45</u>
<b>SCHEDULE - D: SECURED LOANS</b>			
<b>Term Loans</b>			
From bank and financial institutions [See Schedule P, Note 6 (c)(i)] . . . . .	811.43	1,026.15	23.07
From others [See Schedule P, Note 6 (c)(ii)]. . . . .	531.23	1,517.94	34.13
	<u>1,342.66</u>	<u>2,544.09</u>	<u>57.20</u>
<b>Working Capital Facilities from Banks and Financial Institutions</b>			
Rupee loans [See Schedule P, Note 6 (c)(iii)] . . . . .	2,080.28	1,352.20	30.40
Foreign currency loans [See Schedule P, Note 6 (c)(iii)] . . . . .	133.04	1.61	0.04
	<u>2,213.32</u>	<u>1,353.81</u>	<u>30.44</u>
<b>Vehicle Loans</b> . . . . .	11.20	1.15	0.02
(secured against hypothecation of vehicles). . . . .	<u>3,567.18</u>	<u>3,899.05</u>	<u>87.66</u>
<b>SCHEDULE - E: UNSECURED LOANS</b>			
<b>Long Term</b>			
From other than banks . . . . .	390.93	293.38	6.60
<b>Short Term</b>			
From other than banks . . . . .	—	314.72	7.07
	<u>390.93</u>	<u>608.10</u>	<u>13.67</u>

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**

**SCHEDULE - F: FIXED ASSETS**

Assets	Gross Block			Depreciation			Net Block					
	As at April 1, 2005	Additions	Deductions	As at March 31, 2006	As at April 1, 2005	Additions	Deductions	As at March 31, 2006	As at March 31, 2006		As at March 31, 2005	As at March 31, 2006
	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million		Rs. Million	\$ Million
Goodwill on consolidation . . .	12.72	5.64	0.07	18.29	2.37	1.83	—	4.20	14.09	10.35	0.32	
Freehold land . . . . .	127.91	74.44	0.05	202.30	—	—	—	—	202.30	127.91	4.55	
Leasehold land. . . . .	11.87	139.04	—	150.91	0.83	0.88	—	1.71	149.20	11.04	3.35	
Buildings - factory and office.	977.31	813.86	0.32	1,790.85	130.03	94.64	0.04	224.63	1,566.22	847.28	35.21	
Plant and machinery . . . . .	1,788.91	1,114.69	5.82	2,897.78	439.03	432.21	1.56	869.68	2,028.10	1,349.88	45.60	
Wind research and measuring equipment . . . . .	79.74	62.30	9.36	132.68	48.95	32.15	8.19	72.91	59.77	30.79	1.34	
Computers and office equipment . . . . .	269.09	179.22	7.56	440.75	89.92	78.25	7.21	160.96	279.79	179.17	6.29	
Furniture and fixtures . . . . .	115.60	86.88	—	202.48	44.87	22.27	—	67.14	135.34	70.73	3.04	
Vehicles . . . . .	58.00	26.85	9.43	75.42	26.60	10.78	6.83	30.55	44.87	31.40	1.01	
Intangible assets												
Designs & drawings . . . .	90.09	229.55	18.08	301.56	11.95	62.15	—	74.10	227.46	78.14	5.11	
SAP software. . . . .	65.64	14.05	—	79.69	13.13	16.64	—	29.77	49.92	52.51	1.12	
	<u>3,596.88</u>	<u>2,746.52</u>	<u>50.69</u>	<u>6,292.71</u>	<u>807.68</u>	<u>751.80</u>	<u>23.83</u>	<u>1,535.65</u>	<u>4,757.06</u>	<u>2,789.20</u>	<u>106.95</u>	
Capital Work-in-Progress . . . .	—	—	—	—	—	—	—	—	1,651.60	289.40	37.13	
	<u>3,596.89</u>	<u>2,746.52</u>	<u>50.69</u>	<u>6,292.71</u>	<u>807.68</u>	<u>751.80</u>	<u>23.83</u>	<u>1,535.65</u>	<u>6,408.66</u>	<u>3,078.60</u>	<u>144.08</u>	
Previous year . . . . .	1,912.22	1,787.42	102.76	3,596.88	315.03	501.20	8.55	807.68	2,789.20			

**Note:**

Depreciation charge for the current year amounting to Rs.751.80 million (Rs.501.20 million), is including Rs.31.74 million (Rs.7.95 million) which has been capitalised as part of self manufactured assets and Rs. 4.16 million (Rs.0.71 million) capitalised to operational assets, being pre-operative in nature. The depreciation charged in the Profit and Loss Account amounting to Rs.715.92 million (Rs.493.25 million) is net of the amount capitalised.



**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**

Particulars	As at 31 March		
	2005	2006	2006
	Rs. Million	Rs. Million	\$ Million
<b>SCHEDULE - G: INVESTMENTS</b>			
<b>LONG TERM INVESTMENTS (at cost, fully paid)</b>			
<b>UNQUOTED</b>			
(i) Government and Other Securities (Non Trade) . . . . .	0.31	0.35	0.01
(ii) Trade Investments . . . . .	66.50	60.00	1.35
(iii) Other than Trade Investments . . . . .	10.81	15.75	0.35
	<u>77.62</u>	<u>76.10</u>	<u>1.71</u>
<b>Aggregate cost of unquoted investments . . . . .</b>	<b>77.62</b>	<b>76.10</b>	<b>1.71</b>
<b>SCHEDULE - H - CURRENT ASSETS, LOANS AND ADVANCES</b>			
<b>Current Assets</b>			
<b>Inventories</b>			
Raw Materials (Including Goods-in-Transit Rs.1,813.40 million (Rs.1,075.50 million)) . . . . .	4,591.32	10,386.70	233.51
Semi-finished goods and work-in-progress . . . . .	1,028.67	1,655.30	37.21
Finished goods . . . . .	31.00	403.30	9.07
Land and land lease rights . . . . .	104.69	394.13	8.86
Stores and spares . . . . .	—	7.64	0.17
Projects work in progress . . . . .	—	463.20	10.42
	<u>5,755.68</u>	<u>13,310.27</u>	<u>299.24</u>
<b>Sundry Debtors</b>			
(Unsecured)			
Outstanding for a period exceeding six months			
considered good (See Schedule P, Note 6(e)) . . . . .	1,086.15	2,052.91	46.15
considered doubtful . . . . .	103.88	62.22	1.40
	<u>1,190.03</u>	<u>2,115.13</u>	<u>47.55</u>
Others, considered good . . . . .	5,842.74	14,420.19	324.20
	<u>7,032.77</u>	<u>16,535.32</u>	<u>371.75</u>
<b>Less: Provision for doubtful debts . . . . .</b>	<b>103.88</b>	<b>62.22</b>	<b>1.40</b>
	<u>6,928.89</u>	<u>16,473.10</u>	<u>370.35</u>
<b>Cash and bank balances</b>			
Cash on hand . . . . .	6.39	8.38	0.19
Cheques in transit . . . . .	—	4.97	0.11
Balances with scheduled banks			
in current accounts . . . . .	195.53	327.04	7.35
in term deposit accounts . . . . .	804.44	3,895.27	87.57
	<u>999.97</u>	<u>4,222.31</u>	<u>94.92</u>
Balance with non-scheduled banks in current accounts . . . . .	538.28	1,279.16	28.76
	<u>1,544.64</u>	<u>5,514.82</u>	<u>123.98</u>
<b>Loans and advances</b>			
(Unsecured and considered good, except otherwise stated)			
<b>Deposits</b>			
With customers as security deposit . . . . .	325.77	259.44	5.83
Others . . . . .	78.98	821.77	18.48
Advance income-tax . . . . .	7.41	127.38	2.86
Advances recoverable in cash or in kind or for value to be received*			
considered good . . . . .	2,835.15	5,198.60	116.88
considered doubtful . . . . .	33.51	27.01	0.61
	<u>3,280.82</u>	<u>6,434.21</u>	<u>144.66</u>
<b>Less: Provision for doubtful loans and advances. . . . .</b>	<b>33.51</b>	<b>27.01</b>	<b>0.61</b>
	<u>3,247.31</u>	<u>6,407.20</u>	<u>144.05</u>
	<u>17,476.52</u>	<u>41,705.39</u>	<u>937.62</u>

\* Include (a) Rs.Nil\*\*(Rs 4.30 million) towards share application money pending allotment and (b) Intercompany deposits of Rs.1,854.50 million (Rs.1,886.40 million).

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**  
**for the year ended March 31, 2006**

Particulars	As at 31 March		
	2005	2006	2006
	Rs. Million	Rs. Million	\$ Million
<b>SCHEDULE - I: CURRENT LIABILITIES AND PROVISIONS</b>			
<b>Current Liabilities</b>			
Sundry creditors . . . . .	4,591.25	7,027.03	157.98
Acceptances . . . . .	614.55	225.85	5.08
Other current liabilities . . . . .	379.66	2,176.96	48.94
Interest accrued but not due . . . . .	7.60	13.60	0.31
Advances from customers . . . . .	386.91	3,533.60	79.44
	<u>5,979.97</u>	<u>12,977.04</u>	<u>291.75</u>
<b>Provisions</b>			
Wealth tax . . . . .	0.14	0.18	0.00
Income tax . . . . .	70.78	17.99	0.40
Gratuity, superannuation and leave encashment . . . . .	10.04	68.48	1.54
Generation guarantee, LD, operation, maintenance and warranty . .	1,596.16	3,170.83	71.29
Dividend . . . . .	131.00	736.90	16.57
Tax on dividend . . . . .	20.91	106.61	2.40
Fringe benefit tax . . . . .	—	0.08	0.00
	<u>1,829.03</u>	<u>4,101.07</u>	<u>92.20</u>
	<u>7,809.00</u>	<u>17,078.11</u>	<u>383.95</u>
<b>SCHEDULE - J: MISCELLANEOUS EXPENDITURE</b>			
(To the extent not adjusted or written off)			
<b>Preliminary Expenses</b>			
Opening balance . . . . .	2.11	4.09	0.09
Add: Addition during the year . . . . .	3.79	6.20	0.14
Less: Written off during the Year . . . . .	1.81	1.80	0.04
	<u>4.09</u>	<u>8.49</u>	<u>0.19</u>

**SUZLON ENERGY LIMITED**

**Schedules annexed to and forming part of the Consolidated Profit and Loss Account**

Particulars	Year Ended 31 March		
	2005	2006	2006
	Rs. Million	Rs. Million	\$ Million
<b>SCHEDULE- K: OTHER INCOME</b>			
Interest Received			
From Banks . . . . .	35.41	161.83	3.64
From Others . . . . .	145.60	149.92	3.37
Dividends . . . . .	3.42	4.18	0.10
Excess provision written back . . . . .	3.00	—	—
Sale of Sales Tax Entitlement . . . . .	29.91	—	—
Infrastructure Development Income . . . . .	1.02	81.50	1.83
Miscellaneous Income . . . . .	16.02	159.05	3.57
	<u>234.38</u>	<u>556.48</u>	<u>12.51</u>
<b>SCHEDULE - L: COST OF GOODS SOLD</b>			
<b>Consumption of Raw Material:</b>			
Opening Stock . . . . .	1,703.66	4,591.32	103.22
Add: Purchases . . . . .	14,760.63	29,282.10	658.32
	<u>16,464.29</u>	<u>33,873.42</u>	<u>761.54</u>
Less: Closing Stock . . . . .	4,591.32	10,386.70	233.51
	(A) <u>11,872.97</u>	<u>23,486.72</u>	<u>528.03</u>
Trading Purchases . . . . .	(B) 160.66	1,131.02	25.43
<b>(Increase)/Decrease in Stocks:</b>			
<b>Opening Balance:</b>			
Semi Finished Goods and Work-in-Progress . . . . .	303.68	1,028.67	23.13
Finished Goods . . . . .	192.96	31.00	0.69
Land and Land Lease Rights . . . . .	10.87	104.69	2.35
	( C ) <u>507.51</u>	<u>1,164.36</u>	<u>26.17</u>
<b>Closing Balance:</b>			
Semi Finished Goods and Work-in-Progress . . . . .	1,028.67	1,655.30	37.21
Finished Goods . . . . .	31.00	403.30	9.07
Land and Land Lease Rights . . . . .	104.69	394.13	8.86
	(D) <u>1,164.36</u>	<u>2,452.73</u>	<u>55.14</u>
<b>(Increase)/Decrease in Stock . . . . .</b>	(C)-(D)=(E) (656.85)	(1,288.37)	(28.97)
Less: Transfer to Designs and Drawings . . . . .	(F) —	238.63	5.36
	(A)+(B)+ (E)-(F) <u>11,376.78</u>	<u>23,090.74</u>	<u>519.13</u>

**SUZLON ENERGY LIMITED**

**Schedules annexed to and forming part of the Consolidated Profit and Loss Account**

Particulars	Year Ended 31 March		
	2005	2006	2006
	Rs. Million	Rs. Million	\$ Million
<b>SCHEDULE - M: OPERATING &amp; OTHER EXPENSES</b>			
Stores and spares . . . . .	70.13	177.79	4.00
Power and fuel . . . . .	12.53	40.65	0.91
Factory expenses . . . . .	25.76	167.03	3.76
Repairs and maintenance			
Plant and machinery . . . . .	4.54	14.81	0.33
Building . . . . .	14.70	19.25	0.43
Others . . . . .	17.21	30.58	0.69
Design change and technological upgradation charges . . . . .	32.80	51.61	1.16
Operation and maintenance charges . . . . .	70.30	146.68	3.30
Other manufacturing and operating expenses . . . . .	3.85	4.55	0.10
Insurance . . . . .	31.10	59.64	1.34
Quality assurance expenses . . . . .	86.02	165.60	3.72
R & D, certification and product development . . . . .	33.99	17.73	0.40
Rent . . . . .	49.81	91.48	2.06
Rates and taxes . . . . .	6.57	51.22	1.15
Provision for operation, maintenance and warranty . . . . .	578.44	857.70	19.28
Provision for power generation guarantee . . . . .	450.70	1,065.14	23.95
Advertisement and sales promotion . . . . .	60.95	155.36	3.49
Infrastructure development expenses . . . . .	146.32	0.09	0.00
Freight outward and packing expenses . . . . .	245.93	796.42	17.91
Sales commission . . . . .	97.78	232.47	5.23
Travelling, conveyance and vehicle expenses . . . . .	160.21	335.23	7.54
Communication expenses . . . . .	26.57	55.48	1.25
Auditors' remuneration . . . . .	12.59	30.44	0.68
Consultancy charges . . . . .	78.65	161.93	3.64
Charity and donations . . . . .	51.73	21.15	0.47
Other selling and administrative expenses . . . . .	233.94	327.61	7.37
Exchange differences, net . . . . .	36.49	32.70	0.73
Provision for doubtful debts and advances . . . . .	93.30	5.75	0.13
Loss on sale of investment . . . . .	0.08	—	
Loss on assets sold/discarded, net . . . . .	4.78	5.30	0.12
	<u>2,737.77</u>	<u>5,121.39</u>	<u>115.14</u>
<b>SCHEDULE - N: EMPLOYEES' REMUNERATION AND BENEFITS</b>			
Salaries, wages, allowances and bonus . . . . .	550.79	1,126.03	25.32
Contribution to provident and other funds . . . . .	22.35	36.42	0.82
Staff welfare expenses . . . . .	44.65	53.43	1.20
	<u>617.79</u>	<u>1,215.88</u>	<u>27.34</u>
<b>SCHEDULE - O: FINANCIAL CHARGES</b>			
Interest			
Fixed loans . . . . .	120.17	129.20	2.90
Others . . . . .	232.32	378.42	8.51
Bank Charges . . . . .	105.76	140.16	3.15
	<u>458.25</u>	<u>647.78</u>	<u>14.56</u>

## SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES

### SCHEDULE - P: SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF SUZLON FOR THE FINANCIAL YEAR ENDED MARCH 31, 2006 (All amounts in Rupees Million unless otherwise stated)

#### 1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements are prepared under the historical cost convention, on an accrual basis of accounting in conformity with accounting principles generally accepted in India, to reflect the financial position of the Company and its subsidiaries.

#### 2. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements relate to Suzlon Energy Limited ("the Company") and its subsidiaries (together referred to as "Suzlon" or "the Group"). The consolidated financial statements have been prepared on the following basis:

- a) The financial statements of the Company and its subsidiaries have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra group balances and intra group transactions. The unrealised profits or losses resulting from the intra group transactions have been eliminated as per Accounting Standard 21 – Consolidated Financial Statements issued by the Institute of Chartered Accountants of India ("ICAI").
- b) The excess of the cost to the Company of its investment in the subsidiaries over the Company's portion of equity on the acquisition date is recognised in the financial statements as Goodwill. The Company's portion of the equity in the subsidiaries at the date of acquisition is determined after realigning the material accounting policies of the subsidiaries to that of the parent and adjusting the charge/(reversal) on account of realignment to the accumulated reserves and surplus of the subsidiaries at the date of acquisition.
- c) The Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and necessary adjustments required for deviations, if any, are made in the consolidated financial statements and are presented in the same manner as the Company's standalone financial statements.

#### 3. SIGNIFICANT ACCOUNTING POLICIES

##### a) Use of Estimates

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that may affect the reported amount of assets and liabilities and disclosures relating to contingent liabilities as at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

##### b) Revenue Recognition

###### ***Sale of Goods***

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of the goods are transferred to the customer, as per the terms of the respective sales order.

###### ***Power Generation Income***

Power Generation Income is recognised on the basis of electrical units generated, net of wheeling and transmission loss, as applicable, as shown in the Power Generation Reports issued by the concerned authorities.

###### ***Sales Tax Entitlement***

Revenues on account of sale of Sales Tax Entitlement Certificates are recognised as per the terms of agreement/arrangement with the concerned parties.

###### ***Service and Maintenance Income***

Revenue from annual service and maintenance contracts is recognised on the proportionate basis for the period for which the service is provided net of taxes.

###### ***Lease Rental Income***

Lease rental income is recognised on accrual basis taking into consideration the data and facts available upon which the computation of lease rent depends.

###### ***Interest***

Interest income is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable. In case of interest charged to customers, interest is accounted for on availability of documentary evidence that the customer has accepted the liability.

## **Dividend**

Dividend income from investments is recognised when the right to receive payment is established.

### **c) Fixed Assets**

Fixed assets are stated at cost, less accumulated depreciation and impairment losses, if any. Cost includes all expenditure necessary to bring the asset to its working condition for its intended use. Own manufactured assets are capitalised inclusive of all direct costs and attributable overheads. Capital Work in Progress comprises of advances paid to acquire fixed assets and the cost of fixed assets that are not yet ready for their intended use as at the balance sheet date. In the case of new undertaking, pre-operative expenses are capitalised upon the commencement of commercial production.

The carrying amount of the assets belonging to each cash generating unit ("CGU") are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying amounts exceed the recoverable amount of the assets' CGU, assets are written down to their recoverable amount. Further, assets held for disposal are stated at the lower of the net book value or the estimated net realisable value.

### **d) Intangible Assets**

#### **Research and Development Costs**

Development cost incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised over the period of expected future sales from the related project, not exceeding five years.

The carrying value of development costs is reviewed for impairment annually when the asset is not in use, and otherwise when events and changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets are recorded at the consideration paid for their acquisition. Cost of an internally generated asset comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and making the asset ready for its intended use.

### **e) Depreciation/Amortisation**

Depreciation/Amortisation is provided on the written down value method ("WDV") unless otherwise mentioned, pro-rata to the period of use of assets and is based on management's estimate, of useful lives of the fixed assets or at rates specified in Schedule XIV to the Companies Act 1956 ("the Act"), whichever is higher:

<b>Type of asset</b>	<b>Rate</b>
Goodwill . . . . .	Amortised on a straight line basis over a period of ten years
Leasehold land . . . . .	Amortised over the period of lease
Office building . . . . .	5%
Factory building. . . . .	10%
Plant and Machinery	
- Single Shift. . . . .	13.91%
- Double Shift . . . . .	20.87%
- Triple Shift . . . . .	27.82%
Wind Turbine Generators. . . . .	15.33%
Moulds . . . . .	13.91% or Useful life based on usage
Patterns . . . . .	30% or Useful life based on usage
Plugs for Moulds . . . . .	50% or useful Life based on usage
Wind research and measuring Equipment . . . . .	50%
Computers and software . . . . .	40%
Office equipment . . . . .	13.91%
Furniture and fixture. . . . .	18.10%
Motor car and others . . . . .	25.89%
Trailers . . . . .	30%
Intangible assets . . . . .	Amortised on a straight line basis over a period of five years

### **f) Inventories**

Inventories of raw materials including stores, spares and consumables, packing materials; semi-finished goods; work in progress and finished goods are valued at the lower of cost and estimated net realisable value. Cost is determined on weighted average basis.

The cost of work-in-progress, semi-finished goods and finished goods includes the cost of material, labour and manufacturing overheads.

Inventories of traded goods are stated at the lower of the cost and net realisable value.

Stock of land and land lease rights is valued at lower of cost and net realisable value. Cost is determined based on weighted average basis. Net realisable value is determined by the management using technical estimates.

**g) Investments**

Long Term Investments are carried at cost. However, provision is made to recognise a decline, other than temporary, in the value of long term investments.

Current investments are carried at the lower of cost and fair value, determined on an individual basis.

**h) Foreign Currency Transactions**

Transactions in foreign currencies are normally recorded at the average exchange rate prevailing in the month during which the transaction occurred. Outstanding balances of foreign currency monetary items are reported using the period end rates.

Non-monetary items carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rate that existed, when the values were determined.

Exchange differences arising as a result of the above are recognised as income or expense in the Profit and Loss Account, except in case of liabilities incurred for acquiring imported fixed assets, where the differences are adjusted to the carrying amount of such fixed assets in compliance with the Schedule VI of the Act.

In case of forward contracts, the difference between the forward rate and the exchange rate, being the premium or discount, at the inception of a forward exchange contract is recognised as income or expense over the life of the contract. Exchange differences on such contracts are recognised in the profit and loss account in the reporting period in which the rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the period.

The financial statements of integral foreign operations are translated as if the transactions of the foreign operations have been those of the Company itself. In case of the Foreign Subsidiaries, revenue items are consolidated at the average rate prevailing during the year. All the monetary assets and liabilities are converted at the rates prevailing at the end of the year. Non-monetary items like Fixed Assets and Inventories, are converted at the average rate prevailing in the month during which the transaction occurred.

**i) Borrowing Costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of such assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to revenue.

**j) Retirement and other employee benefits**

Defined Contributions to provident fund and family pension fund are charged to the Profit and Loss Account on accrual basis.

Liabilities with regard to gratuity, where applicable, are determined under Group Gratuity Scheme with Life Insurance Corporation of India (LIC) and the provision required is determined as per actuarial valuation carried out by LIC, as at the balance sheet date.

Contributions to Superannuation fund with LIC through its employees' trust are charged to the profit and loss account on an accrual basis.

The provision in the books for unutilised leave lying to the credit of employees, subject to the maximum period of leave, are made on the basis of actuarial valuation as at the balance sheet date.

**k) Provisions, Contingent Liabilities and Contingent Assets**

A provision is recognised when there is a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to their present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Contingent Liabilities are disclosed by way of notes to the accounts.

Contingent assets are not recognised.

**l) Income Tax**

Tax expense for a year comprises of current tax, deferred tax and fringe benefit tax. Current tax is measured after taking into consideration, the deductions and exemptions admissible under the provisions of applicable laws.

Deferred tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If the Company has carry forward of unabsorbed depreciation and tax losses, deferred tax assets are recognised only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are reassessed and recognised to the extent it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

Deferred tax resulting from timing differences which originate during the tax holiday period but are expected to reverse after tax holiday period is recognised in the year in which the timing differences originate using the tax rates and laws enacted or substantively enacted by the balance sheet date.

**m) Lease Assets**

***Operating Leases***

Assets acquired as leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Lease rentals are charged off to the Profit and Loss Account as incurred.

Initial direct costs in respect of assets given on lease are expensed off in the year in which such costs are incurred.

**n) Earnings Per Share**

Basic earnings per share are calculated by dividing the net profit for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period are adjusted for any bonus shares issued during the year and also after the balance sheet date but before the date the financial statements are approved by the Board of Directors.

For the purpose of calculating diluted earnings per share, the net profit for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential Equity Shares.

The number of Equity Shares and potentially dilutive equity shares are adjusted for bonus shares as appropriate. The dilutive potential equity shares are adjusted for the proceeds receivable, had the shares been issued at fair value. Dilutive potential equity shares are deemed converted as of the beginning of the period, unless issued at a later date.

**o) Employee Stock Option**

Stock options granted to employees under the Employees Stock Option Scheme are accounted as per the intrinsic value method permitted by the "Guidance Note On Share Based Payments" issued by the ICAI. Accordingly, the excess of the market price of the shares as on the date of the grant of options over the exercise price is recognised as deferred employee compensation and is charged to profit and loss account on straight-line basis over the vesting period.

The number of options expected to vest is based on the best available estimate and are revised, if necessary, if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

**4. CHANGES IN ACCOUNTING POLICIES**

During the current year, Suzlon has changed the basis of valuation of inventories from first-in-first-out ('FIFO') to Weighted Average basis. As a result of this change, the value of the inventory as at March 31, 2006 is higher by Rs.26.70 Million and the profit before tax for the year is higher by a similar amount.



5. THE LIST OF SUBSIDIARY COMPANIES WHICH ARE INCLUDED IN THE CONSOLIDATION AND THE COMPANY'S EFFECTIVE HOLDINGS THEREIN ARE AS UNDER:

Name of the Subsidiary	Country of Incorporation	Effective Ownership in Subsidiaries	
		2004-05	2005-06
AE-Rotor Holding B.V. . . . . .	Netherlands	100%	100%
AE-Rotor Techniek B.V. . . . . .	Netherlands	100%	100%
Suzlon Energy B.V. . . . . .	Netherlands	100%	100%
Suzlon Energy A/S . . . . .	Denmark	100%	100%
Suzlon Wind Energy Corporation . . . . .	USA	100%	100%
Cannon Ball Wind Energy Park I, LLC . . . . .	USA	100%	100%
Suzlon Energy Australia Pty. Ltd. . . . . .	Australia	100%	100%
Suzlon Energy GmbH . . . . .	Germany	100%	100%
Suzlon Windfarm Services Ltd . . . . .	India	100%	100%
Suzlon Towers & Structures Ltd. (formerly known as Suzlon Green Power Limited) . . . . .	India	100%	100%
Suzlon Generators Pvt. Ltd. . . . . .	India	74.91%	74.91%
Suzlon Structures Pvt. Ltd . . . . .	India	75%	75%
Windpark Olsdorf WATT GmbH & Co KG . . . . .	Germany	—	100%
Suzlon Windpark Management GmbH & Co KG . . . . .	Germany	—	100%
Suzlon Windkraft GmbH . . . . .	Germany	—	100%
Suzlon Rotor Corporation . . . . .	USA	—	100%
Suzlon Power Infrastructure Private Ltd. . . . . .	India	—	100%
Suzlon Energy Tianjin Ltd . . . . .	China	—	100%
SE Drive Techniek GmbH . . . . .	Germany	—	100%
Suzlon Gujarat Windpark Ltd. . . . . .	India	—	100%
Suzlon Engitech Pvt. Ltd . . . . .	India	—	100%

As the operations of Suzlon Energy Limited, Mauritius (a wholly owned subsidiary) were not material in the relation to the size of consolidated operations, the financial statements of the subsidiary did not form part of the consolidated financial statements.

6. OTHER NOTES

a) Terms of Redemption/Conversion of Preference Shares of the Company

- (i) 1,500,000 10% Cumulative Redeemable Preference Shares of Rs.100/-each fully paid are redeemable at par after one year from March 10, 2004, which is the date of allotment, at the option of the Company or the preference shareholders, as the case may be.
- (ii) During the year, the Company has redeemed the 10,000,000, 0.01% Cumulative Redeemable Preference Shares of Rs. 100/- out of the Initial Public Offer proceeds.

b) 29,700 and 220,300 8% Cumulative Redeemable Preference Shares of Rs.100/-each fully paid of Suzlon Structures Private Limited ('SSPL') are redeemable at par after one year from March 29, 2005 and June 28, 2005, being the respective dates of allotment, at the option of SSPL or of the Preference Shareholders as the case may be. This portion represents the holding by the external Shareholders of SSPL only, other than the Holding Company.

c) The details of security for the Secured Loans in Consolidated Financial Statements are as follows:

(i) Term Loans from Banks and Financial Institutions:

- Rs. 72.18 million (Rs. 14.86 million) secured by charge on certain WTG's , land and personal guarantee of directors.
- Rs. 57.49 million (Rs. 67.17 million) secured by way of hypothecation of stocks and debtors and on specific receivables.
- Rs. 285.42 million (Rs. Nil) secured by way of hypothecation of all plant & machinery and other fixed assets and second charge on all current assets.
- Rs. 312.12 million (Rs. 281.34 million) secured by way of First charge on certain immovable and moveable Fixed Assets, second charge on Current Assets and personal guarantee of directors.
- Rs. 252.81 million (Rs. 153.76 million) secured by a first charge on certain immovable and movable fixed assets, second charge on current assets and personal guarantees of directors in certain cases.
- Rs. 46.14 million (Rs. 120.16 million) secured by way of hypothecation of certain wind farm projects and mortgage of land.

- Rs. 143.28 million (Rs. 174.14 million) secured by way of charge on certain WTG's and land appurtenant thereto and personnel guarantee of directors.

(ii) **Term Loans from Others:**

Secured by a first charge on certain immovable and movable fixed assets, specific security deposits, book debts, second charge on current assets and personal guarantees on directors in certain cases.

(iii) **Working Capital Facilities from Banks and Financial Institutions**

*Rupee Loans*

- Rs. 1,140.26 million (Rs. 2,028.50 million) secured by hypothecation of inventories, book-debts and other current assets, both present and future, first charge on certain immovable fixed assets, second charge on all other immovable fixed assets and personal guarantees of directors in certain cases.
- Rs. 58.72 million (Rs. Nil) secured by hypothecation of all current assets and second charge on Fixed Assets.
- Rs. 154.84 million (Rs. 51.78 million) secured by way of hypothecation of inventories, book debts and other current assets, both present and future, second charge on all other immovable fixed assets and personal guarantee of directors.

*Foreign Currency Loans*

- Rs. 1.59 million (Rs.1.82 million) is secured by way of mortgage of office building at Pipestone, USA.

Further out of the above, term loans from banks and financial institutions amounting to Rs. 535.70 million (Rs. 624.10 million) and Working Capital facilities from banks and financial institutions amounting to Rs. 1,195.10 million (Rs.2,211.21 million) are secured by personal guarantee of directors.

- d) Sales do not include excise duty, service tax, sales tax or VAT charged.
- e) Balances of Sundry Debtors include Rs 8.49 million (Rs 224.83 million), which are contractually payable beyond a period of six months from the date of sale.
- f) **Operating Leases**

**Premises**

Suzlon has taken certain premises under cancellable operating leases. The total rental expense under cancellable operating leases during the period was Rs. 38.46 million (17.26 million).

The group have also taken furnished/non-furnished offices and certain other premises under non-cancellable operating lease agreement ranging for a period of one to five years. The lease rental charge during the year is Rs. 53.00 million (Rs. 17.67 million) and maximum obligation on long-term non-cancellable operating lease payable as per the rentals stated in respective agreement are as follows:

<b>Obligation on non-cancellable operating leases</b>	<b>Amount</b>
	<b>(Rs Million)</b>
Not later than one year . . . . .	63.60
Later than one year and not later than five years . . . . .	71.19
Later than five years. . . . .	Nil

g) **Employee Stock Option Scheme**

**Suzlon Energy Employee Stock Option Plan 2005 ("the 2005 Plan" or "the scheme"):** The Company instituted the 2005 Plan for all eligible employees in pursuance of a special resolution approved by the share holders at the Extra-ordinary General meeting held on June 16, 2005('grant date'). The Scheme covers grant of options to specified permanent employees of the Company as well as its subsidiaries except subsidiaries in the United States of America.

Pursuant to the scheme, the Company has granted 921,000 options to eligible employees at an exercise price, which is 50% of the issue price determined in the Initial Public Offering ("IPO") of the Company in accordance with SEBI Guidelines i.e, Rs.510 per equity share. Under the terms of the scheme, 30% of the options will vest in the employees at the end of the first year, 30% at the end of the second year and the balance of 40% at the end of third year from the grant date in the following manner:

<b>Date of Vesting</b>	<b>Proportion of Vesting</b>
June 16, 2006 . . . . .	30%
June 16, 2007 . . . . .	30%
June 16, 2008 . . . . .	40%

The Employee Stock Options granted shall be capable of being exercised within a period of five years from the date of first vesting i.e. June 16, 2006. Once the options vest as per the Schedule above, they would be exercisable by the option holder and the shares arising on exercise of such options shall not be subject to any lock-in period. Further, in the case of termination of employment, all non-vested options would stand cancelled. Options that have vested but have not been exercised can be exercised within the time prescribed as mentioned above, failing which they would stand cancelled.

During the year ended March 31, 2006, no eligible employees have exercised their options as the date of first vesting falls in the succeeding year. Further, 32,000 options were forfeited as certain employees resigned from the services of the Company. The movement in the stock options during the year was as per the table below:

<b>Options Outstanding at the beginning of the year</b> . . . . .	<b>Nil</b>
Granted during the year . . . . .	921,000
Forfeited during the year . . . . .	32,000
Exercised during the year . . . . .	Nil
Expired during the year . . . . .	Nil
<b>Options Outstanding at the end of the year</b> . . . . .	<b>889,000</b>
Exercisable at the end of the year . . . . .	Nil

**Fair Value of the Option**

The Company has charged a sum of Rs.103.64 million (Rs.255 per option) being the intrinsic value of option under the 2005 Plan for the year ended March 31, 2006. Had the Company adopted the fair value method based on "Black-Scholes" Model for pricing and accounting the options, the cost of option would have been Rs.324.33 per option and accordingly, the profit after tax would have been lower by Rs.28.18 million. Consequently the diluted earnings per share after factoring the above impact of fair value would have been Rs. 27.69 per share instead of Rs.27.68 per share.

**h) Provisions**

In pursuance of Accounting Standard-29 ("AS-29") "Provisions, Contingent Liabilities and Contingent Assets" issued by the ICAI, the provisions required have been incorporated in the books of accounts in the following manner:

<b>Particulars</b>	<b>Generation Guarantee</b>	<b>Warranty for Operation and Maintenance</b>	<b>Provision for Liquidated Damages</b>
Opening Balance . . . . .	579.79	976.69	39.68
Additions net of utilisation. . . . .	834.75	752.30	0.00
(Reversal). . . . .	—	—	(12.38)
Closing Balance . . . . .	<u>1,414.54</u>	<u>1,728.99</u>	<u>27.30</u>

The provision for operation, maintenance and warranty represents the expected liability on account of field failure of parts of WTG and expected expenditure of servicing the WTG's over the period of free operation, maintenance and warranty, which varies according to the terms of each sales order.

The provision for Generation Guarantee ("GG") represents the expected outflow of resources against claims for generation shortfall expected in future over the life of the guarantee assured. The period of GG varies for each customer according to the terms of the contract. The key assumptions in arriving at the GG provision are wind velocity, plant load factor, grid availability, load shedding, historical data, wind variation factor etc.

Provision for Liquidated Damages ("LD") represents the expected claims which the Company may need to pay for non fulfilment of certain commitments as per the terms of the sales order. These are determined on a case to case basis considering the dynamics of each individual sales order and the factors relevant to that sale.

7. BREAK UP OF THE ACCUMULATED DEFERRED TAX ASSET, NET, IS GIVEN BELOW:

Particulars	Deferred Tax Asset /(Liability) as at March 31,2005	Deferred Tax Asset /(Liability) as at March 31,2006
<b>A. Deferred Tax Assets:</b>		
Provision for Generation Guarantee, LD and operation, maintenance and warranty . . . . .	285.19	546.10
Provision for Doubtful Debts . . . . .	21.84	15.61
Unabsorbed Losses . . . . .	41.53	335.59
Unabsorbed Depreciation. . . . .	34.96	—
Others . . . . .	2.97	1.54
<b>Total . . . . .</b>	<u>386.49</u>	<u>898.85</u>
<b>B. Deferred Tax Liability:</b>		
Depreciation on Fixed Assets . . . . .	145.43	105.46
<b>Total . . . . .</b>	<u>145.43</u>	<u>105.46</u>
<b>C. Deferred Tax Asset (Net) (A - B) . . . . .</b>	241.06	793.39
<b>D. Tax Effect of Share issue expenses eligible for income tax Deduction under section 35D, credited to securities premium account. . . . .</b>	—	24.20
<b>E. Total . . . . .</b>	<u>241.06</u>	<u>817.59</u>

*Note:*

During the year, the Company acquired the entire share capital of Suzlon Engitech Private Limited ("SEPL"), Suzlon Power Infrastructure Private Limited ("SPIPL") and Suzlon Gujarat Windpark Private Limited ("SGWPL"), whose balances since date of their acquisition have been consolidated in the books of Suzlon Energy Limited. The deferred tax assets (net) of SPIPL and SGWPL as at March 31, 2005 amounting to Rs.Nil and Rs.0.84 million respectively and the deferred tax assets (net) of SEPL as at June 30, 2005 amounting to Rs.0.59 million have been consolidated.

8. Estimated amount of contracts remaining to be executed on capital accounts and not provided for, net of advances. Rs 978.57 million (Rs.323.69 million).

9. MANAGERIAL REMUNERATION TO DIRECTORS

Particulars	2004-05	2005-06
Salaries . . . . .	8.56	14.71
Perquisites . . . . .	5.97	—
Contribution to Superannuation Fund. . . . .	1.78	3.05
Sitting Fees . . . . .	-	0.14
<b>Total . . . . .</b>	<u>16.31</u>	<u>17.90</u>

The directors are covered under the Company's scheme for gratuity along with the other employees of the Company. The proportionate amount of gratuity is not included in the aforementioned disclosure, as the amount attributable to directors is not ascertainable.

## 10. EARNINGS PER SHARE (EPS)

All amounts in Rs. Million except per share data

Particulars	April 1, 2004 to March 31, 2005	April 1, 2005 to March 31, 2006
<b>Basic Earnings per share</b>		
Net Profit . . . . .	3,653.34	7594.99
Less: Preference Dividend and Tax thereon . . . . .	32.40	18.96
Net Profit attributable to equity shareholders [ <b>Numerator for computation of basic and diluted EPS</b> ](a) . . . . .	<u>3,620.94</u>	<u>7576.03</u>
Weighted average number of Equity Shares in calculating basic EPS [ <b>Denominator for computation of basic EPS</b> ] (b) . . . . .	253,005,661	273,233,510
Add: Equity shares for no consideration arising on grant of stock options under ESOP 2005 . . . . .	—	430,697
Weighted average number of Equity Shares in calculating diluted EPS [ <b>Denominator for Diluted EPS</b> ](c) . . . . .	<u>253,005,661</u>	<u>273,664,207</u>
<b>Basic Earning per share of face value of Rs. 10/- each (a/b *10,000,000)</b> . . . . .	<u>14.34</u>	<u>27.73</u>
<b>Diluted Earning per share of face value of Rs. 10/- each (a/c*10,000,000)</b> . . . . .	<u>14.34</u>	<u>27.68</u>

## 11. CONTINGENT LIABILITIES

Particulars	2004-05	2005-06
Guarantees given on behalf of other companies in respect of loans granted to them by banks. . . . .	13.95	8.80
Counter guarantees given to the banks against guarantees issued by banks on Company's behalf. . . . .	19.32	2.50
Claims against the Company not acknowledged as debts . . . . .	17.46	2.50
Bills discounted with banks . . . . .	33.25	—
Disputed labour cost Liabilities . . . . .	0.17	0.17
Disputed service tax Liabilities . . . . .	8.76	8.76
Bonds/undertakings given by the Company under duty exemption scheme to customs authorities. . . . .	51.77	56.55

## 12. DERIVATIVE INSTRUMENTS AND UNHEDGED FOREIGN CURRENCY EXPOSURE

Particulars of Derivatives	Purpose
<b>Forward contract outstanding as at Balance Sheet date</b>	
Buy DKK 386,239.60	Hedge of forex DKK liabilities
Buy Euros 5,677,739.50	Hedge of forex Euro liabilities
Buy USD 68,348,272.54	Hedge of forex USD liabilities
<b>Target redemption forward contract</b>	
Euro 0.25 million/Euro 0.5 million per week for 18 weeks	Hedge forex Euro liabilities.
<b>Range accrual Interest rate swap</b>	
USD 2.0 million	Hedge against interest on forex loans.

### Particulars of Unhedged foreign Currency Exposure as at the Consolidated Balance Sheet date

Particulars	Amount (Rs. In Million)
Creditors (including Goods in Transit Rs.1337.55 million) . . . . .	2,434.62
Debtors . . . . .	243.20
Loans Given . . . . .	472.04
Loans Received . . . . .	819.97
Bank balance in current accounts and term deposit accounts . . . . .	44.48

### 13. RELATED PARTY DISCLOSURES

#### (A) Related Parties with whom transactions have taken place during the year

##### a) **Associates**

Suzlon Infrastructure Ltd. (Formerly known as Suzlon Developers Ltd.), Sarjan Realities Limited.

##### b) **Entities where Key Management Personnel ("KMP")/Relatives of Key Management Personnel ("RKMP") has significant influence**

Suzlon Capital Ltd., Suzlon Hotels Ltd., Sarjan Infrastructure Finance Ltd., Shubh Realty (South) Pvt. Ltd, Sugati Holdings Pvt. Ltd and Kush Synthetics Pvt. Ltd.

##### c) **Key Management Personnel**

Tulsi R. Tanti, , Girish R. Tanti, Vinod R. Tanti and B.A. Parmar (See Note Below)

##### d) **Relatives of Key Management Personnel**

Gita T. Tanti, Rambhoben Ukabhai, Pranav T. Tanti, Nidhi T. Tanti, Vinod R. Tanti, Jitendra R. Tanti, Sangita V. Tanti, Lina J. Tanti, Esha G. Tanti, Sheela B. Parmar, Ranjitsinh A. Parmar, Amarsinh A. Parmar, Kiritsinh A. Parmar.

##### e) **Employee Funds:**

Suzlon Energy Limited - Superannuation Fund.

Suzlon Energy Limited - Employees Group Gratuity Scheme.

Suzlon Windfarm Services Limited - Superannuation Fund.

Suzlon Windfarm Services Limited - Employees Group Gratuity Scheme.

Suzlon Towers and Structures Limited (formerly Suzlon Green Power Limited) — Superannuation Fund.

*Note:* Vinod R.Tanti and B.A. Parmar have been directors of the Company till June 30, 2005, and have not been considered as key management personnel post June 30, 2005.

#### (B) Transactions between the Group and Related Parties and the status of outstanding balances as at March 31, 2006

Sr. No.	Particulars	Associate	Entities where KMP/RKMP has significant influence	KMP	RKMP	Employee Funds
<b>Transactions</b>						
1	Purchase of fixed assets . . .	3.10	—	—	—	—
		(0.38)	—	—	—	—
2	Sale of fixed assets . . . . .	0.05	—	—	—	—
		(0.24)	—	(1.62)	(1.04)	—
3	Subscription to/purchase Of preference shares . . .	—	—	—	—	—
		(50.00)	(1.30)	(24.53)	(27.94)	—
4	Subscription to/purchase Of equity shares . . . . .	—	—	0.34	3.53	—
		—	—	(15.44)	(39.66)	—
5	Sale of investments . . . . .	6.50	—	—	—	—
		—	(12.42)	—	—	—
6	Loans/Deposit Given . . . . .	2,040.20	—	—	—	—
		(4,445.74)	(0.30)	—	—	—
7	Sale of goods . . . . .	546.89	—	—	—	—
		(361.17)	—	—	—	—
8	Purchase of goods and Services . . . . .	199.26	0.66	—	—	—
		(154.77)	(37.41)	—	(1.75)	—

Sr. No.	Particulars	Associate	Entities where KMP/RKMP has significant influence	KMP	RKMP	Employee Funds
9	Services rendered, Compensation and reimbursement. . . . .	— (13.45)	— (0.24)	—	—	—
10	Interest received . . . . .	107.70 (110.95)	— (0.53)	—	—	—
11	Dividend received/accrued	4.17 (2.14)	— —	—	—	—
12	Dividend Paid . . . . .	— —	89.01 (42.07)	75.89 (42.74)	442.00 (245.52)	—
13	Rent received . . . . .	— (0.52)	— —	—	—	—
14	Rent/Hotel charges paid . .	— —	0.32 (4.09)	0.06 (0.06)	—	—
15	Managerial Remuneration . . . . .	— —	— —	17.76 (16.31)	—	—
16	Contribution to various funds . . . . .	— —	— —	—	—	25.56 (15.87)
	<b>Outstanding Balances</b>					
1	Investments . . . . .	60.00 (66.50)	8.70 (8.70)	—	—	—
2	Sundry Debtors . . . . .	190.59 (112.48)	— —	—	—	—
3	Loans/Deposits outstanding . . . . .	1,848.21 (1,861.35)	— (39.15)	—	—	—
4	Advances/Deposits to Supplier . . . . .	0.07 —	— (17.29)	—	—	—
5	Sundry Creditors . . . . .	80.85 (1.98)	0.06 (1.78)	—	—	—
6	Corporate Guarantees . . . .	8.79 (13.95)	— —	—	—	—
7	Contribution payable to various Funds . . . . .	— —	— —	—	—	— (0.16)

## (C) Disclosure of significant transactions with Related Parties

Type of the Transaction	Type of relationship	Name of the entity/person	March 31, 2005	March 31, 2006	
Purchase of Fixed Assets . . . . .	Associate	Sarjan Realities Limited	0.38	3.10	
Sale of Fixed Assets . . . . .	KMP	Girish R Tanti	1.62	—	
	RKMP	R.A.Parmar	0.60	—	
	RKMP	A.A. Parmar	0.44	—	
Subscription to/purchase of preference shares . . . . .	Associate	Suzlon Infrastructure Limited	50.00	—	
	RKMP	Gita T Tanti	—	0.50	
		Jitendra R. Tanti	—	0.20	
		Leena J Tanti	—	0.50	
		Pranav Tanti	—	0.50	
		R.U. Tanti	—	0.50	
		Sangita V Tanti	—	0.50	
Sale of investments . . . . .	Entities where KMP/RKMP has significant influence	Associate	Sarjan Infrastructure Finance Limited	12.42	—
		Associate	Suzlon Infrastructure Ltd.		6.50
Loan/Deposits given . . . . .	Associate	Suzlon Infrastructure Limited	2,064.14	—	
	Associate	Sarjan Realities Limited	2,237.70	1,205.00	
	Associate	Shubh Realities (South) P. Ltd.	—	702.20	
Sale of goods . . . . .	Associate	Sarjan Realities Limited	—	168.14	
	Associate	Suzlon Infrastructure Limited	361.17	378.57	
Services Rendered, Compensation and reimbursement . . . . .	Associate	Suzlon Infrastructure Limited	13.11	—	
Purchase of goods and services . . . . .	Associate	Suzlon Infrastructure Limited	154.38	166.11	
Interest Received . . . . .	Associate	Sarjan Realities Limited	78.07	59.37	
	Associate	Suzlon Infrastructure Limited	31.54	13.09	
	Associate	Shubh Realities (South) P. Ltd.	—	34.82	
Dividend Received/Accrued . . . . .	Associate	Suzlon Infrastructure Limited	0.84	2.87	
	Associate	Sarjan Realities Limited	1.30	1.30	
Dividend Paid . . . . .	Entities where KMP/RKMP has significant influence	Suzlon Capital Limited	0.16	—	
Rent Received . . . . .	Associate	Suzlon Infrastructure Limited	0.52	—	
Rent/Hotel Charges paid . . . . .	Entities where KMP/RKMP has significant influence	Suzlon Hotels Limited	1.69	0.32	
		Suzlon Engitech Private Limited	2.40	—	
	RKMP	Girish R. Tanti	—	0.06	



(C) Disclosure of significant transactions with Related Parties (Continued)

Type of the Transaction	Type of relationship	Name of the entity/person	March 31, 2005	March 31, 2006
Contribution to various funds .	Employee Funds	Suzlon Energy Limited - Superannuation Fund	8.95	12.83
	Employee Funds	Suzlon Energy Limited-Employees Group Gratuity Scheme	4.49	12.07
	Employee Funds	Suzlon Wind Farm Services Limited - Superannuation Fund	1.12	—
	Employee Funds	Suzlon Wind Farm Services Limited-Employees Group Gratuity Scheme	0.85	—
	Employee Funds	Suzlon Tower and Structure Limited - Superannuation Fund	0.46	0.18
	Employee Funds	Suzlon Power Infrastructure P. Ltd-Superannuation Fund	—	0.23
	Employee Funds	Suzlon Power Infrastructure P. Ltd-Employees Group Gratuity Scheme	—	0.26
Managerial Remuneration . . .	KMP	Girish Tanti	3.91	4.08
	KMP	Tulsi Tanti	4.43	11.64
	KMP	Vinod Tanti	3.85	1.02
	KMP	Balrajsinh Parmar	4.12	1.02

14. DISCLOSURE AS REQUIRED BY CLAUSE 32 OF LISTING AGREEMENT WITH STOCK EXCHANGES

	Name	Amount outstanding as at March 31, 2006	Maximum Amount outstanding during the year
Associates . . . . .	Sarjan Realities Limited	1,124.21	1,145.40
	Suzlon Infrastructure Limited (formerly Suzlon Developers Limited)	—	750.00
Where control of KMP/RKMP exists . . . . .	Sarjan Infrastructures Finance Limited	21.80	49.31
	Shubh Realities (South) Private Limited	702.20	702.20

Note:

- All the above balance of loans are excluding accrued interest aggregating Rs.14.13 million and are payable on demand.
- No loans have been granted by Suzlon Energy Limited to any person, who has invested in the shares of Suzlon Energy Limited or any of its subsidiaries.
- There are no balances outstanding from Companies under the same management, as per the provisions of Section 370 (1B) of the Companies Act, 1956.

15. SEGMENT REPORTING

Suzlon's operations primarily relate to manufacture and sale of WTG's and its parts. Others primarily consist of operation and maintenance revenue from the sale of WTG and power generation revenue from own installed WTG's.

The accounting principles consistently used in the preparation of the financial statements are also consistently applied to record income and expenditure in individual segments. These are as set out in the note on significant accounting policies.

A) **Primary Business Segment:**

Particulars	2004-05				2005-06			
	Sale of WTG	Others	Eliminations	Total	Sale of WTG	Others	Eliminations	Total
Total External Sales . . . . .	19,165.21	259.61	—	19,424.82	37,585.59	824.71	—	38,410.30
Add: Inter Segment Sales . . . . .	23.49	249.87	(273.36)	—	23.66	82.83	(106.49)	—
Segment Revenue . . . . .	19,188.70	509.48	(273.36)	19,424.82	37,609.25	907.54	(106.49)	38,410.30
Segment Results. . . . .	4,135.45	63.78	—	4,199.23	7,815.38	557.51	(106.49)	8,266.40
<b>Add/(Less) Items To Reconcile With Profit As Per Profit And Loss Account</b>								
<b>Add:</b>								
Other Income. . . . .	—	—	—	234.39	—	—	—	556.40
<b>Less:</b>								
Financial Charges . . . . .	—	—	—	(458.25)	—	—	—	(647.79)
Preliminary Exp W/Off . . . . .	—	—	—	(1.81)	—	—	—	(1.74)
Profit Before Tax, Minority Interest . . . . .	—	—	—	3,973.55	—	—	—	8,173.27
Provision For								
-Income Tax. . . . .	—	—	—	489.72	—	—	—	1,104.68
-Deferred Tax . . . . .	—	—	—	(167.41)	—	—	—	(568.18)
-Fringe Benefit Tax. . . . .	—	—	—	—	—	—	—	31.56
Total Tax . . . . .	—	—	—	322.31	—	—	—	568.07
Profit Before Minority Interest. . . . .	—	—	—	3,651.24	—	—	—	7,605.20
Add: Share Of Loss Of Minority In Subsidiary . . . . .	—	—	—	2.11	—	—	—	(10.21)
<b>Profit For The Year . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,653.35</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>7,594.99</b>
<b>Segment Assets . . . . .</b>								
Common Assets . . . . .	16,676.76	1,180.18	—	17,856.94	36,952.74	3,664.33	—	40,617.07
Enterprise Assets . . . . .	—	—	—	3,020.94	—	—	—	8,415.73
Enterprise Assets . . . . .	—	—	—	20,877.88	—	—	—	49,032.80
<b>Segment Liabilities . . . . .</b>								
Common Liabilities . . . . .	7,553.46	184.78	—	7,738.24	15,832.23	391.27	—	16,223.50
Common Liabilities . . . . .	—	—	—	5,246.33	—	—	—	5,611.40
Enterprise Liabilities . . . . .	—	—	—	12,984.57	—	—	—	21,834.90
<b>Capital Expenditure During The Year . . . . .</b>								
Capital Expenditure During The Year . . . . .	1,434.65	513.15	—	1,947.80	4,170.19	227.94	—	4,398.13
<b>Segment Depreciation . . . . .</b>								
Segment Depreciation . . . . .	395.01	98.24	—	493.25	623.82	92.14	—	715.96
Non Cash Expenses Other Than Depreciation . . . . .								
Non Cash Expenses Other Than Depreciation . . . . .	1.45	0.36	—	1.81	1.07	0.67	—	1.74

B) **Geographical Segment**

Particulars	2004-05				2005-06			
	India	USA	Others	Total	India	USA	Others	Total
Segment Revenue . . . . .	19,361.38	63.43	—	19,424.81	35,304.68	3,105.62	—	38,410.30
Segment Assets . . . . .	16,753.76	504.20	598.98	17,856.94	34,655.04	3,870.14	2,091.89	40,617.07
Capital Expenditure Incurred . . . . .	1,893.50	9.28	45.02	1,947.80	3,696.99	21.85	679.29	4,398.13

16. All figures have been reported in Rupees Millions and have been rounded off to the nearest thousand. Prior year amounts have been reclassified wherever necessary to conform with current year's presentation. Figures in the brackets are in respect of the previous year.

Schedules 'A' to 'P'

As per our report of even date

For and on behalf of the Board of Directors

**For SNK & Co.  
Chartered Accountants**

**For S. R. BATLIBOI & Co.  
Chartered Accountants**

**Tulsi R. Tanti  
Chairman & Managing Director**

Jasmin B. Shah  
Partner  
M.No. 46238

Arvind Sethi  
Partner  
M.No. 89802

Hemal A. Kanuga Company  
Secretary

Girish R. Tanti  
Director

Place: Pune  
Date: May 15, 2006

Place: Pune  
Date: May 15, 2006

Place: New Delhi  
Date: May 15, 2006

SNK & Co.  
Chartered Accountants  
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Near Regency Hotel  
Pune 411 001

S.R. BATLIBOI & Co.  
Chartered Accountants  
The Metropole  
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Bund Garden Road  
Pune 411 001

### Auditors' Report

**To**  
**The Board of Directors of Suzlon Energy Limited**

1. We SNK & Co. and S.R. Batliboi & Co, have audited the attached consolidated balance sheet of Suzlon Energy Limited ('SEL') and its subsidiaries (together referred to as 'the Group', as described in Schedule P, Note 5) as at March 31, 2007 and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These consolidated financial statements are the responsibility of SEL's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not jointly audit the financial statements of the following companies, whose total revenues and assets to the extent they are included in the consolidated financial statements of the Group are as given below:

Companies audited solely by SNK & Co., Chartered Accountants

Name of the Company	Extent of share in consolidated revenues	Extent of share in consolidated assets
Suzlon Infrastructure Services Limited (formerly Suzlon Windfarm Services Limited) . . . . .	0.51%	1.80%
Suzlon Towers and Structures Limited . . . . .	6.98%	4.00%
Suzlon Gujarat Windpark Limited. . . . .	0.55%	0.55%
Suzlon Generators Private Limited. . . . .	0.01%	1.09%
Suzlon Structures Private Limited . . . . .	0.07%	1.79%
Suzlon Power Infrastructure Private Limited. . . . .	0.39%	0.56%

These financial statements have been audited solely by SNK & Co., Chartered Accountants and have been accepted without verification by S.R. Batliboi & Co, Chartered Accountants and hence our joint audit opinion insofar as it relates to the amounts included in respect of these subsidiaries, is based solely on the report of SNK & Co., Chartered Accountants.

SNK & Co.  
Chartered Accountants  
E-2-B, The Fifth Avenue  
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Pune 411 001

S.R. BATLIBOI & Co.  
Chartered Accountants  
The Metropole  
F-1, 1st Floor  
Bund Garden Road  
Pune 411 001

Companies audited solely by S. R. Batliboi & Co, Chartered Accountants

Name of the Company	Extent of share in consolidated revenues	Extent of share in consolidated assets
Suzlon Rotor Corporation . . . . .	—	1.10%
Suzlon Wind Energy Corporation (See note below) . . . . .	19.92%	7.93%
SE Forge Limited . . . . .	—	0.31%
Suzlon Rotor International Limited . . . . .	—	—
Suzlon Tower International Limited . . . . .	—	—
Suzlon Wind International Limited . . . . .	—	—

These financial statements have been audited solely by S. R. Batliboi & Co., Chartered Accountants and have been accepted without verification by SNK & Co, Chartered Accountants and hence our joint audit opinion insofar as it relates to the amounts included in respect of these subsidiaries, is based solely on the report of S. R. Batliboi & Co., Chartered Accountants.

5. We did not audit the financial statements of the following companies, whose total revenues and assets to the extent they are included in the consolidated financial statements of the Group are as given below:

Name of the Company	Extent of share in consolidated revenues	Extent of share in consolidated assets
AE-Rotor Holding B.V. . . . .	—	0.46%
AE-Rotor Technik B.V. . . . .	—	0.23%
Suzlon Energy B.V. . . . .	—	0.33%
Eve Holding NV . . . . .	—	15.70%
Hansen Transmission International NV . . . . .	23.24%	15.95%
Suzlon Energy A/S, Denmark . . . . .	0.72%	0.94%
Suzlon Energy Australia Pty. Ltd. . . . .	0.18%	0.88%
Suzlon Energy GmbH . . . . .	—	0.50%
Windpark Olsdorf Watt GmbH & Co KG . . . . .	0.03%	0.10%
Suzlon Windkraft GmbH . . . . .	—	0.10%
S E Drive Technik GmbH . . . . .	—	5.97%
Suzlon Windpark Management GmbH . . . . .	—	0.00%
Suzlon Energy (Tianjin) Limited . . . . .	3.76%	4.15%
Suzlon Energy Limited, Mauritius . . . . .	—	0.18%
Suzlon Wind Energy Limited, U.K. . . . .	—	0.02%
Suzlon Windenergie GmbH, Germany . . . . .	—	0.01%
Suzlon Energy Italy Srl . . . . .	0.55%	0.58%
Suzlon Energy Portugal Energia Elocia Unipessoal Lda . . . . .	—	0.85%
Suzlon Energia Eolica do Brasil Ltda . . . . .	—	0.12%
Suzlon Energy Korea Co, Limited . . . . .	—	—
Suzlon Wind Energy A/S . . . . .	—	0.06%
Suzlon Engitech Private Limited . . . . .	—	0.02%

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These financial statements have been prepared under the relevant applicable Generally Accepted Accounting Principles ('GAAP') of the Country where the subsidiary is registered. Adjustments have been made to realign the accounting policies of these subsidiaries to those of SEL, which have been reviewed by us jointly for the year ended March 31, 2007.

6. We report that the consolidated financial statements have been prepared by SEL's management in accordance with the requirements of Accounting Standard-21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate financial statements of SEL and its subsidiaries.
7. In our opinion and to the best of our information and according to the explanations given to us, the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India;
  - (a) in the case of the Consolidated Balance Sheet, of the state of affairs of the Group as at March 31, 2007;
  - (b) in the case of the Consolidated Profit and Loss Account, of the profit of the Group for the year ended on that date;
  - (c) in the case of the Consolidated Cash Flow Statement of the cash flows of the Group for the year then ended on that date.

**SNK & Co.**  
**Chartered Accountants**

per Jasmin B. Shah  
Partner  
Membership No: 46238  
Mumbai  
May 14, 2007

**S.R. BATLIBOI & Co.**  
**Chartered Accountants**

per Arvind Sethi  
Partner  
Membership No: 89802  
Mumbai  
May 14, 2007

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Consolidated Balance Sheet as at March 31, 2007\***  
All amounts in rupees million unless otherwise stated

Particulars	Schedule	As at March 31,		
		2006	2007	2007
		Rs. Million	Rs. Million	\$ Million
<b>I. Sources of Funds</b>				
1. <b>Share Holders' Funds</b>				
(a) Share Capital . . . . .	A	3,025.31	2,877.65	66.77
(b) Share Application Money Pending Allotment . . . . .		1.87	0.15	
(c) Employee Stock Options . . . . .	B	103.64	117.11	2.72
(d) Management Option Certificates issued by Subsidiary Company [See Schedule P, Note(6)(b)]. . . . .			890.03	20.65
(e) Reserves and Surplus . . . . .	C	24,217.12	31,225.94	724.50
		<u>27,347.94</u>	<u>35,110.88</u>	<u>814.64</u>
2. <b>Preference Shares Issued by Subsidiary Company</b> [See Schedule P, Note(6)(d)]. . . . .		25.00	25.00	0.58
3. <b>Minority Interest</b> . . . . .		74.69	141.12	3.27
4. <b>Loan Funds</b>				
(a) Secured Loans . . . . .	D	3,899.05	19,844.25	460.42
(b) Unsecured Loans . . . . .	E	608.10	31,776.03	737.27
		<u>4,507.15</u>	<u>51,620.28</u>	<u>1,197.69</u>
5. <b>Deferred Tax Liability (Net)</b> . . . . .		—	176.78	4.10
Total . . . . .		<u>31,954.78</u>	<u>87,074.06</u>	<u>2,020.28</u>
<b>II. Application of Funds</b>				
1. <b>Fixed Assets</b> . . . . .	F			
Gross Block . . . . .		6,288.52	43,210.76	1,002.57
Less - Accumulated Depreciation . . . . .		<u>1,531.45</u>	<u>7,015.82</u>	<u>162.78</u>
Net Block . . . . .		4,757.07	36,194.94	839.79
Capital work in progress . . . . .		<u>1,651.60</u>	<u>4,498.17</u>	<u>104.37</u>
		6,408.67	40,693.11	944.16
2. <b>Preoperative Expenses, pending allocation</b>		16.66	38.64	0.90
3. <b>Investments</b> . . . . .	G	76.10	155.66	3.61
4. <b>Deferred Tax Asset (Net)</b> . . . . .		817.59	—	—

Particulars	Schedule	As at March 31,		
		2006	2007	2007
		Rs. Million	Rs. Million	\$ Million
5. <b>Current Assets, Loans and Advances</b>	H			
(a) Inventories . . . . .		13,801.99	31,362.98	727.68
(b) Sundry Debtors . . . . .		16,473.10	25,704.02	596.38
(c) Cash and Bank Balances . . . . .		5,514.82	15,382.95	356.91
(d) Loans and Advances . . . . .		5,897.22	12,075.50	280.17
		<u>41,687.13</u>	<u>84,525.45</u>	<u>1,961.15</u>
<b>Less : Current Liabilities and Provisions</b>	I			
(a) Current Liabilities . . . . .		12,977.04	33,340.00	773.55
(b) Provisions . . . . .		4,082.82	4,998.80	115.98
		<u>17,059.86</u>	<u>38,338.80</u>	<u>889.53</u>
<b>Net Current Assets . . . . .</b>		24,627.27	46,186.65	1,071.62
6. <b>Miscellaneous Expenditure (To the extent not written off or adjusted)</b> . . . . .	J	8.49	—	—
Total . . . . .		<u>31,954.78</u>	<u>87,074.06</u>	<u>2,020.28</u>

**Significant Accounting Policies and Notes to the Consolidated Financial Statements**

P

*Note: The financial statements for the year ended March 31, 2007 have been adopted by the Board of Directors at their meeting dated May 14, 2007, but are subject to approval by the members of the Company at the annual general meeting.*

For presentation purposes, the financial statements have been converted to United States dollars by dividing the financial statements elements, where relevant, by 43.10 for the year ended 31 March 2007 and by 44.48 for the year ended 31 March 2006.

The schedules referred to above and the notes to accounts form an integral part of the consolidated balance sheet.

As per our report of even date

For and on behalf of the Board of Directors

**For SNK & Co.  
Chartered Accountants**

**For S. R. BATLIBOI & Co.  
Chartered Accountants**

**Tulsi R. Tanti  
Chairman & Managing Director**

**per Jasmin B. Shah  
Partner  
M.No. 46238**

**per Arvind Sethi  
Partner  
M.No. 89802**

**Hemal A. Kanuga  
Company Secretary**

**Girish R. Tanti  
Director**

**Mumbai  
Date: May 14, 2007**

**Mumbai  
Date: May 14, 2007**

**Mumbai  
Date: May 14, 2007**



**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Consolidated Profit and Loss Account for the year ended March 31, 2007**  
All amounts in rupees million unless otherwise stated

	Schedule	As at March 31,		
		2006	2007	2007
		Rs. Million	Rs. Million	\$ Million
<b>Income</b>				
Sales and Service Income . . . . .		38,410.30	79,857.30	1,852.84
Other Income . . . . .	K	744.64	965.00	22.39
		<u>39,154.94</u>	<u>80,822.30</u>	<u>1,875.23</u>
<b>Expenditure</b>				
Cost of Goods Sold . . . . .	L	23,278.90	48,113.65	1,116.33
Operating and other Expenses . . . . .	M	5,121.39	12,031.55	279.15
Employees' Remuneration and Benefits . . . . .	N	1,215.88	6,495.90	150.72
Financial Charges . . . . .	O	647.78	2,763.44	64.12
Depreciation . . . . .	F	715.90	1,717.98	39.86
Preliminary Expenditure Written Off . . . . .	J	1.80	17.14	0.40
		<u>30,981.65</u>	<u>71,139.66</u>	<u>1,650.57</u>
<b>Profit Before Tax and Minority Interest . . . . .</b>		<b>8,173.29</b>	<b>9,682.64</b>	<b>224.66</b>
Current Tax . . . . .		1,103.00	1,747.81	40.55
Less: MAT Credit Entitlement . . . . .			(512.32)	(11.89)
Earlier Year - Current Tax . . . . .		1.70	(111.83)	(2.59)
Deferred Tax . . . . .		(568.20)	(125.70)	(2.92)
Fringe Benefit Tax . . . . .		31.60	36.64	0.85
		<u>568.10</u>	<u>1,034.60</u>	<u>24.00</u>
<b>Profit before Minority Interest . . . . .</b>		<b>7,605.19</b>	<b>8,648.04</b>	<b>200.65</b>
Add/(Less): Share of loss/(profit) of Minority . . . . .		(10.20)	(7.72)	(0.18)
<b>Net Profit . . . . .</b>		<b>7,594.99</b>	<b>8,640.32</b>	<b>200.47</b>
Balance brought forward . . . . .		5,016.58	7,948.07	184.41
		<u>12,611.57</u>	<u>16,588.39</u>	<u>384.88</u>
<b>Profit Available for Appropriations . . . . .</b>		<b>12,611.57</b>	<b>16,588.39</b>	<b>384.88</b>
Interim Dividend on Equity Shares . . . . .		718.80	1,442.20	33.46
Proposed Dividend on Equity Shares . . . . .		720.30	3.21	0.07
Dividend on Preference Shares . . . . .		16.60	17.00	0.39
Tax on Dividends . . . . .		207.80	211.40	4.90
Transfer to General Reserve . . . . .		3,000.00	3,284.20	76.20
		<u>4,663.50</u>	<u>4,958.01</u>	<u>115.04</u>
<b>Balance Carried to Balance Sheet . . . . .</b>		<b>7,948.07</b>	<b>11,630.38</b>	<b>269.85</b>
<b>Earnings Per Share (in Rs.)</b>				
Basic (Nominal Value of shares Rs.10 (Previous Year Rs.10)) [See Schedule P, Note(9)] . . . . .		27.73	29.96	0.70
Diluted (Nominal Value of shares Rs.10 (Previous Year Rs.10)) [See Schedule P, Note(9)] . . . . .		27.68	29.91	0.69
<b>Significant Accounting Policies and Notes to the Consolidated Financial Statements</b>	P			

*Note: The financial statements for the year ended March 31, 2007 have been adopted by the Board of Directors at their meeting dated May 14, 2007, but are subject to approval by the members of the Company at the annual general meeting.*

For presentation purposes, the financial statements have been converted to United States dollars by dividing the financial statements elements, where relevant, by 43.10 for the year ended 31 March 2007 and by 44.48 for the year ended 31 March 2006.

The schedules referred to above and the notes to accounts form an integral part of the Consolidated Profit and Loss Account.

As per our report of even date

For and on behalf of the Board of Directors

**For SNK & Co.**  
Chartered Accountants

**For S. R. BATLIBOI & Co.**  
Chartered Accountants

**Tulsi R. Tanti**  
Chairman & Managing Director

per Jasmin B. Shah  
Partner  
M.No. 46238

per Arvind Sethi  
Partner  
M.No. 89802

**Hemal A. Kanuga**  
Company Secretary

**Girish R. Tanti**  
Director

**Mumbai**  
Date: May 14, 2007

**Mumbai**  
Date: May 14, 2007

**Mumbai**  
Date: May 14, 2007

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Consolidated Cash Flow Statement for the year ended March 31, 2007**  
All amounts in rupees million unless otherwise stated

Particulars	April 1, 2005 to March 31, 2006	April 1, 2006 to March 31, 2007	April 1, 2006 to March 31, 2007
	Rs. Million	Rs. Million	\$ Million
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Profit Before Tax</b> . . . . .	8,173.29	9,682.64	224.66
<b>Adjustments for</b>			
Depreciation . . . . .	715.90	1,717.98	39.86
Loss/(Profit) on sale of Investments . . . . .	—	(76.47)	(1.77)
Loss on Sale/disposal of Assets . . . . .	5.30	15.76	0.37
Preliminary Expenses incurred . . . . .	(6.20)	(8.65)	(0.20)
Preliminary Expenses Written Off . . . . .	1.80	17.14	0.40
Interest Expenses . . . . .	507.62	2,522.60	58.53
Interest Income . . . . .	(311.75)	(491.80)	(11.41)
Dividend Income . . . . .	(4.18)	(6.26)	(0.15)
Provision (reversal) for Doubtful Debts/Loans . . . . .	(48.20)	39.76	0.92
Employee stock option scheme . . . . .	103.64	73.00	1.69
Adjustments for consolidation . . . . .	36.00	80.32	1.86
Provision for operation maintenance and warranty . . . . .	857.70	859.07	19.93
Provision for performance guarantee . . . . .	1,065.14	1,026.96	23.83
Wealth Tax . . . . .	0.18	0.30	0.01
<b>Operating Profit before Working Capital Changes</b> . . . . .	<u>11,096.24</u>	<u>15,452.35</u>	<u>358.52</u>
<b>Movements in Working Capital:</b>			
(Increase)/Decrease in loans and advances . . . . .	(2,960.94)	(2,651.53)	(61.52)
(Increase)/Decrease in sundry debtors . . . . .	(9,502.14)	(5,737.44)	(133.12)
(Increase)/Decrease in inventories . . . . .	(8,035.22)	(14,393.78)	(333.96)
Increase/(Decrease) in current liabilities . . . . .	7,169.42	15,451.14	358.50
<b>Cash (used in)/generated from operations</b> . . . . .	<u>(2,232.64)</u>	<u>8,120.74</u>	<u>188.42</u>
Direct Taxes Paid (net of refunds) . . . . .	(1,307.60)	(748.40)	(17.36)
<b>Net cash (used in)/generated from operating activities</b> . . . . .	<u>(3,540.24)</u>	<u>7,372.34</u>	<u>171.05</u>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets . . . . .	(4,059.72)	(10,195.85)	(236.56)
Proceeds from sale of fixed assets . . . . .	21.56	80.12	1.86
Paid for Acquisition of Subsidiaries . . . . .	(33.90)	(25,026.37)	(580.66)
Purchase of Investments . . . . .	(4.94)	(154.78)	(3.59)
Sale/Redemption of Investments . . . . .	6.50	151.66	3.52
Inter-corporate deposits repaid/(granted) . . . . .	31.80	(2,583.63)	(59.95)
Preoperative expenses incurred . . . . .	(16.66)	(21.98)	(0.51)
Interest received . . . . .	246.54	545.51	12.66
Dividends received . . . . .	4.18	6.26	0.15
<b>Net Cash Flow from Investing Activities</b> . . . . .	<u>(3,804.64)</u>	<u>(37,199.06)</u>	<u>(863.09)</u>

*Note: The financial statements for the year ended March 31, 2007 have been adopted by the Board of Directors at their meeting dated May 14, 2007, but are subject to approval by the members of the Company at the annual general meeting.*

Particulars	April 1, 2005 to March 31, 2006	April 1, 2006 to March 31, 2007	April 1, 2006 to March 31, 2007
	Rs. Million	Rs. Million	\$ Million
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>			
Redemption of Preference share capital . . . . .	(1,000.00)	(150.00)	(3.48)
Proceeds from issuance of share capital including premium . . . . .	13,648.94	—	—
Issuance of share capital under Employee Stock Option Scheme . . . . .	—	59.53	1.38
Share Application Money received . . . . .	1.37	(1.72)	(0.04)
Share issue expenses . . . . .	(406.70)	—	—
Issuance of Management Profit certificates . . . . .	—	890.03	20.65
Proceeds from borrowings . . . . .	5,783.85	61,773.41	1,433.26
Repayment of borrowings . . . . .	(5,238.84)	(17,862.43)	(414.44)
Interest paid . . . . .	(501.64)	(2,508.94)	(58.21)
Dividends paid . . . . .	(849.86)	(2,190.24)	(50.82)
Tax on dividends paid . . . . .	(122.06)	(314.79)	(7.30)
<b>Net cash from financing activities . . . . .</b>	<b>11,315.06</b>	<b>39,694.85</b>	<b>920.99</b>
<b>Net increase in cash and cash equivalents (A + B + C) . . . . .</b>	<b>3,970.18</b>	<b>9,868.13</b>	<b>228.96</b>
<b>Cash and cash equivalents at the beginning of the year . . . . .</b>	<b>1,544.64</b>	<b>5,514.82</b>	<b>127.95</b>
<b>Cash and cash equivalents at the end of the year . . . . .</b>	<b>5,514.82</b>	<b>15,382.95</b>	<b>356.91</b>
	<b>As at March 31, 2006</b>	<b>As at March 31, 2007</b>	<b>As at June 26, 2002</b>
<b>Components of cash and cash equivalents</b>			
Cash and cheques on hand . . . . .	13.35	706.49	16.39
With banks			
- in current account . . . . .	327.04	861.82	20.00
- in Term deposit accounts . . . . .	3,895.27	2,857.77	66.31
With non-scheduled banks - on current account . . . . .	1,279.16	10,956.87	254.22
	<u>5,514.82</u>	<u>15,382.95</u>	<u>356.91</u>

**Notes:**

- Purchase of fixed assets includes payments for items in capital work in progress and advance for purchase of fixed assets.
- Previous year's figures have been regrouped/reclassified, wherever necessary.

For presentation purposes, the financial statements have been converted to United States dollars by dividing the financial statements elements, where relevant, by 43.10 for the year ended 31 March 2007 and by 44.48 for the year ended 31 March 2006.

As per our report of even date

For and on behalf of the Board of Directors

**For SNK & Co.  
Chartered Accountants**

**For S. R. BATLIBOI & Co.  
Chartered Accountants**

**Tulsi R. Tanti  
Chairman & Managing Director**

**per Jasmin B. Shah  
Partner  
M.No. 46238**

**per Arvind Sethi  
Partner  
M.No. 89802**

**Hemal A. Kanuga  
Company Secretary**

**Girish R. Tanti  
Director**

**Mumbai  
Date: May 14, 2007**

**Mumbai  
Date: May 14, 2007**

**Mumbai  
Date: May 14, 2007**

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules annexed to and forming part of the Consolidated Balance Sheet**  
All amounts in rupees million unless otherwise stated

Particulars	As at March 31,		
	2006	2007	2007
	Rs. Million	Rs. Million	\$ Million
<b>Schedule - A: Share Capital</b>			
<b>Authorised</b>			
430,000,000 (330,000,000) Equity Shares of Rs.10/- each . . . . .	3,300.00	4,300.00	99.77
1,500,000 (11,500,000) Preference Shares of Rs.100/- each . . . . .	1,150.00	150.00	3.48
	<u>4,450.00</u>	<u>4,450.00</u>	<u>103.25</u>
<b>Issued, Subscribed</b>			
<b>Equity</b>			
287,764,780 (287,531,380) Equity Shares of Rs.10 each fully paid [Of the above Equity Shares, 251,855,300 (251,855,300) shares were allotted as fully paid Bonus Shares by utilisation of Rs.1,740.40 million (Rs.1,740.40 million) from General Reserve, Rs.10.25 million (Rs.10.25 million) from Capital Redemption Reserve and Rs.768.00 million (Rs.768.00 million) from Securities Premium Account.] . . . . .	2,875.31	2,877.65	66.77
<b>Preference</b>			
NIL (1,500,000) 10% Cumulative Redeemable Preference Shares of Rs.100/- each fully paid up [See Schedule P, Note (6)(d)] . . . . .	150.00	—	—
Total . . . . .	<u>3,025.31</u>	<u>2,877.65</u>	<u>66.77</u>
<b>Schedule - B: Employee Stock Options</b>			
Employee Stock Options Outstanding . . . . .	224.44	156.88	3.64
Less: Deferred Employee Compensation Expense Outstanding. . . . .	120.80	39.77	0.92
	<u>103.64</u>	<u>117.11</u>	<u>2.72</u>
<b>Schedule - C: Reserves and Surplus</b>			
Capital Reserve on Consolidation . . . . .	0.30	0.30	0.01
<b>Securities Premium Account</b>			
As per last Balance Sheet . . . . .	298.51	13,110.26	304.18
Add: Addition during the year . . . . .	13,381.34	116.68	2.71
Less: Capitalisation by way of Issue of Bonus Shares . . . . .	188.45	—	—
Less: Share Issue Expenses. . . . .	381.14	—	—
	<u>13,110.26</u>	<u>13,226.94</u>	<u>306.89</u>
<b>General Reserve</b>			
As per last Balance Sheet . . . . .	1,708.49	3,158.49	73.28
Add: Transfer from Consolidated Profit and Loss Account . . . . .	3,000.00	3,284.20	76.20
Less: Adjustment for Employee Benefits provision [See Schedule P, Note(4)] [Net of Tax Benefit Rs. 3.10 million (Rs. NIL)] . . . . .	—	29.19	0.68
Less: Capitalisation by way of Issue of Bonus Shares . . . . .	1,550.00	—	—
Less: Transfer to Capital Redemption Reserve . . . . .	—	150.00	3.48
	<u>3,158.49</u>	<u>6,263.50</u>	<u>145.32</u>

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules annexed to and forming part of the Consolidated Balance Sheet**

Particulars	As at March 31,		
	2006	2007	2007
	Rs. Million	Rs. Million	\$ Million
<b>Foreign Currency Translation Reserve</b>			
Exchange differences during the year on net investment in Non-integral operations . . . . .	—	(45.18)	(1.05)
<b>Capital Redemption Reserve</b> . . . . .	—	150.00	3.48
<b>Profit and Loss Account</b> . . . . .	7,948.07	11,630.38	269.85
<b>Total</b> . . . . .	<u>24,217.12</u>	<u>31,225.94</u>	<u>724.50</u>
<b>Schedule - D: Secured Loans</b>			
<b>Term Loans</b>			
From Bank and Financial Institutions [See Schedule P, Note 6(e)(i)] . . . . .	1,026.15	10,546.16	244.69
From Others [See Schedule P, Note 6(e)(ii)] . . . . .	1,517.94	1,215.49	28.20
	<u>2,544.09</u>	<u>11,761.65</u>	<u>272.89</u>
<b>Working Capital Facilities from Banks and Financial Institutions</b> [See Schedule P, Note 6(e)(iii)] . . . . .	1,353.81	8,081.89	187.51
	<u>1,353.81</u>	<u>8,081.89</u>	<u>187.51</u>
<b>Vehicle Loans</b> [See Schedule P, Note 6(e)(iv)] . . . . .	1.15	0.71	0.02
<b>Total</b> . . . . .	<u>3,899.05</u>	<u>19,844.25</u>	<u>460.42</u>
<b>Schedule - E: Unsecured Loans</b>			
<b>Long Term</b>			
From banks . . . . .	—	21,886.44	507.81
From other than banks . . . . .	293.38	203.20	4.72
	<u>293.38</u>	<u>22,089.64</u>	<u>512.53</u>
<b>Short Term</b>			
From banks . . . . .	—	9,666.39	224.28
From other than banks . . . . .	314.72	20.00	0.46
	<u>314.72</u>	<u>9,686.39</u>	<u>224.74</u>
<b>Total</b> . . . . .	<u>608.10</u>	<u>31,776.03</u>	<u>737.27</u>

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules annexed to and forming part of the Consolidated Balance Sheet**

**SCHEDULE — F: FIXED ASSETS**

Assets	Gross Block			Depreciation			Net Block		
	As at April 1, 2006	Acquisitions (See Note 2)	As at March 31, 2007	For the Period	Acquisitions (See Note 2)	As at March 31, 2007	As at March 31, 2006	As at March 31, 2007	As at March 31, 2007
	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	\$ Million
Goodwill on Consolidation . . . . .	14.09	17,629.15	17,643.24	—	—	—	—	17,643.24	14.09
Freehold Land . . . . .	202.30	173.12	631.43	—	—	—	—	631.43	202.30
Leasehold Land . . . . .	150.91	5.28	156.19	2.81	—	4.52	—	151.67	149.20
Building - Factory and Office . . . . .	1,790.85	2,247.84	6,773.27	224.63	180.90	6.52	628.58	6,144.69	1,566.22
Plant and Machinery . . . . .	2,897.78	4,186.20	14,963.78	869.68	3,102.12	84.99	4,964.96	9,998.82	2,028.10
Wind Research and Measuring Equipment . . . . .	132.68	46.17	174.42	72.91	38.28	—	107.64	66.78	59.77
Computer and Office Equipments . . . . .	440.75	518.23	1,779.08	160.96	485.59	1.73	867.78	911.30	279.79
Furniture and Fixtures . . . . .	202.48	155.54	436.12	67.14	48.94	1.94	162.23	273.89	135.34
Vehicles - Motor Cars and Trucks . . . . .	75.43	26.23	106.35	30.55	7.81	1.46	52.22	54.13	44.88
Intangible Assets . . . . .	—	—	—	—	—	—	—	—	—
- Design and Developments . . . . .	301.56	96.53	398.09	74.10	30.72	—	104.82	293.27	227.46
- Software . . . . .	79.69	69.10	148.79	29.77	93.30	—	123.07	25.72	49.92
Total . . . . .	6,288.52	25,153.39	43,210.76	1,531.45	3,824.51	100.19	7,015.82	36,194.94	4,757.07
Capital Work-in-Progress . . . . .	—	—	—	—	—	—	—	—	—
Total . . . . .	6,288.52	25,153.39	43,210.76	1,531.45	3,824.51	100.19	7,015.82	40,693.11	6,408.67
Previous Year . . . . .	3,596.89	2,746.52	6,288.52	807.68	751.80	—	1,531.45	4,757.07	1,651.60

**Notes:**

- Depreciation charge for the current period amounting to Rs.1,717.98 million (Rs.751.80 million) is including Rs.31.10 million (Rs.31.74 million) which has been capitalised as part of self manufactured assets and Rs.10.85 million (Rs.4.16 million) capitalised to operational assets, being preoperative in nature. The depreciation charged in the Profit and Loss Account amounting to Rs.1,717.98 million (Rs.715.90 million) is net of the amount capitalised.
- Additions to gross block and depreciation charge for the current period include balances taken over on account of acquisition of Hansen Transmissions on May 9, 2006 which amounts to Rs.11,964.92. million and Rs.3,824.51 million respectively. Also see Schedule P, Note 6(a).

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules annexed to and forming part of the Consolidated Balance Sheet**

Particulars	As at March 31,		
	2006	2007	2007
	Rs. Million	Rs. Million	\$ Million
<b>Schedule - G: Investments</b>			
<b>Long Term Investments (at cost, fully paid)</b>			
(i) Government and Other Securities (Non Trade) . . . . .	0.35	0.37	0.01
(ii) Trade Investments . . . . .	60.00	0.03	—
(iii) Other than Trade Investments . . . . .	15.75	155.26	3.60
<b>Total Investments</b> . . . . .	<u>76.10</u>	<u>155.66</u>	<u>3.61</u>
<b>Schedule - H: Current Assets, Loans and Advances</b>			
<b>Current Assets</b>			
<b>Inventories</b>			
Raw Materials . . . . .	10,430.31	16,933.14	392.88
Semi Finished Goods, Finished Goods and Work-in-Progress . . . . .	2,969.95	14,227.95	330.11
Land and Land Lease Rights . . . . .	394.09	164.39	3.81
Stores and Spares . . . . .	7.64	37.50	0.87
	<u>13,801.99</u>	<u>31,362.98</u>	<u>727.68</u>
<b>Sundry Debtors (Unsecured)</b>			
Outstanding for a period exceeding six months			
- Considered Good [See Schedule P, Note 6(g)] . . . . .	2,052.91	2,671.01	61.97
- Considered Doubtful . . . . .	62.22	104.30	2.42
	<u>2,115.13</u>	<u>2,775.31</u>	<u>64.39</u>
Others, Considered Good . . . . .	14,420.19	23,033.01	534.41
	<u>16,535.32</u>	<u>25,808.32</u>	<u>598.80</u>
Less : Provision for doubtful debts . . . . .	62.22	104.30	2.42
	<u>16,473.10</u>	<u>25,704.02</u>	<u>596.38</u>
<b>Cash and Bank Balances</b>			
Cash on hand . . . . .	8.38	9.38	0.22
Cheques on hand . . . . .	4.97	697.11	16.17
Balances with Scheduled Banks . . . . .			—
- in Current Accounts . . . . .	327.04	861.82	20.00
- in Term Deposit Accounts . . . . .	3,895.27	2,857.77	66.31
	<u>4,222.31</u>	<u>3,719.59</u>	<u>86.30</u>
Balance with Non Scheduled Banks in Current Accounts . . . . .	1,279.16	10,956.87	254.22
	<u>5,514.82</u>	<u>15,382.95</u>	<u>356.91</u>
<b>Loans and Advances</b>			
(Unsecured and considered good, except otherwise stated)			
<b>Deposits</b>			
- With Customers as Security Deposit . . . . .	259.44	357.23	8.29
- Others . . . . .	821.77	548.09	12.72
Advance Income Tax (Net) . . . . .	109.13	821.52	19.06
Advances recoverable in cash or in kind or for value to be received*			
- Considered Good . . . . .	4,706.88	10,348.66	240.11
- Considered Doubtful . . . . .	27.01	27.01	0.63
	<u>5,924.23</u>	<u>12,102.51</u>	<u>280.80</u>
Less : Provision for doubtful loans and advances . . . . .	27.01	27.01	0.63
	<u>5,897.22</u>	<u>12,075.50</u>	<u>280.17</u>
* Include (a) Rs.Nil**(Rs.Nil**) towards Share Application Money pending allotment and (b) Intercompany Deposits of Rs.4,438.13 million (Rs.1,854.50 million)			
** Amount below Rs.0.01 million			
<b>Total</b> . . . . .	<u>41,687.13</u>	<u>84,525.45</u>	<u>1,961.15</u>

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules annexed to and forming part of the Consolidated Balance Sheet**

Particulars	As at March 31,		
	2006	2007	2007
	Rs. Million	Rs. Million	\$ Million
<b>Schedule - I: Current Liabilities and Provisions</b>			
<b>Current Liabilities</b>			
Sundry Creditors. . . . .	7,027.03	15,686.98	363.97
Acceptances. . . . .	225.85	342.04	7.94
Other Current Liabilities . . . . .	2,176.96	6,097.82	141.48
Interest accrued but not due . . . . .	13.60	27.26	0.63
Advances from Customers . . . . .	3,533.60	11,185.90	259.53
	12,977.04	33,340.00	773.55
<b>Provisions</b>			
Gratuity, Superannuation and Leave Encashment. . . . .	68.48	388.74	9.02
Generation Guarantee, LD, Operation, Maintenance and Warranty. . . . .	3,170.83	4,597.77	106.68
Dividend . . . . .	736.90	9.07	0.21
Tax on Dividend . . . . .	106.61	3.22	0.07
	4,082.82	4,998.80	115.98
Total . . . . .	17,059.86	38,338.80	889.53
<b>Schedule - J: Miscellaneous Expenditure</b> (To the extent not adjusted or written off)			
<b>Preliminary Expenses</b>	4.09	8.49	0.20
Add: Addition during the year . . . . .	6.20	8.65	0.20
Less: Written off during the year . . . . .	1.80	17.14	0.40
Total . . . . .	8.49	—	—



**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules annexed to and forming part of the Consolidated Profit and Loss Account**

Particulars	April 1, 2005 to March 31, 2006	April 1, 2006 to March 31, 2007	April 1, 2006 to March 31, 2007
	Rs. Million	Rs. Million	\$ Million
<b>Schedule - K: Other Income</b>			
Interest Received			
From Banks . . . . .	161.83	178.66	4.15
From Others . . . . .	149.92	313.14	7.27
Dividends . . . . .	4.18	6.26	0.15
Infrastructure Development Income . . . . .	269.66	134.53	3.12
Miscellaneous Income . . . . .	159.05	332.41	7.71
<b>Total . . . . .</b>	<b>744.64</b>	<b>965.00</b>	<b>22.39</b>
<b>Schedule - L: Cost of Goods Sold</b>			
<b>Consumption of Raw Material:</b>			
Opening Stock . . . . .	4,591.32	10,430.31	242.00
Add: Purchases . . . . .	31,556.20	65,644.78	1,523.08
	36,147.52	76,075.09	1,765.08
Less: Closing Stock . . . . .	10,430.31	16,933.14	392.88
	<u>25,717.21</u>	<u>59,141.95</u>	<u>1,372.20</u>
<b>(Increase)/Decrease in Stocks:</b>			
<b>Opening Balance:</b>			
Semi Finished Goods, Finished Goods and Work-in-Progress . . . . .	1,028.67	2,969.95	68.91
Land and Land Lease Rights . . . . .	104.69	394.09	9.14
	<u>1,164.36</u>	<u>3,364.04</u>	<u>78.05</u>
<b>Closing Balance:</b>			
Semi Finished Goods, Finished Goods and Work-in-Progress . . . . .	2969.95	14,227.95	330.11
Land and Land Lease Rights . . . . .	394.09	164.39	3.81
	<u>3,364.04</u>	<u>14,392.34</u>	<u>333.93</u>
(Increase)/Decrease in Stock . . . . .	(2,199.68)	(11,028.30)	(255.88)
Less: Transfer to Designs and Drawings . . . . .	238.63	—	—
<b>Total . . . . .</b>	<b>23,278.90</b>	<b>48,113.65</b>	<b>1,116.33</b>

Particulars	April 1, 2005 to March 31, 2006	April 1, 2006 to March 31, 2007	April 1, 2006 to March 31, 2007
	Rs. Million	Rs. Million	\$ Million
<b>Schedule - M: Operating and other Expenses</b>			
Stores and Spares . . . . .	177.79	1,093.73	25.38
Power and Fuel . . . . .	40.65	306.54	7.11
Factory Expenses . . . . .	171.58	212.65	4.93
Repairs and Maintenance . . . . .			
Plant and Machinery . . . . .	14.81	13.59	0.32
Building . . . . .	19.25	34.37	0.80
Others . . . . .	30.58	94.12	2.18
Design change and Technological Upgradation Charges . . . . .	51.61	551.08	12.79
Operation and Maintenance Charges . . . . .	146.68	183.07	4.25
Other Manufacturing and Operating Expenses . . . . .	—	—	—
Insurance . . . . .	59.64	194.61	4.52
Quality Assurance Expenses . . . . .	165.6	147.84	3.43
R & D, Certification and Product Development . . . . .	95.3	117.47	2.73
Rent . . . . .	91.48	283.02	6.57
Rates and Taxes . . . . .	51.22	87.57	2.03
Provision for Operation, Maintenance and Warranty . . . . .	857.7	859.07	19.93
Provision For Power Generation Guarantee . . . . .	1,065.14	1,026.96	23.83
Advertisement and Sales Promotion . . . . .	155.36	390.03	9.05
Infrastructure Development Expenses . . . . .		—	—
Freight Outward and Packing Expenses . . . . .	796.42	2,286.41	53.05
Sales Commission . . . . .	232.47	238.23	5.53
Travelling, Conveyance and Vehicle Expenses . . . . .	335.23	872.23	20.24
Communication Expenses . . . . .	55.48	217.31	5.04
Auditors' Remuneration . . . . .	30.44	58.29	1.35
Consultancy Charges . . . . .	161.93	760.97	17.66
Charity and Donations . . . . .	21.15	167.60	3.89
Other Selling and Administrative Expenses . . . . .	250.13	1,360.60	31.57
Exchange Differences, net. . . . .	32.7	492.04	11.42
Provision for doubtful debts and advances . . . . .	5.75	39.76	0.92
Bad Debts written off. . . . .	—	3.10	0.07
Loss/(Profit) on sale of Investment . . . . .	—	(76.47)	(1.77)
Loss on Assets Sold/Discarded, net. . . . .	5.3	15.76	0.37
<b>Total . . . . .</b>	<b>5,121.39</b>	<b>12,031.55</b>	<b>279.15</b>
<b>Schedule - N: Employees' Remuneration and Benefits</b>			
Salaries, Wages, Allowances and Bonus . . . . .	1,126.03	6,259.51	145.23
Contribution to Provident and Other Funds . . . . .	36.42	78.53	1.82
Staff Welfare Expenses . . . . .	53.43	157.86	3.66
<b>Total . . . . .</b>	<b>1,215.88</b>	<b>6,495.90</b>	<b>150.72</b>
<b>Schedule - O: Financial Charges</b>			
Interest			
Fixed Loans . . . . .	129.2	1,660.14	38.52
Others . . . . .	378.42	862.46	20.01
<b>Bank Charges . . . . .</b>	<b>140.16</b>	<b>240.84</b>	<b>5.59</b>
<b>Total . . . . .</b>	<b>647.78</b>	<b>2,763.44</b>	<b>64.12</b>

**SCHEDULE P: SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED MARCH 31, 2007**  
**All amounts in Rupees Million unless otherwise stated**

**1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying consolidated financial statements are prepared under the historical cost convention, on an accrual basis of accounting in conformity with accounting principles generally accepted in India, to reflect the financial position of the Company and its subsidiaries.

**2. PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements relate to Suzlon Energy Limited ('SEL' or 'the Company') and its subsidiaries (together referred to as 'Suzlon' or 'the Group'). The consolidated financial statements have been prepared on the following basis:

- a) The financial statements of the Company and its subsidiaries have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra group balances and intra group transactions. The unrealised profits or losses resulting from the intra group transactions have been eliminated as per Accounting Standard 21 – Consolidated Financial Statements issued by the Institute of Chartered Accountants of India ('ICAI').
- b) The excess of the cost to the Company of its investment in the subsidiaries over the Company's portion of equity on the acquisition date is recognised in the financial statements as Goodwill and is tested for impairment annually. The Company's portion of the equity in the subsidiaries at the date of acquisition is determined after realigning the material accounting policies of the subsidiaries to that of the parent and adjusting the charge/(reversal) on account of realignment to the accumulated reserves and surplus of the subsidiaries at the date of acquisition.
- c) The Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and necessary adjustments required for deviations, if any, are made in the consolidated financial statements and are presented in the same manner as the Company's standalone financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

a) ***Use of Estimates***

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that may affect the reported amount of assets and liabilities and disclosures relating to contingent liabilities as at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

b) ***Revenue Recognition***

*Sale of Goods*

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of the goods are transferred to the customer, as per the terms of the respective sales order.

*Power Generation Income*

Power Generation Income is recognised on the basis of electrical units generated, net of wheeling and transmission loss, as applicable, as shown in the Power Generation Reports issued by the concerned authorities.

*Service and Maintenance Income*

Revenue from annual service and maintenance contracts is recognized on the proportionate basis for the period for which the service is provided net of taxes.

*Interest*

Interest income is recognized on a time proportion basis taking into account the amount outstanding and the rate applicable. In case of interest charged to customers, interest is accounted for on availability of documentary evidence that the customer has accepted the liability.

*Dividend*

Dividend income from investments is recognised when the right to receive payment is established.

c) ***Fixed Assets***

Fixed assets are stated at cost, less accumulated depreciation and impairment losses, if any. Cost includes all expenditure necessary to bring the asset to its working condition for its intended use. Own

manufactured assets are capitalised inclusive of all direct costs and attributable overheads. Capital Work in Progress comprises of advances paid to acquire fixed assets and the cost of fixed assets that are not yet ready for their intended use as at the balance sheet date. In the case of new undertakings, pre-operative expenses are capitalised upon the commencement of commercial production.

The carrying amount of the assets belonging to each cash generating unit ('CGU') are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying amounts exceed the recoverable amount of the assets' CGU, assets are written down to their recoverable amount. Further, assets held for disposal are stated at the lower of the net book value or the estimated net realisable value.

d) **Intangible Assets**

*Research and Development Costs*

Development cost incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortized over the period of expected future sales from the related project, not exceeding five years.

The carrying value of development costs is reviewed for impairment annually when the asset is not in use, and otherwise when events and changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets are recorded at the consideration paid for their acquisition. Cost of an internally generated asset comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and making the asset ready for its intended use.

e) **Depreciation/Amortisation**

Depreciation/Amortisation is provided on management's estimate of useful lives of the fixed assets or where applicable, at rates specified by respective statutes, whichever is higher.

f) **Inventories**

Inventories of raw materials including stores, spares and consumables, packing materials; semi-finished goods; work in progress and finished goods are valued at the lower of cost and estimated net realisable value. Cost is determined on weighted average basis.

The cost of work-in-progress, semi-finished goods and finished goods includes the cost of material, labour and manufacturing overheads.

Inventories of traded goods are stated at the lower of the cost or net realizable value.

Stock of land and land lease rights is valued at lower of cost and net realisable value. Cost is determined based on weighted average basis. Net realisable value is determined by the management using technical estimates.

g) **Investments**

Long Term Investments are carried at cost. However, provision is made to recognise a decline, other than temporary, in the value of long term investments.

Current investments are carried at the lower of cost and fair value, determined on an individual basis.

h) **Foreign Currency Transactions**

Transactions in foreign currencies are normally recorded at the average exchange rate prevailing in the month during which the transaction occurred. Outstanding balances of foreign currency monetary items are reported using the period end rates.

Non-monetary items carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rate that existed, when the values were determined.

Exchange differences arising as a result of the above are recognised as income or expense in the Profit and Loss Account, except in case of liabilities incurred for acquiring imported fixed assets, where the differences are adjusted to the carrying amount of such fixed assets in compliance with the Schedule VI of the Act.

In case of forward contracts, the difference between the forward rate and the exchange rate, being the premium or discount, at the inception of a forward exchange contract is recognized as income or expense over the life of the contract. Exchange differences on such contracts are recognised in the profit and loss account in the reporting period in which the rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the period.

The financial statements of integral foreign operations are translated as if the transactions of the foreign operations have been those of the Company itself. In translating the financial statements of a non-integral

foreign operation for incorporation in financial statements, the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation are translated at the closing rate; income and expense items of the non-integral foreign operation are translated at the average exchange rate prevailing during the year; and all resulting exchange differences are accumulated in a foreign currency translation reserve until the disposal of the net investment.

On the disposal of a non-integral foreign operation, the cumulative amount of the exchange differences which have been deferred and which relate to that operation are recognised as income or as expenses in the same period in which the gain or loss on disposal is recognised.

When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification are applied from the date of the change in the classification.

i) ***Borrowing Costs***

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of such assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to revenue.

j) ***Retirement and other employee benefits***

Defined Contributions to Statutory Employee Funds are charged to the Profit and Loss Account on accrual basis.

Liabilities with regard to gratuity, where applicable, are determined under Group Gratuity Scheme with Life Insurance Corporation of India (LIC) and the provision required is determined as per actuarial valuation, as at the balance sheet date.

Contributions to Superannuation Fund with LIC through its employees' trust are charged to the profit and loss account on an accrual basis.

Short term compensated absences are provided based on estimates. Long term compensated absences are provided based on actuarial valuation as at the balance sheet date.

Actuarial gains/losses are immediately taken to profit and loss account and are not deferred.

k) ***Provisions, Contingent Liabilities and Contingent Assets***

A provision is recognised when there is a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to their present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Contingent Liabilities are disclosed by way of notes to the accounts.

Contingent assets are not recognized.

l) ***Income Tax***

Tax expense for a year comprises of current tax, deferred tax and fringe benefit tax. Current tax is measured after taking into consideration, the deductions and exemptions admissible under the provisions of applicable laws.

Deferred tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If the Company has carry forward of unabsorbed depreciation and tax losses, deferred tax assets are recognised only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are reassessed and recognised to the extent it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

Deferred tax resulting from timing differences which originate during the tax holiday period but are expected to reverse after tax holiday period is recognised in the year in which the timing differences originate using the tax rates and laws enacted or substantively enacted by the balance sheet date.

Minimum alternative tax (MAT) credit is recognised as an asset only when and to the extent there is convincing evidence that the company will pay income tax higher than that computed under MAT, during the period under which MAT is permitted to be set off under the Indian Income Tax act, 1961.

m) **Lease Assets**

*Operating Leases*

Assets acquired as leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease rentals are charged off to the Profit and Loss Account as incurred.

Initial direct costs in respect of assets given on lease are expensed off in the year in which such costs are incurred.

n) **Earnings Per Share**

Basic earnings per share are calculated by dividing the net profit for the period attributable to equity shareholders (after deducting dividends and taxes thereon attributable to minority shareholders) by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period are adjusted for any bonus shares issued during the year and also after the balance sheet date but before the date the financial statements are approved by the Board of Directors.

For the purpose of calculating diluted earnings per share, the net profit for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

The number of equity shares and potentially dilutive equity shares are adjusted for bonus shares as appropriate. The dilutive potential equity shares are adjusted for the proceeds receivable, had the shares been issued at fair value. Dilutive potential equity shares are deemed converted as of the beginning of the period, unless issued at a later date.

o) **Employee Stock Option**

Stock options granted to employees under the Employees Stock Option Scheme are accounted as per the Intrinsic Value Method permitted by the "Guidance Note on Share Based Payments" issued by the ICAI. Accordingly, the excess of the market price of the shares as on the date of the grant of options over the exercise price is recognised as deferred employee compensation and is charged to profit and loss account on straight-line basis over the vesting period.

The number of options expected to vest is based on the best available estimate and are revised, if necessary, if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

**4. CHANGES IN ACCOUNTING POLICIES**

Pursuant to the adoption of Accounting Standard 15 (Revised) Employee Benefits (AS-15), issued by the ICAI, the Company and its subsidiaries, wherever applicable, have changed the accounting policy for long term retention bonus paid to employees. This amount has been accounted for as a liability based on actuarial valuation using the projected unit credit method, as compared to the earlier method of accounting this cost as and when incurred. The transitional liability arising due to this change aggregating Rs. 29.19 Million net of tax Rs. 3.10 Million has been charged to general reserve as prescribed by AS 15.

**5. The list of Subsidiary Companies which are included in the consolidation and the Company's effective holdings therein are as under:**

Name of the Subsidiary	Country of Incorporation	Effective Ownership in Subsidiaries as at March 31,	
		2006	2007
AE-Rotor Holding B.V. . . . . .	The Netherlands	100%	100%
AE-Rotor Techniek B.V. . . . . .	The Netherlands	100%	100%
Suzlon Energy BV . . . . .	The Netherlands	100%	100%
Suzlon Energy A/S, Denmark . . . . .	Denmark	100%	100%
Suzlon Wind Energy Corporation . . . . .	USA	100%	100%
Cannon Ball Wind Energy Park-1, LLC. . . . .	USA	100%	100%
Suzlon Energy Australia Private Limited . . . . .	Australia	100%	100%
Suzlon Energy GmbH . . . . .	Germany	100%	100%
Windpark Olsdorf Watt GmbH & Co KG. . . . .	Germany	100%	100%
Suzlon Rotor Corporation . . . . .	USA	100%	100%
Suzlon Windkraft GmbH . . . . .	Germany	100%	100%
S E Drive Technik GmbH . . . . .	Germany	100%	100%
Suzlon Windpark Management GmbH. . . . .	Germany	100%	100%
Suzlon Energy (Tianjin) Limited. . . . .	China	100%	100%
Suzlon Infrastructure Services Limited (formerly Suzlon Windfarm Services Limited) . . . . .	India	100%	100%
Suzlon Towers and Structures Limited . . . . .	India	100%	100%

Name of the Subsidiary	Country of Incorporation	Effective Ownership in Subsidiaries as at March 31,	
		2006	2007
Suzlon Generators Private Limited . . . . .	India	74.91%	75%
Suzlon Structures Private Limited . . . . .	India	75%	75%
Suzlon Gujarat Windpark Limited . . . . .	India	100%	100%
Suzlon Power Infrastructure Private Limited . . . . .	India	100%	100%
Suzlon Engitech Private Limited . . . . .	India	100%	100%
SE Forge Limited . . . . .	India	—	100%
Suzlon Towers International Limited. . . . .	India	—	100%
Suzlon Rotor International Limited. . . . .	India	—	100%
Suzlon Wind International Limited. . . . .	India	—	100%
Eve Holding NV . . . . .	Belgium	—	100%
Hansen Transmissions International NV . . . . .	Belgium	—	100%
Hansen Transmissions Limited . . . . .	United Kingdom	—	100%
Hansen Transmissions South Africa Private Limited. . . . .	South Africa	—	100%
Hansen Transmissions Private Limited . . . . .	Australia	—	100%
Hansen Transmissions Inc. . . . .	USA	—	100%
Hansen Transmissioes Mechanicas Ltda . . . . .	Brazil	—	100%
Hansen Transmissions Tianjin Industrial Gearbox Co. Ltd . . . . .	Peoples Republic of China	—	100%
Suzlon Energy Italy Srl . . . . .	Italy	—	100%
Suzlon Energy Portugal Energia Elocia Unipessoal Lda . . . . .	Portugal	—	100%
Suzlon Energia Elocia do Brazil Lda . . . . .	Brazil	—	100%
Suzlon Energy Korea Co Ltd. . . . .	Republic of South Korea	—	100%
Suzlon Wind Energy A/S . . . . .	Denmark	—	100%
Suzlon Energy Limited, Mauritius . . . . .	Mauritius	100%	100%
Suzlon Wind Energy Limited. . . . .	United Kingdom	—	100%
Suzlon Windenergie GmbH . . . . .	Germany	—	75%

## 6. OTHER NOTES

- a) Suzlon Energy Limited ('SEL' or 'the Company') through its wholly owned subsidiary, AE-Rotor Holding B.V., the Netherlands ('AE-Rotor') has on May 9, 2006, purchased 100% of the share capital of Eve Holding NV, Belgium for a consideration of Rs. 25026.37 Million. By virtue of the acquisition of Eve Holding by AE-Rotor, the Company has 100% ownership of Hansen Transmissions International NV, Belgium along with its subsidiaries (together referred as 'Hansen'), which are engaged in the business of design, development, manufacturing and supply of industrial and wind gear boxes and is the second largest wind energy gearbox manufacturer in the world. The consolidated financial statements for the year ended March 31, 2007, interalia include the financial figures of Eve Holding N.V., Belgium. Accordingly, the financial figures of the consolidated financial statements for the year ended March 31, 2007 are to that extent not comparable with the consolidated financial statements of March 31, 2006.
- b) The management profit certificates ('MPC'), which are redeemable in nature and which carry certain rights of dividend, aggregating Rs.890.03 Million pertain to MPC's issued by AE Rotor Holdings, to certain key management personnel.
- c) On February 9, 2007, the Company made an offer to all the shareholders of REpower Systems AG, Germany ('REpower'), a company engaged in the business of design, development, manufacturing and supply of wind turbine generators and listed on Frankfurt Stock Exchange, to acquire the entire share capital in REpower ('the offer') and subsequently increased the consideration payable under the offer to Euro 150 per share ('revised offer'). The offer document on the aforesaid tender offer has been approved by the German Federal Financial Supervisory Authority (BaFin). The offer has been made through an overseas subsidiary Suzlon Windenergie GmbH, jointly with Martifer SGPS, SA, Oliveira de Frades, Portugal, who hold 23.08 per cent of the current equity share capital of REpower. The offer made by the company competes with a public tender offer of Areva Group.
- d) Terms of Redemption/Conversion of Preference Shares of the Company:

During the year, the company has redeemed 1,500,000, 10% Cumulative Redeemable Preference Shares of Rs.100/-each fully paid.

Further, 29,700 and 220,300 8% Cumulative Redeemable Preference Shares of Rs.100/-each fully paid of Suzlon Structures Private Limited ('SSPL') are redeemable at par after one year from March 29, 2005 and June 28, 2005, being the respective dates of allotment, at the option of SSPL or of the Preference Shareholders as the case may be. This portion represents the holding by the external shareholders of SSPL only, other than the Holding Company. The portion held by the Holding Company of SSPL, has been netted off on consolidation.

e) The details of security for the Secured Loans in Consolidated Financial Statements are as follows:

(i) **Term Loans from Banks and Financial Institutions:**

- Rs 104.78 Million (Rs 72.18 Million) secured by charge on certain WTG's, land and personal guarantee of directors
- Rs 24.15 Million (Rs 57.49 Million) secured by way of hypothecation of stocks, debtors and on specific receivables
- Rs 643.80 Million (Rs 285.42 Million) secured by way of Mortgage of plant and machinery and other fixed assets & hypothecation on current assets
- Rs 217.58 Million (Nil) secured by Hypothecation of plant and machinery and other fixed assets
- Rs 828.08 Million (Rs NIL) secured by way of first charge on certain immovable and movable fixed assets & second charge on current assets
- Rs NIL (Rs 564.93 Million) secured by way of first charge on certain immovable and movable fixed assets and second charge on current assets and personal guarantees of directors in certain cases.
- Rs 601.08 Million (NIL) secured by the whole of moveable property of the assets of the company and the receivables of the power generated from windmill
- Rs 8,126.65 Million (NIL) First rank Mortgage and Floating Charge on assets of the company
- Rs NIL (Rs 46.14 Million) secured by way of mortgage of certain windfarm projects and mortgage of land.

(ii) **Term Loans from Others:**

- Rs 862.50 Million (Rs 1,150.00 Million) secured by way of first charge on certain immovable properties
- Rs 199.31 Million (Rs 223.07 Million) secured by way of first charge on certain immovable & movable fixed assets, second charge on current assets
- Rs 41.97 Million (Rs. Nil) secured by charge on certain WTG's & Land
- Rs 111.71 Million (Rs 144.87 Million) secured by way of first charge on certain immovable & movable fixed assets and personal guarantee of directors in certain cases.

(iii) **Working Capital Facilities from Banks and Financial Institutions**

- Rs 7,516.72 Million (Rs. 1,140.26 Million) secured by hypothecation of inventories, book debts & other current assets, both present & future, first charge on certain immovable fixed assets
- Rs 160.08 Million (Rs. 154.84 Million) secured by hypothecation of inventories, book debts & other current assets, both present & future, first charge on certain immovable fixed assets & personal guarantees of directors.
- Rs 405.09 Million (Rs. 58.71 Million) secured by First rank Mortgage and Floating Charge on assets of the company

(iv) **Vehicle loan**

- Rs. 0.71 Million (Rs. 1.15 Million) secured against vehicle under Hire Purchase contract

f) Sales do not include excise duty service tax, sales tax or VAT charged.

g) **Operating leases**

*Premises*

Suzlon has taken certain premises on cancellable operating leases. The total rental expense under cancellable operating leases during the period was Rs 126.56 Million (Rs 38.46 Million).



The group has also taken furnished/unfurnished offices and certain other premises under non-cancellable operating lease agreement ranging for a period of one to six years. The lease rental charge during the year is Rs.156.56 Million (Rs.53.00 Million) and maximum obligation on long-term non-cancellable operating lease payable as per the rentals stated in respective agreement are as follows:

<b>Obligation on non-cancellable operating leases</b>	<b>Year ended March 31, 2006</b>	<b>Year ended March 31, 2007</b>
Not later than one year . . . . .	63.60	102.71
Later than one year and not later than five years . . . . .	71.19	177.60
Later than five years. . . . .	Nil	49.46

h) **Employee Stock Option Scheme**

*Suzlon Energy Employee Stock Option Plan 2005 (the '2005 Plan' or the 'Scheme')*

The Company instituted the 2005 Plan for all eligible employees in pursuance of a special resolution approved by the shareholders at the extra-ordinary general meeting held on June 16, 2005 (grant date). The Scheme covers grant of options to specified permanent employees of the Company as well as its subsidiaries.

Pursuant to the scheme, the Company has granted 921,000 options to eligible employees at an exercise price, which is 50% of the issue price determined in the Initial Public Offering (IPO) of the Company in accordance with SEBI Guidelines i.e, Rs.510 per equity share. Under the terms of the scheme, 30% of the options will vest in the employees at the end of the first year, 30% at the end of the second year and the balance of 40% at the end of third year from the grant date in the following manner:

<b>Date of Vesting</b>	<b>Proportion of Vesting</b>
June 16, 2006 . . . . .	30%
June 16, 2007 . . . . .	30%
June 16, 2008 . . . . .	40%

The Employee Stock Options granted shall be capable of being exercised within a period of five years from the date of first vesting i.e June 16, 2006. Once the options vest as per the Schedule above, they would be exercisable by the option holder and the shares arising on exercise of such options shall not be subject to any lock-in period. Further, in the case of termination of employment, all non-vested options would stand cancelled. Options that have vested but have not been exercised can be exercised within the time prescribed as mentioned above, failing which they would stand cancelled.

During the year ended March 31, 2007, vesting rights were exercised by employees for 233,400 shares. Further, 25,000 employee stock options were cancelled during the year as certain employees resigned from the services of the Company. The movement in the stock options during the year was as per the table below:

<b>Options Outstanding at April 1, 2006 . . . . .</b>	<b>889,000</b>
Granted during the year . . . . .	Nil
Forfeited/Cancelled during the year . . . . .	25,000
Exercised during the year . . . . .	233,400
Expired during the year . . . . .	Nil
<b>Options Outstanding at the March 31, 2007. . . . .</b>	<b>630,600</b>
Exercisable at the end of the year (included in Options Outstanding at the March 31, 2007). . . . .	32,100

*Fair Value of the Option*

The Company has charged a sum of Rs.72.99 Million (Rs. 255 per option) being the intrinsic value of option under the 2005 Plan for the year ended March 31, 2007. Had the Company adopted the fair value method based on 'Black-Scholes' Model for pricing and accounting the options, the cost of options would have been Rs. 331.58 per option and accordingly, the profit after tax would have been lower by Rs.24.87 Million. Consequently the basic and diluted earnings per share after factoring the above impact of fair value would have been Rs. 36.74 per share and Rs. 36.69 per share instead of Rs. 36.83 per share and Rs. 36.77 per share respectively.

During the year ended March 31, 2007, the Company has issued and allotted 128,300 equity shares; 84,000 equity shares; 5,200 equity shares; 15,700 equity shares and 200 equity shares of Rs. 10 each at an exercise price of Rs. 255 per equity share on July 10, 2006, October 5, 2006, November 6, 2006, December 4, 2006 and January 10, 2007 respectively as per the terms of employee stock option plan. Consequent to this issue, the equity share capital of the Company has increased from 287,531,380 equity shares to 287,764,780 equity shares.

i) **Post employment benefits**

SEL and certain subsidiary companies have a defined benefit gratuity plan. Every employee of the company (in case of companies where gratuity plan is applicable) who has completed five years or more of service gets a gratuity on departure at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy

The following table summarises the components of net benefit expense recognized in the Profit and Loss Account.

Net employees benefit expense recognised in the Profit and Loss Account.

<b>Particulars</b>	<b>Year ended March 31, 2007</b>
Current service cost . . . . .	12.83
Interest cost on benefit obligation . . . . .	1.81
Expected return on plan assets . . . . .	(1.98)
Net actuarial (gain) / loss recognised in the year . . . . .	(1.77)
Past service cost . . . . .	NIL
Net benefit expense . . . . .	10.89

Details of defined benefit gratuity plan

<b>Particulars</b>	<b>Year ended March 31, 2007</b>
Defined benefit obligation . . . . .	34.94
Fair value of plan assets . . . . .	28.72
Present value of unfunded obligations . . . . .	7.40
Less: Unrecognised past service cost . . . . .	NIL
Plan liability . . . . .	7.40

Changes in the present value of the defined benefit gratuity plan are as follows:

<b>Particulars</b>	<b>Year ended March 31, 2007</b>
Opening defined benefit obligation (April 1, 2006) . . . . .	22.69
Interest cost . . . . .	1.81
Current service cost . . . . .	12.83
Benefits paid . . . . .	(0.58)
Actuarial (gains) / losses on obligation . . . . .	(1.81)
Closed defined benefit obligation . . . . .	34.94

Further the principal assumptions with respect to discount rate, expected return on plan assets, salary escalation rate and attrition rate used in determining the defined benefit gratuity plan obligations differ from subsidiary to subsidiary.

The estimates of future salary increases take into account the inflation, seniority, promotion and other relevant factors.

In the current year the Company has done an early adoption of the Accounting Standard 15 (Revised 2005) which is mandatory from accounting periods starting from December 7, 2006. Accordingly the corresponding previous figures have not been disclosed.

j) **Provisions**

In pursuance of Accounting Standard-29 ('AS-29') "Provisions, Contingent Liabilities and Contingent Assets" issued by the ICAI, the provisions required have been incorporated in the books of accounts in the following manner: -

<b>Particulars</b>	<b>Performance Guarantee</b>	<b>Warranty for Operation &amp; Maintenance</b>	<b>Provision for Liquidated Damages</b>
Opening Balance . . . . .	1,414.50	1,728.99	27.30
	(579.79)	(976.69)	(39.68)
Additions due to acquisition. . . . .	—	436.00	—
	(—)	(—)	(—)
Additions . . . . .	1,026.96	1,520.59	363.10
	(1,065.14)	(1,179.94)	(—)
Utilisation . . . . .	632.31	1,156.40	130.96
	(230.43)	(427.64)	(—)
Reversal. . . . .	—	—	—
	(—)	(—)	(12.38)
<b>Closing Balance . . . . .</b>	<b>1,809.15</b>	<b>2,529.18</b>	<b>259.44</b>
	<b>(1,414.50)</b>	<b>(1,728.99)</b>	<b>(27.30)</b>

The provision for Operation, Maintenance and Warranty ('O&M') represents the expected liability on account of field failure of parts of WTG and expected expenditure of servicing the WTG's over the period of free O&M, which varies according to the terms of each sales order.

The provision for Performance Guarantee ('PG') represents the expected outflow of resources against claims for Performance shortfall expected in future over the life of the guarantee assured. The period of PG varies for each customer according to the terms of the contract. The key assumptions in arriving at the PG provision are wind velocity, plant load factor, grid availability, load shedding, historical data, wind variation factor etc.

Provision for Liquidated Damages ('LD') represents the expected claims which the Company may need to pay for non fulfilment of certain commitments as per the terms of the sales order. These are determined on a case to case basis considering the dynamics of each individual sales order and the factors relevant to that sale.

The closing balance of the Provision for Operation, Maintenance and Warranty in the Balance Sheet represents the amount required for Operation, Maintenance, and Warranty for the unexpired period on WTGs on the field under warranty. The charge to the Profit and Loss Account is the balancing figure. However, the break up of charge to profit and loss account on account of "Provision for Operation, Maintenance and Warranty" is as under:

- a) Amount of Provision required for the WTGs sold during the year Rs. 1,520.59 Million (Rs. 1,179.94 Million)
  - b) Less: Utilization against opening provision, booked by the subsidiary under various expenditure by nature Rs. 661.52 Million (Rs. 322.24 Million)
  - c) Charge to profit and loss account Rs. 859.07 Million (Rs. 857.70 million)
- k) The standalone profit and loss account includes a charge of Rs. 584.84 million (Rs. 209.08 Million) on account of "Design change and technological upgradation charges" and Rs. 143.71 million (Rs. 117.28 Million) on account of "Operation and maintenance charges" which have got eliminated on consolidation. However, the cost incurred by the subsidiary for rendering the services/affecting the sales have been booked under various expenditures by their nature.

7. Break up of the accumulated Deferred Tax Asset, Net, is given below

Particulars	Deferred Tax asset/Liability as at March 31	
	2006	2007
<b>Deferred Tax Assets:</b>		
Unabsorbed losses and depreciation . . . . .	335.59	511.28
Employee benefits . . . . .	—	84.91
Provision for performance guarantee, LD & operation, maintenance and warranty . . . . .	546.10	953.90
Provision for doubtful debts . . . . .	15.62	23.84
Others . . . . .	1.54	33.27
<b>(a)</b>	<u>898.85</u>	<u>1607.20</u>
<b>Deferred Tax Liability . . . . .</b>		
Difference in depreciation of fixed assets . . . . .	105.46	1803.14
Others . . . . .	—	0.55
<b>(b)</b>	<u>105.46</u>	<u>1803.69</u>
<b>Deferred Tax Asset / (Liability) (Net) . . . . .</b>		
<b>[(c)=(a)-(b)]</b>	<u>793.39</u>	<u>(196.49)</u>
Tax effect of share issue expenses eligible for income tax deduction U/s 35D, credited to securities premium . . . . .	24.20	19.70
<b>Total . . . . .</b>	<u>817.59</u>	<u>(176.79)</u>

8. Estimated amount of contracts remaining to be executed on capital accounts and not provided for, net of advances. Rs. 11,930.90 Million (Rs.978.57 Million).

9. EARNINGS PER SHARE (EPS)

All amounts in Rs. Million except per share data

PARTICULARS	April 1, 2005 to March 31, 2006	April 1, 2006 to March 31, 2007
<b>Basic Earnings per share</b>		
Net Profit after Tax . . . . .	7,594.99	8,640.32
Less: Dividend and tax thereon . . . . .	18.96	23.03
<b>Net Profit attributable to equity shareholders</b>		
[Numerator for computation of basic and diluted EPS](a) . . . . .	<u>7,576.03</u>	<u>8,617.29</u>
Weighted average number of equity shares in calculating basic EPS		
[Denominator for computation of basic EPS] (b) . . . . .	273,233,510	287,672,694
Add: Equity shares for no consideration arising on grant of stock options under ESOP 2005 . . . . .	430,697	461,538
Weighted average number of equity shares in calculating diluted EPS		
[Denominator for computation of Diluted EPS] (c) . . . . .	<u>273,664,207</u>	<u>288,134,232</u>
<b>Basic earning per share of face value of Rs. 10/- each</b>		
(a/b * 10,000,000) . . . . .	<u>27.73</u>	<u>29.96</u>
<b>Diluted earning per share of face value of Rs. 10/- each</b>		
(a/c * 10,000,000) . . . . .	<u>27.68</u>	<u>29.91</u>

10. MANAGERIAL REMUNERATION TO DIRECTORS

Particulars	Year ended March 31,	
	2006	2007
(a) Salaries . . . . .	14.71	13.50
(b) Contribution to Superannuation Fund. . . . .	3.05	2.70
(c) Sitting Fees . . . . .	0.14	0.42
<b>Total . . . . .</b>	<u>17.90</u>	<u>16.62</u>

The directors are covered under the Company's scheme for gratuity along with the other employees of the Company. The proportionate amount of gratuity is not included in the aforementioned disclosure, as the amount attributable to directors is not ascertainable.

## 11. CONTINGENT LIABILITIES

Particulars	As at March 31	
	2006	2007
Guarantees given on behalf of other companies in respect of loans granted to them by banks . . . . .	8.80	3.60
Claims against the company not acknowledged as debts . . . . .	2.50	13.67
Disputed labour cost liabilities . . . . .	0.17	3.18
Disputed service tax liabilities . . . . .	8.76	17.51

## 12. DERIVATIVE INSTRUMENTS AND UNHEDGED FOREIGN CURRENCY EXPOSURE

Particulars of Derivatives	Purpose
<b>Forward contract outstanding as at Balance Sheet date</b>	
Buy Euro 38,619,539.40 (Euro 5,677,739.50) . . . . .	Hedge of forex Euro liabilities
Buy GBP 51,965.70 (GBP Nil) . . . . .	Hedge of forex GBP liabilities
Buy USD 311,404,323.70 (USD 68,348,272.54) . . . . .	Hedge of forex USD liabilities
Sell DKK 10,928,005.57 (DKK Nil) . . . . .	Hedge of forex DKK receivable
Sell USD 33,369,600 (USD Nil) . . . . .	Hedge of forex USD receivable
Sell Euro 21,500,000 (Euro Nil) . . . . .	Hedge of forex Euro receivable
<b>Option contract outstanding as at Balance Sheet date</b>	
USD 10 million zero cost 1:2 forward put options outstanding	
USD 16.50 million call spread options outstanding	
Euro 12 million zero cost barrier call options outstanding	
<b>Target redemption forward contract</b>	
Euro NIL (0.25 Million / Euro 0.50 Million) per week for 18 weeks Hedge forex Euro liabilities)	
<b>Range accrual interest rate swap</b>	
USD Nil (2.00 Million Hedge against interest on forex loans)	

### Particulars of Unhedged Foreign Currency Exposure as at the Balance Sheet date

Particulars	Amount (Rs. In Million)
Creditors (including Goods in transit Rs.1,939.18 Million) . . . . .	3,123.34
Debtors . . . . .	2,011.38
Loans given . . . . .	2,778.44
Loans received . . . . .	1,927.25
Bank balance in current accounts and term deposit accounts . . . . .	923.85

## 13. RELATED PARTY DISCLOSURES

### (A) Related Parties with whom transactions have taken place during the year

#### a) **Associates**

Aspen Infrastructures Limited (Formerly Suzlon Infrastructure Limited), Sarjan Realities Limited.

#### b) **Entities where Key Management Personnel ('KMP')/ Relatives of Key Management Personnel ('RKMP') have significant influence**

Tanti Holdings Limited (Formerly Suzlon Capital Limited), Sugati Beach Resort Limited (Formerly Suzlon Hotels Limited), Sarjan Infrastructure Finance Limited, Shubh Realty (South) Private Limited, Sugati Holdings Private Limited, Kush Synthetics Private Ltd, Synergy Global Private Limited, SE Energy Park Limited, Suruchi Holdings Private Limited, Sanman Holdings Private Limited, Samanvaya Holdings Private Limited, Vinod R. Tanti-HUF, Jitendra R. Tanti-HUF, Girish R. Tanti (HUF).

#### c) **Key Management Personnel**

Tulsi R. Tanti, Girish R. Tanti

#### d) **Relatives of Key Management Personnel**

Gita T. Tanti, Rambhaben Ukabhai, Pranav T. Tanti, Nidhi T. Tanti, Vinod R. Tanti, Jitendra R. Tanti, Sangita V. Tanti, Lina J. Tanti, , Esha G. Tanti, Trisha J Tanti

e) **Employee Funds**

Suzlon Energy Limited – Superannuation Fund

Suzlon Energy Limited – Employees Group Gratuity Scheme

Suzlon Infrastructure Services Limited (formerly Suzlon Windfarm Services Limited) Superannuation Fund

Suzlon Infrastructure Services Limited (formerly Suzlon Windfarm Services Limited) – Employees Group Gratuity Scheme

Suzlon Towers & Structure Limited – Superannuation Fund

Suzlon Towers & Structure Limited – Employees Group Gratuity Scheme

Suzlon Power Infrastructure Private Limited – Superannuation Fund

Suzlon Power Infrastructure Private Limited – Employees Group Gratuity Scheme

Suzlon Generators Private Limited – Gratuity Fund

Suzlon Generators Private Limited – Superannuation Fund

(B) Transactions between the Group and Related Parties during the year and the status of outstanding balances as at March 31, 2007:

<b>Particulars</b>	<b>Associate</b>	<b>Entities where KMP/RKMP has significant influence</b>	<b>KMP</b>	<b>RKMP</b>	<b>Employee Funds</b>
<b>Transactions</b>					
Purchase of fixed assets (including intangibles)	28.96 (3.10)	2.68 (-)	- (-)	- (-)	- (-)
Sale of Fixed Assets	0.34 (0.05)	- (-)	- (-)	- (-)	- (-)
Subscription to / purchase of equity shares	- (-)	- (-)	0.15 (0.34)	0.35 (3.53)	- (-)
Redemption of Preference Shares	- (-)	43.58 (-)	13.10 (-)	82.50 (-)	- (-)
Sale of investments	- (6.50)	22.03 (-)	- (-)	48.70 (-)	- (-)
Sale of goods	1,080.46 (546.89)	28.18 (-)	142.47 (-)	142.47 (-)	- (-)
Purchase of goods and services	1,895.84 (199.26)	446.87 (0.66)	- (-)	- (-)	- (-)
Loans / Deposit Given	4,820.50 (2,040.20)	172.30 (-)	- (-)	- (-)	- (-)
Interest received / receivable	173.82 (107.70)	68.96 (-)	- (-)	- (-)	- (-)
Dividend received	6.30 (4.17)	- (-)	- (-)	- (-)	- (-)
Dividend paid	- (-)	599.91 (89.01)	191.88 (75.89)	726.95 (442.00)	- (-)
Rent received*	- (-)	0.11 (-)	- (-)	- (-)	- (-)
Rent / Hotel charges paid	- (-)	0.36 (0.32)	- (-)	- (-)	- (-)
Managerial Remuneration	- (-)	- (-)	16.20 (17.76)	- (-)	- (-)
Contribution to various funds	- (-)	- (-)	- (-)	- (-)	39.54 (25.56)

Note: Figures in brackets pertain to transactions for the year ended March 31, 2006

(B) **Transactions between the group and related parties during the year and the status of outstanding balances as at March 31, 2007**

Sr. No.	Particulars	Associate	Entities where KMP/RKMP has significant influence	KMP	RKMP	Employee Funds
<b>Outstanding Balances</b>						
1	Investments	— (60.00)	— (8.70)	— (—)	— (—)	— (—)
2	Advances from Customers	— (—)	— (—)	7.50 (—)	7.50 (—)	— (—)
3	Sundry Debtors	2.09 (190.59)	— (—)	— (—)	— (—)	— (—)
4	Loans/Deposits outstanding	3,682.78 (1,848.21)	757.20 (—)	— (—)	— (—)	— (—)
5	Advances/Deposits to Supplier	17.58 (0.07)	0.02 (—)	— (—)	— (—)	— (—)
6	Sundry Creditors	20.30 (80.85)	14.18 (0.06)	— (—)	— (—)	— (—)
7	Corporate Guarantees	3.04 (8.79)	— (—)	— (—)	— (—)	— (—)

Note: Figures in brackets pertain to balances as on March 31, 2006

(C) **Disclosure of significant transactions with Related Parties**

Type of the Transaction	Type of relationship	Name of the entity/person	March 31, 2006	March 31, 2007
Purchase of Fixed Assets (including intangibles)	Associate	Aspen Infrastructures Limited (Formerly Suzlon Infrastructure Limited)	—	26.72
		Sarjan Realities Limited	3.10	2.24
	Entities where KMP/RKMP has significant influence	Shubh Realty (South) Private Limited	—	2.68
Sale of Fixed Assets	Associates	Aspen Infrastructures Limited (Formerly Suzlon Infrastructure Limited)	—	0.34
Subscription to/ purchase of preference shares	RKMP	Gita T Tanti	0.50	—
		Jitendra R. Tanti	0.20	—
		Leena J. Tanti	0.50	—
		Pranav Tanti	0.50	—
		R.V. Tanti	0.50	—
		Sangita V. Tanti	0.50	—
Subscription to/ purchase of equity shares	RKMP	Lina J. Tanti	—	0.08
	RKMP	Sangita V. Tanti	—	0.08
	RKMP	Gita T. Tanti	—	0.08
	KMP	Girish R. Tanti	—	0.08
	RKMP	Vinod R. Tanti	—	0.08
	KMP	Tulsi R. Tanti	—	0.08
Redemption of Preference Shares	Entities where KMP/RKMP has significant influence	Tanti Holdings Limited (Formerly Suzlon Capital Limited)	—	25.58
Sale of investments	Entities where KMP/RKMP has significant influence	Vinod R. Tanti	—	10.00
		Jitendra R Tanti	—	10.00
	RKMP	Rambhoben Ukabhai	—	22.90
	RKMP	Nidhi T Tanti	—	12.90
	RKMP	Trisha J Tanti	—	12.90

Type of the Transaction	Type of relationship	Name of the entity/person	March 31, 2006	March 31, 2007
	Associate	Aspen Infrastructures Limited (Formerly Suzlon Infrastructure Limited)	6.50	—
Loan/Deposits given	Associate	Aspen Infrastructures Limited (Formerly Suzlon Infrastructure Limited)	—	3,525.50
	Associate	Sarjan Realities Limited	1,205.00	1,295.00
	Entities where KMP/RKMP has significant influence	Shubh Realty (South) Private Limited	702.20	150.00
Sale of goods	Associate	Aspen Infrastructures Limited (Formerly Suzlon Infrastructure Limited)	378.57	1,080.10
	Associate	Sarjan Realities Limited	168.14	0.35
Purchase of goods and service	Associate	Aspen Infrastructures Limited (Formerly Suzlon Infrastructure Limited)	166.11	1,879.20
	Entities where KMP/RKMP has significant influence	Kush Synthetic Pvt. Ltd.	17.86	403.87
Interest Received	Associate	Sarjan Realities Limited	59.37	112.38
	Associate	Aspen Infrastructures Limited (Formerly Suzlon Infrastructure Limited)	13.09	61.43
	Entities where KMP/RKMP has significant influence	Shubh Realty (South) Private Limited	34.82	67.65
Dividends Received	Associate	Aspen Infrastructures Limited (Formerly Suzlon Infrastructure Limited)	2.87	5.00
	Associate	Sarjan Realities Limited	1.30	1.30
Dividends Paid	KMP	Tulsi R. Tanti and Girish R. Tanti	75.89	191.88
	RKMP	Relatives of KMP	440.97	726.95
	Entities where KMP/RKMP has significant influence	Tanti Holdings Limited (Formerly Suzlon Capital Limited), Sugati Holdings Private Limited	67.20	599.91
Rent Received	Entities where KMP/RKMP has significant influence	Synergy Global Private Limited	—	0.11
Rent/Hotel Charges paid	Entities where KMP/RKMP has significant influence	Sugati Beach Resort Limited (Formerly Suzlon Hotels Limited)	0.32	0.34
	Entities where KMP/RKMP has significant influence	Girish R. Tanti (HUF)	0.06	0.06
Managerial Remuneration	KMP	Tulsi Tanti	11.70	12.00
	KMP	Girish R. Tanti	4.10	4.20
	RKMP	Vinod R. Tanti	1.02	—
	KMP**	Balrajsinh Parmar	1.02	—
Contribution to various funds	Employee Funds	Suzlon Energy Limited — Superannuation Fund	12.83	28.78
	Employee Funds	Suzlon Energy Limited — Employees Group Gratuity Scheme	12.07	1.42
	Employee Funds	Suzlon Infrastructure Services Limited (formerly Suzlon Windfarm Services Limited)-Superannuation Fund	—	4.69

\* Balrajsinh A. Parmar was director of the Company till June 2005, and hence is not considered as KMP post June 30, 2005



14. DISCLOSURE AS REQUIRED BY CLAUSE 32 OF LISTING AGREEMENT WITH STOCK EXCHANGES

	Name	Amount outstanding as at March 31, 2007	Maximum Amount outstanding during the year
<b>Associates</b> . . . . .	Sarjan Realities Limited	1,529.21	1,529.21
		(1,124.21)	(1,145.40)
	Aspen Infrastructures Limited (Formerly Suzlon Infrastructure Limited)	2,147.00	3,140.50
		(—)	(750.00)
<b>Where control of KMP/RKMP exists</b> . . . . .	Shubh Realty (South) Private Limited	757.20	782.20
	Previous Year Figures	(702.20)	(702.20)
	Suzlon Infrastructure Finance Limited	—	22.10
		(21.80)	(49.31)
	SE Energy Park Limited	—	20.00
		(—)	(—)

Note:

- a) No loans have been granted by Suzlon Energy Limited to any person, who has invested in the shares of Suzlon Energy Limited or any of its subsidiaries.
- b) There are no balances outstanding from Companies under the same management, as per the provisions of Section 370 (1B) of the Companies Act, 1956.

15. SEGMENT REPORTING

Suzlon's operations primarily relate to manufacture and sale of WTG's and Gear Box. Others primarily consist of sale/sub-lease of land, infrastructure development income and power generation income.

The accounting principles consistently used in the preparation of the financial statements are also consistently applied to record income and expenditure in individual segments. These are as set out in the note on significant accounting policies.

A) PRIMARY BUSINESS SEGMENT:

Particulars	Year ended March 31, 2006					Year ended March 31, 2007				
	Sale of WTG	Sale of Gear Box	Others	Eliminations	Total	Sale of WTG	Sale of Gear Box	Others	Eliminations	Total
Total External Sales . . . . .	37,911.03	—	499.27	—	38,410.30	59,975.24	18,560.74	1,321.32	—	79,857.30
Add: Inter Segment Sales . . . . .	6.37	—	—	(6.37)	—	10.38	—	—	(10.38)	—
Segment Revenue . . . . .	37,917.40	—	499.27	(6.37)	38,410.30	59,985.62	18,560.74	1,321.32	(10.38)	79,857.30
Segment Results . . . . .	7,994.17	—	360.09	(6.37)	8347.89	9,256.94	2,222.60	313.66	(10.38)	11,782.82
<b>Add/(Less) Items to reconcile with profit as per profit and loss account</b>										
Add:										
Other Income . . . . .	—	—	—	—	474.98					680.40
Less: . . . . .	—	—	—	—	—					—
Financial Charges . . . . .	—	—	—	—	(647.78)					(2,763.44)
Preliminary exp W/Off. . . . .	—	—	—	—	(1.80)					(17.14)
Profit before Tax, minority interest. . . . .	—	—	—	—	8,173.29					9,682.64
Provision for . . . . .	—	—	—	—	—					—
Income Tax . . . . .	—	—	—	—	1,104.70					1,635.98
Deferred Tax . . . . .	—	—	—	—	(568.20)					(125.70)
Fringe Benefit Tax . . . . .	—	—	—	—	31.60					36.64
MAT Credit Entitlement . . . . .	—	—	—	—	—					(512.32)
Total Tax . . . . .	—	—	—	—	568.10					1,034.60
Profit before minority interest. . . . .	—	—	—	—	7,605.19					8,648.04
Add: Share of (Profit)/loss of minority in subsidiary . . . . .	—	—	—	—	(10.20)					(7.72)
Profit for the year . . . . .	—	—	—	—	7,594.99					8,640.32
Segment assets. . . . .	38,199.00	—	2411.00	—	40,610.00	62,156.90	38,875.08	3,543.99	—	104,575.97
Common assets. . . . .	—	—	—	—	8,397.57					20,836.94
Enterprise assets . . . . .	—	—	—	—	49,014.64					125,412.90
Segment liabilities . . . . .	15,825.14	—	391.22	—	16,216.36	30,851.35	7,036.22	438.92	—	38,326.49
Common liabilities . . . . .	—	—	—	—	559.31					51,975.62
Enterprise liabilities. . . . .	—	—	—	—	21,805.50					90,302.11
Capital expenditure during the year . . . . .	4,170.19	—	227.94	—	4,398.13	5,714.80	3,491.29	954.58	—	10,160.67
Segment Depreciation . . . . .	643.40	—	72.50	—	715.90	945.30	695.42	77.28	—	1,718.00
Non-cash expenses other than depreciation . . . . .	1.07	—	0.67	—	1.74	17.00	—	0.10	—	17.10

B) GEOGRAPHICAL SEGMENT

Particulars	Year ended March 31, 2006						Year ended March 31, 2007					
	India	Europe	USA	China	Others	Total	India	Europe	USA	China	Others	Total
Segment revenue .	35,304.68	—	3105.62	—	—	38,410.30	41,693.25	16,363.46	16,517.48	3,142.93	2,140.18	79,857.30
Segment assets .	34,655.04	1587.80	3870.11	158.20	338.85	40,610.00	45,256.05	42,082.89	11,206.59	4,827.21	1,203.23	104,575.97
Capital expenditure incurred .	3697.00	530.71	21.89	146.54	1.99	4398.13	3,268.81	4,718.10	868.41	1,291.58	13.77	10,160.67

16. All figures have been reported in rupees Million and have been rounded off to the nearest thousands. Prior year amounts have been reclassified wherever necessary to conform with current year presentation. Figures in the brackets are in respect of the previous year.

Schedules 'A' to 'P'

As per our report of even date

For SNK & Co.  
Chartered Accountants

For S. R. BATLIBOI & Co.  
Chartered Accountants

For and on behalf of the Board of  
Directors

per Jasmin B. Shah Partner  
M. No. 46238

per Arvind Sethi  
Partner  
M. No. 89802

Tulsi R. Tanti  
Chairman and Managing Director

Girish R. Tanti  
Director

Hemal A. Kanuga Company  
Secretary

Mumbai Date:  
May 14, 2007

Mumbai Date:  
May 14, 2007

Mumbai Date:  
May 14, 2007

## THE COMPANY

### REGISTERED OFFICE OF THE COMPANY

"Suzlon", 5, Shrimali Society  
Near Shri Krishna Complex  
Navrangpura  
Ahmedabad - 380 009  
India

### CORPORATE OFFICE OF THE COMPANY

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India

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United Kingdom

### PRINCIPAL AGENT

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London EC2N 2DB  
United Kingdom

### REGISTRAR

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Hong Kong

*as to Indian law*  
**Amarchand Mangaldas & Suresh A. Shroff & Co.**  
Peninsula Chambers  
Peninsula Corporate Park  
Ganpatrao Kadam Marg Lower Parel  
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Hong Kong

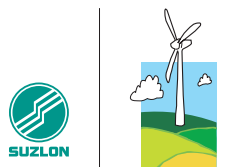
### JOINT STATUTORY AUDITORS TO THE COMPANY

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**S.R. Batliboi & Co.**  
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India

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### SUZLON ENERGY LIMITED

*(Incorporated with limited liability under the laws of the Republic of India)*

**U.S.\$300,000,000 Zero Coupon Convertible Bonds Due 2012**

**(including U.S.\$100,000,000 aggregate principal amount of Zero Coupon Convertible Bonds due 2012 to be issued pursuant to the option)**

*Sole Bookrunner and Lead Manager*

**Deutsche Bank**

*Sole Financial Advisor*

**YES Bank Limited**

**6 June 2007**

**Offering Circular**